

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

**In the Matter of the Determination of the
Existence of Significantly Excessive
Earnings for 2018 Under the Electric
Security Plan of Ohio Edison Company, The
Cleveland Electric Illuminating Company,
and The Toledo Edison Company**

Case No. 19-1338-EL-UNC

APPLICATION

By its Opinion and Order dated, March 31, 2016, in Case No. 14-1297-EL-SSO, the Commission approved a Stipulation regarding the fourth Electric Security Plan (“ESP IV”) under Ohio Revised Code 4928.143 for Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, "Companies"). ESP IV became effective on June 1, 2016 and continues through May 31, 2024.

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 under an ESP “as measured by whether the earned return on common equity of the electric distribution utility is significantly in excess of the return on common equity that was earned during the same period by publicly traded companies, including utilities, that face comparable business and financial risk, with such adjustments for capital structure as may be appropriate.” Pursuant to the provisions of Ohio Revised Code 4928.143(F) and Ohio Administrative Code 4901:1-35-3(C)(10), the Companies by this Application request the Commission’s determination that significantly excessive earnings did not result for the Companies under their ESP with respect to the annual period ending December 31, 2018.

In support of the requested determination, the Application is accompanied by the testimony and analysis of Tracy M. Ashton and Thomas J. Dolezal (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 2018 and the Securities and Exchange Commission Form 10-K filing for 2018.¹

Also provided, 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 2018, however, the Companies submit that analysis of financial performance metrics provided for the Companies and the comparable publicly traded companies provide a substantial and adequate basis to support the conclusion that significantly excessive earnings did not result. Accordingly, the Commission need not engage in any detailed analysis of future capital requirements nor the other factors in order to reach the determination requested herein.

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 2018 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 2018 can be located on the SEC website. See <https://www.sec.gov/edgar/searchedgar/companysearch.html>.

² The Companies capital requirements can be found on pages 21-22 of the FirstEnergy Corp. Factbook published April 23, 2019, which can be located using the following link: <https://investors.firstenergycorp.com/archived-firstenergy-factbooks/Index?KeyGenPage=210428>.

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, 2018, the earnings of the Companies under ESP IV were not significantly excessive.

Respectfully submitted,

/s/ Robert M. Endris

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EDISON COMPANY, THE CLEVELAND
ELECTRIC ILLUMINATING COMPANY,
AND THE TOLEDO EDISON COMPANY

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DIRECT TESTIMONY OF

TRACY M. ASHTON

ON BEHALF OF

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

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

2 A. My name is Tracy M. Ashton. My business address is FirstEnergy Corp.
3 ("FirstEnergy"), 76 South Main Street, Akron, Ohio 44308. I am Assistant Controller
4 - Corporate for FirstEnergy and a number of its subsidiary companies, including Ohio
5 Edison Company ("OE"), The Cleveland Electric Illuminating Company ("CEI"), and
6 The Toledo Edison Company ("TE") (collectively, "Companies").

7 **Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **QUALIFICATIONS?**

9 A. I earned a Bachelor of Business Administration degree in Accounting from Kent State
10 University in 2003. I joined Deloitte & Touche in 2003 serving in various client
11 service positions until 2008. I joined FirstEnergy in 2008 and held several positions of
12 increasing responsibility within finance functions, until I was promoted to my current
13 role as Assistant Controller-Corporate in May 2019. I am a licensed Certified Public
14 Accountant in Ohio.

15 **Q. PLEASE DESCRIBE YOUR DUTIES AS ASSISTANT CONTROLLER -**
16 **CORPORATE.**

17 A. I am responsible for: ensuring the financial and accounting records of FirstEnergy and
18 its subsidiaries are maintained in conformity with generally accepted accounting
19 principles ("GAAP") and regulatory requirements; disbursements to employees, tax
20 authorities and vendors; external financial reporting; and accounting research in
21 connection with proposed accounting standards and proposed business transactions.

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

1 A. The purpose of my testimony is to present information for purposes of the
2 Commission's annual test with respect to whether the Companies' Electric Security
3 Plan ("ESP") has resulted in significantly excessive earnings per Ohio Revised Code
4 4928.143(F) ("Significantly Excessive Earnings Test" or "SEET"). I am responsible
5 for identifying and quantifying transactions that are included in the accounts for each
6 of the Companies under GAAP but are excluded from their Ohio regulatory books of
7 account for purposes of the SEET. In particular, I provide information regarding the
8 Companies' earnings and equity which supports the conclusion that the return on equity
9 that was earned in 2018 by the Companies was not significantly in excess of the return
10 that was earned by publicly traded companies as described in the statute. I also sponsor
11 materials that are required to accompany the Companies' filing under Ohio
12 Administrative Code 4901:1-35-03(C)(10)(a).

