BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2015 Under the Electric Security Plans of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	**Case No. 16-0925-EL-UNC**

APPLICATION

By its Opinion and Order dated, July 18, 2012, in Case No. 12-1230-EL-SSO, the Commission approved a Stipulation regarding the third Electric Security Plan ("ESP 3") under Ohio Revised Code 4928.143 for Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, "Companies"). ESP 3 became effective on June 1, 2014 and continues through May 31, 2016.

Each of the Companies is an electric distribution utility within the meaning of Ohio Revised Code 4928.01(A)(6). Under Ohio Revised Code 4928.143(F), the Commission is to consider, following the end of each annual period, whether significantly excessive earnings have resulted for an electric distribution utility under its ESP "as measured by whether the earned return on common equity of the electric distribution utility is significantly in excess of the return on common equity that was earned during the same period by publicly traded companies, including utilities, that face comparable business and financial risk, with such adjustments for capital structure as may be appropriate." Pursuant to the provisions of Ohio Revised Code 4928.143(F) and Ohio Administrative Code 4901:1-35-3(C)(10), the Companies by this Application request the Commission's determination that significantly excessive earnings did not result for the Companies under their ESP 3 with respect to the annual period ending December 31, 2015.

In support of the requested determination, the Application is accompanied by the testimony and analysis of K. Jon Taylor and Joanne M. Savage. (Attachments 1 and 2). In addition, and as contemplated under the cited Ohio Administrative Code section, provided for each of the Companies as part of the Application are the FERC Form 1 for 2015 and the Securities and Exchange Commission Form 10-K filing for 2015.[1]

Also as contemplated under the cited Ohio Administrative Code section is a presentation of the Companies' capital budget requirements for future committed investments in Ohio for each annual period remaining in the ESP.[2] The statute provides that in connection with the determination of whether significantly excessive earnings exist "[c]onsideration also shall be given to the capital requirements of future committed investments in this state." Additionally, the accompanying testimony also addresses the group of various factors (expressly set out in the Opinion and Order of June 30, 2010, Case No. 09-786-EL-UNC, p. 29) which the Commission views as reflecting "significant variations" among Ohio's electric utilities. In the context of the review applicable to 2015, however, the Companies submit that analysis of financial performance metrics provided for the Companies and the comparable publicly traded companies provide a substantial and adequate basis to support the conclusion that significantly excessive earnings did not result. Accordingly, the Commission need not engage in any detailed analysis

[1] As these documents are readily and publicly available online at the websites of the agencies of the federal government with which they have been filed, hard copies of these voluminous documents have not been physically submitted to the Docketing Division. The Companies' FERC Form 1 for 2015 can be located in the FERC Online eLibrary. See http://elibrary.ferc.gov/idmws/search/fercadvsearch.asp. The Companies' Securities and Exchange Commission Form 10-K filing for 2015 can be located on the SEC website. See http://www.sec.gov/edgar/searchedgar/companysearch.html.

[2] The Companies capital requirements can be found on pages 12-14 of the Securities and Exchange Commission Form 10-K filing for 2015. The website where the Securities and Exchange Commission Form 10-K filing for 2015 can be located is listed in the footnote above.

of future capital requirements nor the other factors in order to reach the determination requested herein.

WHEREFORE, based upon the foregoing, the Companies request that the Commission determine and set out as its findings and order in this case that for the annual period ending December 31, 2015, the earnings of the Companies under ESP 3 were not significantly excessive.

Respectfully submitted,

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[Attachment 1 to Application]

BEFORE THE

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DIRECT TESTIMONY OF

K. JON TAYLOR

ON BEHALF OF

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

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

A. My name is K. Jon Taylor. My business address is FirstEnergy Corp. ("FirstEnergy"), 76 South Main Street, Akron, Ohio 44308. I am Vice President, Controller and Chief Accounting Officer for FirstEnergy and a number of its subsidiary companies, including Ohio Edison Company ("OE"), The Cleveland Electric Illuminating Company ("CEI"), and The Toledo Edison Company ("TE") (collectively, "Companies").

Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS?

A. I earned a Bachelor of Science degree in accounting from the University of Alabama at Birmingham in 1996. I also earned a Master of Accounting from the University of Alabama at Birmingham in 1997. I joined Coopers & Lybrand LLP, currently PricewaterhouseCoopers LLP, in 1997 serving in various client service positions until I joined the FirstEnergy organization, as Manager Financial Reporting and Technical Accounting, in 2009. I was elected Assistant Controller, FirstEnergy Utilities in 2010 and Assistant Controller, FirstEnergy Generation in March of 2012. In October 2012, I was elected Vice President and Assistant Controller and in May 2013, I was elected Vice President, Controller and Chief Accounting Officer for FirstEnergy. I am a licensed Certified Public Accountant in Ohio and Alabama.

Q. PLEASE DESCRIBE YOUR DUTIES AS VICE PRESIDENT, CONTROLLER AND CHIEF ACCOUNTING OFFICER.

A. I am responsible for: ensuring that the financial, accounting, and tax records of FirstEnergy and its subsidiaries are maintained in conformity with generally accepted accounting principles ("GAAP") and regulatory requirements; disbursements to employees, tax authorities and vendors; external financial reporting; accounting research in connection with proposed accounting standards and proposed business transactions; and cost analysis and account classification of construction projects.

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

A. The purpose of my testimony is to present information for purposes of the Commission's annual test with respect to whether the Companies' Electric Security Plan ("ESP") has resulted in significantly excessive earnings per Ohio Revised Code 4928.143(F) ("Significantly Excessive Earnings Test" or "SEET"). I am responsible for identifying and quantifying transactions that are included in the accounts for each of the Companies under GAAP but are excluded from their Ohio regulatory books of account for purposes of the significantly excessive earnings evaluation. In particular, I provide information regarding the Companies' earnings and equity which supports the conclusion that the return on equity that was earned in 2015 by each of the Companies was not significantly in excess of the return that was earned by publicly traded companies as described in the statute. I also sponsor materials that are required to accompany the Companies' filing under Ohio Administrative Code 4901:1-35-03(C)(10)(a).

Q. IS YOUR TESTIMONY IN THIS PROCEEDING CONSISTENT WITH THE COMMISSION'S JUNE 30, 2010 FINDING AND ORDER AND AUGUST 25, 2010 ENTRY ON REHEARING IN CASE NO. 09-786-EL-UNC ("09-786 CASE")?

A. Yes, my analyses were prepared in a manner that reflects the decisions made by the Commission in the Finding and Order and Entry on Rehearing where applicable to the Companies. My conclusions are based on the results of these analyses and the analysis sponsored by Companies' Witness Joanne Savage.

