

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio :
Edison Company, The Cleveland Electric : Case No. 14-1297-EL-SSO
Illuminating Company and The Toledo :
Edison Company for Authority to Provide :
for a Standard Service Offer Pursuant to :
R.C. 4928.143, in the Form of an Electric :
Security Plan. :

**PREFILED TESTIMONY
OF
JEFFREY HECKER
RATES & ANALYSIS DEPARTMENT
RESEARCH AND POLICY DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit No. _____

September 18, 2015

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

2 A. My name is Jeffrey P. Hecker. My address is 180 East Broad Street,
3 Columbus, Ohio 43215-3793.

4

5 2. Q. By whom are you employed and in what capacity?

6 A. I am employed by the Public Utilities Commission of Ohio as a Utility
7 Specialist 2 in the Policy and Research Division of the Rates and Analysis
8 Department.

9

10 3. Q. Briefly state your educational background, experience, and qualifications.

11 A. I graduated from Miami University with a Bachelor of Science Degree in
12 Business with an Accounting major. After graduation, I performed account-
13 ing functions for the Dayton Power and Light Company and other companies
14 before joining the PUCO in December 2004. I have also completed various
15 workshops and classes on many regulatory processes and provided work-
16 papers, research, and testimony for previous cases.

17

18 4. Q. For what types of cases have you previously filed testimony?

19 A. I have filed testimony for several rate cases for electric, gas, and water com-
20 panies, storm recovery cases, and rider cases, among others.

21

22

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

2 A. My testimony addresses four issues from the Electric Security Plan (ESP)
3 filing submitted by Ohio Edison Company, The Cleveland Electric
4 Illuminating Company, and The Toledo Edison Company (the Companies)
5 in this proceeding as follows:

- 6 1. The proposed storm deferral mechanism;
7 2. The Companies' proposal to change the tariff and included billing line
8 items for their "Non-Market-Based Services Rider" (Rider NMB);
9 3. The recovery of expenses incurred from their SmartGrid program; and
10 4. Interest rate used for carrying charges for various riders.
11

12 **STORM DEFERRALS**

13 6. Q. Regarding the storm deferral mechanism, what do the Companies propose?

14 A. As described in the Direct Testimony of Eileen Mikkelsen, "the Companies
15 propose to continue the current storm deferral mechanism during ESP IV
16 under the same terms and conditions that exist today under ESP III."¹
17
18

¹ Direct Testimony of Eileen Mikkelsen on Behalf of Ohio Edison, The Cleveland Electric Illuminating Company, and The Toledo Edison Company at 8.

1 7. Q. Does the Staff support the Companies' storm deferral mechanism?

2 A. Staff supports the continuation of the storm deferral mechanism with cer-
3 tain modifications. First, Staff recommends that the Companies file for
4 recovery of their currently deferred assets and liabilities (related to storms)
5 by a date certain, within 90 days after the Opinion and Order is issued in
6 this case. After the date certain, Staff recommends that three changes be
7 made to the deferral mechanism. First, Staff recommends that the Com-
8 panies use the "major event" standard established in the Ohio Adminis-
9 trative Code (O.A.C.) § 4901:1(T). Second, Staff recommends that the
10 Companies credit any mutual assistance revenues as an offset to the storm
11 deferrals. Third, Staff recommends that "incremental" expenses be defined
12 as those expenses that are not recovered in base rates and that only these
13 incremental expenses be included in any recovery amount.

14
15 8. Q. Why does Staff recommend that the Companies seek recovery of their
16 storm-related deferred assets and liabilities within 90 days after the Opinion
17 and Order in this case?

18 A. The Companies' storm-related deferred assets and liabilities have been on
19 the Companies' balance sheets since 2009. The longer the deferrals remain
20 on the balance sheets, the more difficult it becomes to audit the costs in
21 future years. When auditing older deferrals, there exists the following
22 potential challenges: unavailable or insufficient supporting documentation

1 due to record retention practices; difficulty in responding to specific ques-
2 tions related to expenses or activities due to the length of time from those
3 activities occurring and the time in which the recovery is sought; and the
4 difficulty in auditing the sheer number of storms that may occur over a
5 longer duration. In addition, carrying charges are continually being added
6 which will increase the total amount of recovery.