13 **Q. WHAT MATERIALS HAVE YOU INCLUDED WITH YOUR TESTIMONY?**

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

15 Schedule TMA-1 Return on Equity Calculation

16 Schedule TMA-2 Net Income Calculation

17 Schedule TMA-3 Common Equity Calculation

18 **Q. PLEASE EXPLAIN HOW YOU HAVE MADE AVAILABLE THE**
19 **COMPANIES' FERC FORM 1 AND SEC FORM 10-K.**

20 A. As discussed in the Application, the Companies' FERC Form 1 and FirstEnergy's SEC
21 Form 10-K are publicly available documents that can be located on the Internet. Due
22 to the voluminous nature and public availability of these documents, the Commission
23 Staff has advised the Companies that it is acceptable to fulfill this requirement by citing

1 where parties may locate these documents on the Internet. The URLs where these
2 documents can be found on the Internet are provided in the Application.

3 **Q. DO YOU SPONSOR THE COMPANIES' ANALYSIS OF THE RETURN ON**
4 **EQUITY EARNED BY THE COMPARABLE GROUP OF PUBLICLY**
5 **TRADED COMPANIES DURING 2018 OR THE THRESHOLD ABOVE SUCH**
6 **RETURN AT WHICH THE COMPANIES' EARNINGS WOULD BE**
7 **CONSIDERED SIGNIFICANTLY EXCESSIVE?**

8 A. No. That analysis is sponsored by Companies' Witness Thomas Dolezal.

9 **Q. PLEASE EXPLAIN THE PROCESS FOR DETERMINING THE EARNED**
10 **RETURN ON COMMON EQUITY FOR THE COMPANIES IN 2018.**

11 A. The earned return on common equity was calculated by dividing 2018 adjusted net
12 income by the adjusted average common equity during 2018. For purposes of the
13 determination of significantly excessive earnings, net income and common equity were
14 adjusted to eliminate the revenue, expenses, or earnings of any affiliate company, to
15 reflect items contemplated by the Companies' fourth Electric Security Plan ("ESP IV")
16 in Case No. 14-1297-EL-SSO, as approved by the Commission, and for other non-
17 recurring, special or extraordinary items, in order to present earnings that are more
18 representative of the Companies' ongoing utility operations to better allow the
19 Commission to assess whether the Companies' ESP IV resulted in significantly
20 excessive earnings in 2018. These adjustments are described below. Average common
21 equity was calculated based upon the adjusted common equity balances over the
22 thirteen-month period from December 31, 2017 through December 31, 2018.

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

3 A. Yes. The Companies have eliminated revenues, expenses and earnings from affiliates.
4 These adjustments include the removal of subsidiary earnings, associated companies'
5 revenues and expenses, and interest and dividend income from associated companies.
6 For example, Pennsylvania Power Company is a distribution subsidiary of Ohio Edison
7 providing service in the Commonwealth of Pennsylvania -- its earnings, which are non-
8 Ohio jurisdictional and unrelated to the provisions of ESP IV, should not be included
9 for SEET purposes.

10 **Q. WHAT ARE THE SPECIFIC ADJUSTMENTS CONTEMPLATED BY THE**
11 **COMPANIES' ESP IV AS APPROVED BY THE COMMISSION?**

12 A. The specific adjustments contemplated by the Companies' ESP IV as approved by the
13 Commission are to exclude the impact: (i) of a reduction in equity resulting from any
14 write-off of goodwill or arising from a Commission Order, (ii) associated with any
15 additional liability or write-off of regulatory assets due to implementing the
16 Companies' ESP IV and (iii) Distribution Modernization Rider (Rider DMR) revenues.

17 **Q. DID YOU MAKE AN ADJUSTMENT FOR A REDUCTION IN EQUITY**
18 **RESULTING FROM THE WRITE-OFF OF GOODWILL OR ARISING FROM**
19 **A COMMISSION ORDER?**

20 A. No. There were no impairments of goodwill or reductions in equity arising from a
21 Commission Order recognized by the Companies during 2018, so no adjustment was
22 needed.

