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 Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan	)))))))	Case No. 14-1297-EL-SSO

REHEARING TESTIMONY OF

EILEEN M. MIKKELSEN

ON BEHALF OF

OHIO EDISON COMPANY
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
THE TOLEDO EDISON COMPANY

MAY 2, 2016

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Eileen M. Mikkelsen. I am employed by FirstEnergy Service Company as the Vice President of Rates and Regulatory Affairs. I am responsible for rate and regulatory activities for all of FirstEnergy's utility subsidiaries, including Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("CEI") and The Toledo Edison Company ("Toledo Edison") (collectively, the "Companies"). My business address is 76 South Main Street, Akron, Ohio 44308.

Q. ARE YOU THE SAME EILEEN MIKKELSEN WHO PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

A. Yes. I provided Direct Testimony on August 4, 2014, Supplemental Testimony on December 22, 2014, Second Supplemental Testimony on May 4, 2015, Third Supplemental Testimony on June 2, 2015, Fourth Supplemental Testimony on June 4, 2015, Rebuttal Testimony on October 19, 2015, and Fifth Supplemental Testimony on December 1, 2015.

Q. WHAT IS THE PURPOSE OF YOUR REHEARING TESTIMONY IN THIS PROCEEDING?

A. The purpose of this testimony is to support the Companies' modifications to the calculation of the costs and revenues that flow through the Retail Rate Stability Rider ("Rider RRS"). The proposed modifications benefit customers while eliminating any associated risk with tying Rider RRS to the results of a purchase power agreement (the "Proposal"). In this testimony, I will describe the Companies' Proposal as well as explain why the Stipulated Electric Security Plan ("ESP") IV as previously approved by the Commission, as modified by the Companies' Proposal contained herein, does not change any of the provisions the Commission relied upon when making its determination with respect to the stipulations and the statutory ESP v. Market Rate Offer ("MRO") test and continues to meet all of the objectives identified in the Commission's Order. In fact, given that the Proposal was designed to accord in large measure with the prior Rider RRS combined with the fact that the Commission has approved all other aspects of Stipulated ESP IV, we believe this can and should be a very accelerated and straightforward process in order to timely provide the contemplated benefits commencing June 1, 2016.

Q. WHY ARE THE COMPANIES MAKING THIS PROPOSAL?

A. Since filing the ESP IV on August 4, 2014, the Companies and interested stakeholders have worked tirelessly to adopt an electric security plan that provides retail customers the benefits of favorable market-based generation pricing while protecting those customers against the risk of increasing and more volatile retail prices. During the course of an extraordinarily lengthy, thorough, and exhaustive evidentiary process, the Companies worked together with many interested stakeholders to reach agreement on Stipulated ESP IV, which the Commission approved, with modifications, on March 31, 2016 (the "Order"). Stipulated ESP IV, as approved by the Commission, provides numerous wide-ranging quantitative and qualitative benefits for the Companies' customers, including that it will protect consumers against rate volatility, price fluctuations, and long-term retail price increases by promoting rate stability for all customers in this state, modernize the grid through the deployment of advanced technology and procurement of renewable energy resources, provide support to low-income customers, reactivate and expand energy efficiency programs, and promote competition by enabling competitive providers to offer innovative products to serve customers' needs. This record need not, and should not, be revisited on rehearing.

One of those many benefits is the retail rate stability provided through Rider RRS. As the Commission found in the Order:

> Rider RRS will operate as a form of rate insurance. If energy market prices stay at current low levels, customers will pay a charge under Rider RRS; however, if energy market prices rise from the current low levels, customers will begin to receive a credit under Rider RRS, which will mitigate the increases customers see on their bills. (Order, p. 80.)

