

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) Case No. 19-361-EL-RDR
Edison Company for an Extension of the)
Distribution Modernization Rider)

DIRECT TESTIMONY OF

JOANNE M. SAVAGE

ON BEHALF OF

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

MARCH 1, 2019

1 **INTRODUCTION**

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

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

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

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

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

18 A. I am responsible for analyzing financial data of the Companies for various projects,
19 preparing state regulatory filings and associated rate case materials, and working with the
20 Staff of the Public Utilities Commission of Ohio (“Commission”). In performing my
21 duties, I interact with various groups that are responsible for business planning, accounting,
22 and reporting on behalf of the Companies, as well as customer service representatives on
23 various issues related to the Companies’ tariffs. In addition to my experience in Ohio, I

1 spent six years providing regulatory support and analyses for the Pennsylvania electric
2 utilities that are subsidiaries of FirstEnergy Corp. (“FirstEnergy”) and I have testified in
3 multiple proceedings before the Pennsylvania Public Utility Commission.

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES**
5 **COMMISSION OF OHIO?**

6 A. Yes. I have previously testified before the Commission on behalf of TE in Case No. 13-
7 2145-EL-CSS and on behalf of OE, CEI and TE in Case Nos. 14-1297-EL-SSO, 16-0925-
8 EL-UNC, 17-993-EL-UNC, and 18-857-EL-UNC.

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

10 A. My testimony addresses the following topics:

- 11 • How the Distribution Modernization Rider (“Rider DMR”) benefits customers
12 through lower cost of debt,
- 13 • How FirstEnergy and its subsidiaries have taken regulatory actions to proactively
14 strengthen FirstEnergy’s financial health,
- 15 • The basis for continuing to exclude Rider DMR revenues from the SEET
16 calculation, and
- 17 • The rate design of Rider DMR.

18 **RIDER DMR BENEFITS CUSTOMERS THROUGH LOWER COST OF DEBT**

19 **Q. HOW WILL THE PROPOSED RIDER DMR EXTENSION BENEFIT THE**
20 **COMPANIES’ CUSTOMERS THROUGH LOWER COST OF DEBT?**

21 A. As explained in the testimony of Company witness Staub, the Companies’ weighted
22 average cost of debt has decreased by approximately 1% since the approval of Rider DMR.
23 Company witness Staub also explains that the continuation of Rider DMR will help the

1 Companies avoid increases in their borrowing costs that could result from a credit ratings
2 downgrade. He estimates this to be as much as 1% and could be more than 2% during a
3 period of market volatility. Importantly, these lower borrowing costs result in savings to
4 customers as the Companies' weighted average cost of debt is included in the ratemaking
5 process. In general, for each \$1 billion of rate base, a 1% reduction in the cost of debt
6 would result in annual savings to customers of approximately \$5 million. Assuming a 30-
7 year useful life of an asset, this 1% reduction results in \$150 million in reduced interest
8 costs to customers for each \$1 billion of rate base.

9 **REGULATORY ACTIONS OF FIRSTENERGY AND ITS SUBSIDIARIES TO ADDRESS**
10 **FINANCIAL ISSUES**

11 **Q. HAVE OTHER FIRSTENERGY SUBSIDIARIES TAKEN ACTION TO ADDRESS**
12 **FIRSTENERGY'S FINANCIAL ISSUES?**

13 A. Yes. Prior to the implementation of Rider DMR, the FirstEnergy utilities implemented rate
14 increases in Pennsylvania, New Jersey, and West Virginia. Since approval of Rider DMR,
15 the Companies' affiliated utilities have continued taking aggressive measures to
16 proactively address financial issues and improve credit metrics. These include, among
17 other things, increasing distribution rates in Pennsylvania, increasing transmission rates at
18 the federal level in Ohio, Pennsylvania and New Jersey, and pursuing grid modernization
19 investments in New Jersey and distribution rate increases in Maryland. All of these
20 regulatory actions have or will have positive impacts on FirstEnergy's financial condition.
21 Company witnesses Staub and Pannell discuss other significant measures taken.