1 **Q. DID YOU MAKE AN ADJUSTMENT TO EXCLUDE THE IMPACT**
2 **ASSOCIATED WITH ANY ADDITIONAL LIABILITY OR WRITE-OFF OF**
3 **REGULATORY ASSETS DUE TO THE IMPLEMENTATION OF ESP IV?**

4 A. No. There were no adjustments to exclude the impact associated with any additional
5 liability or write-off of regulatory assets by the Companies in 2018 resulting from the
6 implementation of ESP IV.

7 **Q. DID YOU MAKE AN ADJUSTMENT TO EXCLUDE RIDER DMR**
8 **REVENUES?**

9 A. Yes. Rider DMR revenues were excluded.

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

12 A. Similar to the Companies' 2009 – 2017 SEET filings, I have made adjustments for
13 other special, extraordinary, or nonrecurring items. These adjustments include
14 removing or normalizing the impact of revenues and expenses that do not contribute to
15 the determination of whether the Companies' ESP IV resulted in significantly excessive
16 earnings in 2018, such as expenses associated with the Companies' pension and post-
17 retirement benefits plan (e.g. mark to market). Other activity during 2018 could also
18 be considered for adjustment, but doing so would not have impacted the overall
19 conclusion in my testimony.

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

22 A. Yes, the monthly adjustments for 2018 were applied to net income and were also
23 applied to the determination of the average common equity balance.

1 **Q. ARE THE COMMON EQUITY ADJUSTMENTS MADE IN THE 2018 SEET**
2 **CUMULATIVE FROM THE START OF ESP IV?**

3 A. Yes. The equity adjustments for the SEET associated with ESP IV are cumulative as
4 of June 1, 2016.

5 **Q. WHAT ARE THE EARNINGS, AVERAGE COMMON EQUITY, AND**
6 **RETURN ON EQUITY FOR THE COMPANIES FOR 2018 SEET PURPOSES?**

7 A. The earnings in 2018, adjusted for the items described above, were \$148,242,054 for
8 OE, \$86,219,827 for CEI, \$32,960,209 for TE, and \$267,422,091 for the Companies in
9 the aggregate. The average common equity with adjustments for 2018 was
10 \$1,068,664,043 for OE, \$1,477,118,872 for CEI, \$480,272,962 for TE, and
11 \$3,026,055,878 for the Companies in the aggregate. The resulting return on equity for
12 2018 was 13.9% for OE, 5.8% for CEI, 6.9% for TE, and 8.8% for the Companies in
13 the aggregate. The underlying calculations supporting these amounts are shown in
14 Schedules TMA-1, TMA-2, and TMA-3.

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

17 A. No. This information was not necessary because it would not have a material impact
18 on the determination of whether the Companies had significantly excessive earnings in
19 2018.

20 **Q. DO YOU BELIEVE THAT ANY OF THE COMPANIES HAD**
21 **SIGNIFICANTLY EXCESSIVE EARNINGS FOR 2018?**

22 A. No. Based upon my calculation of the Companies' returns on equity and the calculation
23 of the mean return on equity for the comparable group of publicly traded companies

1 and the analysis of SEET thresholds, using the methodology that is presented by Mr.
2 Dolezal, I conclude that none of Companies individually, nor the Companies in the
3 aggregate, have significantly excessive earnings in 2018. The results of Mr. Dolezal's
4 analysis of what would comprise the threshold for determining significantly excessive
5 earnings are that the Companies' returns on equity for 2018 are well below the
6 significantly excessive earnings threshold.

7 **Q. WHAT ARE THE COMPANIES' CAPITAL BUDGET REQUIREMENTS FOR**
8 **FUTURE COMMITTED INVESTMENTS IN OHIO?**

9 A. As discussed in the Application, the Companies' capital requirements can be found on
10 pages 21-22 of the FirstEnergy Corp. Factbook published April 23, 2019. The URL
11 where the FirstEnergy Corp. Factbook published April 23, 2019 can be found on the
12 Internet is provided in the Application.