Q. WHAT MATERIALS HAVE YOU INCLUDED WITH YOUR TESTIMONY?

A. I have included the following three attachments to my testimony:

Schedule KJT-1	Return on Equity Calculation
Schedule KJT-2	Net Income Calculation
Schedule KJT-3	Common Equity Calculation

Q. PLEASE EXPLAIN HOW YOU HAVE MADE AVAILABLE THE COMPANIES' FERC FORM 1 AND SEC FORM 10-K IN COMPLIANCE WITH OHIO ADMINISTRATIVE CODE 4901:1-35-03(C)(10)(a).

A. As discussed in the Application, the Companies' FERC Form 1 and FirstEnergy's SEC Form 10-K are publicly available documents that can be located on the Internet. Due to the voluminous nature and public availability of these documents, the Commission

Staff has advised the Companies that it is acceptable to fulfill this requirement by citing where parties may locate these documents on the Internet. The URLs where these documents can be found on the Internet are provided in the Application.

Q. DO YOU SPONSOR THE COMPANIES' ANALYSIS OF THE RETURN ON EQUITY EARNED BY THE COMPARABLE GROUP OF PUBLICLY TRADED COMPANIES DURING 2015 OR THE THRESHOLD ABOVE SUCH RETURN AT WHICH THE COMPANIES' EARNINGS WOULD BE CONSIDERED SIGNIFICANTLY EXCESSIVE?

A. No. That analysis is sponsored by Companies' Witness Joanne Savage.

Q. PLEASE EXPLAIN THE PROCESS FOR DETERMINING THE EARNED RETURN ON COMMON EQUITY FOR THE COMPANIES IN 2015.

A. The earned return on common equity was calculated by dividing 2015 adjusted net income by the adjusted average common equity during 2015. For purposes of the determination of significantly excessive earnings, net income and common equity were adjusted to eliminate the revenue, expenses, or earnings of any affiliate company as required in Ohio Revised Code 4928.143, to reflect items contemplated by the Stipulation in the Companies' third Electric Security Plan ("ESP 3") in Case No. 12-1230-EL-SSO, and for other non-recurring, special or extraordinary items as contemplated in Case No. 09-786-EL-UNC. These adjustments are described below. Average common equity was calculated based upon the adjusted common equity balances over the thirteen month period from December 31, 2014 through December 31, 2015.

Q. HAVE YOU ELIMINATED THE IMPACT OF REVENUE, EXPENSES, OR EARNINGS OF AFFILIATES FROM THE SEET CALCULATION?

A. Yes. As required by Ohio Revised Code 4928.143(F), the Companies have eliminated revenues, expenses and earnings from affiliates. These adjustments include the removal of subsidiary earnings, associated companies revenues and expenses, and interest and dividend income from associated companies. For example, Pennsylvania Power Company is a distribution subsidiary of Ohio Edison providing service in the Commonwealth of Pennsylvania -- its earnings, which are non-Ohio jurisdictional and unrelated to the provisions of ESP 3, should not be included for SEET purposes.

Q. WHAT ARE THE SPECIFIC ADJUSTMENTS CONTEMPLATED BY THE STIPULATION IN THE COMPANIES' ESP 3?

A. The specific adjustments contemplated by the Stipulations were to exclude the impact (i) of a reduction in equity resulting from any write-off of goodwill, (ii) of deferred carrying charges and (iii) of any liability or write-off of regulatory assets due to the implementation of ESP 3.

Q. DID YOU MAKE AN ADJUSTMENT FOR THE WRITE-OFF OF GOODWILL AS ALLOWED FOR BY ESP 3?

A. No. There were no impairments of goodwill recognized by the Companies since the start of ESP 3 in June 2014, so no adjustment was needed.

Q. DID YOU MAKE AN ADJUSTMENT FOR DEFERRED CARRYING CHARGES ALLOWED FOR BY ESP 3?

A. Yes, an adjustment has been made to exclude the impact of deferred carrying charges from the SEET calculations as shown in Schedules KJT-2 and KJT-3.

Q. DID YOU MAKE AN ADJUSTMENT TO EXCLUDE THE IMPACT OF THE WRITE-OFF OF REGULATORY ASSETS DUE TO THE IMPLEMENTATION OF ESP 3?

A. No. There were no write-offs of regulatory assets by the Companies in 2015 resulting from the implementation of ESP 3.

Q. WHAT OTHER ADJUSTMENTS HAVE YOU MADE TO THE EARNINGS AND COMMON EQUITY BALANCES OF THE COMPANIES?

A. Similar to the Companies' 2009 – 2014 SEET filings, I have made adjustments for other special, extraordinary, or nonrecurring items. These adjustments include removing or normalizing the impact of revenues and expenses that do not contribute to the determination of whether the Companies' ESP 3 resulted in significantly excessive earnings in 2015, such as non-core asset impairment charges, and expenses associated with the Companies' pension and post-retirement benefits plan (e.g. mark to market).

Q. WHY SHOULD THESE VARIOUS ITEMS BE EXCLUDED FROM THE MEASURE OF RETURN ON EQUITY COMPUTED FOR THE UTILITY UNDER ANALYSIS?

A. If a portion of the utility's earnings are related to subsidiary or affiliate companies not providing distribution services in Ohio, those earnings should be excluded for the SEET analysis. This is clearly stated in Ohio Revised Code 4928.143(F). In addition, specific adjustments were agreed upon per the Companies' ESP 3 Stipulation. Also, if portions of a company's net income are special, extraordinary, or nonrecurring, or are otherwise non-representative of the utility's operations, they should be excluded from the utility's return on equity calculation in order to present earnings that are more representative of the Companies' ongoing utility operations to better allow the Commission to assess whether the Companies' ESP 3, as applicable, resulted in significantly excessive earnings in 2015. These types of adjustments are consistent with the Order in Case No. 09-786-EL-UNC.

Q. DID YOU ADJUST BOTH THE NET INCOME AMOUNTS AND COMMON EQUITY BALANCES IN YOUR ANALYSIS?

A. Yes, the monthly adjustments for 2015 were applied to net income and were also applied to the determination of the average common equity balance.

Q. ARE THE COMMON EQUITY ADJUSTMENTS MADE IN THE 2015 SEET CUMULATIVE FROM THE START OF ESP 3?

A. Yes, in order to reflect the cumulative nature of the equity balances, the common equity adjustments made are cumulative from June 1, 2014 when ESP 3 began.

