FILE

PUCO EXHIBIT FILING

Date of Hearing: 5/19/16

Case No. 15-1450-EL-UNC

PUCO Case Caption: Ohio Edison, etal.

List of exhibits being filed:

Joint Ex-1

Company Ex-1

Reporter's Signature: Michael O. Spencer
Date Submitted: 6/1/16

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 Administration of the Significantly Excessive Earnings Test Under Section 4928.143 (F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code.	: Case No. 15-1450-EL-UNC

\- - -

PROCEEDINGS

Before Bryce McKenney, Attorney Examiner, held at the offices of the Public Utilities Commission of Ohio, 180 East Broad Street, Hearing Room 11-D, Columbus, Ohio, on Thursday, May 19, 2016, at 10:00 A.M.

\- - -

Armstrong & Okey, Inc.
222 East Town Street, 2nd Floor
Columbus, Ohio 43215
(614) 224-9481 - (800) 223-9481
Fax - (614) 224-5724

\- - -

/

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 Administration of the Significantly Excessive Earnings Test Under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code.	:	Case No. 15-1450-EL-UNC

EXHIBIT
Joint Ex-1

STIPULATION AND RECOMMENDATION

INTRODUCTION

Rule 4901-1-30, Ohio Administrative Code ("O.A.C.") provides that any two or more parties to a proceeding may enter into a written stipulation covering the issues presented in such a proceeding. The purpose of this document is to set forth the understanding and agreement of the parties who have signed below (the "Signatory Parties") and to recommend that the Public Utilities Commission of Ohio (the "Commission" or "PUCO") approve and adopt this Stipulation and Recommendation ("Stipulation"), as part of its Opinion and Order in this proceeding, resolving all of the issues in the proceeding.

This Stipulation is supported by adequate data and information; represents a just and reasonable resolution of issues in this proceeding; violates no regulatory principle or precedent; and is the product of serious bargaining among knowledgeable and capable

Signatory Parties in a cooperative process and undertaken by the Signatory Parties representing a wide range of interests to resolve the aforementioned issues. For purposes of resolving the issues raised by this proceeding, the Signatory Parties stipulate, agree and recommend as set forth below.

PARTIES

This Stipulation is entered into by and among Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, "Companies") and the Staff of the Public Utilities Commission of Ohio ("Staff").[1]

STIPULATION

The returns on equity earned in 2014 by the Companies, as adjusted by specific items contemplated in the stipulations in Case No. 10-388-EL-SSO and Case No. 12-1230-EL-SSO, were: CEI 4.6%, Ohio Edison 11.5%, and Toledo Edison 8.4%. The Signatory Parties stipulate, agree and recommend that such returns do not reflect significantly excessive earnings for the Companies under their ESPs for 2014.

The Signatory Parties stipulate, agree and recommend that the Commission admit the Companies' Application and accompanying materials filed September 15, 2015 into

---

1 The Commission Staff is a party for the purpose of entering into this Stipulation pursuant to O.A.C. 4901-1-10(C).

the record of this proceeding and issue its Opinion and Order in this proceeding determining that significantly excessive earnings under Revised Code Section 4928.143(F) did not occur with respect to each of the Companies' ESPs in 2014.

PROCEDURAL ISSUES

This Stipulation is submitted for purposes of this proceeding only, and is not deemed binding in any other proceeding, nor is it to be offered or relied upon in any other proceedings, except as necessary to enforce the terms of this Stipulation. The agreement of the Signatory Parties reflected in this document is expressly conditioned upon its acceptance in its entirety and without alteration by the Commission. The Signatory Parties agree that if the Commission or any court of competent jurisdiction rejects all or any material part of this Stipulation, or otherwise materially modifies its terms, any adversely affected Signatory Party shall have the right to file an application for rehearing or a motion for reconsideration. If such application or motion is filed, and if the Commission or court does not, on rehearing or reconsideration, accept the Stipulation without material modification within 45 days of the filing of such motion, then anytime thereafter the adversely affected Signatory Party may terminate its Signatory Party status without penalty or cost and regain its rights as a non-Signatory Party as if it had never executed the Stipulation by filing a notice with the Commission and the other Signatory Parties.