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

16 A. The Companies' ESPs provide more certain and stable rate levels than otherwise
17 would have been in place and advance renewable energy and energy efficiency in Ohio.
18 The Companies' ESPs have resulted in a competitive market for generation service
19 through the competitive bidding process for SSO customers, retail shopping, and
20 governmental aggregation. Further, the Companies' ESPs provide significant funding
21 for lower income customers and for economic development in their service territories
22 and include an Economic Development Rider ("Rider EDR") that provides credits to
23 certain customer groups to help transition those customers to market based pricing. The

1 Companies' ESP IV also establishes a Customer Advisory Agency designed to support
2 the preservation and growth of the competitive market in Ohio and energy efficiency
3 on behalf of residential customers. The Companies' ESPs were supported by signatory
4 parties representing varied and diverse interests, such as large industrial customers,
5 small- and medium-sized manufacturers, small businesses, schools, residential
6 customers including lower income residential customers, and governmental entities.
7 Overall, the Companies' ESPs provide a number of mechanisms that support state
8 policy and improve the competitiveness of Ohio's economy.

9 **Q. PLEASE DESCRIBE THE COMPANIES' ACTIONS WITH RESPECT TO**
10 **INNOVATION AND INDUSTRY LEADERSHIP INVOLVING INVESTMENT,**
11 **RESEARCH AND DEVELOPMENT OF ADVANCED TECHNOLOGIES, AND**
12 **INNOVATIVE PRACTICES.**

13 A. FirstEnergy continues to take numerous actions with respect to innovation and
14 advanced technologies, including the areas of mobile communications, system
15 reliability, grid modernization, emerging technologies, energy efficiency and peak
16 demand reduction, energy storage, electric transportation, and resource diversity.

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes.

**2018 Significantly Excessive Earnings Test (SEET)
Return on Equity Calculation**

Line	Description	OE	CEI	TE	Ohio	Source
1	SEET Net Income	148,242,054	86,219,827	32,960,209	267,422,091	Schedule TMA-2, Page 1, Line 5
2	SEET Common Equity	1,068,664,043	1,477,118,872	480,272,962	3,026,055,878	Schedule TMA-3, Page 2, Line 66
3	SEET Return on Equity	13.9%	5.8%	6.9%	8.8%	Calculation: Line 1 / Line 2

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

2018 Significantly Excessive Earnings Test (SEET)
Net Income Calculation

Line	Description	OE	CEI	TE	Ohio	Source
1	Net Income	345,480,758	208,129,292	107,524,758	661,134,808	2018 Q4 FERC Form 1, Page 117, Line 78
2	Affiliate Company Earnings	(51,465,360)	(6,781,708)	(1,506,382)	(59,753,450)	Supporting Workpapers
3	Distribution Modernization Rider Revenues Net of Tax	(62,347,826)	(47,872,848)	(24,469,258)	(134,689,932)	Supporting Workpapers
4	Special / Extraordinary Items After-Tax	(83,425,517)	(67,254,909)	(48,588,909)	(199,269,335)	Supporting Workpapers
5	SEET Net Income	148,242,054	86,219,827	32,960,209	267,422,091	Calculation: Sum Lines 1 through 4