Q. WHAT ARE THE EARNINGS, AVERAGE COMMON EQUITY, AND RETURN ON EQUITY FOR THE COMPANIES FOR 2015 SEET PURPOSES?

A. The earnings in 2015, adjusted for the items described above, were $121,087,040 for OE, $57,856,800 for CEI, and $27,905,193 for TE. The average common equity with adjustments for 2015 was $1,121,068,382 for OE, $1,103,107,476 for CEI, and $461,005,808 for TE. The resulting return on equity for 2015 was 10.8% for OE, 5.2% for CEI, and 6.1% for TE. The underlying calculations supporting these amounts are shown in Schedules KJT-1, KJT-2, and KJT-3.

Q. DO YOU BELIEVE THAT ANY OF THE COMPANIES HAD SIGNIFICANTLY EXCESSIVE EARNINGS FOR 2015 WITHIN THE MEANING OF OHIO REVISED CODE 4928.143(F)?

A. No. Based upon my calculation of the Companies' returns on equity and the calculation of the mean return on equity for the comparable group of publicly traded companies and the analysis of SEET thresholds, using the methodology previously accepted by the Commission that is presented by Ms. Savage, I conclude that none of the Companies had significantly excessive earnings in 2015. The results of Ms. Savage's analysis of what would comprise the threshold for determining significantly excessive earnings are that each of the Companies' return on equity for 2015 (OE – 10.8%, CEI – 5.2%, and TE – 6.1%) is well below the significantly excessive earnings threshold of

14.5%. Further, my conclusion is supported by the fact that each of the Companies' return on equity earned in 2015, as stated previously, is less than the safe harbor value shown in Ms. Savage's analysis using the methodology previously accepted by the Commission. The safe harbor return was calculated at 200 basis points above the mean of the comparable companies in her analysis. The 2015 safe harbor return, consistent with the Staff methodology, was 12.2%.

Q. HAS ANY ADDITIONAL ANALYSIS OF THE COMPARABLE GROUP'S RETURN ON EQUITY BEEN CONDUCTED?

A. No. While other methodologies for calculating the mean return on equity of the comparable group may be more appropriate, as described by Ms. Savage, no additional analysis is necessary since OE, CEI, and TE each have earned returns on equity for 2015 that are lower than the SEET safe harbor threshold calculated using the methodology previously accepted by the Commission and presented in the testimony of Ms. Savage.

Q. IN REACHING YOUR CONCLUSION, DID YOU TAKE INTO CONSIDERATION THE CAPITAL REQUIREMENTS OF THE COMPANIES' FUTURE COMMITTED INVESTMENTS IN OHIO?

A. No. As was the case with the Companies' prior SEET filings, since the equity return results of the Companies were well below the thresholds of what would comprise significantly excessive earnings as compared with the comparable group of publicly traded companies, I did not consider such an analysis necessary.

Q. PURSUANT TO OHIO ADMINISTRATIVE CODE 4901:1-35-03(C)(10)(a), WHAT ARE THE COMPANIES' CAPITAL BUDGET REQUIREMENTS FOR FUTURE COMMITTED INVESTMENTS IN OHIO FOR EACH ANNUAL PERIOD FOR THE REMAINING ESP PERIOD?

A. As discussed in the Application, the Companies' capital requirements can be found on pages 12-14 of the 2015 SEC Form 10-K. The URL where the SEC Form 10-K can be found on the Internet is provided in the Application.

Q. PLEASE DISCUSS THE FINDING AND ORDER AND ENTRY ON REHEARING IN CASE NO. 09-786-EL-UNC AS THEY RELATE TO THE COMPANIES.

A. The Finding and Order and the Entry on Rehearing provide direction on a number of issues that had been the topic of much discussion in the Companies' and other electric utilities' ESP cases and Case No. 09-786-EL-UNC. The Finding and Order took the form of responding to eleven questions that had been previously posted to the Commission's website and available to the Companies and other electric utilities for comment and that were addressed in the question and answer session held before the Commission on April 1, 2010. In several of the Commission's responses to the eleven questions, electric utilities are directed to file additional information and hypothetical scenarios (e.g., impacts to the SEET from earnings differences with and without implementation of an ESP and impacts from including and excluding deferrals) to facilitate the Commission's consideration of whether an electric utility had significantly excessive earnings in the prior year. For example, electric utilities are directed to address in their SEET filings the effect of including and excluding off-system sales, deferrals, and the differences between an electric utility's ESP and its prior rate plan. In addition, the Commission discusses giving consideration to other broad factors in its review, including factors related to an electric utility's risk profile. The Entry on Rehearing further addressed these issues.

Q. DO THE FINDING AND ORDER AND THE ENTRY ON REHEARING IN CASE NO. 09-786-EL-UNC PROVIDE GUIDANCE AS TO WHEN AN ELECTRIC UTILITY MUST INCLUDE IMPACTS TO THE SEET FROM EARNINGS DIFFERENCES UNDER A UTILITY'S CURRENT RATE PLAN AND PRIOR RATE PLAN?

A. Yes. On page 29 of the Order the Commission establishes a "safe harbor" of 200 basis points above the mean ROE of the comparable group. Page 29 of the Finding and Order states, in part, "…any electric utility earning less than 200 basis points above the mean of the comparable group will be found not to have significantly excessive earnings." On page 5 of the Entry on Rehearing the Commission clarifies that information comparing a utility's earnings under the current rate plan and prior rate plan is not required to be filed in years where an electric utility can demonstrate that it does not exceed the "safe harbor", and this appears to have been reaffirmed in the Commission's Opinion and Order in AEP Ohio's SEET proceeding, Case No. 10-1261-EL-UNC.

This directive is applicable here since the "safe harbor" for OE, CEI, and TE is 12.2% using the methodology presented by Ms. Savage. As noted above, each of the Companies' returns on equity for 2015 (OE – 10.8%, CEI – 5.2%, and TE – 6.1%) are within (i.e. less than) the "safe harbor".

Q. DID THE COMPANIES PROVIDE A COMPARISON OF EARNINGS UNDER THE ESP 3 TO WHAT MAY HAVE OCCURRED HAD THE PRIOR RATE PLAN BEEN IN EFFECT IN THIS FILING?

A. No, for the reasons described in my answer to the preceding question.

Q. DID THE COMPANIES PROVIDE SEET CALCULATIONS WITH AND WITHOUT THE IMPACT OF DEFERRALS IN THIS FILING?

A. No. The Companies' ESP 3 Stipulation provides that the calculation of return on equity for SEET purposes shall specifically exclude the impact of deferred carrying charges. As shown on the attachments to my testimony, the Companies' SEET return on equity calculations do exclude the impact of deferred carrying charges. On page 16 of the Finding and Order in Case No. 09-786-EL-UNC the Commission concludes that since the Companies' ESP Stipulations addressed the treatment of deferrals when calculating the SEET, this obviated the need for the Companies to supplement their SEET filing with calculations including and excluding all deferrals.

