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FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Joint Application Of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval Of a Generation Charge Adjustment Rider	)	Case No. 05-704-EL-ATA
In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Modify Certain Accounting Practices And for Tariff Approvals	)	Case No. 05-1125-EL-ATA 05-1126-EL-AAM 05-1127-EL-UNC

DIRECT TESTIMONY

OF

WILLIAM D. BYRD

Q. What is your name and by whom are you employed?

A. My name is William D. Byrd. I am employed by FirstEnergy Service Company as Director, Rate Strategy. My business Address is 76 S. Main Street, Akron, Ohio 44308.

Q How long have you been employed by FirstEnergy?

A. I have been employed by FirstEnergy or a predecessor company since January 1977.

Q. Please describe your work experience.

A. I joined Ohio Edison In 1977 as a business analyst, holding a variety of staff and supervisory positions in the Economic Studies Department, Rate Department, Advanced Engineering and Planning Department, Market Research, and Wholesale Marketing Department. Since the formation of FirstEnergy Corp. in 1997, I have held the positions of General Manager – FirstEnergy Trading Services Inc., an unregulated subsidiary engaged in wholesale energy marketing; Director, Enterprise Risk Management Department (FirstEnergy Service Company); and Director, Commodity Supply Planning (FirstEnergy Solutions Corp.)

Q. Please describe your educational background.

A. I received a B.A. in Economics from Florida Southern College in 1975 and a M.A. in Economics from the University of Chicago in 1977.

Q. Please describe the testimony filed on behalf of the Companies in this consolidated proceeding.

A. In addition to my testimony, testimony is being filed by five additional witnesses. Mr. Harvey Wagner addresses the accounting aspects of the Rate Certainty Plan. Mr. Greg Hussing explains the Companies' proposed grandfathering of certain promotional rates. Three witnesses are submitting testimony that specifically relates to the filing in Case No. 05-704-EL-ATA to recover increased fuel costs. Mr. Kevin Norris will cover the rate and reconciliation aspects of the generation charge adjustment factor ("GCAF"). Mr. James Parks and Mr. Robert Borland will address the underlying fossil and nuclear fuel costs, respectively.

Q. Why did the Applicants propose the Rate Certainty Plan?

A. In an effort to provide more stability for customers' rate levels during this time of rising natural gas and oil prices, and for the Companies' financial performance, the Companies have proposed to implement a Rate Certainty Plan ("RCP") as an attractive complement to the Rate Stabilization Plan ("RSP") previously approved by the Commission. The RCP has been designed to provide customers with lower, more certain, and more stable rate levels during the plan period than would otherwise be available under the RSP, encourage expenditures to further improve distribution service reliability, and provide the Companies with financial outcomes generally comparable to those achievable under the RSP.

Further, implementation of the RCP would mitigate the varying levels of rates otherwise expected to occur as a result of the recovery of increased fuel costs, a new distribution rate case, and completion of recovery of regulatory transition charges, all occurring at different times.

Q. How do the RSP and other currently effective regulatory plans relate to this filing?

A. In 2004, the PUCO approved the Company's Rate Stabilization Plan (RSP) in Case No. 03-2144-EL-ATA et seq., which was filed by the Companies at the request of the Commission. The RSP was designed to provide the Companies' customers with generation price and supply stability through 2008, and the RSP remains in effect today.

Among other things, the RSP provides that the Companies may recover through rates their increased cost of fuel compared to a 2002 base line level. Customer bills would, as a result, be modified at the beginning of 2006, 2007 and 2008 to recover increased fuel costs. Distribution rates may be increased as early as the beginning of 2008 following the termination of the Companies' commitment to maintain current distribution rate levels provided for in the RSP and prior plans. Distribution rates were last increased for Ohio Edison in 1990 and for CEI and TE in 1996, and have been reduced in the interim. In addition, under the RSP, customer rates are scheduled to be reduced during 2008 by completion of RTC and Extended RTC recovery for Ohio Edison and Toledo Edison, and during

2010 for CEI. Concerns raised over the multiplicity of expected rate changes during the plan period, including specifically the recovery of increased fuel costs, combined with a general recognition of the substantial increases in the cost of other energy sources led the Companies to seek approval of the RCP.

