

BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Filing by Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company of a Grid Modernization Business Plan	)	)	Case No. 16-481-EL-UNC
	)	)	
In the Matter of the Filing by Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company Application for Approval of a Distribution Platform Modernization Plan	)	)	Case No. 17-2436-EL-UNC
	)	)	
In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company to Implement Matters Relating to the Tax Cuts and Jobs Act of 2017	)	)	Case No. 18-1604-EL-UNC
	)	)	
In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of a Tariff Change	)	)	Case No. 18-1656-EL-ATA
	)	)	

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**DIRECT TESTIMONY OF**

**SANTINO L. FANELLI**

**ON BEHALF OF**

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

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**NOVEMBER 9, 2018**

1 **INTRODUCTION**

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

3 A. My name is Santino L. Fanelli. I am employed by FirstEnergy Service Company as  
4 Director of the Rates and Regulatory Affairs Department. My business address is 76 South  
5 Main Street, Akron, Ohio 44308.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
7 **PROFESSIONAL EXPERIENCE.**

8 A. I graduated from John Carroll University in 2004 with a Bachelor of Science degree in  
9 Mathematics. In 2012, I received a Master of Science degree in Operations Research from  
10 Rutgers University. I joined FirstEnergy Service Company in September 2004 and have  
11 worked in various departments, including Rates and Regulatory Affairs, the Controller’s  
12 Department, Internal Auditing, Treasury, and Investor Relations. I have worked in Rates  
13 and Regulatory Affairs since 2007 and have taken on roles of increasing responsibility. I  
14 assumed my current position, as Director of Rates and Regulatory Affairs, in May 2016.

15 **Q. WHAT ARE YOUR CURRENT JOB DUTIES AND AREAS OF**  
16 **RESPONSIBILITY?**

17 A. I am responsible for managing the regulatory activities of Ohio Edison Company (“OE”),  
18 The Cleveland Electric Illuminating Company (“CEI”), and The Toledo Edison Company  
19 (“TE”) (collectively, the “Companies”). I have experience in numerous matters that have  
20 come before the Public Utilities Commission of Ohio (“Commission”), and I interact with  
21 Commission Staff (“Staff”) and other stakeholders on a routine basis.

22

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES**  
2 **COMMISSION OF OHIO?**

3 A. Yes. I testified on behalf of the Companies in Case Nos. 09-906-EL-SSO, 14-828-EL-  
4 UNC, and 14-1297-EL-SSO.

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

6 A. The purpose of my testimony is to sponsor and summarize the terms and conditions of the  
7 Stipulation and Recommendation filed on November 9, 2018, in this proceeding  
8 (“Stipulation”). My testimony discusses the criteria that the Commission uses when  
9 considering settlement agreements, and how the Stipulation satisfies those criteria. More  
10 specifically, my testimony supports the conclusion that the Stipulation (1) is the product of  
11 serious bargaining among capable, knowledgeable parties, (2) does not violate any  
12 important regulatory principle or practice, and (3) as a package, benefits ratepayers and the  
13 public interest.

14 **Q. WHO ARE THE SIGNATORY PARTIES TO THE STIPULATION?**

15 A. The signatory parties include Ohio Edison, The Cleveland Electric Illuminating Company,  
16 The Toledo Edison Company, Staff, Ohio Energy Group (“OEG”), Industrial Energy  
17 Users-Ohio (“IEU”), Direct Energy Services, LLC and Direct Energy Business LLC  
18 (“Direct Energy”), Interstate Gas Supply, Inc. (“IGS Energy”), Ohio Hospital Association  
19 (“OHA”), Environmental Defense Fund (“EDF”), and Ohio Cable Telecommunications  
20 Association (“OCTA”) (collectively, the “Signatory Parties”).

21 **Q. PLEASE PROVIDE A GENERAL OVERVIEW OF THE STIPULATION.**

22 A. The Stipulation includes the Companies’ agreement to flow back to customers all tax  
23 savings associated with the Tax Cuts and Jobs Act of 2017 (“TCJA”) and provides for the

1 first phase of significant grid modernization investments by the Companies (“Grid Mod  
2 I”). As a result of the Stipulation, 100% of the tax savings incurred by the Companies  
3 related to the TCJA since January 1, 2018 will be returned to customers. Total TCJA-  
4 related savings to customers are estimated to be approximately \$900 million. In addition,  
5 the Grid Mod I investments contemplated in the Stipulation will advance the Commission’s  
6 PowerForward Roadmap through investments that promote a safe, reliable and resilient  
7 distribution grid and provide direct and substantive benefits to customers.

