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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan.	:	Case No. 08-935-EL-SSO
In the Matter of the Application of Ohio Edison Company, The Cleveland electric Illuminating Company, and The Toledo Edison Company for Approval of Rider FUEL and Related Accounting Authority.	:	Case Nos. 09-21-EL-ATA 09-22-EL-AEM 09-23-EL-AAM

PREFILED TESTIMONY OF RICHARD C. CAHAAN

CAPITAL RECOVERY AND FINANCIAL ANALYSIS DIVISION
UTILITIES DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit _____

March 2, 2009

1. Q. Please state your name and business address.

A. My name is Richard C. Cahaan, and I am employed by the Public Utilities Commission of Ohio, 180 E. Broad Street, Columbus, Ohio 43215 as the Chief Economist in the Capital Recovery and Financial Analysis Division of the Utilities Department. I have been employed by the Staff of the Commission since 1983 and have testified in numerous rate cases and other proceedings before this Commission. A large proportion of my testimony before this Commission has been regarding the cost of capital and the rate of return to be granted to regulated utilities, although I have also presented economic analysis regarding other issues, including the rate stabilization plans of First Energy, CG&E, and AEP. I also have testified in First-Energy's original SSO proceeding, Case No. 08-935-EL-SSO.

I have received a B.A. degree from Hamilton College and an M.A. degree in Economics from the University of Hawaii, and I have completed all course work and passed the written and oral general and field examinations at the Ph.D. level at Cornell University. I have been a faculty member, either fulltime or part time, at the State University of New York -- Cortland, Eisenhower College, Ithaca College, Cornell University, the Ohio State University, and the Graduate School of Business Administration of

Capital University. Prior to joining the Staff, I taught economics at the Ohio State University.

2. Q. What is the purpose of your testimony in this proceeding?

A. The purpose of this testimony is to provide the Staff's support of the Stipulation and Recommendation being presented to the Commission.

3. Q. In what way are you supporting the stipulation?

A. The Staff believes that the stipulation meets the relevant tests and merits consideration as it is the product of serious bargaining among knowledge-able and capable Signatory parties representing a wide range of interests. Also, it violates no regulatory principle or precedent, although the rele-vance of precedent is a bit attenuated by a lack of experience under SB 221. Additionally, it is supported by adequate data and information. Of particu-lar importance is the information and analysis showing that the proposed ESP is superior to what might be expected under an MRO.

4. Q. Why is this of particular importance?

A. Section 4928.143(C)(1)requires that the "the electric security plan so approved, including its pricing and all other terms and conditions, including and deferrals and any future recovery of deferrals, is more favorable in the aggregate as compared to the expected results that would otherwise apply under section 4928.142 of the Revised Code."

5. Q. Is, in fact, the proposed ESP superior to an MRO?

A. Yes. Exhibit [RCC-1?] shows an aggregate net benefit of the ESP to customers at almost 100 million dollars.

6. Q. How was this net benefit calculated?

A. Ratepayer benefits consist of five categories. These are:

a) the elimination of approximately $215 million of CEI RTC's,

b) $25 million of economic development funds contributed by the Companies,

c) the value of the Stipulation's distribution rate freeze,

d) $160.9 million of existing generation deferrals, and,

e) agreement that the Companies will not be authorized recovery of incremental costs related to hurricane Ike storm damage, which would have required about $19 million during the period of the ESP.

7. Q. Why are you including the existing generation deferrals as benefit of the ESP?

A The real advantage to the ratepayers lies in the fact that the Stipulated ESP proposes to recover these deferrals over a very long period of time with a debt rate carrying charge, as shown in the Ratepayer Costs section of the exhibit. If I am to include this favorable recovery in the analysis, I also must include the original deferrals.

8. Q. And what are the Ratepayer Costs in your analysis?

A There are two. One is the Generation Deferral Recovery I just mentioned. The other is the revenues associated with the delivery service improvement rider proposed by the Stipulation.