7
8 Staff also recommends recovery within 90 days after the Commission's
9 Opinion and Order because the Companies are not using the "major event"
10 standard as established in O.A.C. § 4901:1(T), nor are they crediting the
11 deferrals with revenues associated with providing mutual assistance. There-
12 fore, Staff recommends that by a date certain, within 90 days after the
13 Opinion and Order is issued, the Companies file for recovery or refund of
14 the deferred assets or liabilities. Going forward, Staff recommends that the
15 Companies use the major event definition provided within the Commis-
16 sion's rules and begin to account for their mutual assistance, as discussed
17 later in my testimony.

18 **1. "Major Event" Definition**

- 19 9. Q. What is the Companies' definition of "storm" in determining whether storm
20 costs are deferred under their current storm deferral mechanism?

1 A. Pursuant to the Companies' response to PUCO Data Request 21, "the
2 weather event designated as 'storm' is one in which the event (i.e. time to
3 restore customer service due to weather event) is anticipated to last longer
4 than 12 hours (using local only crews) including the time required to pre-
5 stage personnel for the event."

6
7 10. Q. Does Staff feel this standard is inappropriate?

8 A. Yes. This standard does not comply with the Commission's rule regarding
9 the definition of major event and is inconsistent with the practice of the
10 other electric distribution utilities in Ohio. Pursuant to O.A.C. § 4901:1(T),
11 a "major event" encompasses any calendar day when an electric utility's
12 system average interruption duration index (SAIDI) exceeds the major
13 event day threshold using the methodology outlined in section 3.5 of stand-
14 ard 1366-2012 adopted by the Institute of Electrical and Electronics Engi-
15 neers (IEEE) in "IEEE Guide for Electric Power Distribution Reliability
16 Indices." The threshold will be calculated by determining the SAIDI associ-
17 ated with adding 2.5 standard deviations to the average of the natural loga-
18 rithms of the electric utility's daily SAIDI performance during the most
19 recent five-year period. The computation for a major event requires the
20 exclusion of transmission outages. For purposes of this definition, the
21 SAIDI is determined in accordance with paragraph (C)(3)(e)(iii) of
22 rule 4901:1-10-11 of the Administrative Code.

1 It is important to note that the Companies' current definition is based upon
2 an anticipated outage period; whereas, the Commission-approved definition
3 is based upon actual outage periods. Staff audits of storm cost deferrals
4 ensure the deferred costs are for actual major storms occurred. Because the
5 Companies are using anticipated outage periods, the Staff would not be able
6 to verify whether the deferred costs are legitimate or prudent.
7

8 **2. Mutual Assistance**

9 11. Q. Please describe the term "mutual assistance."

10 A. Mutual assistance refers to voluntary agreements that allow for one utility
11 to provide another utility with resources, labor (both utility employees and
12 contractors), and equipment to perform restoration services. Under mutual
13 assistance agreements, it is the responsibility of the requesting utility to
14 reimburse any assisting utility or utilities for costs incurred and not paid for
15 directly by the requesting utility.
16

17 12. Q. How does the cost of mutual assistance performed by other utilities affect
18 the Companies' Storm Damage Cost Recovery Rider (SDRR)?

19 A. The effect of providing mutual assistance results in the potential for double
20 recovery of revenues. When a utility requests assistance from the Com-
21 panies for storm restoration efforts, the Companies may make their crews

1 and resources available to the requesting utility. The requesting utility
2 usually pays directly for travel costs and supplies. However, the Companies
3 may invoice the requesting utility for their labor costs incurred and other
4 various costs if the requesting utility does not pay it directly. The payments
5 could then be recognized as revenues for the Companies.