2018 Significantly Excessive Earnings Test (SEET)
Common Equity Calculation

Line	Month	Description	OE	CEI	TE	Ohio	Source
1	December	12/31/17 Common Equity	1,187,918,784	1,541,181,704	525,238,197	3,254,338,686	2017 Q4 FERC Form 1, Page 112, Line 16
2		Affiliate Company Earnings	(58,501,435)	(7,676,392)	(1,730,821)	(67,908,648)	Supporting Workpapers
3		DMR Revenue Net of Tax	(58,518,353)	(45,752,174)	(24,948,727)	(129,219,254)	Supporting Workpapers
4		Special / Extraordinary Items After-Tax	(34,631,413)	512,993	(11,415,899)	(45,534,319)	Supporting Workpapers
5		12/31/17 SEET Common Equity	1,036,267,583	1,488,266,132	487,142,750	3,011,676,465	Calculation: Sum Lines 1 through 4
6	January	1/31/18 Common Equity	1,217,138,577	1,560,583,905	532,343,076	3,310,065,558	Company Records
7		Affiliate Company Earnings	(64,421,810)	(8,193,637)	(1,830,534)	(74,445,981)	Supporting Workpapers
8		DMR Revenue Net of Tax	(65,334,729)	(50,865,565)	(27,503,375)	(143,703,670)	Supporting Workpapers
9		Special / Extraordinary Items After-Tax	(37,466,112)	(1,405,115)	(12,512,610)	(51,383,837)	Supporting Workpapers
10		1/31/18 SEET Common Equity	1,049,915,926	1,500,119,587	490,496,557	3,040,532,071	Calculation: Sum Lines 6 through 9
11	February	2/28/18 Common Equity	1,244,309,621	1,568,671,643	539,058,881	3,352,040,145	Company Records
12		Affiliate Company Earnings	(69,251,316)	(8,708,949)	(1,921,811)	(79,882,075)	Supporting Workpapers
13		DMR Revenue Net of Tax	(71,235,807)	(55,387,824)	(29,865,422)	(156,489,053)	Supporting Workpapers
14		Special / Extraordinary Items After-Tax	(39,781,582)	(2,605,863)	(13,186,339)	(55,573,784)	Supporting Workpapers
15		2/28/18 SEET Common Equity	1,064,040,916	1,501,969,008	494,085,309	3,060,095,233	Calculation: Sum Lines 11 through 14
16	March	3/31/18 Common Equity	1,297,407,352	1,554,577,499	537,707,626	3,389,692,477	2018 Q1 FERC Form 3Q, Page 112, Line 16
17		Affiliate Company Earnings	(75,643,454)	(9,263,518)	(2,036,233)	(86,943,204)	Supporting Workpapers
18		DMR Revenue Net of Tax	(76,100,265)	(59,202,433)	(31,767,280)	(167,069,978)	Supporting Workpapers
19		Special / Extraordinary Items After-Tax	(67,680,070)	(3,809,491)	(26,711,934)	(98,201,495)	Supporting Workpapers
20		3/31/18 SEET Common Equity	1,077,983,562	1,482,302,058	477,192,180	3,037,477,800	Calculation: Sum Lines 16 through 19
21	April	4/30/18 Common Equity	1,320,114,310	1,564,843,527	542,675,645	3,427,633,482	Company Records
22		Affiliate Company Earnings	(80,485,414)	(9,832,135)	(2,146,919)	(92,464,468)	Supporting Workpapers
23		DMR Revenue Net of Tax	(80,564,423)	(62,606,031)	(33,533,936)	(176,704,390)	Supporting Workpapers
24		Special / Extraordinary Items After-Tax	(69,998,591)	(5,012,158)	(27,387,948)	(102,398,697)	Supporting Workpapers
25		4/30/18 SEET Common Equity	1,089,065,883	1,487,393,203	479,606,842	3,056,065,927	Calculation: Sum Lines 21 through 24
26	May	5/31/18 Common Equity	1,340,708,943	1,575,085,673	547,980,023	3,463,774,639	Company Records
27		Affiliate Company Earnings	(83,451,032)	(10,423,598)	(2,260,000)	(96,134,630)	Supporting Workpapers
28		DMR Revenue Net of Tax	(85,199,453)	(66,233,733)	(35,385,270)	(186,818,455)	Supporting Workpapers
29		Special / Extraordinary Items After-Tax	(72,318,636)	(6,215,786)	(28,065,106)	(106,599,528)	Supporting Workpapers
30		5/31/18 SEET Common Equity	1,099,739,822	1,492,212,556	482,269,648	3,074,222,026	Calculation: Sum Lines 26 through 29
31	June	6/30/18 Common Equity	1,323,990,338	1,607,538,761	576,595,135	3,508,124,234	2018 Q2 FERC Form 3Q, Page 112, Line 16
32		Affiliate Company Earnings	(88,266,391)	(11,014,186)	(2,389,622)	(101,670,199)	Supporting Workpapers
33		DMR Revenue Net of Tax	(90,193,300)	(70,136,914)	(37,372,710)	(197,702,924)	Supporting Workpapers
34		Special / Extraordinary Items After-Tax	(127,572,746)	(47,799,329)	(48,031,328)	(223,403,403)	Supporting Workpapers
35		6/30/18 SEET Common Equity	1,017,957,901	1,478,588,332	488,801,475	2,985,347,707	Calculation: Sum Lines 31 through 34