Unless the Signatory Party exercises its right to terminate its Signatory Party status as described above, each Signatory Party agrees to and will support the reasonableness of this Stipulation before the Commission, and to cause its counsel to do the same, and in any appeal from the Commission's adoption and/or enforcement of this Stipulation. The Signatory Parties also agree to urge the Commission to accept and approve the terms hereof as promptly as possible.

IN WITNESS WHEREOF, this Stipulation has been signed by the authorized agents of the undersigned Parties as of this 12th day of January, 2016. The undersigned Parties respectfully request the Commission to issue its Opinion and Order determining that significantly excessive earnings did not occur with respect to each of the individual Companies' ESPs in 2014. The Stipulation will be held open for additional interveners and parties to sign on as Signatory Parties until the issuance of an Order by the Commission.

Robert M. Endris
Robert M. Endris
FirstEnergy Service Company
76 South Main Street
Akron, OH 44308
330.384.5728 (telephone)
330.384.3875 (fax)
rendris@firstenergycorp.com

On behalf of Ohio Edison Company, The Toledo Edison Company, and The Cleveland Electric Illuminating Company

Thomas W. McNamee
Thomas W. McNamee
Assistant Attorney General
Public Utilities Section
180 East Broad Street, 6th Floor
Columbus, OH 43216-3793
614.466.4397 (telephone)
614.644.8764 (fax)
thomas.mcnamee@puc.state.oh.us

On behalf of the Staff of the Public Utilities Commission of Ohio

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Post-Hearing Brief** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following Parties of Record, this 12th day of January, 2016.

Thomas W. McNamee

Thomas W. McNamee
Assistant Attorney General

Parties of Record:

James W. Burk
Robert M. Endris
FirstEnergy Service Company
76 South Main Street
Akron, OH 44308
burk@firstenergycorp.com
rendris@firstenergycorp.com

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

EXHIBIT

Company Ex-1

In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2014 Under the Electric Security Plans of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	**Case No. 15-1450-EL-UNC**

APPLICATION

By its Opinion and Order dated, August 25, 2010, in Case No. 10-388-EL-SSO, the Commission approved a Combined Stipulation regarding the second Electric Security Plan ("ESP 2") under Ohio Revised Code 4928.143 for Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, "Companies"). ESP 2 became effective on June 1, 2011 and continued through May 31, 2014. On July 18, 2012, the Commission approved a Stipulation regarding the Companies' third Electric Security Plan ("ESP 3") in Case No. 12-1230-EL-SSO. 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 ESPs with respect to the annual period ending December 31, 2014.

In support of the requested determination, the Application is accompanied by the testimony and analysis of K. Jon Taylor and Peter R. Blazunas. (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 2014 and the Securities and Exchange Commission Form 10-K filing for 2014.[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 2014, however, the Companies submit that analysis of financial performance metrics provided for the Companies and the comparable publicly traded companies

[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 2014 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 2014 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 2014. The website where the Securities and Exchange Commission Form 10-K filing for 2014 can be located is listed in the footnote above.

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 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, 2014, the earnings of the Companies under ESP 2 and ESP 3 were not significantly excessive.

Respectfully submitted,

/s/ James W. Burk

James W. Burk (0043808)
Counsel of Record
FIRSTENERGY SERVICE COMPANY
76 South Main Street
Akron, OH 44308
Telephone: (330) 384-5861
Facsimile: (330) 384-3875
E-mail: burkj@firstenergycorp.com

ATTORNEY FOR APPLICANTS, OHIO EDISON COMPANY, THE CLEVELAND ELECTRIC ILLUMINATING COMPANY, AND THE TOLEDO EDISON COMPANY

[Attachment 1 to Application]

BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2014 Under the Electric Security Plan of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	**Case No. 15-1450-EL-UNC**

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 2014 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 Peter Blazunas.

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 2014 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 Peter Blazunas.

Q. PLEASE EXPLAIN THE PROCESS FOR DETERMINING THE EARNED RETURN ON COMMON EQUITY FOR THE COMPANIES IN 2014.

A. The earned return on common equity was calculated by dividing 2014 adjusted net income by the adjusted average common equity during 2014. 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 Stipulations in the Companies' second Electric Security Plan ("ESP 2") approved in Case No. 10-388-EL-SSO and 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, 2013 through December 31, 2014.