6
7 13. Q. How should revenue that the Companies receive from other utilities for
8 work done by the Companies' workers in other utilities' jurisdictions be
9 treated within the storm deferral mechanism?

10 A. Staff believes that the amount of payment received from other utilities for
11 labor (the straight-time portion of the first 40 hours) performed by the
12 Companies' employees in those utilities' service territories should be an
13 offset to the Companies' storm damage recovery. This recommendation is
14 based on the fact that when base rates are calculated, the first 40 hours of
15 each employee's weekly labor are determined to be part of the revenue
16 requirement used to calculate the rates. Therefore, customers are paying for
17 these employees' labor through base rates. However, when that employee is
18 working on mutual assistance for another utility, the ratepayer is not receiv-
19 ing the benefit of the labor for which it has been paid. While the Companies
20 are being reimbursed by the requesting utility for mutual-assistance labor,
21 which is considered revenue for accounting purposes, the Companies are

1 also receiving revenue from customers for this labor from base rates, which
2 results in double-recovery.
3

4 14. Q. How has the Commission ruled in recent cases for other Ohio utilities
5 regarding mutual assistance?

6 A. In Duke's recent ESP² (Case. No. 14-841-EL-SSO) and AEP Ohio's latest
7 ESP³ (Case No. 13-2385-EL-SSO), the Commission stated, "[r]egarding
8 mutual assistance revenues," the Companies "must show that any such rev-
9 enues are not a reimbursement of labor hours that are already reflected in
10 base rates."
11

12 15. Q. Would Staff's recommendation negatively impact the mutual assistance
13 program?

14 A. No. Staff believes its recommendations would not impede other utilities'
15 willingness to participate in the mutual assistance program. From the other

² *In the Matter of Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service*, Case Nos. 14-841-EL-CSS, *et al.* (Opinion and Order at 74) (Apr. 2, 2015).

³ *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case Nos. 13-2385-EL-SSO, *et al.* (Opinion and Order at 56) (Feb. 25, 2015).

1 utilities' perspective, there would be no recognizable difference in the pro-
2 gram. Having the straight-time labor-related revenues offset against the
3 Companies' own storm costs has no operational or financial impacts on the
4 other utilities and therefore should not impact the ability or willingness of
5 other utilities to provide mutual assistance.

6 **3. Incremental Expenses**

7 16. Q. Why does Staff recommend only "incremental" expenses be included in the
8 SDRR?

9 A. Staff wants to insure that the amount of labor, fringe benefits, and other
10 expenses that are included in any rider recovery are truly incremental.
11 Stated differently, expenses are incremental if they that are not already
12 being collected in base rates. Regarding labor, in the calculation of base
13 rates, the first forty hours of straight time labor for each employee are
14 included in the revenue requirement to calculate base rates. Therefore, cus-
15 tomers are already paying for the first forty hours of labor when paying
16 their monthly bills. If customers are also paying for the first forty hours of
17 labor as part of a rider, double-recovery would occur. If any employee
18 incurs labor hours in excess of forty hours (including total hours worked,
19 not solely related to storm repair work) in a week for major storm repair,
20 the straight-time and overtime portion of only these excess hours (i.e. hours
21 beyond the fortieth hour of work time) would generally be eligible to be

1 included in the rider, along with any additional amount of benefits that are
2 incurred. Also, union labor contracts usually specify that storm response
3 labor is paid at least at time-and-a-half rates for all hours worked. Since the
4 calculation of base rates is based on straight-time labor rates, the overtime
5 portion of the rate for the first forty hours of storm repair should also be
6 considered to be incremental for inclusion in the rider. Fringe benefits and
7 other expenses that are directly tied to this non-incremental labor would
8 also be deemed not to be incremental and should not be included in the
9 rider for recovery.