1 **RIDER DMR SHOULD CONTINUE TO BE EXCLUDED FROM SEET**

2 **Q. DURING THE FIRST THREE YEARS, WAS RIDER DMR INCLUDED IN THE**
3 **COMPANIES' SIGNIFICANTLY EXCESSIVE EARNINGS TEST ("SEET")**
4 **CALCULATION?**

5 A. No. In approving Rider DMR, the Commission excluded Rider DMR revenue from the
6 SEET calculation, finding in its Fifth Entry on Rehearing that including Rider DMR
7 revenue in the SEET calculation would introduce an unnecessary risk to the Companies
8 and undermine the purpose of providing credit support to the Companies. The Commission
9 noted in its Eighth Entry on Rehearing that it found persuasive the arguments made by the
10 Companies to exclude Rider DMR revenue from the SEET calculation.

11 **Q. SHOULD RIDER DMR REVENUE CONTINUE TO BE EXCLUDED FROM THE**
12 **SEET CALCULATION?**

13 A. Yes. The Commission must continue to exclude Rider DMR revenue from the SEET
14 calculation because a SEET refund would effectively defeat the purpose of Rider DMR.
15 Improved access to capital markets would be negated if the Companies had to return
16 revenues from Rider DMR to customers. Moreover, under the SEET, the earned return on
17 equity of the Companies is compared to the earned return of comparable companies.
18 Because Rider DMR is rare, it is impossible to create a valid comparison for purposes of
19 the SEET calculation. Therefore, Rider DMR must be excluded to allow for a valid
20 comparison. In addition, excluding SEET is consistent with the Commission's Order in
21 the generic SEET case (Case No. 09-786-EL-UNC), which specifically allows for special
22 items to be excluded from the SEET calculation. The charges associated with Rider DMR
23 would be justifiably excluded from the SEET calculation because the credit support

1 necessary to achieve the objectives of the PowerForward Initiative, as well as the
2 commitment to retain FirstEnergy Corp.'s headquarters and nexus of operations in Akron,
3 Ohio, are both extraordinary in nature. Therefore, it should be excluded consistent with
4 other extraordinary items excluded in prior SEET cases. Just as the Commission
5 previously concluded when authorizing the initial three-year Rider DMR term, including
6 Rider DMR revenues in SEET calculations would introduce unnecessary risk and
7 undermine the purpose of providing credit support. This is just as true now as it was then.
8 Thus, including Rider DMR revenues in SEET calculations will continue to pose
9 unnecessary risk and defeat the purpose of Rider DMR.

10 **RIDER DMR RATE DESIGN**

11 **Q. WHAT RATE DESIGN DID THE COMMISSION ADOPT WHEN APPROVING**
12 **RIDER DMR?**

13 A. The approved Rider DMR rate design allocates Rider DMR revenues across the Companies
14 and customers based upon 50% energy and 50% demand. Once DMR costs are allocated
15 to customers classes, the costs are collected from customers based on kWh consumed.

16 **Q. DO THE COMPANIES PROPOSE ANY CHANGE IN THE RATE DESIGN FOR**
17 **RIDER DMR?**

18 A. No. The Companies believe the rate design adopted by the Commission is reasonable.
19 Maintaining the existing rate design for the proposed extension of Rider DMR at the same
20 level as currently approved will eliminate rate impacts to customers that would otherwise
21 result from a rate design change.

1 **CONCLUSION**

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

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

CERTIFICATE OF SERVICE

I certify that the foregoing was filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on this 1st day of March, 2019. The PUCO's e-filing system will electronically serve notice of the filing of this document on all parties of record.

/s/ James F. Lang

One of the Attorneys for Ohio Edison Company,
The Cleveland Electric Illuminating Company, and
The Toledo Edison Company

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Summary: Testimony of Joanne M. Savage electronically filed by Mr. James F Lang on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company