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 2 or ESP 3, should not be included for SEET purposes.

Q. WHAT ARE THE SPECIFIC ADJUSTMENTS CONTEMPLATED BY THE STIPULATIONS IN THE COMPANIES' ESP 2 AND 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) associated with any liability or write-off of regulatory assets due to implementing ESP 2 or ESP 3.

Q. DID YOU MAKE AN ADJUSTMENT FOR THE WRITE-OFF OF GOODWILL AS ALLOWED FOR BY ESP 2 AND ESP 3?

A. No. There were no impairments of goodwill recognized by the Companies since the start of ESP 2 in June 2011, so no adjustment was needed.

Q. DID YOU MAKE AN ADJUSTMENT FOR DEFERRED CARRYING CHARGES ALLOWED FOR BY ESP 2 AND 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 2 OR ESP 3?

A. No. There were no write-offs of regulatory assets by the Companies in 2014 resulting from the implementation of ESP 2 or 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 – 2013 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 2 and ESP 3 resulted in significantly excessive earnings in 2014, such as prior period tax adjustments, 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 2 and ESP 3 Stipulations. 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 2 and ESP 3, as applicable, resulted in significantly excessive earnings in 2014. 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 2014 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 2014 SEET CUMULATIVE FROM THE START OF ESP 2?

A. Yes, in order to reflect the cumulative nature of the equity balances, the common equity adjustments made are cumulative from June 1, 2011 until May 31, 2014 when ESP 2 ended. Thereafter, the equity adjustments for the SEET associated with ESP 3 are cumulative as well.

Q. WHAT ARE THE EARNINGS, AVERAGE COMMON EQUITY, AND RETURN ON EQUITY FOR THE COMPANIES FOR 2014 SEET PURPOSES?

A. The earnings in 2014, adjusted for the items described above, were $107,208,568 for OE, $50,737,449 for CEI, and $31,224,669 for TE. The average common equity with adjustments for 2014 was $931,467,958 for OE, $1,097,318,214 for CEI, and $370,250,571 for TE. The resulting return on equity for 2014 was 11.5% for OE, 4.6% for CEI, and 8.4% 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 2014 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 Mr. Blazunas, I conclude that none of the Companies had significantly excessive earnings in 2014. The results of Mr. Blazunas's analysis of what would comprise the threshold for determining significantly excessive earnings are that each of the Companies' return on equity for 2014 (OE – 11.5%, CEI – 4.6%, and TE – 8.4%) is well below the significantly excessive earnings threshold of 15.8%. Further, my conclusion is supported by the fact that each of the Companies' return on equity earned in 2014, as stated previously, is less than its respective safe harbor value shown in Mr. Blazunas'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 his analysis. The 2014 safe harbor return, consistent with the Staff methodology, was 11.9%.

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 Mr. Blazunas, no additional analysis is necessary since OE, CEI, and TE each have earned returns on equity for 2014 that are lower than the SEET safe harbor threshold calculated using the methodology previously accepted by the Commission and presented in the testimony of Mr. Blazunas.

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 2014 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's SEET proceeding, Case No. 10-1261-EL-UNC.

This directive is applicable here since the "safe harbor" for OE, CEI, and TE is 11.9% using the methodology presented by Mr. Blazunas. As noted above, each of the Companies' returns on equity for 2014 (OE – 11.5%, CEI – 4.6%, and TE – 8.4%) are within (i.e. less than) the "safe harbor".

Q. DID THE COMPANIES PROVIDE A COMPARISON OF EARNINGS UNDER THE ESP 2 OR 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 2 and ESP 3 Stipulations provided 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. 10-0388-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 in 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 a descending clock format competitive bid process. The bidding process is conducted by an independent bid manager who selects the winning bidder(s) subject to Commission oversight.

Q. DID THE ESP 2 AND ESP 3 IN EFFECT IN 2014 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 2014 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. 10-0388-EL-SSO and Case No. 12-1230-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 regarding for Storms and Weather, Outage Updates, Bill Available, Payment Due, Payment Posted and Meter Read Reminder. In addition, FirstEnergy reached the milestone of one million e-bill customers in July 2015 (over 350,000 customers for the Companies). For the second year in a row in 2014, FirstEnergy's mobile website and smartphone app have been recognized among the top performers in customer satisfaction by J.D. Power.