Q. PLEASE DISCUSS THE SECOND PARAGRAPH OF PAGE 29 OF THE FINDING AND ORDER IN CASE NO. 09-786-EL-UNC.

A. In the second paragraph of page 29 of the Finding and Order the Commission discusses giving consideration to a broad range of factors in its determination of whether an electric utility had significantly excessive earnings in the prior year. These factors include an electric utility's most recently authorized return on equity and an electric utility's risk profile, itself comprised of several components. Many of these factors have been extensively addressed and litigated before the Commission in other proceedings, such as the Companies' most recent distribution rate case (Case No. 07-551-EL-AIR), the Companies' first ESP case (Case No. 08-935-EL-SSO), the Companies' second ESP case (Case No. 10-388-EL-SSO), the Companies' third ESP case (Case No. 12-1230-EL-SSO), and other cases. The records in these cases, including the Companies' testimony, are publicly available on the Commission's website. Below I will briefly address these additional factors from the second paragraph of page 29 of the Finding and Order in Case No. 09-786-EL-UNC, to the extent not already discussed elsewhere in my testimony.

Q. DO THE COMPANIES OWN GENERATION?

A. No, the Companies do not own any generation. The Companies acquire all power necessary to serve their standard service offer customers through competitive bid processes. The bidding processes are conducted by an independent auction manager who either selects the winning bidder(s) subject to Commission oversight or provides the outcome of the competitive bid process to the Commission for selection of the winning bidder(s).

Q. DID THE ESP 3 IN EFFECT IN 2015 FOR THE COMPANIES INCLUDE A FUEL AND PURCHASED POWER ADJUSTMENT OR OTHER SIMILAR ADJUSTMENTS?

A. As discussed in the Companies' ESP cases, the Companies have rider mechanisms that recover generation-related expenses for customers who take standard service offer ("SSO") generation service from the Companies. For example, the Generation Service Rider ("Rider GEN") recovers the cost of providing SSO generation service including energy and capacity, resource adequacy requirements, market-based transmission service and transmission ancillaries. The Generation Cost Reconciliation Rider ("Rider GCR") reconciles any under or over recovery of the Companies' cost of providing SSO generation service.

Q. DO THE COMPANIES MAKE OFF-SYSTEM SALES?

A. No. The Companies do not make off-system sales since they do not own generation assets. Therefore, there is no impact from off-system sales on the Companies' SEET analysis.

Q. PLEASE DISCUSS THE COMPANIES' RATE DESIGN AND THE EXTENT TO WHICH THE COMPANIES REMAIN SUBJECT TO WEATHER AND ECONOMIC RISK.

A. The Companies' rate design has been the subject of significant discussion, negotiation, and litigation before the Commission over the past several years in the most recent distribution rate case, the ESP cases, and other cases. The Companies' distribution rate design was established in the most recent distribution rate case and generation and transmission rate design was established in the ESP cases. Further detail about the Companies' rate design can be found in the records in these cases. Kilowatt-hour sales and kilowatt demands are impacted by weather and the economy. To the extent that kilowatt-hour sales and kilowatt demands deviate from the levels used to establish the Companies' rates, differences will exist in the revenues collected by the Companies as compared to the revenue requirement used in setting the current rates.

Q. PLEASE DESCRIBE THE COMPANIES' ACTIONS WITH RESPECT TO MEETING INDUSTRY CHALLENGES TO MAINTAIN AND IMPROVE THE COMPETITIVENESS OF OHIO'S ECONOMY.

A. In June 2013, the Companies became the first utilities in the state of Ohio to take advantage of Ohio's new securitization legislation, which became effective in March 2012. In 2012, the PUCO approved the Companies' request to securitize deferred costs that were already being recovered from customers under certain approved recovery riders associated with deferred generation and fuel costs, as well as discounts for certain residential customers. The securitization transaction allowed the Companies to reduce costs to customers by financing deferred costs using AAA-rated, long-term securitization financing. Securitization continued to benefit customers in 2015 by providing both cost savings and rate mitigation. The transaction was designed to result in annual savings, nominal savings, and net present value savings. Across the Companies, the nominal savings total approximately $106 million through 2035. The

$106 million in customer savings can be reinvested back into the local economy to improve the competitiveness of Ohio's economy.

As discussed in the stipulations and supporting testimony in the Companies' ESP cases (Case No. 08-935-EL-SSO, Case No. 10-388-EL-SSO, Case No. 12-1230-EL-SSO, and Case No. 14-1297-EL-SSO), the Companies' ESPs provide more certain and stable rate levels than otherwise would have been in place and advance renewable energy and energy efficiency in Ohio. The Companies' ESPs have resulted in a competitive market for generation service through the competitive bidding process for SSO customers, retail shopping, and governmental aggregation. Further, the Companies' ESPs provide funding for lower income customers and for economic development purposes and include an Economic Development Rider ("Rider EDR") that provides credits to certain customer groups to help transition those customers to market based pricing. The Companies' ESPs were supported by signatory parties representing varied and diverse interests, such as large industrial customers, small- and medium-sized manufacturers, small businesses, hospitals, schools, environmental interests, residential customers including lower income residential customers, and governmental entities. The Companies' ESPs provide a number of mechanisms that support state policy and improve the competitiveness of Ohio's economy.

Q. PLEASE DESCRIBE THE COMPANIES' ACTIONS WITH RESPECT TO INNOVATION AND INDUSTRY LEADERSHIP INVOLVING INVESTMENT,

RESEARCH AND DEVELOPMENT OF ADVANCED TECHNOLOGIES, AND INNOVATIVE PRACTICES.

A. FirstEnergy is an industry leader for their use of mobile website and smartphone apps to enhance customers' experiences. The new tools make it easier for customers to access important information and services related to their electric accounts. Features of the mobile website and smartphone apps include: a simple power outage reporting process and access to the Companies' 24/7 Power Center outage maps; secure and convenient account access to review and pay monthly electric bills, analyze electric usage, and enroll in electronic billing; a click-to-call feature to reach customer service and links to the Companies' social media sites; and one-click access to the FirstEnergy website from each page of the mobile site. The mobile apps include integrated branding and functionality reflective of the Companies. Customers also have the option to sign up for text message alerts related to Storms and Weather, Outage Updates, Bill Available, Payment Due, Payment Posted and Meter Read Reminder updates. In addition, FirstEnergy's subsidiaries reached the milestone of one million e-bill customers in July 2015 (over 350,000 customers for the Companies). In 2016, FirstEnergy's mobile website and smartphone app was again recognized as one of the top performers in customer satisfaction by J.D. Power.