8 **Q. WHICH PROCEEDINGS ARE RESOLVED BY THE STIPULATION?**

9 A. The Stipulation resolves all remaining matters related to the Companies’ implementation  
10 of the TCJA in Case Nos. 18-47-AU-COI, 18-1604-EL-UNC, and 18-1656-EL-ATA  
11 (collectively, “TCJA Cases”), along with two of the Companies’ prior filings related to  
12 grid modernization investment: the Grid Modernization Business Plan (“Business Plan”),  
13 Case No. 16-481-EL-UNC, and the Distribution Platform Modernization (“DPM”) Plan,  
14 Case No. 17-2436-EL-UNC (collectively, “Grid Modernization Cases”).

15 **Q. HOW DOES THE STIPULATION RESOLVE ALL REMAINING MATTERS**  
16 **RELATED TO THE TCJA?**

17 A. Starting in early 2018, the Companies updated all applicable riders that were impacted by  
18 the TCJA, which resulted in annual savings of nearly \$40 million being passed back to  
19 customers. Separately, in January 2018 the Commission initiated an investigation in Case  
20 No. 18-47-AU-COI to consider the impact on Ohio’s utilities of the TCJA. In its original  
21 entry in the case, the Commission directed utilities, effective January 1, 2018, to record on  
22 their books as a deferred liability the estimated reduction in federal income tax resulting  
23 from the TCJA. The Companies have complied with this directive. Several of the

1 Signatory Parties participated in Case No. 18-47-AU-COI by intervening and/or filing  
2 comments, including OCTA, OEG, IEU-Ohio, IGS Energy, and EDF.

3 On October 24, 2018, the Commission entered a Finding and Order in its investigation  
4 noting that the Commission intends all benefits resulting from the TCJA will be returned  
5 to customers, and directing that all Ohio rate-regulated utility companies, unless ordered  
6 otherwise, file applications not for an increase in rates to reflect the impact of the TCJA on  
7 each specific utility's current rates. Indeed, the Commission encouraged utilities to follow  
8 the example of AEP Ohio in Case Nos. 18-1007-EL-UNC and 18-1451-EL-ATA, in which  
9 the Commission had recently approved a process and methods for providing federal tax  
10 savings in AEP Ohio's rates. Several of the Signatory Parties here also were signatories to  
11 the stipulation filed in those proceedings – Staff, OEG, OCTA, and IEU-Ohio. Thus, these  
12 parties were very familiar with TCJA issues prior to engaging with the Companies.

13 The Stipulation accomplishes the Commission's objectives set out in Case No. 18-47-  
14 AU-COI by resolving Case No. 18-1604-EL-UNC, a separate proceeding concerning the  
15 TCJA's impacts on the Companies, and by filing, concurrently with the filing of the  
16 Stipulation, Case No. 18-1656-EL-ATA, to obtain approval of the rider needed by each  
17 Company to return all remaining tax savings to customers.

18 **Q. HOW DOES THE STIPULATION RESOLVE THE COMPANIES' BUSINESS**  
19 **PLAN AND DPM PLAN FILINGS?**

20 A. The Companies committed under their Commission-approved ESP IV in Case No. 14-  
21 1297-EL-SSO to empower customers through grid modernization initiatives, including  
22 Advanced Metering Infrastructure ("AMI"), Distribution Automation ("DA") and  
23 Integrated Volt-VAR Control ("IVVC"). To that end, the Companies filed their Business

1 Plan in February 2016, which offered three scenarios of grid modernization investment for  
2 Commission consideration, with the intention to engage in a collaborative process with  
3 other parties to develop a grid modernization strategy that will work best for the  
4 Companies' system to provide the greatest benefits to the Companies' customers. The  
5 Office of the Ohio Consumers' Counsel ("OCC"), Ohio Environmental Council ("OEC"),  
6 EDF, Ohio Partners for Affordable Energy ("OPAE"), Environmental Law & Policy  
7 Center ("ELPC"), OEG, OHA, The Ohio Manufacturers' Association Energy Group  
8 ("OMAEG") and Direct Energy all moved to intervene in that proceeding in 2016, and the  
9 Companies responded to multiple discovery requests served by several parties.