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 for the past three summers in a Customer 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") 2013 Technology Transfer Award for this work. This research will help the Companies and other utilities predict how customers will respond to varying prices and which technologies they are most likely to use to reduce their energy usage and costs.

In addition, the Companies have increased the number of advanced meters in the pilot area over the past year and have extended the Customer Behavior Study offers to additional customers. The study continued, for both prior and new participants, in the summer of 2014. The SGMI also includes evaluation of volt/var control systems and distribution automation for grid efficiency and reliability enhancements. The U.S. Department of Energy ("DOE") selected the Companies as an award recipient for smart grid stimulus funds. The introduction of these advanced technologies is expected to improve the reliability and interactivity of the electric distribution infrastructure in targeted areas selected for the pilot.

The Companies are 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 energy efficiency and peak demand reduction programs offer customers programs designed to reduce their energy use and contributions to peak demand.

FirstEnergy is a member of EPRI's End-Use Energy Efficiency & 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 EPRI's national energy efficiency demonstration project which evaluated highly efficient technologies with the potential to reduce energy usage. As part of this multi-year project that was finalized in 2013, FirstEnergy was a host site for advanced technologies, including the Ductless Heat Pump Technology Pilot being conducted across its service territories, and partnering with Habitat for Humanity, Ohio, and Whirlpool to evaluate the efficiency of the next-generation of refrigerators, washers and dryers. Other advanced technologies evaluated as part of this national EE demonstration included LED street and area lighting, data center efficiency technologies, heat pump water heaters, and variable refrigerant flow for heating and cooling of commercial buildings.

The Companies are participating in industry R&D through EPRI and demonstrating plug-in electric vehicles (PEV's) to evaluate their impacts related to grid infrastructure, economic development and the environmental aspects of PEV technology. Since 2010, FirstEnergy has been part of a national collaborative research project, demonstrating and monitoring Chevrolet® Volt® plug-in electric vehicles, and their interface to the grid. FirstEnergy received an EPRI 2013 Technology Transfer Award for this work in outfitting these electric vehicles in FirstEnergy's fleet with high-resolution data-logging equipment to evaluate smart-charging technologies, including grid-vehicle connectivity, standards-based communications and off-peak charging to ensure future grid reliability. In 2015, 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.

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 participating in industry research through EPRI and demonstrating plug-in electric vehicles to evaluate smart charging technologies and impacts related to grid infrastructure, economic development and the environmental benefits and its impacts to the distribution system.

FirstEnergy is a member of EPRI's Energy Storage research program to study the factors that may make storage technically and economically viable. FirstEnergy received an EPRI 2014 Technology Transfer Award for applying results from this program to support integration of distribution-connected energy storage. The research utilizes a systematic analytical approach that is directly applicable to storage integration throughout the system.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

2014 Significantly Excessive Earnings Test (SEET)
Return on Equity Calculation

Description	OE	CEI	TE	Source
SEET Net Income	107,208,568	50,737,449	31,224,669	Schedule KJT-2, Page 1, Li
SEET Common Equity	931,467,958	1,097,318,214	370,250,571	Schedule KJT-3, Page 2, Li
SEET Return on Equity	11.5%	4.6%	8.4%	Calculation: Line 1 / Line

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

2014 Significantly Excessive Earnings Test (SEET)
Net Income Calculation

Description	OE	CEI	TE	Source
Net Income	103,584,517	36,479,809	19,849,816	2014 Q4 FERC Form 1, Page 117,
Affiliate Company Earnings	(28,005,299)	(4,951,672)	(877,439)	Supporting Workpapers
Deferred Interest Income	511,604	611,579	387,989	Supporting Workpapers
Special / Extraordinary Items After-Tax	31,117,745	18,597,732	11,864,303	Supporting Workpapers
SEET Net Income	107,208,568	50,737,449	31,224,669	Calculation: Sum Lines 1 throu