The Companies are also now using new technology tools to streamline power restoration efforts. To help expedite the process of power restoration, FirstEnergy has developed two new apps that employees can use on mobile devices to automatically enter damage information into the Companies' outage management system. The hazard app allows responders to electronically document hazardous situations that need to be cleared before a repair can be made. Once a hazard is cleared, repair crews can use the damage assessment app on company laptops to develop an itemized list of materials and equipment needed to make repairs at damaged locations.

Furthermore, the Companies are implementing a Smart Grid Modernization Initiative ("SGMI") in Ohio to test and validate the integration of crosscutting smart grid technologies with existing distribution system infrastructure, analyze full-system life-cycle costs and benefits, examine how existing infrastructure will function when combined with smart grid technologies, and evaluate the benefits to customers and the environment. As part of this initiative, the Companies have deployed advanced meter technologies to a pilot group of customers. These customers participated during the summer of 2012 through the summer of 2014 in a Consumer Behavior Study designed to analyze customers' willingness to reduce their contribution to peak demand when provided various in-home technologies, education, and peak time rebates. FirstEnergy received an Electric Power Research Institute ("EPRI") Technology Transfer Award for this work. The results of this research are available on smartgrid.gov. In addition, the Companies continue to offer the Residential Critical Peak Pricing Rider ("Rider RCP"), a time of use rate with critical peak periods, to up to 250 residential customers.

The SGMI also included evaluation of integrated volt/var control systems and distribution automation for grid efficiency and reliability enhancements. The

Companies will continue to evaluate these advanced technologies and their impact on reliability and energy usage through May of 2019 in the pilot area.

On February 29, 2016, the Companies filed a Grid Modernization Business Plan with the Commission that highlights future initiatives for Commission consideration, including investment in advanced metering infrastructure ("AMI"), advanced distribution management system ("ADMS"), distribution automation ("DA"), and Integrated Volt/Var Control ("IVVC") across the Companies' service territories. Three scenarios are included in the Companies' Business Plan filing, each of which incorporates full deployment of AMI and ADMS, together with DA and IVVC to varying degrees. All scenarios are expected to provide significant benefits to the Companies' customers. Through projects such as DA, the Companies' distribution system is expected to experience increased efficiency and reliability, while projects such as IVVC and AMI may reduce energy consumption and peak demand. The Plan demonstrates that when these technologies are deployed together, significant synergies can be realized and a comprehensive modern grid system can be developed that: (i) improves system reliability; (ii) reduces operating costs; (iii) enhances non-operational benefits to customers and society; (iv) provides customers with information to better manage their electricity consumption; and (v) provides more detailed information to competitive retail electric service ("CRES") providers. The Grid Modernization Business Plan is subject to Commission review and approval.

The Companies are also implementing the portfolio of energy efficiency and peak demand reduction programs originally approved by the Commission in Case Nos. 12-2190-EL-POR, 12-2191-EL-POR, and 12-2192-EL-POR on March 20, 2013 and amended by the Companies and approved by the Commission on November 20, 2014. The portfolio offers customers programs designed to reduce their energy use and contributions to peak demand. The Companies have also filed their 2017-2019 portfolio of energy efficiency ("EE") and peak demand reduction ("PDR") programs in Case No. 16-743-EL-POR and are currently awaiting Commission approval. The Companies' portfolio plan offers robust comprehensive energy efficiency programs including the expansion of offerings that include best practice ideas from utility peers in Ohio and nationally, including a smart thermostat program. This robust EE/PDR Portfolio Plan will strive to achieve over 800,000 MWh of energy savings annually, subject to customer opt-outs.

FirstEnergy participates in EPRI's End-Use Energy Efficiency (EE) & Demand Response Research Program to explore the potential of newly developed technologies for EE Programs. Another example of the Companies' commitment to advanced and innovative technologies is their participation in various EPRI national technology demonstrations to evaluate next-generation EE equipment for residential and commercial customers. These assessments were piloted across FirstEnergy's service territories in Ohio and included LED lighting, next-generation residential appliances, and water heating and HVAC equipment.

FirstEnergy is also part of EPRI's national Industrial Center of Excellence and Data Center Interest Groups to evaluate new and emerging technologies that could provide more efficient use of energy in manufacturing facilities and data centers.

FirstEnergy has worked with EPRI since 2014 to address power quality (PQ) for the next generation of advanced manufacturing equipment, offering cost-effective ways to improve the reliability of these customer systems, including 3-D printing technologies. FirstEnergy participated in PQ initiatives and hosted a customer workshop for industrial customers on low-cost PQ solutions, efficiency applications, and advanced manufacturing technologies to help improve manufacturers' competitiveness.

FirstEnergy participates in EPRI's Energy Storage research program to understand advanced technologies and the factors that may make storage technically and economically viable. FirstEnergy is part of the a three-year, collaborative research initiative funded by the U.S. Department of Energy ("DOE") SunShot Initiative, called the Sustainable and Holistic Integration of Energy Storage and Solar PV (SHINES). This program develops and demonstrates integrated photovoltaic (PV) and energy storage solutions that are scalable, secure, reliable, and cost-effective. It supports the transformation of the design and operation of the electric power system in order to integrate solar photovoltaic generation, load management, and energy storage technologies.

The Companies participate in industry research and development through EPRI and the demonstration of plug-in electric vehicles (PEVs) in order to evaluate their impacts related to grid infrastructure, economic development, and the environmental aspects of PEV technology. FirstEnergy has been part of several national collaborative research projects to evaluate PEVs and their interface to the utility grid. As part of this research, the Companies are conducting vehicle demonstrations in Ohio to identify practical approaches to PEV charging and assess customer usage behaviors.

As part of an EPRI led industry DOE award, the Companies are testing Plug-in Hybrid Electric Vehicle vans to evaluate their performance and charging capabilities. FirstEnergy has received several EPRI Technology Transfer Awards for these PEV research initiatives to assess PEV reliability, smart charging technologies, grid-vehicle connectivity, standards-based communications, off-peak charging, and the role of quiet portable auxiliary power at job sites.

The Companies are active in Ohio in encouraging Plug-in Electric Vehicle Infrastructure Readiness and installing workplace charging stations locally. As part of these Plug-in Electric Vehicle initiatives, the Companies supported Clean Fuels Ohio in their implementation of an "*EV Readiness Plan for Ohio*", through a grant under the US DOE's Clean Cities Community Readiness and Planning for Plug-In Electric Vehicles and Charging Infrastructure Program. "*Drive Electric Ohio*" is the culmination of over two years of collaborative work of a large coalition, led by Clean Fuels Ohio, that has grown to over 200 stakeholders including FirstEnergy and Ohio's other major electric utilities, EPRI, state agencies, metropolitan planning organizations, automobile manufacturers, industry representatives, local governments, universities, and research firms. The Companies are also exploring demonstrations of non-road electric transportation technologies, such as electric forklifts, that provide customers with clean and cost-effective material handling solutions.