10 Then, beginning in April 2017 and continuing through March 2018, the Companies  
11 participated with many interested parties in all three phases of the Commission's  
12 PowerForward review of potential grid modernization efforts (the "PowerForward  
13 Initiative"). Among the interested parties participating in the PowerForward Initiative  
14 were many of the same parties who have signed onto the Stipulation, including OEG, IGS  
15 Energy, Direct Energy, IEU-Ohio and Commission Staff. I was one of the more than 100  
16 speakers at the PowerForward sessions, which included many hours of education on all  
17 aspects of grid modernization. The PowerForward Initiative eventually resulted in the  
18 Commission's PowerForward Roadmap issued August 29, 2018.

19 While participating in the PowerForward Initiative, the Companies proposed their  
20 DPM Plan on December 4, 2017, which focused on modernizing the Companies'  
21 distribution platform to benefit customers and enable investment in future grid  
22 modernization investments. Several parties moved in 2017 and 2018 to intervene in that  
23 proceeding, including IEU-Ohio, OEG, ELPC, OCC, OEC, EDF, Northeast Ohio Public

1 Energy Council (“NOPEC”), OHA, IGS Energy and Calpine Energy Solutions, LLC. The  
2 Companies responded to many discovery requests served by parties in that proceeding  
3 regarding the details of their DPM Plan.

4 Grid Mod I is the culmination of the grid modernization efforts undertaken by the  
5 Companies, the Commission and the Signatory Parties that began in February 2016. Grid  
6 Mod I includes investments from the Business Plan and the DPM Plan filing, serves as the  
7 first phase of grid modernization investments in the Companies’ service territories, and  
8 sets a path for future phases of investment, consistent with the Commission’s objectives in  
9 PowerForward. Grid Mod I includes significant levels of grid modernization technologies,  
10 but less than the deployments proposed in the Companies’ Business Plan. The Stipulation  
11 provides a significant first step towards modernizing the Companies’ grid, while setting up  
12 a collaborative process to discuss and evaluate future phases of investment.

13 **THREE-PART TEST FOR EVALUATING STIPULATIONS**

14 **Q. PLEASE DESCRIBE THE CRITERIA THE COMMISSION HAS USED IN**  
15 **CONSIDERING APPROVAL OF A STIPULATION AMONG SIGNATORY**  
16 **PARTIES TO A PROCEEDING.**

17 A. My understanding is that a stipulation must satisfy the following criteria: (1) the stipulation  
18 must be the product of serious bargaining among capable, knowledgeable parties; (2) the  
19 stipulation must not violate any important regulatory principle or practice; and (3) the  
20 stipulation must, as a package, benefit ratepayers and the public interest.

21 **Q. DOES THE STIPULATION IN THIS PROCEEDING SATISFY THE CRITERIA**  
22 **ABOVE?**

23 A. Yes, it does.

1 **THE STIPULATION IS THE PRODUCT OF SERIOUS BARGAINING AMONG**  
2 **CAPABLE, KNOWLEDGEABLE PARTIES.**

3 **Q. IS THE STIPULATION A PRODUCT OF SERIOUS BARGAINING AMONG**  
4 **CAPABLE, KNOWLEDGEABLE PARTIES?**

5 A. Yes. The Signatory Parties have an extensive history of participation and experience in  
6 matters before the Commission and are represented by experienced and competent counsel.  
7 The Signatory Parties represent a broad cross-section of stakeholders with varied and  
8 diverse interests including Staff, commercial and industrial customer advocates, an  
9 environmental advocate, hospitals, a cable provider association and competitive retail  
10 electric service providers.

11 Following a series of extended discussions between the Companies and Staff,  
12 stakeholders were invited to a group settlement meeting regarding the potential settlement  
13 of the Grid Modernization Cases and TCJA Cases in one consolidated proceeding. At the  
14 initial group meeting, Staff and the Companies reviewed potential terms of agreement and  
15 all parties were invited to share their comments, concerns, and questions about a potential  
16 settlement. The Companies and Staff also contacted other parties who did not attend the  
17 initial group meeting to review the potential settlement and encourage participation.  
18 Numerous one-on-one or small group meetings with interested parties were also held, along  
19 with two additional group meetings. Additional supporting information, including  
20 estimated typical bill impacts, was exchanged between the Companies and the parties to  
21 assist in the parties' review of a potential settlement. Collectively, these meetings and  
22 information exchanged facilitated inclusive and meaningful negotiations of a potential  
23 settlement. On November 9, 2018, after the conclusion of many individual and group  
24 negotiations, the Signatory Parties signed the Stipulation and agreed to the consolidation



1 and resolution of these matters for purposes of settlement. For these reasons, the  
2 Stipulation is the product of serious bargaining and negotiation among parties who are  
3 familiar with and knowledgeable about its contents.