The Commission additionally found that the Stipulated ESP IV, as modified, "will protect consumers against rate volatility and price fluctuations by promoting rate stability for all ratepayers in this state." (Order, pp. 78-79.) Indeed, the evidence in the record in this case provided by the Companies – which the Commission found to be reliable – projected that the Companies' customers will receive over the eight-year period of ESP IV an aggregate $561 million credit (in nominal dollars). (Order, p. 81.) After taking into account another projection based on a United State Energy Information Administration ("EIA") Reference case, the Commission concluded that Rider RRS would provide a projected credit to customers during ESP IV of $256 million. (Order, p. 85.) The Commission combined this substantial benefit to customers with the many other quantitative and qualitative benefits of Stipulated ESP IV, as modified by the Commission in the Order, to find that Stipulated ESP IV, including its pricing and all other terms and conditions, is more favorable in the aggregate than the expected results that would otherwise apply under a MRO. (Order, pp. 118-20.)

As approved in the Order, Rider RRS charges and credits would be based on a purchase power agreement ("PPA") under which the Companies would purchase from FirstEnergy Solutions Corp. ("FES") all of the output of two of FES's plants – the W.H. Sammis plant ("Sammis") and the Davis-Besse nuclear power station ("Davis-Besse") – as well as FES's entitlement to generation units operated by the Ohio Valley Electric Corporation ("OVEC") (collectively, the "Plants"). The Companies would sell this output into the wholesale market, and Rider RRS would reflect the netting of the Companies' contract cost (the payments to FES) and the revenues received.

However, the Federal Energy Regulatory Commission ("FERC") issued an Order on April 27, 2016 in Docket Number EL16-34-000 ("FERC Order") that found that the requirement in 18 C.F.R. § 35.39(b) to obtain prior approval for affiliate sales of electric energy or capacity applies to the PPA, and rescinded FES's affiliate waiver as to the PPA. The FERC further directed that the PPA be filed for FERC's review before it could go into effect. Because the Commission's Order was issued on March 31, 2016, it did not reflect the findings and determinations made in the FERC Order. Additionally, the Commission's Order modified Rider RRS to alter the treatment of capacity performance penalties as well as the treatment of forced outages at the Plants. (Order p. 92.)

Because any subsequent proceeding at FERC to review the PPA would require a much more lengthy time period to come to conclusion, the Companies have modified how Rider RRS charges and credits will be calculated so that Rider RRS will continue to provide all the rate stabilization benefits recognized in the Order, but without reliance on the PPA or any other contractual arrangement or other involvement of FES. Not only does the modified Rider RRS mechanism provide the same stabilization benefits to customers as the mechanism approved in the Order, but it is tied more closely to the existing record in this case used by the Companies to project Rider RRS's $561 million net credit to customers. Indeed, the stability mechanism the Companies will provide to customers will have fewer moving parts and, thus, will present less risk to customers. And because the hedging function of Rider RRS will be provided directly by the Companies and not through a PPA construct, the Companies will be able to use any Rider RRS revenues produced in the near-term to support other Stipulated ESP IV initiatives such as grid modernization. Moreover, as will be discussed later in my testimony, the modified Rider RRS mechanism renders moot the treatment of capacity performance penalties as well as the treatment of forced outages.

Q. PLEASE DESCRIBE THE COMPANIES' PROPOSAL.

A. The Companies propose a few modest modifications to the calculation of the costs and revenues that will be reflected in Rider RRS. The only changes to the Rider RRS calculation are: 1) actual costs will be replaced with the costs which are already evidence of record and relied upon by the Commission in this case; 2) actual generation output will be replaced with the generation output which is already evidence of record and relied upon by the Commission in this case; and 3) actual capacity (MWs) cleared in the PJM capacity market will be replaced with the capacity (MWs) projected to clear, which is already evidence of record and relied upon by the Commission in this case. As before, these capacity MWs will be applied to actual base residual auction ("BRA") pricing. Proxy revenues for ancillary services and environmental attributes will be based on information in the record and relied upon by the Commission. As modified, Rider RRS will provide a more reliable hedge against increasing market prices by using the Companies' assumed costs of the Plants as a proxy for costs associated with fuel-diverse baseload generation assets. This is an improvement over the originally-proposed Rider RRS, which needed to be reconciled to actual Plant costs. Instead of exposing customers to the risk of unexpected cost increases at the Plants that could be passed through Rider RRS, the modified Rider

RRS holds constant the cost-side of the hedging mechanism using costs in the record already determined by the Companies – and, more importantly, by the Commission – to be reasonable. Further, by no longer relying upon actual generation output and actual capacity cleared in the PJM capacity market, customers are no longer exposed to risks associated with extended outages or other operational performance concerns, as well as offer strategies or other market performance concerns related to the Plants. The Proposal uses the generation output (MWhs) and cleared capacity (MWs) that were included in the record and relied upon by the Commission in reaching its decision.