10 **RIDER NMB**

- 11 17. Q. The Companies proposed to add language to broaden their Rider NMB tar-
12 iffs (in the section titled “Purpose”). Do you have an opinion on these pro-
13 posed changes?
- 14 A. Yes. The current tariff lists specific expense items that should be part of
15 Rider NMB, including the following: PJM charges assessed under Schedule
16 1 (Scheduling, System Control and Dispatch Services), Schedule 2
17 (Reactive Supply and Voltage Control from Generation or Other Sources
18 Services), “Network Integration Transmission Service (NITS)” under the
19 PJM Agreements, Schedule 11 (Transitional Market Expansion Charge)
20 and Schedule 12 (Transmission Enhancement Charge) of the PJM Tariff.

1 However, the Companies propose to include fees or charges imposed by the
2 State of Ohio in Rider NMB, and propose to broaden this description by
3 stating that the tariff should include “any other non-market-based charges
4 impacting both [competitive retail electric supplier] CRES and [standard
5 service offer] SSO Suppliers where such charges and credits generally fall
6 into the following non-market-based related categories: (i) PJM charges
7 and credits for service including, but not limited to, procuring transmission
8 services, transmission enhancement, uplift charges, generation deactivation
9 and out-of-market bilateral settlements.” Staff believes that these changes
10 are too broad and vague and believes that the tariff, as it is currently writ-
11 ten, is sufficient and neither of these proposed changes need to be made.

12
13 18. Q. What specific PJM billing line items that are not currently included in Rider
14 NMB are the Companies proposing to add to Rider NMB?

15 A. The Companies are proposing to add the following PJM billing line items
16 (and corresponding credits):

17 1101 – Network Integration Transmission Service (ATSI Low Voltage)

18 1109 – MTEP Project Cost Recovery

19 1218/2218 – Planning Period Congestion Uplift

20 1250 – Meter Error Correction

21 1260/2260 – Emergency Energy

22 1375/2375 – Balancing Operating Reserves

1376/2376 – Balancing Operating Reserves for Load Response

1378/2378 – Reactive Services

19. Q. What is Staff's position regarding these proposed additions?

A. Staff is concerned with the Companies' proposal and believes it may be more appropriate for some of these costs to continue to be the responsibility of the SSO suppliers and CRES providers. Specifically, Staff is concerned with including the following costs/credits in Rider NMB:

PJM Billing Line Items 1218/2218 – Planning Period Congestion Uplift

PJM Billing Line Items 1260/2260 – Emergency Energy

PJM Billing Line Items 1375/2375 – Balancing Operating Reserves

PJM Billing Line Items 1376/2376 – Balancing Operating Reserves for Load Response

PJM Billing Line Items 1378/2378 – Reactive Services

20. Q. Why is Staff concerned with including these items in Rider NMB?

A. Except for PJM billing line item 1218, based on the direct testimony of Edward Stein, it is Staff's understanding that these items are currently charged by PJM Interconnection, LLC (PJM) to Load Serving Entities (LSEs) based on the deviation between their load schedules and actual load. Under the Companies' proposal, LSEs would no longer be charged even though they may be responsible for creating the deviations. Instead, under

1 the Companies' proposal, these costs would be charged to the Companies
2 and ultimately passed through to retail customers in Rider NMB. Staff
3 believes that since PJM allocated these costs based on the LSEs' deviations,
4 the LSEs are in the best position to control these costs, and these costs
5 should continue to be billed to the LSEs and not directly to the Companies
6 from PJM.

7
8 For PJM billing line item 1218, based on the direct testimony of Edward
9 Stein⁴ (page 13-14), these charges are associated with allocations to LSE's
10 for revenue deficient Auction Revenue Rights (ARR) or Financial Trans-
11 mission Rights (FTR) remaining at the end of the planning period. Similar
12 to the other line items, it appears LSEs would be in the best position to con-
13 tinue managing these costs since they hold the ARRs and FTRs. Therefore,
14 line item 1218 should also not be part of Rider NMB.

15
16 21. Q. Is there anything additional you would like to add in regard to these costs?