9. Q. What discount rate did you use to evaluate these benefits and costs over time?

A I used the Companies' cost of capital, 8.48%.

10. Q. Wouldn't this essentially be performing the analysis from the Companies' perspective, not from the customer's perspective?

A Choosing an appropriate discount rate from the customer's perspective is always a problem. What is the time value of money to the individual consumer? Should it be a very low rate, such as an individual would receive on a CD if the funds were invested? Or should it be about 19%, on the assumption that the individual would have a lower charge card balance to finance? The higher the discount rate used, the higher is the estimated net present value of the Stipulated ESP. However, in the Staff's analysis, the conclusion that the Stipulated ESP provides a positive net benefit to customers remains true even at very low interest rates.

11. Q. Are there other reasons to accept the proposed ESP, other than the ones you have quantified?

A Yes. One reason is that the proposed ESP provides more predictability regarding overall rates than would an MRO. There is another reason, and that is one of allowing future options to stay open.

12. Q. What do you mean?

A Section 4928.142(F) states "An electric distribution utility that has received commission approval of its first application under division (C) if this section shall not, nor ever shall be authorized or required by the commission to, file an application under section 4928.143 of the Revised Code." If we go to an MRO now, then we cannot later have an ESP. But if we adopt an ESP now, we can go to an MRO in the future. Since the quantifiable elements demonstrate the superiority of the proposed ESP to an MRO, and since the non-quantifiable considerations also support the superiority of the ESP to an MRO, I think that the argument in favor of an ESP is very strong.

13. Q. Does this conclude your testimony?

A. Yes.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Richard C. Cahaan, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 2nd day of March, 2009.

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STAFF PROPOSAL FOR FIRSTENERGY ESP
CALCULATION OF NET BENEFITS

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
RATEPAYER BENEFITS	263.3	206.1	107.6										
consisting of													
CEI RTC write-off $215	79.2	135.8											
Economic Development	8.3	8.3	8.3										
Value of Distribution Rate Freeze	n/a	59.9	97.2										
Generation Deferral (existing)	160.9												
Forgone Ike Storm Recovery	14.9	2.1	2.1										
RATEPAYER COSTS	85.8	115.4	130.8	24.9	25.2	25.4	25.7	25.9	26.2	26.5	26.7	27.0	11.4
consisting of													
DSIR	85.8	115.4	116.4										
Generation Deferral Recovery			14.4	24.9	25.2	25.4	25.7	25.9	26.2	26.5	26.7	27.0	11.4
NET NOMINAL BENEFIT	177.5	90.7	-23.2	-24.9	-25.2	-25.4	-25.7	-25.9	-26.2	-26.5	-26.7	-27.0	-11.4
years for present value calculation	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5
discount factor at discount rate of 8.48%	1.04	1.13	1.23	1.33	1.44	1.56	1.70	1.84	2.00	2.17	2.35	2.55	2.77
DISCOUNTED PV	170.4	80.3	-19.0	-18.7	-17.5	-16.2	-15.1	-14.1	-13.1	-12.2	-11.4	-10.6	-4.1
CUMULATIVE PV	170.4	250.7	231.7	213.0	195.5	179.3	164.1	150.0	136.9	124.7	113.3	102.8	98.7

NPV 98.7

NOTES FOR NET BENEFIT CALCULATION

	recovery would have been through 2010,		
CEI Writeoff	so writeoff of $215 allocated between remaining months.		
total writeoff	215		
months in 2009	7		
months in 2010	12		
total months	19		
benefit 2009	**79.2**		
benefit 2010	**135.8**		

Delivery Service Improvement Rider			
sales from ESP filing	2009	2010	2011
CEI	19,967	20,133	20,298
OE	26,460	26,738	27,019
TE	10,775	10,834	10,894
sum	57,202	57,705	58,211
months	9	12	12
sales for rider	42,902	57,705	58,211
price per MW	$ 2.00	$ 2.00	$ 2.00
	85,803	115,410	116,422
	85.8	**115.4**	**116.4**