Q. Have the Companies entered into a Stipulation and Recommendation in this proceeding?

A. Yes. The Companies included a Stipulation and Recommendation as part of the Application filed in this proceeding. In addition to the Companies themselves, the Stipulation has been signed by the City of Cleveland, the City of Akron, the City of Parma, the Industrial Energy Users-Ohio, and the Ohio Energy Group. As part of the Application, the Companies request that the Commission approve the Stipulation as submitted.

Q. Would you please provide an overview of the intended result if the Commission were to approve the Stipulation?

A. In its simplest form, the RCP as contained in the Stipulation is designed to maintain customer rates at their present level[1] until the end of the plan, at which time rates for utility charges under the plan are expected to be reduced.

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[1] Transmission charges are not covered within the scope of the RCP, nor are charges for

The RCP postpones current cost recovery for the increased fuel cost and distribution cost items discussed above, in return for recovery of similar costs, including debt-based carrying charges, over an extended period of time. The plan is designed so that the recovery of these costs is synchronized to the RTC/Extended RTC rate reductions, as well as with the expected increase from the postponed distribution rate case. As a result, OE and TE customer rates covered by the plan will not change during the plan period, and at the end of the plan there will be a decrease due to the termination of RTC recovery. CEI customers will see one change during the plan period, and one at the end, both of which will be overall reductions due to the reduction and the termination of RTC recovery. This approach results in better rate certainty for customers, rather than several increases and decreases over that period in the same rate components.

The combination of several accounting techniques is used to accomplish this result, including modifications to transition cost recovery periods, accounting deferrals of distribution reliability related and certain increased fuel costs, and accelerated use of the cost of removal regulatory liability to reduce deferred shopping incentives balances.

Additional technical details of the RCP proposed to accomplish this outcome are included in the Stipulation, attached to the Application in this

(continued...)

generation service following the end of the RSP generation rates.

case and further discussed in this and other testimony submitted by the Applicants.

Q. Please identify the major provisions of the RCP used to accomplish these objectives.

A. The major provisions include:

Distribution Rates: the existing level of base distribution rates will be maintained for an additional twelve months to December 31, 2008 for OE and TE, and for an additional sixteen months to April 30, 2009 for CEI. Under existing plans, the next distribution rate increases could take place as early as January 1, 2008.

Distribution Deferrals: the Companies will be allowed to defer and capitalize the costs listed below during the period of January 1, 2006 through December 31, 2008, not to exceed $150 million in each of the years 2006, 2007, and 2008. The amounts deferred will be included in distribution rate base and recovered in rates over a 25 year period commencing with distribution rates first effective on or after January 1, 2009 for OE and TE and May 1, 2009 for CEI. Costs qualifying for deferred treatment are listed in paragraph 8 of the Stipulation.

RTC and Extended RTC Recovery Periods and Rate Levels: the RTC and Extended RTC recovery periods and rate levels are adjusted to provide for full recovery of authorized costs no later than through usage as of December 31, 2008 for OE and TE, and as of December 31, 2010 for CEI.

a) OE and TE's recovery of Extended RTC amounts through the RTC rate component will begin on January 1, 2006 rather than following the end of the recovery of regulatory transition costs. The amortization of the Extended RTC amounts will continue to match the revenue received, and the amortization period for the regulatory transition costs will continue using the effective interest method taking into account an extended amortization schedule through December 31, 2008.

b) CEI's RTC rate component will remain initially at the current level, but will be reduced after all regulatory transition costs are recovered, currently projected to be April 30, 2009. The RTC rate will then be reduced to allow full recovery of Extended RTC amounts by December 31, 2010 with amortization matching the reduced revenue levels.

Deferred Shopping Incentive Balances: the Companies will reduce their deferred shopping incentive balances as of January 1, 2006 by up to $75 million for OE, $45 million for TE, and $85 million for CEI. These reductions will be made possible by accelerating the application of (or reducing) each respective company's accumulated cost of removal regulatory liability. This action will reduce the amount of deferred shopping incentives and carrying charges to be recovered through the RTC rate component as the Companies will adjust their respective books of accounts for ratemaking and financial reporting purposes to reduce the cost of removal regulatory liability by the amounts credited to the deferred shopping incentive balance. Without the RCP, this regulatory liability would not begin to benefit customers until the effective date of the Companies' next distribution rate case, and then the benefit would be spread over many years under standard ratemaking principles.