As part of the Third Supplemental Stipulation in the Companies' Fourth Electric Security Plan ("ESP 4") in Case No. 14-1297-EL-SSO, which was approved with modifications by the Commission on March 31, 2016, the Companies made significant commitments to further promote and support resource diversity related to carbon reduction, advanced technologies, energy efficiency, and renewable energy. As part of ESP 4, FirstEnergy Corp. will establish a goal to reduce carbon emissions by at least 90% below 2005 levels by 2045, which represents a reduction of over 80 million tons of carbon and is among the most aggressive targets in the utility industry. The Companies will also evaluate investing in battery technology resources and may procure increased renewable resources, namely wind and solar, to further diversify the generation mix in the state of Ohio. Under ESP 4, the Companies will also be an innovator by advocating at FERC for market enhancements such as a long-term capacity product and any other market improvements. The Companies will file periodic reports with the Commission highlighting their then-current strategy regarding these commitments.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

2015 Significantly Excessive Earnings Test (SEET)
Return on Equity Calculation

Line	Description	OE	CEI	TE	Source
1	SEET Net Income	121,087,040	57,856,800	27,905,193	Schedule KJT-2, Page 1, Line 5
2	SEET Common Equity	1,121,068,382	1,103,107,476	461,005,808	Schedule KJT-3, Page 2, Line 66
3	SEET Return on Equity	10.8%	5.2%	6.1%	Calculation: Line 1 / Line 2

Note: See Schedules KJT-2 and KJT-3 for the calculation of Net Income and Common Equity.

2015 Significantly Excessive Earnings Test (SEET)
Net Income Calculation

Line	Description	OE	CEI	TE	Source
1	Net Income	141,713,640	65,652,462	25,455,379	2015 Q4 FERC Form 1, Page 117, Line 78
2	Affiliate Company Earnings	(30,318,385)	(4,813,133)	(811,665)	Supporting Workpapers
3	Deferred Interest Income	1,709,094	1,395,766	(86,170)	Supporting Workpapers
4	Special / Extraordinary Items After-Tax	7,982,691	(4,378,295)	3,347,649	Supporting Workpapers
5	SEET Net Income	121,087,040	57,856,800	27,905,193	Calculation: Sum Lines 1 through 4

2015 Significantly Excessive Earnings Test (SEET)
Common Equity Calculation

Line	Month	Description	OE	CEI	TE	Source
1	December	12/31/14 Common Equity	1,093,535,761	1,086,185,407	359,976,478	2014 Q4 FERC Form 1, Page 112, Line 16
2		Affiliate Company Earnings	(11,979,574)	(2,838,465)	(495,020)	2014 SEET Filing
3		Deferred Interest Income	417,625	399,638	260,481	2014 SEET Filing
4		Special / Extraordinary Items After-Tax	36,373,597	20,906,868	13,324,602	2014 SEET Filing
5		12/31/14 SEET Common Equity	1,118,347,409	1,104,653,448	373,066,541	Calculation: Sum Lines 1 through 4
6	January	1/31/15 Common Equity	1,110,694,961	1,093,476,959	365,763,980	Financial Reporting Dept.
7		Affiliate Company Earnings	(15,426,185)	(3,241,829)	(564,533)	Supporting Workpapers
8		Deferred Interest Income	495,990	464,677	287,484	Supporting Workpapers
9		Special / Extraordinary Items After-Tax	35,055,329	20,410,048	12,945,399	Supporting Workpapers
10		1/31/15 SEET Common Equity	1,130,820,095	1,111,109,855	378,432,330	Calculation: Sum Lines 6 through 9
11	February	2/28/15 Common Equity	1,123,782,416	1,099,633,094	367,490,485	Financial Reporting Dept.
12		Affiliate Company Earnings	(18,549,271)	(3,644,202)	(635,576)	Supporting Workpapers
13		Deferred Interest Income	578,649	545,942	285,692	Supporting Workpapers
14		Special / Extraordinary Items After-Tax	33,737,744	19,853,215	12,547,071	Supporting Workpapers
15		2/28/15 SEET Common Equity	1,139,549,537	1,116,388,048	379,687,672	Calculation: Sum Lines 11 through 14
16	March	3/31/15 Common Equity	1,139,816,097	1,105,937,819	369,103,679	2015 Q1 FERC Form 3Q, Page 112, Line 16
17		Affiliate Company Earnings	(21,656,365)	(4,044,902)	(706,505)	Supporting Workpapers
18		Deferred Interest Income	687,260	641,179	307,450	Supporting Workpapers
19		Special / Extraordinary Items After-Tax	32,391,971	19,295,311	12,153,657	Supporting Workpapers
20		3/31/15 SEET Common Equity	1,151,238,963	1,121,829,407	380,858,282	Calculation: Sum Lines 16 through 19
21	April	4/30/15 Common Equity	1,147,529,292	1,048,438,222	371,852,515	Financial Reporting Dept.
22		Affiliate Company Earnings	(24,336,285)	(4,445,013)	(772,973)	Supporting Workpapers
23		Deferred Interest Income	785,148	727,402	311,786	Supporting Workpapers
24		Special / Extraordinary Items After-Tax	31,029,528	18,752,057	11,767,914	Supporting Workpapers
25		4/30/15 SEET Common Equity	1,155,007,683	1,063,472,668	383,159,242	Calculation: Sum Lines 21 through 24
26	May	5/31/15 Common Equity	1,162,612,930	1,052,264,295	372,628,624	Financial Reporting Dept.
27		Affiliate Company Earnings	(27,149,261)	(4,845,833)	(840,178)	Supporting Workpapers
28		Deferred Interest Income	887,465	811,632	303,275	Supporting Workpapers
29		Special / Extraordinary Items After-Tax	29,671,461	18,217,776	11,403,532	Supporting Workpapers
30		5/31/15 SEET Common Equity	1,166,022,596	1,066,447,869	383,495,252	Calculation: Sum Lines 26 through 29
31	June	6/30/15 Common Equity	1,177,403,980	1,058,151,924	374,325,847	2015 Q2 FERC Form 3Q, Page 112, Line 16
32		Affiliate Company Earnings	(30,572,907)	(5,246,301)	(907,889)	Supporting Workpapers
33		Deferred Interest Income	1,017,932	908,222	278,567	Supporting Workpapers
34		Special / Extraordinary Items After-Tax	28,246,776	17,629,458	10,925,403	Supporting Workpapers
35		6/30/15 SEET Common Equity	1,176,095,781	1,071,443,304	384,621,927	Calculation: Sum Lines 31 through 34