Rate Freeze Value			
08-935-EL-SSO application			
V3 (pt. 2 of 3)	2009	2010	2011
Sch 6i, p. 4 of 9, row 6	24.822	**59.851**	**97.151**

Hurricane Ike foregone recovery	per FE estimates by phone		
	Capital	O&M	
CEI	10.1	2.2	
OE	8.6	10.6	
sum	18.7	**12.8**	Modeled as rider all in 2009
est annual factor	11%		If actuality would be to partly defer
	2.057		but to get carrying charges, then
			PV is the same

Generation Deferral and Recovery data from Tuft worksheet
on CEI Fuel and Purchased Power Deferral

Exhibit RCC-1 p.3 of 4

Case No. 08-XXXX-EL-SSO
Total Ohio Companies

Schedule 6I
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Witness: H. Wagner

Distribution Investment Deferral

Line No.	(A) Description	(B)	(C) Source Documentation	(D) 2009	(E) 2010	(F) 2011	(G) 2012	(H) 2013 *
1	Estimated Eligible Depreciation Expense		Sch. 6I pg 5	$3,080,762	$9,225,423	$15,300,984	$21,059,904	$21,059,904
2	Estimated Eligible Property Tax Expense		Sch. 6I pg 5	15,359,448	29,992,961	43,769,965	55,661,159	55,661,159
3	Estimated Eligible Capital Interest Expense		Sch. 6I pg 5	5,345,417	16,031,550	26,862,148	37,812,607	37,812,607
4	Total Est. Distribution Capital Investments			$23,785,627	$55,249,934	$85,933,097	$114,533,670	$114,533,670
5	Monthly Carrying Charges	0.7063%		1,036,435	4,601,394	11,228,446	21,062,434	33,047,311
6	Estimated Annual Balance			$24,822,062	$59,851,328	$97,161,542	$135,596,104	$147,580,981
7	Estimated Cumulative Balance			$24,822,062	$84,673,390	$181,834,932	$317,431,036	$465,012,017