By using the same inputs to calculate Rider RRS that were relied upon by the Commission in approving Rider RRS in the Order, the modified rate stability mechanism no longer relies on a PPA or any other contractual arrangement. By limiting the elements that are subject to change to day-ahead energy prices and actual capacity prices, the modified Rider RRS provides customers the benefit of the hedge without bearing the risk of changes in Plant costs, operating levels or any other operational or market performance risk.

Q. WHAT ARE THE BENEFITS OF THE PROPOSAL?

A. The Proposal will preserve the benefits of the Stipulated ESP IV for customers as previously determined by the Commission. Certain parties' concerns are addressed since FES will no longer have any involvement in how Rider RRS is determined. The benefit of locking in the cost and generation assumptions eliminates concerns of certain parties related to extended outages, capital spending levels, operating costs exceeding projections, Plant retirements, whether or not costs are legacy costs, and environmental compliance risks and costs. Further, because the hedging function would be provided by the Companies, the cash associated with Rider RRS charges would not flow to FES, thereby potentially making more cash available for the Companies to support important initiatives such as grid modernization and other new technologies.

In addition, all other elements and benefits of the approved Stipulated ESP IV shall remain unchanged as previously approved by the Commission. The Companies will remain obligated to fulfill the remaining terms, conditions, and commitments set forth in Stipulated ESP IV, as approved. And the multiple quantitative and qualitative benefits of Stipulated ESP IV remain unaffected, such as the $100 million risk sharing mechanism, the grid modernization and resource diversification initiatives, the base distribution rate freeze, programs to preserve and enhance rate options for customers, and support for retail competition. Moreover, the Commission-ordered mechanism limiting average customer bills will provide additional customer protections.

Q. ARE THERE ANY CHANGES TO THE RATE DESIGN OR TIMING OF THE ANNUAL RIDER RRS FILING AND QUARTERLY TRUE-UPS ORDERED BY THE COMMISSION?

A. No. There are no changes to the proposed rate design of Rider RRS regarding the allocation of the revenue requirement to each Company and each rate schedule or how it is billed to each rate schedule. The rider will be filed annually based on forecasted forward energy prices and known capacity prices for the ATSI Zone. The rider will be trued-up quarterly to reconcile projected energy revenues with actual energy revenues based on the actual monthly average on-peak and average off-peak day-ahead locational marginal price ("LMPs") at the AEP-Dayton ("AD") Hub, and to reconcile actual sales and billing demands with projected amounts.

Q. PLEASE HIGHLIGHT DIFFERENCES IN HOW THE RIDER RRS ANNUAL RATE WILL BE DEVELOPED UNDER THIS PROPOSAL?

A. As discussed earlier, under the Proposal, the Rider RRS costs will be the annual costs for each delivery year that are part of the record. There is no need for any reconciliation of costs in Rider RRS since the costs will not change.

For purposes of developing the forecasted annual energy revenue, the Companies will use the annual generation output values contained in the record.[1] Projected energy revenue will be reconciled to actual energy pricing in the quarterly true-up. Capacity revenue will be based on the MWs of capacity that were assumed to clear in the record multiplied by the applicable capacity price for generation in the PJM ATSI zone for the delivery year. Capacity revenues will not need to be reconciled since the MWs of capacity cleared will not change and the price paid to capacity will be known at the time Rider RRS is developed and will not change during the delivery year.[2]

Q. HOW DOES THE PROPOSAL AFFECT THE EXISTING STIPULATIONS THAT WERE APPROVED AS PART OF STIPULATED ESP IV?

A. Customers will continue to receive all of the benefits of Stipulated ESP IV, as modified by the Order. However, because Rider RRS charges and credits will no longer be reconciled to actual Plant costs and the Companies will not sell actual Plant output into PJM markets,

---

[1] More specifically, monthly on-peak and monthly off-peak generation output values derived from the economic dispatch model that produced the annual generation output values contained in the record will be used. The monthly on-peak and off-peak generation output will be multiplied by average monthly on-peak and off-peak energy forwards for the AD Hub posted on the Intercontinental Exchange ("ICE"). To calculate the energy forwards for use in developing the energy forecast, the Companies will average the information from each trading day in the month of March that precedes the Rider RRS effective date.