2015 Significantly Excessive Earnings Test (SEET)
Common Equity Calculation

Line	Month	Description	OE	CEI	TE	Source
36	July	7/31/15 Common Equity	1,196,524,523	1,066,989,990	378,438,240	Financial Reporting Dept.
37		Affiliate Company Earnings	(33,809,131)	(5,646,220)	(974,362)	Supporting Workpapers
38		Deferred Interest Income	1,178,002	1,024,398	251,575	Supporting Workpapers
39		Special / Extraordinary Items After-Tax	27,107,329	16,872,441	10,515,855	Supporting Workpapers
40		7/31/15 SEET Common Equity	1,191,000,723	1,079,240,609	388,231,307	Calculation: Sum Lines 36 through 39
41	August	8/31/15 Common Equity	1,216,544,955	1,076,499,337	379,971,173	Financial Reporting Dept.
42		Affiliate Company Earnings	(37,386,270)	(6,050,688)	(1,036,134)	Supporting Workpapers
43		Deferred Interest Income	1,357,075	1,157,794	231,981	Supporting Workpapers
44		Special / Extraordinary Items After-Tax	25,962,131	16,066,421	10,068,092	Supporting Workpapers
45		8/31/15 SEET Common Equity	1,206,477,892	1,087,672,864	389,235,113	Calculation: Sum Lines 41 through 44
46	September	9/30/15 Common Equity	1,229,697,382	1,081,739,985	379,581,189	2015 Q3 FERC Form 3Q, Page 112, Line 16
47		Affiliate Company Earnings	(39,662,935)	(6,450,717)	(1,101,737)	Supporting Workpapers
48		Deferred Interest Income	1,549,676	1,307,022	216,193	Supporting Workpapers
49		Special / Extraordinary Items After-Tax	24,800,319	15,245,205	14,623,935	Supporting Workpapers
50		9/30/15 SEET Common Equity	1,216,384,442	1,091,841,495	393,319,579	Calculation: Sum Lines 46 through 49
51	October	10/31/15 Common Equity	1,236,787,288	1,083,620,971	386,291,455	Financial Reporting Dept.
52		Affiliate Company Earnings	(41,858,432)	(6,850,887)	(1,167,916)	Supporting Workpapers
53		Deferred Interest Income	1,742,315	1,468,852	204,489	Supporting Workpapers
54		Special / Extraordinary Items After-Tax	24,014,364	14,601,852	14,274,663	Supporting Workpapers
55		10/31/15 SEET Common Equity	1,220,685,535	1,092,840,788	399,602,691	Calculation: Sum Lines 51 through 54
56	November	11/30/15 Common Equity	1,245,554,771	1,087,665,818	380,337,781	Financial Reporting Dept.
57		Affiliate Company Earnings	(44,203,782)	(7,251,249)	(1,236,879)	Supporting Workpapers
58		Deferred Interest Income	1,931,907	1,633,311	192,144	Supporting Workpapers
59		Special / Extraordinary Items After-Tax	22,874,798	13,799,672	13,841,939	Supporting Workpapers
60		11/30/15 SEET Common Equity	1,226,157,694	1,095,847,553	393,134,985	Calculation: Sum Lines 56 through 59
61	December	12/31/15 Common Equity	1,119,604,307	1,090,889,125	533,405,198	2015 Q4 FERC Form 1, Page 112, Line 16
62		Affiliate Company Earnings	(42,297,958)	(7,651,599)	(1,306,685)	Supporting Workpapers
63		Deferred Interest Income	2,126,718	1,795,404	174,311	Supporting Workpapers
64		Special / Extraordinary Items After-Tax	44,356,288	16,528,573	16,672,251	Supporting Workpapers
65		12/31/15 SEET Common Equity	1,123,789,355	1,101,561,503	548,945,075	Calculation: Sum Lines 61 through 64
66		SEET Average Common Equity	1,121,068,382	1,103,107,476	461,005,808	Calculation: 13-Month Average

[Attachment 2 to Application]

BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2015 Under the Electric Security Plan of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	**Case No. 16-0925-EL-UNC**

DIRECT TESTIMONY OF

JOANNE M. SAVAGE

ON BEHALF OF

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

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

A. My name is Joanne M. Savage. My business address is FirstEnergy Corp. ("FirstEnergy"), 76 South Main Street, Akron, Ohio 44308. I am employed by FirstEnergy Service Company in the Rates and Regulatory Affairs Department – Ohio, as Manager, Revenue Requirements. This Department provides regulatory support for Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("CEI") and The Toledo Edison Company ("Toledo Edison") (collectively, "Companies").

Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS?

A. I received a Bachelor of Science degree in Accounting and Finance from Albright College and a Master of Business Administration degree in Corporate Finance from Alvernia University. I have been employed by FirstEnergy Service Company since 2005 and have held various positions of increasing responsibility in the Rates and Regulatory Affairs Department since that time. In May 2016, I was named to my current position.

Q. WHAT ARE YOUR CURRENT JOB DUTIES AND RESPONSIBILITIES?

A. I am responsible for analyzing financial data of the Companies for various projects, preparing state regulatory filings and associated rate case materials, and working with the Staff of the Public Utilities Commission of Ohio ("Commission"). I also conduct research and analyses for a number of regulatory proceedings including, but not limited to the FirstEnergy SmartGrid Modernization Initiative, Electric Security Plan(s), the Companies' securitization, and various riders. In performing my duties, I interact with various groups that are responsible for business planning, accounting, and reporting on behalf of the Companies, as well as customer service representatives on various issues related to the Companies' tariffs and Electric Service Regulations. In addition to my experience in Ohio, I spent six years providing regulatory support and analyses for the FirstEnergy Pennsylvania utilities.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?

A. Yes. I have previously testified before the Commission on behalf of Toledo Edison in Case No. 13-2145-EL-CSS and on behalf of Ohio Edison, CEI and Toledo Edison in Case No. 14-1297-EL-SSO. I have also testified before the Pennsylvania Public Utility Commission.

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

A. The purpose of my testimony is to present information for purposes of the Commission's annual test with respect to whether the Companies' Electric Security Plan has resulted in significantly excessive earnings per Ohio Revised Code 4928.143(F) ("Significantly Excessive Earnings Test" or "SEET"). I am responsible for providing the analysis of the return on equity ("ROE") earned by the comparable group of publicly traded companies during 2015 consistent with the methodology previously conducted by PUCO Staff in other SEET proceedings. I also calculate the safe harbor threshold and the threshold above such return at which the Companies' earnings would be considered significantly excessive.