Line No.	Month Year	Deferral	Interest	Balance	Month Year	Deferral	Interest	Balance
8	Jan-09	$1,982,136	$7,020	$1,989,156	Jan-10	$4,604,161	$192,120	$29,618,343
9	Feb-09	1,982,136	21,109	3,992,401	Feb-10	4,604,161	226,093	34,448,597
10	Mar-09	1,982,136	35,299	6,009,836	Mar-10	4,604,161	260,305	39,313,063
11	Apr-09	1,982,136	49,588	8,041,560	Apr-10	4,604,161	294,760	44,211,984
12	May-09	1,982,136	63,979	10,087,675	May-10	4,604,161	329,460	49,145,605
13	Jun-09	1,982,136	78,471	12,148,282	Jun-10	4,604,161	364,404	54,114,170
14	Jul-09	1,982,136	93,066	14,223,484	Jul-10	4,604,161	399,597	59,117,928
15	Aug-09	1,982,136	107,765	16,313,385	Aug-10	4,604,161	435,038	64,157,127
16	Sep-09	1,982,136	122,568	18,418,089	Sep-10	4,604,161	470,731	69,232,019
17	Oct-09	1,982,136	137,475	20,537,700	Oct-10	4,604,161	506,677	74,342,857
18	Nov-09	1,982,136	152,488	22,672,324	Nov-10	4,604,161	542,876	79,489,894
19	Dec-09	1,982,131	167,607	$24,822,062	Dec-10	4,604,163	579,339	$84,673,390
20	Total 2009	$23,785,627	$1,036,435		Total 2010	$55,249,934	$4,601,394	
21	Jan-11	$7,161,092	$625,104	$92,459,586	Jan-12	$9,544,473	$1,321,738	$192,701,143
22	Feb-11	7,161,092	680,254	100,300,932	Feb-12	9,544,473	1,398,704	203,644,320
23	Mar-11	7,161,092	735,793	108,197,817	Mar-12	9,544,473	1,476,214	214,665,007
24	Apr-11	7,161,092	791,727	116,150,636	Apr-12	9,544,473	1,554,273	225,763,753
25	May-11	7,161,092	848,057	124,159,785	May-12	9,544,473	1,632,885	236,941,111
26	Jun-11	7,161,092	904,786	132,225,663	Jun-12	9,544,473	1,712,055	248,197,639
27	Jul-11	7,161,092	961,917	140,348,672	Jul-12	9,544,473	1,791,785	259,533,897
28	Aug-11	7,161,092	1,019,452	148,529,216	Aug-12	9,544,473	1,872,080	270,950,450
29	Sep-11	7,161,092	1,077,395	156,767,703	Sep-12	9,544,473	1,952,943	282,447,866
30	Oct-11	7,161,092	1,135,748	165,064,543	Oct-12	9,544,473	2,034,379	294,026,718
31	Nov-11	7,161,092	1,194,514	173,420,149	Nov-12	9,544,473	2,116,392	305,687,583
32	Dec-11	7,161,085	1,253,698	$181,834,932	Dec-12	9,544,467	2,198,986	$317,431,036
33	Total 2011	$85,933,097	$11,228,446		Total 2012	$114,533,670	$21,062,434	
34	Jan-13	$9,544,473	$2,282,165	$329,257,674				
35	Feb-13	9,544,473	2,365,933	341,168,080				
36	Mar-13	9,544,473	2,450,295	353,162,848				
37	Apr-13	9,544,473	2,535,254	365,242,575				
38	May-13	9,544,473	2,620,814	377,407,862				
39	Jun-13	9,544,473	2,706,981	389,659,316				
40	Jul-13	9,544,473	2,793,758	401,997,547				
41	Aug-13	9,544,473	2,881,150	414,423,170				
42	Sep-13	9,544,473	2,969,160	426,936,803				
43	Oct-13	9,544,473	3,057,794	439,539,070				
44	Nov-13	9,544,473	3,147,057	452,230,600				
45	Dec-13	9,544,467	3,236,950	$465,012,017				
46	Total 2013	$114,533,670	$33,047,311					

* Note - Since there was no 2013 budget available, 2012 costs will be used.

Proposed Deferral Recovery [illegible]

Line No.	Year	Sales (gwh)	Revenue	CAT Tax	Principal	Net Balance Interest	Balance
47							$465,012,017
48	2014	59,815	54,935,401	142,832	36,377,720	18,414,849	428,634,297
49	2015	60,364	55,426,220	144,108	38,406,037	16,874,076	390,228,260
50	2016	60,925	55,928,407	145,414	40,536,435	15,247,558	349,690,826
51	2017	61,484	56,426,753	146,710	42,748,519	13,531,525	306,942,307
52	2018	62,056	56,937,144	148,037	45,067,074	11,722,034	261,875,233
53	2019	62,258	57,084,158	148,419	47,113,167	9,822,572	214,762,066
54	2020	62,846	57,607,326	149,779	49,628,468	7,829,079	165,133,598
55	2021	63,441	58,138,587	151,160	52,257,954	5,729,473	112,875,644
56	2022	64,043	58,674,532	152,554	55,002,967	3,519,011	57,872,677
57	2023	64,655	59,219,382	153,970	57,872,677	1,192,736	0