4 **THE STIPULATION, AS A PACKAGE, BENEFITS CUSTOMERS AND THE PUBLIC**  
5 **INTEREST.**

6 **Q. DOES THE STIPULATION, AS A PACKAGE, BENEFIT CUSTOMERS AND THE**  
7 **PUBLIC INTEREST?**

8 A. Yes. The Stipulation, as a package, provides substantial benefits to customers and  
9 advances the public interest by providing timely resolution of all outstanding issues in the  
10 TCJA Cases and assuring all tax savings associated with the TCJA will be returned to  
11 customers. By entering into the Stipulation, the Signatory Parties have accomplished the  
12 Commission’s stated goal of returning all tax savings to customers, and they have done so  
13 in an accelerated and transparent fashion. In addition, the Stipulation also benefits  
14 customers and the public interest by resolving the Grid Modernization Cases and providing  
15 for grid modernization investments like AMI, DA, IVVC, an Advanced Distribution  
16 Management System (“ADMS”), and other distribution system upgrades. Finally, the  
17 Stipulation, as a package, benefits customers and advances the public interest by  
18 establishing a just and reasonable resolution to contested issues raised in the TCJA Cases  
19 and the Grid Modernization Cases, thereby conserving the resources of the parties and  
20 avoiding potentially costly, extended litigation.

1 **Q. HOW DOES THE STIPULATION FACILITATE A TIMELY AND**  
2 **TRANSPARENT REFUND OF TAX SAVINGS FROM THE TCJA TO**  
3 **CUSTOMERS?**

4 A. The Stipulation provides that the Companies refund all tax savings associated with the  
5 TCJA, including riders, tax savings not reflected in riders from January 1, 2018, and the  
6 return over time of all excess accumulated deferred income taxes (“EDIT”). Under the  
7 Stipulation, the Companies will establish a new credit mechanism specifically to flow back  
8 to customers all remaining tax savings not reflected in riders as of January 1, 2018. This  
9 new credit mechanism will be reconciled annually and will provide a clear and transparent  
10 way for customers to realize all benefits of the TCJA. An illustrative example of the  
11 calculation of the new credit mechanisms is contained in Attachment A to the Stipulation.  
12 Overall, customers are expected to receive the benefit of approximately \$900 million of  
13 total tax savings related to the TCJA. Upon Commission approval, a residential customer  
14 using 1,000 kWh could expect a monthly bill credit of about \$3.90.

15 **Q. HOW DOES THE STIPULATION FACILITATE AND ENHANCE GRID**  
16 **MODERNIZATION FOR THE BENEFIT OF CUSTOMERS AND THE PUBLIC**  
17 **INTEREST?**

18 A. As part of the Stipulation, Grid Mod I will benefit customers and the public interest through  
19 various grid modernization investments in AMI, DA, IVVC, ADMS, and other distribution  
20 system upgrades. These investments will improve system reliability, facilitate faster  
21 restoration, reduce end-use energy consumption, allow customers to make more informed  
22 choices about energy usage, and better enable the Companies to make future grid  
23 modernization investments. Specifically, the Stipulation authorizes the Companies to

1 recover the costs of capital investments in grid modernization of up to \$516 million through  
2 the Companies' Advanced Metering Infrastructure/Modern Grid Rider ("Rider AMI"),  
3 which was most recently approved in Case No. 14-1297-EL-SSO.

4 **Q. HAS A COST/BENEFIT ANALYSIS BEEN CONDUCTED TO EVALUATE THE**  
5 **GRID MODERNIZATION PROJECTS DESCRIBED IN THE STIPULATION?**

6 A. Yes. Attachment B to the Stipulation provides the results of a Cost Benefit Analysis  
7 ("CBA") developed in collaboration with Commission Staff for Grid Mod I. The CBA  
8 includes estimated capital and incremental O&M costs, offset by estimated operational  
9 savings. These costs are compared to estimated benefits to customers and society resulting  
10 from the Grid Mod I investments. Overall, Grid Mod I is estimated to result in substantial  
11 net benefits to customers in excess of the associated costs totaling nearly \$1.1 billion over  
12 20 years, or over \$230 million on a net present value basis. The results of the CBA further  
13 demonstrate the benefits to customers and the public resulting from the Stipulation.