Increased Fuel Cost Recovery and Rider: the Companies' increased fuel costs of up to \$75 million, \$77 million, and \$79 million in 2006, 2007, and 2008, respectively, will be recovered from OE and TE customers through a fuel tariff rider. The fuel rider will be set at a level equal to the reduction in the RTC rate level that was made possible by the extension of the amortization period and the reduction in the deferred shopping incentive balance discussed above. If increased fuel costs are greater than the fuel rider revenues, the excess costs will be deferred (Fuel Deferrals) by the Companies and recovered commencing with the distribution rate case first effective on or after January 1, 2009 for OE and TE and May 1, 2009 for CEI.

Shopping Credit: the applicable shopping credits for the Companies in 2006 through 2008 will be increased to reflect increased fuel costs as described in paragraph 7 on page 9 of the Stipulation.

Carrying Charges: fuel deferrals and distribution deferrals will be capitalized with carrying costs at the respective Company's embedded cost of long-term debt during the period that the deferrals are being booked.

<u>Rate of Return on New Regulatory Assets</u>: At such time that the accumulated deferred amounts are included in rate levels, the rate of return used to determine applicable revenue requirements will be the respective Company's embedded cost of long-term debt. There will be no equity return on these assets.

<u>Competitive Bid Process</u>: Should the competitive bid process produce an auction clearing price that the PUCO accepts, all major provisions of the RCP will remain in effect, including the distribution deferrals that will continue until new distribution rates become effective, as described in more detail at paragraph 10 of the Stipulation.

Q. Why aren't increased fuel costs allocated to CEI for recovery through the fuel rider mechanism?

A. The primary reason is that, unlike OE and TE, CEI's RTC rate component is not being reduced to offset the impact of fuel cost increases. The approach taken with CEI was driven by its substantially longer recovery period for RTC/ERTC balances. While OE's and TE's RTC/ERTC balances will be recovered by the end of 2008 under the plan, the same balances for CEI will not be recovered until the end of 2010. I have been advised that the Restructuring Act, S.B. 3, does not permit recovery of such costs beyond December 31, 2010, so little flexibility existed to both reduce the RTC rate component and meet the statutory deadline. CEI's RTC rate component is reduced, but not until approximately May 2009, much later in the process and after all of CEI's regulatory transition costs have been recovered. Since an underpinning of the RCP filing was to avoid increases in the rates under the plan during the plan period, the decision was made not to allocate increased fuel costs to CEI. This discretion was granted to the Companies by the Commission as authorized in the RSP Order. The impact is that the customers of OE, TE, and CEI do not pay additional dollars to cover the increased fuel costs during the plan period, because any increases for OE and TE are offset by a reduction to their RTC rate components, and CEI gets neither an increase or decrease. It should be noted, however, that all three Companies will be allocated Fuel Deferrals on a proportional basis.

Q. What are the benefits of the Stipulation to customers?

A. The RCP provides customers with the following primary benefits:

1) The customer rate effects of the recovery of increased fuel costs through the GCAF will be substantially mitigated over the 2006 through 2008 time period. A significant portion of any increased fuel costs will be offset by an equivalent decrease to the RTC, with the balance of the increase, if any, deferred for future collection from customers. Customers will not experience a rate increase during this period due to increased fuel costs.

2) Maintaining the same level of base distribution rates through December 31, 2008 will delay for at least one year any distribution rate

increase that would be allowed under the current RSP for OE and TE. CEI customers will have their base distribution rates maintained at current levels through April 30, 2009.

3) Accelerating the recovery of shopping incentive deferrals will reduce the carrying charges that would have accrued on the balances under the current RSP.

4) Accelerating the use of the cost of removal regulatory liability will provide customers with immediate rate benefits that otherwise would have not have commenced until a subsequent distribution rate case. Particularly, the resultant reduction in the Extended RTC balances will result in a reduction of the amount of carrying charges on those balances. Residential transitional rate credits will be extended for the lengthened RTC recovery period providing residential customers this benefit for a longer period.