nth	Description	OE	CEI	TE	Source
ember	12/31/13 Common Equity	751,029,605	1,119,291,721	376,454,901	2013 Q4 FERC Form 1, Page
	Affiliate Company Earnings	(14,981,014)	(19,335,732)	(9,697,950)	2013 SEET Filing
	Deferred Interest Income	(14,531,823)	(24,062,695)	(4,787,605)	2013 SEET Filing
	Special / Extraordinary Items After-Tax	23,071,740	14,089,686	5,465,256	2013 SEET Filing
	12/31/13 SEET Common Equity	744,588,507	1,089,982,981	367,434,601	Calculation: Sum Lines 1
uary	1/31/14 Common Equity	766,984,549	1,124,398,494	379,609,622	Financial Reporting D
	Affiliate Company Earnings	(18,949,535)	(19,753,768)	(9,771,227)	Supporting Workpap
	Deferred Interest Income	(14,591,147)	(23,967,021)	(4,717,740)	Supporting Workpap
	Special / Extraordinary Items After-Tax	22,024,157	13,707,381	5,201,433	Supporting Workpap
	1/31/14 SEET Common Equity	755,468,024	1,094,385,086	370,322,088	Calculation: Sum Lines 6
ruary	2/28/14 Common Equity	779,868,749	1,065,336,938	347,804,262	Financial Reporting D
	Affiliate Company Earnings	(22,076,346)	(20,174,265)	(9,848,478)	Supporting Workpap
	Deferred Interest Income	(14,571,393)	(23,926,050)	(4,695,961)	Supporting Workpap
	Special / Extraordinary Items After-Tax	20,937,574	13,211,410	4,929,784	Supporting Workpap
	2/28/14 SEET Common Equity	764,158,584	1,034,448,033	338,189,607	Calculation: Sum Lines 11
arch	3/31/14 Common Equity	793,950,349	1,070,866,439	350,966,108	2014 Q1 FERC Form 3Q, Page
	Affiliate Company Earnings	(25,429,428)	(20,594,874)	(9,925,203)	Supporting Workpap
	Deferred Interest Income	(14,550,448)	(23,880,283)	(4,671,811)	Supporting Workpap
	Special / Extraordinary Items After-Tax	19,906,656	12,736,856	4,507,315	Supporting Workpap
	3/31/14 SEET Common Equity	773,877,129	1,039,128,137	340,876,410	Calculation: Sum Lines 16
pril	4/30/14 Common Equity	801,088,412	1,072,756,863	352,730,795	Financial Reporting D
	Affiliate Company Earnings	(28,502,241)	(21,025,330)	(10,004,451)	Supporting Workpap
	Deferred Interest Income	(14,539,971)	(23,835,117)	(4,644,139)	Supporting Workpap
	Special / Extraordinary Items After-Tax	18,769,396	12,248,159	4,249,242	Supporting Workpap
	4/30/14 SEET Common Equity	776,815,595	1,040,144,574	342,331,447	Calculation: Sum Lines 21
lay	5/31/14 Common Equity	811,560,554	1,076,026,366	356,324,701	Financial Reporting D
	Affiliate Company Earnings	(31,006,739)	(21,448,939)	(10,080,369)	Supporting Workpap
	Deferred Interest Income	(14,531,563)	(23,794,358)	(4,614,596)	Supporting Workpap
	Special / Extraordinary Items After-Tax	17,815,887	11,780,551	4,004,957	Supporting Workpap
	5/31/14 SEET Common Equity	783,838,138	1,042,563,620	345,634,692	Calculation: Sum Lines 26
ine	6/30/14 Common Equity	826,939,833	1,081,056,835	359,380,057	2014 Q2 FERC Form 3Q, Page
	Affiliate Company Earnings	(2,463,763)	(420,993)	(74,761)	Supporting Workpap
	Deferred Interest Income	26,313	43,683	32,384	Supporting Workpap
	Special / Extraordinary Items After-Tax	(1,043,696)	(430,258)	(284,749)	Supporting Workpap
	6/30/14 SEET Common Equity	823,458,687	1,080,249,267	359,052,931	Calculation: Sum Lines 31

