FILE

4

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Review of the Non-Market-Based Services Rider Contained in the Tariffs of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company.	)	Case No. 15-648-EL-RDR

FINDING AND ORDER

The Commission finds:

(1) Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, FirstEnergy or the Companies) are electric distribution utilities as defined in R.C. 4928.01(A)(6) and public utilities as defined in R.C. 4905.02 and, as such, are subject to the jurisdiction of this Commission.

(2) R.C. 4928.141 provides that an electric distribution utility shall provide customers within its certified territory a standard service offer (SSO) of all competitive retail electric services necessary to maintain essential electric services to customers, including firm supply of electric generation services. The SSO may be either a market rate offer in accordance with R.C. 4928.142 or an electric security plan (ESP) in accordance with R.C. 4928.143.

(3) On July 18, 2012, the Commission issued an Opinion and Order approving a stipulation between FirstEnergy and certain parties, which provided for an ESP for the period beginning June 1, 2014, through May 31, 2016, pursuant to R.C. 4928.143. *In re Ohio Edison Co., Cleveland Elec. Illum. Co., and Toledo Edison Co.*, Case No. 12-1230-EL-SSO, Opinion and Order (July 18, 2012) (*ESP III Case*).

(4) In the July 18, 2012 Opinion and Order in the *ESP III Case*, the Commission found that the Companies should file in May of each year an application for the review of their Non-Market-Based Services Rider (Rider NMB). Rider NMB is a non-

bypassable rider[1] that is designed to recover non-market-based transmission-related costs, such as Network Integration Transmission Service (NITS) charges, imposed on or charged to the Companies by the Federal Energy Regulatory Commission or PJM Interconnection, LLC. *ESP III Case*, Opinion and Order (July 18, 2012) at 44.

(5) On May 1, 2015, the Companies filed an application and tariff pages reflecting revisions to Rider NMB in order to comply with the Commission Order in the Companies' *ESP III Case*. In the filing, the Companies propose that, in order to better align the Rider NMB recovery period with when the associated expenses are incurred, the Companies make their next filing no later than January 15, 2016, with rates to become effective no later than 75 days following the filing of the application. Consequently, Rider NMB would be updated on an annual basis for rates effective April 1 through March 31 each year.

(6) Thereafter, on June 10, 2015, the Commission's Staff filed its review and recommendations regarding the Companies' application. In its review, Staff states that it reviewed the filings and believes that the Companies' proposed Rider NMB rates reflect both recovery of the current costs paid by the Companies and projected costs through June 30, 2016. Further, Staff notes that it supports FirstEnergy's proposal to better align Rider NMB's recovery period with its expenses. Thus, Staff recommends that FirstEnergy's application be approved for rates effective July 1, 2015.

Additionally, Staff recommends that the Companies adjust their methodology for calculating the cost of long-term debt. Staff notes that FirstEnergy has used the annual embedded cost of long-term debt to calculate the reconciliation of under- and over-recovered costs in prior NMB rider cases. However, Staff states that, due to timing differences, the rates are challenging to verify and Staff has concerns about the understandability of calculating the embedded cost of long-term debt. Staff also notes that the Commission's practice is to apply the latest approved cost of long-term debt from the last rate case. Consequently, Staff recommends that, on a going forward

[1] Bypassable charges are recovered only from SSO customers; non-bypassable charges are recovered from all of FirstEnergy's distribution customers.

basis, FirstEnergy apply the cost of long-term debt approved in Case No. 07-551-EL-AIR, which is 6.22 percent consolidated for the Companies, rather than the annual embedded cost of long-term debt.

(7) On June 12, 2015, the Companies filed a response to Staff's review and recommendations. In their response, the Companies acknowledge Staff's concerns, but point out that the Companies have used the current embedded cost of long-term debt to calculate carrying costs in the prior NMB Rider filings, so the current filing is consistent with prior practice. Additionally, the Companies state that they have provided Staff with documentation supporting the cost of long-term debt and will work with Staff to resolve its concerns about the understandability of the calculation. Further, the Companies state that the current method of calculation is appropriate because it reflects the current cost to the Companies to carry the under- or over-recovered balance. Consequently, the Companies state that they believe the current method of calculation should continue. Finally, the Companies point out that the approved cost of long-term debt in Case No. 07-551-EL-AIR is 6.54 percent, not 6.22 percent as stated in the Staff review and recommendation.

(8) The Commission has reviewed the Companies' application and Staff's review and recommendations. The Commission finds that, in accordance with Staff's recommendations, the Companies' application is consistent with the stipulation approved by the Commission in the *ESP III Case*, does not appear to be unjust or unreasonable, and should be approved for rates effective July 1, 2015. Additionally, in accordance with Staff's recommendations, FirstEnergy shall, on a going forward basis, apply the cost of long-term debt approved in Case No. 07-551-EL-AIR, which is 6.54 percent consolidated for the Companies, rather than the annual embedded cost of long-term debt. In so finding, the Commission notes that the current tariffs for Rider NMB set forth a formula for calculating the rider amount that includes the net over- or under-collection of non-market-based services related costs. The tariff does not specify, however, the method by which the net over- or under-collection must be calculated. The Commission also finds that, as proposed by FirstEnergy and supported by Staff, in order to better align the Rider NMB recovery period with when the

associated expenses are incurred, the Companies should make their next filing no later than January 15, 2016, with rates to become effective no later than 75 days following the filing of the application.

It is, therefore,

ORDERED, That Staff's review and recommendations be adopted and the Companies' application be approved. It is, further,

ORDERED, That a copy of this Finding and Order be served upon each party of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

/s/ Andre Porter
Andre T. Porter, Chairman

/s/ Lynn Slaby
Lynn Slaby

/s/ Beth Trombold
M. Beth Trombold

/s/ Asim Haque
Asim Z. Haque

/s/ Thomas Johnson
Thomas W. Johnson

MWC/vrm/sc

Entered in the Journal
7/1/2015

Barcy F. McNeal

Barcy F. McNeal
Secretary