[2] As is typically the case with rider reconciliations, the quarterly true-ups will include a reconciliation of projected billing determinants to actual billing determinants.

certain provisions in the stipulations may no longer be needed or may be implemented differently. For example, because FES's actual cost data will no longer be relevant, Staff will not need to request FES fleet information pursuant to the "full information sharing" provision in Section V.B.3.b. of the Third Supplemental Stipulation. Further, as I discuss below, the Companies expect the rigorous review process in Section V.B.3.a. of the Third Supplemental Stipulation will be simplified because there will be no actual costs to audit, and no offer strategies to review. Indeed, the annual compliance reviews in Section V.B.3.a. of the Third Supplemental Stipulation to assess the Companies' participation in PJM markets in relation to the PPA will no longer be necessary because the market revenue included in Rider RRS will be based on the assumed MWhs and MWs already in the record. Also, the early termination provision in Section V.B.1. of the Third Supplemental Stipulation is no longer applicable because the modified Rider RRS does not depend upon any specific PPA generation units.

Q. ARE THE SIGNATORY PARTIES SUPPORTIVE OF THE PROPOSAL?

A. The Companies have discussed the modified Rider RRS proposal with the Signatory Parties and, while many of the Signatory Parties have expressed support, the compressed timeline was such that we could not obtain full agreement as of the time of filing this testimony. We hope to docket a letter that indicates all signatory Parties' agreement to this Proposal. The Signatory parties that have expressed support so far are unified in their belief that the Proposal needs to be reviewed and approved quickly in order to assure a June 1, 2016 effective date for the Stipulated ESP IV.

Q. DOES THE STIPULATED ESP IV AS MODIFIED BY THE PROPOSAL CONTINUE TO MEET THE THREE-PRONG TEST FOR STIPULATIONS?

A. Yes. Since the Proposal modifies only the Rider RRS calculation and does not amend the stipulations, there is no impact to the Commission's conclusions in the Order regarding the three-prong test.

Q. DO YOU BELIEVE THAT MODIFIED RIDER RRS PROVIDES THE SAME BENEFITS AS THE RIDER RRS THAT WAS ORIGINALLY APPROVED AS PART OF THE COMMISSION'S ORDER?

A. Yes. The modified Rider RRS provides all the benefits of the Rider RRS that was originally approved by the Commission and provides additional benefits as well. The modified Rider RRS still operates as a form of rate insurance for the Companies' customers. If power prices stay at the current low levels, customers will pay a charge under Rider RRS. However, if power prices rise, customers will begin to see credits to offset the increasing power prices. As a result, the modified Rider RRS would still have the effect of stabilizing or providing certainty regarding retail electric service. The modified Rider RRS is still a term, condition or charge. The Commission's findings that Rider RRS operates as a financial limitation on the consequences of customer shopping continues to apply, and Rider RRS also relates to bypassability and default service. The modified Rider RRS provides additional customer benefits insomuch as it eliminates the risk to customers associated with changes in operating and capital costs or changes in Plant operating performance. Further, unfounded intervenor criticisms related to the PPA construct regarding adverse market impacts such as price suppression, new market entry deterrence and impact on the benefits of energy efficiency and peak demand reduction programs, regardless of their merits, are now moot.

Q. DOES MODIFIED RIDER RRS ALTER ANY OF THE BENEFITS FLOWING FROM RIDER RRS THAT THE COMMISSION RELIED UPON IN REACHING ITS DECISION IN STIPULATED ESP IV?