nth	Description	OE	CEI	TE	Source
uly	7/31/14 Common Equity	842,769,534	1,087,629,119	361,130,533	Financial Reporting D
	Affiliate Company Earnings	(5,494,343)	(818,816)	(142,103)	Supporting Workpap
	Deferred Interest Income	71,093	96,572	66,373	Supporting Workpap
	Special / Extraordinary Items After-Tax	(2,935,523)	(1,522,326)	(827,458)	Supporting Workpap
	7/31/14 SEET Common Equity	834,410,760	1,085,384,550	360,227,345	Calculation: Sum Lines 36
gust	8/31/14 Common Equity	859,391,111	1,095,509,576	367,177,076	Financial Reporting D
	Affiliate Company Earnings	(8,447,205)	(1,238,057)	(213,423)	Supporting Workpap
	Deferred Interest Income	139,556	163,009	105,795	Supporting Workpap
	Special / Extraordinary Items After-Tax	(4,646,204)	(2,378,983)	(681,976)	Supporting Workpap
	8/31/14 SEET Common Equity	846,437,258	1,092,055,546	366,387,472	Calculation: Sum Lines 41
ember	9/30/14 Common Equity	873,829,499	1,098,915,384	371,170,112	2014 Q3 FERC Form 3Q, Page
	Affiliate Company Earnings	(12,163,258)	(1,632,498)	(279,686)	Supporting Workpap
	Deferred Interest Income	216,034	231,255	150,995	Supporting Workpap
	Special / Extraordinary Items After-Tax	(9,538,121)	1,455,194	(3,658,050)	Supporting Workpap
	9/30/14 SEET Common Equity	852,344,154	1,098,969,336	367,383,371	Calculation: Sum Lines 46
ober	10/31/14 Common Equity	1,131,521,939	1,103,410,626	371,606,573	Financial Reporting D
	Affiliate Company Earnings	(13,358,428)	(2,026,596)	(348,916)	Supporting Workpap
	Deferred Interest Income	277,426	287,057	186,757	Supporting Workpap
	Special / Extraordinary Items After-Tax	(11,302,747)	436,084	(4,179,238)	Supporting Workpap
	10/31/14 SEET Common Equity	1,107,138,190	1,102,107,171	367,265,177	Calculation: Sum Lines 51
ember	11/30/14 Common Equity	1,146,607,028	1,104,690,610	376,355,850	Financial Reporting D
	Affiliate Company Earnings	(17,622,580)	(2,429,293)	(419,495)	Supporting Workpap
	Deferred Interest Income	342,020	339,721	224,746	Supporting Workpap
	Special / Extraordinary Items After-Tax	(13,205,091)	(648,173)	(4,741,620)	Supporting Workpap
	11/30/14 SEET Common Equity	1,116,121,377	1,101,952,865	371,419,482	Calculation: Sum Lines 56
ember	12/31/14 Common Equity	1,093,535,761	1,086,185,407	359,976,478	2014 Q4 FERC Form 1, Page
	Affiliate Company Earnings	(11,979,574)	(2,838,465)	(495,020)	Supporting Workpap
	Deferred Interest Income	417,625	399,638	260,481	Supporting Workpap
	Special / Extraordinary Items After-Tax	36,373,597	20,906,868	13,324,602	Supporting Workpap
	12/31/14 SEET Common Equity	1,118,347,409	1,104,653,448	373,066,541	Calculation: Sum Lines 61
	SEET Average Common Equity	931,467,958	1,097,318,214	370,250,571	Calculation: 13-Month A

[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 2014 Under the Electric Security Plan of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	**Case No. 15-1450-EL-UNC**

DIRECT TESTIMONY OF

PETER R. BLAZUNAS

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 Peter R. Blazunas. My business address is FirstEnergy Corp. ("FirstEnergy"), 76 South Main Street, Akron, Ohio 44308. I am employed by FirstEnergy Service Company as a State Regulatory Analyst in the Rates and Regulatory Affairs Department – Ohio. 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 Arts degree in Economics from the University of Dayton and a Master of Arts degree in Economics from the University of Akron. I have been employed by FirstEnergy Service Company since 2012. Furthermore, I have served as Adjunct Faculty in the Department of Economics at the University of Akron since August 2012.