**2018 Significantly Excessive Earnings Test (SEET)
Common Equity Calculation**

Line	Month	Description	OE	CEI	TE	Ohio	Source
36	July	7/31/18 Common Equity	1,364,476,776	1,629,952,065	587,425,719	3,581,854,560	Company Records
37		Affiliate Company Earnings	(94,182,057)	(11,554,808)	(2,519,410)	(108,256,275)	Supporting Workpapers
38		DMR Revenue Net of Tax	(95,865,130)	(74,461,282)	(39,538,194)	(209,864,605)	Supporting Workpapers
39		Special / Extraordinary Items After-Tax	(130,133,611)	(49,144,310)	(48,920,941)	(228,198,862)	Supporting Workpapers
40		7/31/18 SEET Common Equity	1,044,295,978	1,494,791,665	496,447,174	3,035,534,818	Calculation: Sum Lines 36 through 39
41	August	8/31/18 Common Equity	1,406,332,903	1,657,235,940	598,571,303	3,662,140,146	Company Records
42		Affiliate Company Earnings	(98,816,937)	(12,131,223)	(2,659,585)	(113,607,744)	Supporting Workpapers
43		DMR Revenue Net of Tax	(101,409,382)	(78,766,233)	(41,710,539)	(221,886,154)	Supporting Workpapers
44		Special / Extraordinary Items After-Tax	(148,453,785)	(62,447,125)	(54,960,856)	(265,861,767)	Supporting Workpapers
45		8/31/18 SEET Common Equity	1,057,652,799	1,503,891,358	499,240,323	3,060,784,481	Calculation: Sum Lines 41 through 44
46	September	9/30/18 Common Equity	1,439,428,531	1,620,347,540	576,550,393	3,636,326,464	2018 Q3 FERC Form 3Q, Page 112, Line 16
47		Affiliate Company Earnings	(103,310,127)	(12,727,002)	(2,814,066)	(118,851,195)	Supporting Workpapers
48		DMR Revenue Net of Tax	(106,442,237)	(82,719,388)	(43,697,065)	(232,858,691)	Supporting Workpapers
49		Special / Extraordinary Items After-Tax	(151,010,191)	(63,789,112)	(55,856,201)	(270,655,504)	Supporting Workpapers
50		9/30/18 SEET Common Equity	1,078,665,976	1,461,112,037	474,183,061	3,013,961,074	Calculation: Sum Lines 46 through 49
51	October	10/31/18 Common Equity	1,460,352,553	1,628,539,031	580,774,038	3,669,665,622	Company Records
52		Affiliate Company Earnings	(107,184,307)	(13,290,217)	(2,959,096)	(123,433,620)	Supporting Workpapers
53		DMR Revenue Net of Tax	(111,214,052)	(86,300,712)	(45,611,795)	(243,126,560)	Supporting Workpapers
54		Special / Extraordinary Items After-Tax	(153,567,194)	(65,131,475)	(56,752,292)	(275,450,962)	Supporting Workpapers
55		10/31/18 SEET Common Equity	1,088,387,000	1,463,816,627	475,450,854	3,027,654,480	Calculation: Sum Lines 51 through 54
56	November	11/30/18 Common Equity	1,487,377,010	1,641,381,181	585,521,153	3,714,279,344	Company Records
57		Affiliate Company Earnings	(113,711,868)	(13,903,069)	(3,104,438)	(130,719,375)	Supporting Workpapers
58		DMR Revenue Net of Tax	(115,982,581)	(89,953,168)	(47,484,776)	(253,420,525)	Supporting Workpapers
59		Special / Extraordinary Items After-Tax	(156,123,600)	(66,473,461)	(57,647,638)	(280,244,699)	Supporting Workpapers
60		11/30/18 SEET Common Equity	1,101,558,961	1,471,051,483	477,284,302	3,049,894,746	Calculation: Sum Lines 56 through 59
61	December	12/31/18 Common Equity	1,435,990,159	1,551,856,333	534,008,031	3,521,854,523	2018 Q4 FERC Form 1, Page 112, Line 16
62		Affiliate Company Earnings	(109,966,795)	(14,458,100)	(3,237,203)	(127,662,098)	Supporting Workpapers
63		DMR Revenue Net of Tax	(120,866,179)	(93,625,022)	(49,417,985)	(263,909,185)	Supporting Workpapers
64		Special / Extraordinary Items After-Tax	(118,056,930)	(66,741,915)	(60,004,809)	(244,803,654)	Supporting Workpapers
65		12/31/18 SEET Common Equity	1,087,100,255	1,377,031,296	421,348,035	2,885,479,586	Calculation: Sum Lines 61 through 64
66		SEET Average Common Equity	1,068,664,043	1,477,118,872	480,272,962	3,026,055,878	Calculation: 13-Month Average

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

**In the Matter of the Determination of the
Existence of Significantly Excessive
Earnings for 2018 Under the Electric
Security Plan of Ohio Edison Company, The
Cleveland Electric Illuminating Company,
and The Toledo Edison Company**

Case No. 19-1338-EL-UNC

DIRECT TESTIMONY OF

THOMAS J. DOLEZAL

ON BEHALF OF

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

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

2 A. My name is Thomas J. Dolezal. My business address is FirstEnergy Corp.
3 (“FirstEnergy”), 76 South Main Street, Akron, Ohio 44308. I am employed by
4 FirstEnergy Service Company in the Rates and Regulatory Affairs Department, as a
5 Rates Analyst. This Department provides regulatory support for Ohio Edison
6 Company (“Ohio Edison”), The Cleveland Electric Illuminating Company (“CEI”) and
7 The Toledo Edison Company (“Toledo Edison”) (collectively, “Companies”).