A. No. The benefits from modified Rider RRS are expected to be at least equivalent to those relied upon by the Commission in reaching its decision on Rider RRS. In fact, benefits arising from modified Rider RRS will increase due to its design that includes fixed costs and fixed levels of annual generation output and capacity clearing in PJM auctions.

Q. DOES THE MODIFIED RIDER RRS CONTAIN AN AROUND-THE-CLOCK PRODUCT?

A. No. The underlying generation output assumptions that will be used going forward for purposes of developing Rider RRS are shaped based on the results of the economic dispatch model used to derive the generation output projections relied upon in this proceeding. Consequently, the generation output used in the calculation of Rider RRS will vary by month and differ between on-peak hours and off-peak hours.

Q. WILL FES RECEIVE ANY OF THE CASH ASSOCIATED WITH THIS PROPOSAL?

A. The implementation of Rider RRS will be solely the responsibility of the Companies. There are no contracts or any other form of an agreement between the Companies and FES that would require the Companies to share the revenues or expenses of modified Rider RRS with FES. This proposal was not designed to transfer regulated revenues to the competitive operations (including FES).

Q. IS THERE A BENEFIT TO HAVING THE REVENUE COLLECTED AT THE COMPANIES?

A. Yes. The cash projected to be collected in the first few years of Rider RRS could be used to fund the capital expenditures necessary to modernize the Companies' distribution grid through advanced metering infrastructure, distribution automation, and Volt/Var controls. It could also be used to invest in battery resources and/or to invest in new Ohio renewable resources.

Q. PLEASE EXPLAIN WHY THE COMPANIES ARE MAKING THIS PROPOSAL?

A. First, the Companies have a strong interest in the vitality of their service territories, and have a long history of supporting economic development in Ohio. By mitigating future increases and volatility, Rider RRS will promote economic development. Rider RRS operates as a retail rate stabilization mechanism to provide retail price protection to customers from longer-term market trends. This stabilization mechanism provides retail price stability, certainty and predictability over the long term to all customers. Rate volatility and retail price predictability are significant issues for customers. The Companies' customers, including large industrial customers on whom Ohio's economy depends, want pricing that is stable and predictable. Price stability is an important consideration in site location and expansion as well as large capital investments and employment decisions. Rider RRS benefits the local, state and regional economies by retaining and growing the industrial base and will contribute to the economic vitality of the region.

Second, as previously stated, certain of the funds from Rider RRS could be used to support state-of-the-art advancements such as grid modernization and/or battery technology.

Third, Rider RRS is necessary to ensure that the economic value of the Commission-approved Stipulated ESP IV is maintained for the Companies and its customers. Stipulated ESP IV, with all of its components, provides, among other things, a risk sharing element that assures at least $100 million in credits are included in Rider RRS, a commitment to freeze base distribution rates through the entire eight-year term, a significant commitment to implement resource diversification initiatives, including an unprecedented commitment to establish a goal to reduce CO_2 emissions and several provisions that provide significant support for economic development, energy efficiency and for low-income customers.

Rider RRS must be maintained to ensure all of the economic benefits and components of the Commission-approved Stipulated ESP IV remain intact.

Q. ARE THERE PROVISIONS OF THE COMMISSION'S ORDER THAT ARE NO LONGER APPLICABLE?

A. Yes. Because the Proposal operates without reference to a PPA and with no involvement of FES plants, a number of provisions in the Commission's Order are no longer applicable; and the Commission should acknowledge that they are withdrawn:

1. On page 86 of the Order, the Commission directed that if the Companies proceed with Rider RRS by filing tariffs and finalizing a PPA with FES based upon the Term Sheet, the Commission will construe such actions as the voluntary acceptance of the mechanism limiting average customer bills. Given the absence of any PPA or other contractual arrangement with FES under the Proposal, the triggering language in this provision no longer applies.

2. On page 91 of the Order, the Commission made reference to "net revenues from the output of the generating units" and "costs of the generating units" when

adopting the proposed risk sharing mechanism. While the risk sharing mechanism remains intact, the risk sharing mechanism will be calculated in accordance with the Stipulation without reliance on actual revenues and costs of the Plants.