Q. WHAT ARE YOUR RESPONSIBILITIES AS A STATE REGULATORY ANALYST?

A. My primary responsibility is to serve as the lead analyst for the preparation of various riders. I also serve as the primary Rates and Regulatory Affairs contact for Toledo Edison and CEI as it relates to rate and/or regulatory inquiries, as well as the interpretation and implementation of the Commission-approved tariffs. Beyond these two primary responsibilities, I also provide support in various regulatory proceedings and analyses, including Electric Security Plans and regulatory audits.

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

A. Yes. I have previously testified before the Public Utilities Commission of Ohio ("Commission") on behalf of Toledo Edison in Case No. 13-2145-EL-CSS.

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 2014 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 PRB-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' prior year SEET case (Case No. 14-828-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' prior year 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 & 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 PRB-1, for 2014 the baseline mean earned ROE of XLU as the comparable risk group is 9.9%. Therefore, the safe harbor threshold is 11.9%, and the SEET threshold is 15.8%.

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 2014 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
	12/31/2013	12/31/2014	Average	2014	2014
DUK	41,330.0	40,875.0	41,102.5	2,934.0	7.1%
NEE	18,040.0	19,916.0	18,978.0	2,465.0	13.0%
D	11,642.0	11,555.0	11,598.5	1,793.0	15.5%
SO	19,008.0	19,949.0	19,478.5	2,567.0	13.2%
EXC	22,732.0	22,608.0	22,670.0	1,826.0	8.1%
AEP	16,085.0	16,820.0	16,452.5	1,634.0	9.9%
PCG	14,342.0	15,748.0	15,045.0	1,450.0	9.6%
SRE	11,008.0	11,326.0	11,167.0	1,162.0	10.4%
PPL	12,466.0	13,628.0	13,047.0	1,583.0	12.1%
EIX	9,938.0	10,960.0	10,449.0	1,539.0	14.7%
PEG	11,608.0	12,185.0	11,896.5	1,518.0	12.8%
ED	12,245.0	12,576.0	12,410.5	1,066.0	8.6%
XEL	9,566.0	10,214.5	9,890.2	1,021.3	10.3%
ES	9,611.5	9,976.8	9,794.2	827.1	8.4%
FE	12,692.0	12,420.0	12,556.0	356.0	2.8%
DTE	7,921.0	8,327.0	8,124.0	905.0	11.1%
ETR	9,632.5	10,007.7	9,820.1	1,060.0	10.8%
NI	5,886.6	6,175.3	6,031.0	530.7	8.8%
WEC	4,233.0	4,419.7	4,326.4	589.5	13.6%
AEE	6,544.0	6,713.0	6,628.5	593.0	8.9%
CMS	3,454.0	3,670.0	3,562.0	479.0	13.4%
CNP	4,329.0	4,548.0	4,438.5	611.0	13.8%
AES	4,330.0	4,272.0	4,301.0	769.0	17.9%
SCG	4,664.0	4,987.0	4,825.5	538.0	11.1%
NRG	10,220.0	11,676.0	10,948.0	134.0	1.2%
PNW	4,194.5	4,367.5	4,281.0	397.6	9.3%
POM	4,315.0	4,322.0	4,318.5	242.0	5.6%
TEG	3,261.3	3,299.7	3,280.5	227.0	6.9%
GAS	3,631.0	3,784.0	3,707.5	562.0	15.2%
TE	2,333.7	2,574.7	2,454.2	213.1	8.7%
Total	311,263.0	323,900.9	317,582.0	31,592.2	
ROE [1]					9.9%
Standard Deviation [2]					3.6%
SEET adder (95% normal cumulative dist) [3]				1.64	5.9%
SEET Threshold [4]					15.8%

Source: Valueline Investment Analyzer

Note: Where "Shareholders Common Equity" was unavailable, it was calculated as "Shareholders Equity" less "Preferred Equity".

[1] Total Net Profit / Average Common Equity (2013-2014).

[2] One standard deviation (population) of 2014 ROE.

[3] +1.64x standard deviation (population) from mean 2014 ROE. This represents an ROE at the 95th percentile assuming a normal cumulative distribution.

[4] ROE + SEET adder.

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

9/15/2015 4:30:25 PM

in

Case No(s). 15-1450-EL-UNC

Summary: Application of the Determination of the Existence of Significantly Excessive Earnings for 2014 Under the Electric Security Plans electronically filed by Ms. Tamera J Singleton on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company