5) Special contracts with customers are extended to specified dates providing these customers with certainty as to when these contracts will expire.

6) The competitive bidding process will continue as approved in the RSP proceeding.

In summary, customers would experience lower, stable and more certain rate levels during the RCP period than they would under the current RSP.

Q. What additional tariffs will be needed by the Companies should the RCP be approved?

A. First, a Fuel Recovery Mechanism rider will need to be implemented. This rider will allow for the recovery of agreed-upon fuel cost increases in the RCP and will be applied to tariffs and contracts that permit the inclusion of this Mechanism. Additionally, a Regulatory Transition Charge Offset rider will be implemented to reduce the RTC rate level due to 1) the extension of the amortization period described in the RCP, and 2) the reduction in the Extended RTC amount by the application of the cost of removal regulatory liability to the deferred shopping credit incentive balances, also a provision of the RCP. These proposed riders were included in Exhibit 2 of the Application in this proceeding.

Q. Are there any existing tariffs that will need to be modified when the RCP is approved?

A. Yes. All the tariffs to which the above new riders apply will have to have their Applicable Riders section modified to include references to these new riders. Also the residential Transition Rate Credit Program riders for each of the Companies will need modified. This change clarifies to which component of the bill the transition credit applies and also modifies the application period of the transition credit rider consistent with the RCP provisions. These modifications are also included in Exhibit 2 to the Application in this proceeding.

Q. How does the Stipulation fit with the RSP?

A. The RCP modifies certain of the RSP provisions related to fuel cost and regulatory transition cost recovery, but, unless otherwise noted, it is intended to continue the RSP provisions. The RCP covers generally the same time period as the RSP. Certain provisions relating to CEI extend into 2010, and the RCP governs cost recovery for deferred costs extending beyond 2008 as well. The RCP modifies certain of RSP provisions to provide for no distribution rate increase during the period 2006-2008, and through April 2009 for CEI, and to provide the Companies with financial outcomes generally comparable to those achievable under the RSP. Unless explicitly modified, the provisions of the RSP remain in place.

Q. What happens if the results of the auction process required by the Commission in the RSP case are accepted by the Commission?

A. Paragraph 10 starting on page 11 of the Stipulation governs this situation. Specifically, the provisions of the RSP that were to terminate if the auction results are adopted will terminate. The RCP as a whole does not terminate, but the fuel recovery provisions become moot (except for the recovery of any fuel deferrals), and the maximum period for the recovery of OE and TE Extended RTC amounts will revert to the recovery period set out in the RSP.

Q. What effect will Commission approval of the Stipulation have on Companies' pending application for a generation charge adjustment rider, Case No. 05-704-EL-ATA?

A. If the Commission approves the Stipulation submitted with the RCP filing, then the generation charge adjustment factor proposed in Case No. 05-704-EL-ATA would not be implemented. If the Commission doesn't approve the Stipulation, it should approve the GCAF proposed by the Companies in Case 05-704-EL-ATA.

Q. What additional approvals and authorizations are the Companies requesting the Commission to grant if the RCP is not approved by January 1, 2006?

A. Failure to approve the RCP by January 1, 2006 creates a number of issues not initially contemplated in the plan. The Companies believes that the preferred method for handling a delay in approval is through the accounting-related changes and authorizations included in Mr. Wagner's testimony. Essentially, the major objectives of the plan – stability for customer rates and the Companies' financial performance – can be achieved through these accounting authorizations. Conceptually, there are other alternatives for dealing with the issues created by a delay, beyond January 1, 2006, in the approval of the plan. These alternatives include potentially approving the GCAF Rider (Case No. 05-704-EL-ATA), which essentially would implement the RSP for a short period of time until the RCP is approved. Another alternative would be to approve on an interim basis, prior to January 1, 2006, the tariff changes proposed in the RCP, including increasing the shopping credit by the Fuel Recovery Mechanism rider amount as proposed in the RCP.

Q. Does this conclude your testimony at this time?

A. Yes it does.