3. On page 92 of the Order, the Commission required the Companies to bear the risk of capacity performance non-performance charges. Under the Proposal, the Companies will not incur non-performance charges as the Companies will not offer MWs of capacity in the capacity auctions. Therefore, language prohibiting the Companies from recovering non-performance charges under Rider RRS is no longer applicable.

4. On page 92 of the Order, the Commission reserved the right to prohibit recovery of any costs related to any unit for any period exceeding 90 days for any forced outage during the term of Stipulated ESP IV. Given the lack of a PPA under the Proposal, this reservation of rights is no longer necessary.

5. On page 92 of the Order, the Commission reserved the right to reevaluate and modify the Stipulations if there is a change to PJM's tariffs or rules which prohibits the Plants from being offered into PJM auctions. This reservation of rights is unnecessary under the Proposal because the 3,200 MW hedge is not tied to any particular plants and, more pointedly, no MWs are being offered into the capacity auctions, as discussed below.

6. Because the Order adopts the Third Supplemental Stipulation, the provision stating that the Commission may proceed to terminate the specific charge/credit of Rider RRS for any Plant generation unit upon its sale or transfer pursuant to Revised Code ("R.C.") 4905.26 is no longer appropriate. The rate stability mechanism is no

longer tied to the Plants, but rather is representative of generic fuel diverse baseload units. Accordingly, this provision is no longer appropriate.

Q. UNDER THE PROPOSAL WILL THE COMMISSION BE ABLE TO MODIFY RIDER RRS DURING THE TERM OF STIPULATED ESP IV?

A. Yes. In lieu of the provision in Section V.B.1. of the Third Supplemental Stipulation referenced above, the Proposal includes the following customer protections that provide the same type of benefit, albeit on a more generic but still fuel diverse basis reflecting the changed nature of the hedge. In the event that during the time that Rider RRS remains in effect, less than 3,200 MWs of formerly rate-based nuclear or fossil generation owned by the Companies on January 2000 remains in operation, including at least 900 MWs of nuclear resources which may be needed to help meet any potential 111(d) state implementation plan, the Commission may proceed to reduce the charge/credit of Rider RRS by a proportionate amount pursuant to a Commission-initiated proceeding pursuant to R.C. 4905.26. Effectively, Rider RRS helps ensure the continued operation of 3,200 MWs of fuel diverse baseload generation. Accordingly, the significant economic development and job retention benefits and transmission reliability benefits contemplated under the original proposal for the region would continue to exist, albeit for potentially different plants. However, because the commitment involves previously rate-based units, the Commission is assured that the plants were built to serve Ohio customers and, therefore, will provide similar transmission advantages. For example, it is well known that the Perry Plant is important to reliability in the Cleveland are; and as a result of retirements of 2,400 MWs of coal-fired power plants in Ohio, costs of approximately $1 billion were estimated for transmission upgrades amounting to essentially an extension cord to the Bruce

Mansfield plant. Continued operating of plants built to serve Ohio customers not only provides reliability benefits to customers, but also advantages customers through the avoidance of transmission investment that would be needed if plants closed. For example, recent history and the record in this case indicate that plant retirements of this magnitude could result in transmission investment of over $1 billion, which would be borne by customers. The point being that substituting previously rate-based units for Sammis and Davis-Besse should have benefits of the same nature as previously noted in the record. As the record demonstrates, and the Commission has recognized, continued operation of fuel diverse baseload generating units provides significant positive economic and tax impact for employees, suppliers, and governmental entities in the region. (*See* Order, p. 88.) As long as the 3,200 MWs are located within the integrated ATSI zone, customers will continue to receive the reliability benefits demonstrated in the original proposal.

Q. DO THE COMPANIES HAVE THE ABILITY TO TERMINATE MODIFIED RIDER RRS BEFORE STIPULATED ESP IV ENDS?

A. The Companies will continue to provide credits to, or collect revenues from, customers as calculated under modified Rider RRS as described in this testimony during the period that Stipulated ESP IV remains in effect.