Q. WHAT MATERIALS HAVE YOU INCLUDED WITH YOUR TESTIMONY?

A. I have included the following attachment to my testimony:

Schedule JMS-1 Calculation of Comparable ROE

Q. PLEASE DESCRIBE THE METHODOLOGY USED FOR YOUR ANALYSIS.

A. For purposes of my analysis, I am following the methodology previously conducted by PUCO Staff and accepted as valid by the Commission in other SEET proceedings. The source of my data is believed to be consistent with the source used by PUCO Staff in the Companies' 2013 SEET filing in Case No. 14-828-EL-UNC ("2013 SEET"), and is consistent with the Companies' testimony in their 2014 SEET filing in Case No. 15-1450-EL-UNC. This methodology is described by the Commission Opinion and Order in Case No. 11-4571-EL-UNC and presented by Commission witness Joseph P. Buckley in the Companies' 2013 SEET case. Under this methodology, the calculation of the baseline mean ROE utilizes the companies that comprise the SPDR Select Sector Fund-Utility ("XLU") as the comparable group. XLU is an Exchange Traded Fund ("ETF") comprised of electric utilities, multi-utilities, independent power producers and energy traders, and gas utilities. The mean earned ROE is calculated by adding the net income of the companies in the fund and dividing by the sum of average common equity of those companies. The SEET threshold is then calculated by applying an adder equal to 1.64 standard deviations to the baseline mean earned ROE.

Furthermore, as established in Case No. 09-786-EL-UNC ("Generic SEET Case"), a safe harbor threshold is established equal to 200 basis points above the baseline mean earned ROE.

Q. PLEASE SUMMARIZE THE RESULTS OF YOUR ANALYSIS.

A. Under the methodology described above and as shown in Schedule JMS-1, for 2015 the baseline mean earned ROE of XLU as the comparable risk group is 10.2%. Therefore under this methodology, the safe harbor threshold is 12.2%, and the SEET threshold is 14.5%.

Q. DO YOU BELIEVE THERE ARE OTHER APPROPRIATE METHODOLOGIES FOR CALCULATING THE MEAN ROE?

A. Yes. Other appropriate methodologies exist for calculating the mean ROE of the comparable group. For example, the methodology conducted by Mr. Buckley could be modified to use a simple average instead of a weighted average in the calculation of the mean earned ROE. Under Mr. Buckley's current methodology, the resulting mean earned ROE is a weighted average, which puts more weight to larger companies with higher common equity book values. Therefore, the ROE of a single large company will have a larger impact on the overall group average ROE than that of a smaller company. This may have the unintended consequence of driving the sample group average toward the ROE earned by fewer larger companies, and therefore would be less representative of returns being earned by companies for the comparison envisioned by the statute. The use of a simple average of each individual company's earned ROE would give the same weight to each of the companies in the sample and would also better align with the use of the standard deviation of the individual company ROE results to determine the SEET threshold. Likewise, the methodology provided by Dr. Michael J. Vilbert on behalf of the Companies in their 2009 – 2013 SEET proceedings represents another appropriate approach for the calculation of the mean earned ROE of the comparable group. Under Dr. Vilbert's methodology, the mean earned ROE is calculated based on a group of companies that have comparable business risk to the utility, making appropriate adjustments for differences in capital structure. While these other methodologies may be appropriate, no additional analysis is necessary in this proceeding since OE, CEI, and TE each have earned ROEs for 2015 that are lower than the SEET safe harbor threshold calculated using the above-described methodology employed by Commission Staff and previously accepted by the Commission.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Calculation of Comparable ROE

Ticker *	Common Equity			Net Profit	ROE
	12/31/2014	12/31/2015	Average	2015	2015
NEE	19,916.0	22,574.0	21,245.0	2,761.0	13.0%
DUK	40,875.0	39,727.0	40,301.0	3,000.0	7.4%
SO	19,949.0	20,592.0	20,270.5	2,661.0	13.1%
D	11,555.0	12,664.0	12,109.5	1,923.0	15.9%
AEP	16,820.2	17,891.7	17,356.0	1,763.4	10.2%
EXC	22,608.0	25,793.0	24,200.5	2,282.0	9.4%
PCG	15,748.0	16,576.0	16,162.0	945.0	5.8%
PPL	13,628.0	9,919.0	11,773.5	1,603.0	13.6%
SRE	11,326.0	11,809.0	11,567.5	1,365.0	11.8%
PEG	12,185.0	13,066.0	12,625.5	1,679.0	13.3%
EIX	10,960.0	11,368.0	11,164.0	1,480.0	13.3%
ED	12,576.0	13,052.0	12,814.0	1,160.0	9.1%
XEL	10,214.5	10,600.9	10,407.7	1,063.6	10.2%
WEC	4,419.7	8,654.8	6,537.3	640.3	9.8%
ES	9,976.8	10,352.2	10,164.5	886.0	8.7%
DTE	8,327.0	8,772.0	8,549.5	796.0	9.3%
FE	12,420.0	12,421.0	12,420.5	855.0	6.9%
ETR	10,007.7	9,256.8	9,632.3	1,095.0	11.4%
AWK	4,915.0	5,049.0	4,982.0	476.0	9.6%
AEE	6,713.0	6,946.0	6,829.5	585.0	8.6%
CMS	3,670.0	3,938.0	3,804.0	525.0	13.8%
SCG	4,987.0	5,443.0	5,215.0	544.0	10.4%
CNP	4,548.0	3,461.0	4,004.5	465.0	11.6%
PNW	4,367.5	4,583.9	4,475.7	420.0	9.4%
GAS	3,784.0	3,929.0	3,856.5	353.0	9.2%
NI	6,175.3	3,843.5	5,009.4	198.6	4.0%
AES	4,272.0	3,149.0	3,710.5	306.0	8.2%
TE	2,574.7	2,559.0	2,566.9	241.2	9.4%
Total	309,518.4	317,990.8	313,754.6	32,072.1	
ROE [1]					**10.2%**
Standard Deviation [2]					2.6%
SEET adder (95% normal cumulative dist) [3]				**1.64**	4.3%
SEET Threshold [4]					**14.5%**

Source: Valueline Investment Analyzer
[1] Total Net Profit / Average Common Equity (2014-2015).
[2] One standard deviation (population) of 2015 ROE.
[3] +1.64x standard deviation (population) from mean 2015 ROE. This represents an ROE at the 95th percentile assuming a normal cumulative distribution.
[4] ROE + SEET adder.

* NRG was excluded from this analysis due to significant extraordinary non-recurring losses including impairment losses in 2015.