17 A. Yes. Firstly, Staff would like to note that all other Ohio EDUs do not
18 include these costs in their non-bypassable non-market based transmission
19 riders. Secondly, shifting these costs into the non-bypassable Rider NMB

⁴ Direct Testimony of Edward Stein on Behalf of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company at 13-14 (Aug. 4, 2014).

1 could result in certain customers being charged twice for these costs, if the
2 costs are already included in the customer's CRES supplier's charges and
3 also included in the Companies' non-bypassable Rider NMB.

4 **SMARTGRID EXPENSES**

5 22. Q. How do the Companies currently account for expenses that are incurred for
6 SmartGrid activities within their SmartGrid Rider?

7 A. In prior cases, the Commission has ruled that costs approved were consid-
8 ered to be incremental and recoverable in the SmartGrid Rider. In Case
9 Number 09-1820-EL-ATA (SmartGrid Modernization Case), the Com-
10 panies and Staff agreed that "all costs approved in the ... proceeding asso-
11 ciated with the project will be considered incremental for recovery under
12 Rider AMI."⁵ In Case Number 10-388-EL-SSO (the Companies' Electric
13 Security Plan), the Companies were authorized by the Commission to
14 include in the SmartGrid Rider all costs approved in Case No. 09-1820-EL-
15 ATA associated with the project.⁶

⁵ *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of Ohio Site Deployment of the Smart Grid Modernization Initiative and Timely Recovery of Associated Costs*, Case No. 09-1820-EL-ATA, *et al.* (Opinion and Order) (Jun. 30, 2010).

⁶ *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 Section 4928.13, Revised Code, in the Form of an electric Security Plan*, Case No. 10-388-EL-SSO (Opinion and Order at 13) (Aug. 25, 2010).

1 23. Q. Does Staff believe that this should continue to be the proper treatment for
2 any expansion program?

3 A. No. For reasons similar to Staff's recommendations for expenses charged
4 for major storm repair, Staff does not believe that all costs associated with
5 the SmartGrid project should continue to be included in the SmartGrid
6 Rider, but only incremental costs should be allowed.

7
8 Regarding operations and maintenance labor expenses, Staff believes that
9 the labor (especially if it is part of the first forty hours in a week per
10 employee) incurred for SmartGrid purposes is already paid by customers in
11 base rates. If customers are also paying for this labor as part of a rider,
12 double-recovery would occur. Therefore, labor and benefits should be
13 removed from the SmartGrid Rider revenue requirement unless the Com-
14 panies can prove that the employees were hired specifically for SmartGrid
15 activities and were not included in the revenue requirement for the Com-
16 panies' last base rate case.

17
18 All other expenses must be incremental and not already included in base
19 rates. The Companies' original plan was for a pilot program only and was
20 partly funded by Department of Energy (DOE) stimulus dollars. However,
21 the project is beyond the pilot now and there is also no more DOE money
22 coming to the Companies.

Capital expenditures are treated differently. Capital assets are valued at the total cost to build or install them so any money spent for capital projects would continue to be included, whether incremental or not.

CARRYING CHARGE INTEREST RATE

24. Q. What interest rate have the Companies typically used in calculating carrying charges in their various riders?

A. In their various riders, the Companies have typically used “embedded cost of long-term debt” to calculate carrying charges, which is calculated by taking the total annual interest expense divided by the average outstanding debt. This is a more current measure of the cost of debt than other utilities use for calculating carrying charges.

25. Q. Do you believe that this is appropriate?

A. No. The Commission has historically approved the last approved cost of long-term debt for calculating carrying charges in riders. This allows for a more consistent rate, rather than a rate subject to continual change. It also allows for more consistency among all of Ohio’s regulated electric utilities. Therefore, Staff recommends using the last approved cost of long-term debt from the Companies’ last rate case or ESP case for all riders.

1 26. Q. Does this conclude your testimony?

2 A. Yes, it does. However, I reserve the right to submit supplemental testi-
3 mony, as new information subsequently becomes available or in response
4 to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Prefiled Testimony of Jeffrey Hecker** 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 18th day of September, 2015.

/s/ Steven L. Beeler

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