Q. WILL THE STAFF CONTINUE TO HAVE AN OPPORTUNITY TO CONDUCT RIGOROUS REVIEW OF THE MODIFIED RIDER RRS?

A. Yes, the Staff will continue to have an opportunity to perform a rigorous review of Rider RRS, but the nature of the review will change to align with the modified Rider RRS. The Staff will still be able to conduct the initial review of the Companies' annual Rider RRS filing for mathematical accuracy, consistency with the Commission-approved rate design and to assure proper incorporation of prior audits finds, if applicable. The Staff will also conduct a second review, the annual audit of Rider RRS. This annual audit will be conducted following completion of the final quarterly true-up (reconciliation) filing for the rider. This annual review could, for example, include a detailed review of the energy revenue calculation, the capacity revenue calculation, assurance that the appropriate costs and MWhs and MWs were used in the Rider RRS and that the appropriate ancillary and environmental attributes revenues were used.

It will no longer be necessary for Staff to review actual costs because Rider RRS will rely upon proxy costs and not the actual costs of any particular generating facilities. Since there are no actual costs included in the rider, there is no longer a need for annual prudence reviews or for full information sharing on the FES fleet. It will no longer be necessary for Staff to review outage lengths, or to concern themselves with whether or not Plant retirement costs are included in Rider RRS. There are no early retirement costs included in the cost projections that will be used for Rider RRS under the Proposal. In addition, it will no longer be necessary for Staff to review actions taken by the Companies when offering or bidding capacity or energy from the generating units into PJM since the Companies will no longer be involved with offering or bidding any of this capacity or energy into the PJM market.

As part of the first Rider RRS annual audit, the Companies will provide audited accounting information as contemplated in the Order.

Q. WOULD THE CHARGES OR CREDITS FROM RIDER RRS BE INCLUDED IN THE ANNUAL SIGNIFICANTLY EXCESSIVE EARNINGS TEST ("SEET")?

A. No. As originally designed and subsequently approved by the Commission, Rider RRS was to have no net financial impact on the Companies, and therefore would have no impact on the Companies' annual SEET results during Stipulated ESP IV. The Companies' proposed modifications to Rider RRS are intended to maintain the benefits to customers that were recognized by the Commission. However, due to the proposed modifications to Rider RRS described above, Rider RRS will no longer be revenue neutral to the Companies. Therefore, an essential element of the Companies' Proposal is that all revenues and expenses associated with Rider RRS should be excluded from the Companies' SEET calculation as a special item, consistent with the Commission's Order in Case No. 09-786-EL-UNC. This treatment maintains the balance from the Order by ensuring that customers receive the benefits of Rider RRS, while not impacting the Companies' annual SEET calculation.

Q. WHAT IS THE IMPACT OF THE MODIFIED RIDER RRS CALCULATION ON THE ESP V. MRO TEST ON A QUANTITATIVE BASIS?

A. In the Order, the Commission found that Rider RRS was estimated to provide significant quantifiable benefits to customers. The modified Rider RRS calculation does not impact the Companies' analysis that was relied upon by the Commission in the Order, since the modified Rider RRS calculation is designed to produce the same or very similar results for customers. In the Order, the Commission did not include any quantifiable benefits associated with economic development, job retention, or avoided transmission investment arising from the Economic Stability Program. However, the Commission identified several other factors in its quantitative analysis of Stipulated ESP IV compared to an MRO, none of which change as a result of the Companies' Proposal. The Order also recognized quantitative customer benefits from shareholder funding for economic development, low-income customers and a customer advisory agency, totaling $51.1 million over the Stipulated ESP IV term, all of which remain intact. Therefore, Stipulated ESP IV is still more favorable quantitatively compared to the expected results of an MRO.

Q. DOES THE PROPOSAL IMPACT THE COMMISSION'S DETERMINATIONS WITH RESPECT TO THE AEP FACTORS?

A. No, because those factors applied only to a PPA-type construct, which modified Rider RRS is not. However, Stipulated ESP IV, including the Proposal, continues to provide reliability, supply diversity and economic development benefits, as previously discussed.

