BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter Of The Determination of The Existence of Significantly Excessive Earnings For 2017 Under the Electric Security Plans of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company	)	Case No. 18-857-EL-UNC
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
In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2019 Under the Electric Security Plan of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company.	)	Case No. 20-1034-EL-UNC
In the Matter of the Quadrennial Review Required by R.C. 4928.143(E) for the Electric Security Plan of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	)	Case No. 20-1476-EL-UNC

SUMMARY OF TESTIMONY OF OHIO EDISON COMPANY, THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND THE TOLEDO EDISON COMPANY IN SUPPORT OF THE QUADRENNIAL REVIEW REQUIRED BY R.C. 4928.143(E)

I. INTRODUCTION

The Fourth Electric Security Plan ("ESP IV") of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company (collectively, the "Companies"), which has a term of June 1, 2016 to May 31, 2024, continues to provide customers safe, reliable and reasonably priced electric service. A diverse and experienced mix of customer classes and varied interests supported the Commission's approval of ESP IV.[1] The Companies' customers pay market-based prices for generation, same as they would under a Market Rate Offer ("MRO"),[2] while base distribution rates are frozen through May 31, 2024. ESP IV offers customers an array of benefits that include rate certainty and stability, numerous rate options offering savings, enhancements to the competitive market, support for low-income customers and opportunities for grid modernization. Plus, economic development in the Companies' service territories continues, enabled by various rates and programs offered under ESP IV.

Because ESP IV has a term that exceeds three years, the Commission initiated this proceeding to conduct the "check-up" required by R.C. 4928.143(E).[3] This review has two tests which, because the Companies operate jointly under ESP IV, are performed on a combined basis.[4] The Commission applies these tests "during the balance of the plan."[5] First, the ESP v. MRO Test determines whether ESP IV "continues to be more favorable in the aggregate and during the remaining term of the plan as compared to the expected results" of an MRO.[6] Application of the ESP v. MRO Test to ESP IV is simple and straightforward. The Commission found in 2016 that ESP IV passed this test.[7] Since then, ESP IV has not undergone any material changes that would

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[1] *See In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Opinion and Order, p. 43 (March 31, 2016).

[2] *See* R.C. 4928.142.

[3] *See In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Fifth Entry on Rehearing, p. 152 (Oct. 12, 2016 (R.C. 4928.143(E) "is merely intended to act as a 'check-up' and we will not extrapolate a more stringent test") ("Fifth Entry on Rehearing").

[4] R.C. 4928.143(E).

[5] *Id.*

[6] *Id.*

[7] Fifth Entry on Rehearing, p. 160.

affect the forward-looking review, as described in the testimony of Santino L. Fanelli. Therefore, ESP IV continues to be more favorable in the aggregate than the expected results of an MRO, for the period January 1, 2020 through May 31, 2024.

Second, the Prospective Significantly Excessive Earnings Test ("Prospective SEET") determines whether the "prospective effect" of ESP IV is substantially likely to provide the Companies "with a return on common equity that is significantly in excess of the return on common equity that is likely to be earned by publicly traded companies, including utilities, that face comparable business and financial risk, with such adjustments for capital structure as may be appropriate."[8] As shown in the testimony of Tracy M. Ashton, Joseph M. Storsin and Dr. Bente Villadsen, for the period January 1, 2020 through May 31, 2024, ESP IV is not substantially likely to result in significantly excessive earnings for the Companies.

II. ESP V. MRO TEST

ESP IV continues to be more favorable in the aggregate over its remaining term than the expected results of an MRO. When the Commission approved ESP IV, it found that generation rates under ESP IV charged to non-shopping customers will continue to be established through a competitive bidding process and, thus, generation rates should be equivalent to the results that would be obtained under an MRO.[9] The Commission further found that, on a quantitative basis, ESP IV was more favorable than an MRO in the amount of $51.1 million, which reflected shareholder-funded benefits used for economic development, low-income customers and a customer advisory agency in the Companies' service territory.[10] The value of these shareholder-

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[8] R.C. 4928.143(E).

[9] Fifth Entry on Rehearing, p. 160.

[10] *Id.*, p. 161.

funded quantitative benefits, which would not be available under an MRO, are nearly $38 million for the remainder of ESP IV.[11]

The Commission also identified several qualitative benefits contained in ESP IV that make it more favorable in the aggregate than the expected results under an MRO.[12] Qualitative benefits that will continue to apply over the remaining term of ESP IV include: (1) a base distribution rate freeze providing rate certainty, stability and predictability for customers; (2) various rate options and programs to preserve and enhance options for eligible customers; (3) FirstEnergy Corp.'s goal to reduce CO_2 emissions by at least 90% below 2005 levels by 2045; (4) support for energy efficiency; (5) grid modernization commitments; (6) provisions to promote resource diversity; (7) customer assistance programs, including support for low-income customers; and (8) commitments to promote competition.[13] The continuation of these qualitative benefits, along with the quantitative benefits discussed above, support a Commission finding that ESP IV passes the ESP v. MRO Test.

III. PROSPECTIVE SEET

It is not substantially likely that ESP IV will result in significantly excessive earnings over its remaining term. Companies' witness Storsin provides the net income and balance sheet information that is used in the Prospective SEET.[14] Companies' witness Villadsen calculated the expected earnings for a comparable group of companies for the period 2020-2024.[15] Based on those expected earnings and well-established Commission precedent, Companies' witness

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[11] Testimony of Santino L. Fanelli ("Fanelli Test."), p. 2.

[12] Fifth Entry on Rehearing pp. 163-64.

[13] Fanelli Test., pp. 2-3.

[14] Testimony of Joseph M. Storsin, p. 1-2.

[15] Testimony of Dr. Bente Villadsen, pp. 5-8.

Villadsen calculated a “Safe Harbor” for 2020-2024 of 12.9 percent and a SEET Threshold for significantly excessive earnings for the balance of ESP IV of 22.2 percent, although she recommends using the average for 2021-2024, which results in a “Safe Harbor” of 13.2 percent and a SEET Threshold of 24.1 percent.[16] Finally, Companies’ witness Ashton calculated that the Companies’ expected annual return on equity during 2020-2024 ranges from 6.0 percent to 7.6 percent, with a total earned return on equity of 6.6 percent during the balance of ESP IV.[17] Because the Companies’ total earned return on equity of 6.6 percent during the balance of ESP IV is well below both the safe harbor and the threshold for significantly excessive earnings, the Companies’ ESP IV passes the Prospective SEET.[18]

IV. CONCLUSION

As shown in the Companies’ testimony, the Companies’ ESP IV passes both the ESP v. MRO Test and the Prospective SEET. Thus, the Commission should issue an order finding that ESP IV passes the tests in R.C. 4928.143(E) and dismissing this proceeding.

Respectfully submitted,

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[16] *Id.*, pp. 2, 8-10.

[17] Testimony of Tracy M. Ashton, pp. 5-6.

[18] *Id.*, p. 6.

CERTIFICATE OF SERVICE

I hereby certify that Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company filed the foregoing document electronically through the Docketing Information System of the Public Utilities Commission of Ohio on this 1st day of March 2021. The PUCO's e-filing system will electronically serve notice of the filing of this document on counsel for all parties.

/s/ Brian J. Knipe

An Attorney for Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company