8 **Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL**
9 **QUALIFICATIONS?**

10 A. I received a Bachelor of Arts degree in Economics, with a second major in Statistics,
11 along with a Master of Arts degree in Economics from The University of Akron. I have
12 been employed by FirstEnergy Service Company since 2012 in the Rates and
13 Regulatory Affairs Department. Further, I have passed the first examination in the
14 process to attain the Chartered Financial Analyst (“CFA”) designation. In addition, I
15 am a part-time faculty member in the Department of Economics at the University of
16 Akron.

17 **Q. WHAT ARE YOUR CURRENT JOB DUTIES AND RESPONSIBILITIES?**

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 on
20 other analytical projects, such as comparable group return on equity (“ROE”) analyses.
21 In performing my duties, I interact with various groups that are responsible for business
22 planning, accounting, and reporting on behalf of the Companies.

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

3 A. Yes. I have previously testified before the Pennsylvania Public Utility Commission on
4 behalf of Metropolitan Edison Company in Case No. R-2016-2537349, Pennsylvania
5 Electric Company in Case No. R-2016-2537352, Pennsylvania Power Company in
6 Case No. R-2016-2537355, and West Penn Power Company in Case No. R-2016-
7 2537359.

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

9 A. The purpose of my testimony is to present information for purposes of the
10 Commission's annual test with respect to whether the Companies' Electric Security
11 Plan has resulted in significantly excessive earnings per Ohio Revised Code
12 4928.143(F) ("Significantly Excessive Earnings Test" or "SEET"). I am responsible
13 for providing the analysis of the ROE earned by the comparable group of publicly
14 traded companies during 2018 consistent with the methodology previously conducted
15 by PUCO Staff in other SEET proceedings. I also calculate the threshold above such
16 return at which the Companies' earnings would be considered significantly excessive.

17 **Q. WHAT MATERIALS HAVE YOU INCLUDED WITH YOUR TESTIMONY?**

18 A. I have included the following attachment to my testimony:
19 Schedule TJD-1 Calculation of Comparable ROE

20 **Q. PLEASE DESCRIBE THE METHODOLOGY USED FOR YOUR ANALYSIS.**

21 A. My analysis is consistent with the methodology previously conducted by PUCO Staff
22 in other SEET proceedings. This methodology was used by PUCO Staff in the
23 Companies' 2013 SEET filing in Case No. 14-828-EL-UNC ("2013 SEET"), and is

1 consistent with the Companies' testimony in their 2014 SEET filing in Case No. 15-
2 1450-EL-UNC, their 2015 SEET filing in Case No. 16-925-EL-UNC, their 2016 SEET
3 filing in Case No. 17-993-EL-UNC, and their 2017 SEET filing in Case No. 18-857-
4 EL-UNC. This methodology is described by the Commission Opinion and Order in
5 Case No. 11-4571-EL-UNC and presented by PUCO Staff witness Joseph P. Buckley
6 in the Companies' 2013 SEET case. The calculation of the baseline mean ROE utilizes
7 the companies that comprise the SPDR Select Sector Fund-Utility ("XLU") as the
8 comparable group. XLU is an Exchange Traded Fund ("ETF") comprised of electric
9 utilities, multi-utilities, independent power producers and energy traders, and gas
10 utilities. The mean earned ROE is calculated by adding the net income of the
11 companies in the fund and dividing by the sum of average common equity of those
12 companies. The SEET threshold is then calculated by applying an adder equal to 1.64
13 standard deviations to the baseline mean earned ROE.

14 **Q. PLEASE SUMMARIZE THE RESULTS OF YOUR ANALYSIS.**

15 A. Under the methodology described above and as shown in Schedule TJD-1, for 2018 the
16 baseline mean earned ROE of XLU as the comparable risk group is 11.3%. Therefore,
17 under this methodology, the SEET threshold is 19.3%.