Q. WHAT IS THE IMPACT OF THE MODIFIED RIDER RRS CALCULATION ON THE ESP VS. MRO TEST ON A QUALITATIVE BASIS?

A. In the Order, the Commission acknowledged that Rider RRS provides qualitative benefits to customers by protecting them against rate volatility and price fluctuations, and by promoting rate stability. These qualitative benefits are enhanced under the modified Rider RRS calculation, which is designed to provide even greater rate stability to customers. Under the modified calculation, customers have greater certainty around the costs and revenues used in the Rider RRS calculation, including MWh output and MWs of capacity, so there is no risk of volatility in these variables due to unplanned outages, unexpected cost increases, or the Plants not clearing in the PJM capacity auctions. Further, the modified Rider RRS calculation does not impact any of the other qualitative benefits of Stipulated

ESP IV relied upon by the Commission in its Order. These qualitative benefits include, but are not limited to:

- Protection of consumers against rate volatility and price fluctuations by promoting rate stability for all ratepayers in this state;
- Modernization of the grid through the deployment of advanced technology and procurement of renewable energy resources;
- Promotion of competition by enabling competitive providers to offer innovative products to serve customers' needs;
- Continuation of the distribution rate increase freeze until June 1, 2024, to provide rate certainty, predictability, and stability for customers;
- Continuation of multiple rate options and programs to preserve and enhance rate options for various customers provided in previous ESPs;
- Establishment of a goal to reduce CO_2 emissions by FirstEnergy Corp. with periodic reporting requirements;
- Reactivation and expansion of energy efficiency programs previously suspended by the Commission, with a goal of saving 800,000 MWhs of energy annually;
- Programs to promote the use of energy efficiency programs by small businesses pursuant to state policy set forth in R.C. 4928.02(M); and
- Commitments to: (1) modernize distribution infrastructure through the filing of a business plan for the deployment of smart grid technology and advanced metering infrastructure in accordance with Ohio policy set forth in R.C. 4928.02(D); (2) promote resource diversity by investing in utility scale battery technology and, potentially, by procuring additional renewable energy resources; and (3) transition to a SFV rate

design, which balances the elimination of disincentives for the Companies to promote energy efficiency and conservation programs with the promotion of the principle of cost causation.

Therefore, Stipulated ESP IV remains more favorable qualitatively than the expected results of an MRO.

Q. IS STIPULATED ESP IV, INCLUDING THE MODIFIED CALCULATION OF RIDER RRS, MORE FAVORABLE IN THE AGGREGATE THAN THE EXPECTED RESULTS OF AN MRO?

A. Yes. The modified Rider RRS calculation maintains the quantitative benefits of the Stipulated ESP IV recognized by the Commission and enhances the qualitative benefits of Rider RRS discussed in the Order. Therefore, Stipulated ESP IV is still more favorable in the aggregate than the expected results of an MRO.

Q. WHAT IS YOUR RECOMMENDATION AS TO HOW THE COMMISSION SHOULD PROCEED REGARDING THE COMPANIES' PROPOSAL?

A. I recommend that the Commission expeditiously rehear this limited aspect of Stipulated ESP IV so that the Companies' customers may start to receive the rate stabilization benefits of Rider RRS on June 1, 2016. Untold hours have been devoted by the many parties to this case on the numerous, important provisions in Stipulated ESP IV. The Commission acted reasonably to approve Stipulated ESP IV, with modifications, on March 31, 2016, so that the Companies could begin to provide the benefits of Stipulated ESP IV to their customers beginning on June 1, 2016. Any delay to the June 1, 2016 start would be unwarranted, given that the Companies' Proposal retains all the stability benefits of Rider RRS while simplifying and de-risking the Rider RRS calculation using existing record evidence. The mechanics of the Rider RRS calculation as modified are minor and create less risk to customers; all other provisions relied upon by the Commission in making its determinations remain intact. And the modifications actually serve to reduce risk for customers while meeting all the objectives of the Order. In fact, the modified cost and revenue inputs proposed for use have been available to the parties to this case since August 4, 2014. Thus, the Companies ask that the Commission approve these beneficial modifications to the Rider RRS calculation by May 25, 2016.

Q. DOES THIS CONCLUDE YOUR REHEARING TESTIMONY?

A. Yes, at this time.