The Cleveland Electric Illuminating Company

Fuel and Purchase Power Deferral

Line No.	(A) Description	(B)	(C)	(D) 12/31/08	(E) 2009	(F) 2010	(G) 2011
1							
2							
3	Monthly Carrying Charges			0.7067%	10,945,739	14,903,110	6,591,038
4	Estimated Annual Balance				$10,945,739	$14,903,110	$6,591,038
5	Estimated Cumulative Balance (a)				$169,017,822	$183,920,932	$190,511,970
			Month Year	Deferral	Interest (b)	Balance	
6			Jan-09	$31,614,417	$111,704	$31,726,121	
7			Feb-09	31,614,417	335,902	63,676,439	
8			Mar-09	31,614,417	561,684	95,852,540	
9			Apr-09	31,614,417	789,062	128,256,019	
10			May-09	$31,614,417	1,018,047	160,888,482	ESP BENEFIT
11			Jun-09	0	1,136,945	162,025,427	
12			Jul-09	0	1,144,980	163,170,407	
13			Aug-09	0	1,153,071	164,323,478	
14			Sep-09	0	1,161,219	165,484,697	
15			Oct-09	0	1,169,425	166,654,122	
16			Nov-09	0	1,177,689	167,831,811	
17			Dec-09	0	1,186,011	$169,017,822	
18			Total 2009	$158,072,083	$10,945,739		
19			Jan-10	$0	$1,194,393	$170,212,215	
20			Feb-10	0	1,202,833	171,415,048	
21			Mar-10	0	1,211,333	172,626,381	
22			Apr-10	0	1,219,893	173,846,274	
23			May-10	0	1,228,514	175,074,788	
24			Jun-10	0	1,237,195	176,311,983	
25			Jul-10	0	1,245,938	177,557,921	
26			Aug-10	0	1,254,743	178,812,664	
27			Sep-10	0	1,263,609	180,076,273	
28			Oct-10	0	1,272,539	181,348,812	
29			Nov-10	0	1,281,532	182,630,344	
30			Dec-10	0	1,290,588	$183,920,932	
31			Total 2010	$0	$14,903,110		
32			Jan-11		$1,299,708	$185,220,640	
33			Feb-11		1,308,893	186,529,533	
34			Mar-11		1,318,142	187,847,675	
35			Apr-11		1,327,457	189,175,132	
36			May-11		1,336,838	190,511,970	
37			Jun-11		0	190,511,970	carrying charge
38				$0	$6,591,038		

Proposed Recovery Factors

39	Estimated Deferral Balance as of 12/31/10	$190,511,970
40	Recovery Period (Years)	10
41	Estimated Embedded Cost of L/T Debt as of 12/31/10	6.54%
42	CAT Tax Rate	0.26%

Proposed Deferral Recovery

Line No.	Year	Sales (gwh)	(c) Revenue $ 0.001216	CAT Tax	Principal	Net Balance Interest	Balance
43							$190,511,970
	(A)	(B)	(C)=(B)*kWh Price	(D)=(C)*CAT Tax Rate	(E)=(C)-(D)-(F)	(F)=((Prev G)-(C-D)/2))*L/T Int	(G)=Prev (G)-(E)
44	2011	20,298	14,395,199	37,428	7,363,615	6,994,157	183,148,356
45	2012	20,501	24,924,259	64,803	13,694,458	11,164,998	169,453,898
46	2013	20,706	25,173,502	65,451	14,846,799	10,261,252	154,607,098
47	2014	20,913	25,425,237	66,106	16,077,071	9,282,061	138,530,027
48	2015	21,122	25,679,489	66,767	17,390,395	8,222,328	121,139,632
49	2016	21,333	25,936,284	67,434	18,792,229	7,076,621	102,347,403
50	2017	21,547	26,195,647	68,109	20,288,389	5,839,150	82,059,014
51	2018	21,762	26,457,604	68,790	21,885,069	4,503,745	60,173,946
52	2019	21,980	26,722,180	69,478	23,588,869	3,063,833	36,585,076
53	2020	22,200	26,989,401	70,172	25,406,824	1,512,405	11,178,252
54	2021	22,422	11,358,040	29,531	11,178,252	150,256	(0)
			ESP COSTS				

(a)
(b) Cumulative Deferred Balance x Monthly Carrying Charge Rate
(c) Recovery Rate is $0.00121575941474646 per kWh