18 **Q. DO YOU BELIEVE THERE ARE OTHER APPROPRIATE APPROACHES TO**
19 **CALCULATE THE MEAN ROE?**

20 A. Yes, other appropriate approaches exist for calculating the mean ROE of the
21 comparable group. For example, the methodology conducted by PUCO Staff could use
22 a simple average instead of a weighted average in the calculation of the mean earned
23 ROE. Currently, the resulting mean earned ROE is a weighted average, which puts

1 more weight to larger companies with higher common equity. Therefore, the ROE of
2 a single large company will have a larger impact on the overall group average ROE
3 than that of a smaller company. This may have the unintended consequence of driving
4 the group average toward the ROE earned by fewer larger companies, and therefore
5 would be less representative of returns being earned by companies for the comparison
6 envisioned by the statute. The use of a simple average of each individual company's
7 earned ROE would give the same weight to each of the companies and would also
8 better align with the use of the standard deviation of the individual company ROE
9 results to determine the SEET threshold. Likewise, the methodology provided by Dr.
10 Michael J. Vilbert on behalf of the Companies in their 2009 – 2013 SEET proceedings
11 represents another appropriate approach for the calculation of the mean earned ROE of
12 the comparable group. Under Dr. Vilbert's methodology, the mean earned ROE is
13 calculated based on a group of companies that have comparable business risk to the
14 utility, making appropriate adjustments for differences in capital structure. While these
15 other approaches may be appropriate, no additional analysis is necessary in this
16 proceeding since OE, CEI, TE individually, and the Companies in aggregate, have
17 earned ROEs for 2018 that are lower than the SEET threshold calculated using the
18 above-described methodology employed by PUCO Staff.

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes.

Calculation of Comparable ROE

Company	Ticker	Common Equity			Net Income	ROE
		12/31/2017	12/31/2018	Average	2018	2018
Ameren Corporation	AEE	7,184	7,631	7,408	828	11.2%
American Electric Power Company Inc.	AEP	18,287	19,028	18,658	1,945	10.4%
AES Corporation	AES	2,465	3,208	2,837	825	29.1%
American Water Works Company Inc.	AWK	5,385	5,864	5,625	593	10.5%
CMS Energy Corporation	CMS	4,441	4,755	4,598	659	14.3%
Dominion Energy Inc	D	17,142	20,107	18,625	2,651	14.2%
DTE Energy Company	DTE	9,512	10,237	9,875	1,142	11.6%
Duke Energy Corporation	DUK	41,739	43,817	42,778	3,339	7.8%
Consolidated Edison Inc.	ED	15,418	16,726	16,072	1,351	8.4%
Edison International	EIX	11,671	10,459	11,065	1,351	12.2%
Eversource Energy	ES	11,086	11,487	11,287	1,033	9.2%
Entergy Corporation	ETR	7,993	8,844	8,418	1,341	15.9%
Exelon Corporation	EXC	29,896	30,764	30,330	3,030	10.0%
FirstEnergy Corp.	FE	3,925	6,814	5,370	1,391	25.9%
Alliant Energy Corp	LNT	4,182	4,586	4,384	507	11.6%
NextEra Energy Inc.	NEE	28,236	34,144	31,190	3,673	11.8%
NiSource Inc	NI	4,320	5,751	5,036	463	9.2%
Public Service Enterprise Group Inc	PEG	13,847	14,377	14,112	1,582	11.2%
Pinnacle West Capital Corporation	PNW	5,007	5,223	5,115	511	10.0%
PPL Corporation	PPL	10,761	11,657	11,209	1,705	15.2%
Southern Company	SO	25,528	29,039	27,284	3,128	11.5%
Sempra Energy	SRE	12,670	17,138	14,904	1,503	10.1%
WEC Energy Group Inc	WEC	9,461	9,789	9,625	1,059	11.0%
Xcel Energy Inc.	XEL	11,455	12,222	11,839	1,261	10.7%
Average						11.3%
Standard Deviation						4.9%
Standard Deviation Multiplier (95% Confidence)						1.64
SEET Threshold						19.3%

*CNP, EVRG, and SCG removed due to merger & aquisition activity

*NRG removed due to negative equity

*PCG removed due to pending bankruptcy

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Case No(s). 19-1338-EL-UNC

Summary: Application In the matter of the Determination of the Existence of Significantly Excessive Earnings for 2018 Under the Electric Security Plans electronically filed by Karen A Sweeney on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company