14 **Q. WILL SAFEGUARDS BE IN PLACE TO ENSURE THE COSTS AND BENEFITS**  
15 **OF GRID MOD I ARE CONSISTENT WITH THE STIPULATION?**

16 A. Yes. Several safeguards will be in place to ensure the grid modernization projects are  
17 appropriately invested, implemented, and managed in a manner consistent with the  
18 Stipulation. First, Attachment C to the Stipulation contains a set of performance metrics  
19 by which the Companies will monitor, measure, and report to Staff on a timely basis the  
20 status of deployment and related impacts from the grid modernization initiatives. Second,  
21 midway through the implementation period of the Companies' Grid Mod I deployment,  
22 the Staff will obtain a third-party consultant to conduct a review of the deployment to  
23 evaluate whether the actual functionality and performance of the investments are consistent

1 with planned specifications. The third-party consultant is also authorized to conduct an  
2 independent cost benefit analysis of the Companies' grid modernization projects. Third,  
3 the Stipulation commits the Companies to facilitate a grid modernization collaborative  
4 group to advise and update stakeholders on the status of grid modernization efforts, as well  
5 as to seek their input and advice. Fourth, the Stipulation includes cost caps on capital and  
6 O&M related to the Grid Mod I deployment. Fifth, the Companies agree that operational  
7 savings that are produced by the Grid Mod I investments and accrue to the Companies will  
8 be returned to the customers in fixed annual amounts in Rider AMI. Sixth, the Stipulation  
9 commits the Companies to make two separate filings to revise their reliability performance  
10 standards, one within six months of the final order on the Stipulation, and a second filing  
11 one year after Grid Mod I deployment is completed. The reliability standards resulting  
12 from these filings will apply to all customers in the Companies' service territories. Finally,  
13 Rider AMI will continue to be subject to annual audit by the Commission Staff consistent  
14 with the audit process approved in ESP IV, which will include a review of all costs sought  
15 for recovery in Rider AMI.

16 **Q. HOW ELSE DOES THE STIPULATION BENEFIT CUSTOMERS AND THE**  
17 **PUBLIC INTEREST?**

18 A. In addition to returning all tax savings from the TCJA to customers and providing benefits  
19 to customers by modernizing the Companies' distribution system, the Stipulation  
20 conserves the resources of the parties and the Commission by eliminating the need to  
21 contest and resolve issues in multiple dockets through potentially costly and extended  
22 litigation. Through compromise and collaboration achieved during the settlement process,

1 the Stipulation provides a more expeditious outcome than otherwise would occur and  
2 includes significant benefits for the Companies' customers and the public.

3 **THE STIPULATION DOES NOT VIOLATE ANY IMPORTANT REGULATORY**  
4 **PRINCIPLE OR PRACTICE**

5 **Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY**  
6 **PRINCIPLE OR PRACTICE?**

7 A. No. To the contrary, the Stipulation is consistent with and supportive of important  
8 regulatory principles or practices in the state of Ohio. Specifically, the Stipulation  
9 advances state policies in Ohio Revised Code ("R.C.") 4928.02, the Commission's  
10 objectives in the PowerForward Initiative, and the Commission's directive in Case No. 18-  
11 47-AU-COI. For example, the Stipulation is consistent with R.C. 4928.02(A) to "[e]nsure  
12 the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and  
13 reasonably priced retail electric service." The Stipulation also furthers the state policy in  
14 R.C. 4928.02(D), to "[e]ncourage innovation and market access for cost-effective supply-  
15 and demand-side retail electric service including . . . smart grid programs, and  
16 implementation of advanced metering infrastructure." In addition to being consistent with  
17 and supportive of state policy, the Stipulation also supports the Commission's objectives  
18 in the PowerForward Initiative through investments that will enhance the customer  
19 electricity experience and promote a distribution grid that is reliable and resilient. Finally,  
20 as explained in more detail above, the Stipulation achieves the Commission's directive in  
21 Case No. 18-47-AU-COI to pass to customers all benefits from the TCJA, and it does so  
22 in a transparent and expeditious manner. In sum, the Stipulation is entirely consistent with  
23 and supportive of important regulatory principles and practices in the state of Ohio.

1 **CONCLUSION**

2 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

3 **A.** Yes. I reserve the right to supplement my testimony.

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Summary: Testimony of Santino L. Fanelli electronically filed by Mr. James F Lang on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company