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 Authority to Provide for a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan	)))))))	Case No. 23-301-EL-SSO

DIRECT TESTIMONY
OF

ANNIE BAAS

SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO
RATES AND ANALYSIS DEPARTMENT
REGULATORY UTILITY SERVICES DIVISION

STAFF EXIBIT ____

October 30, 2023

1. Q. Please state your name and business address.

A. My name is Annie Baas. My business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. By whom are you employed?

A. I am employed by the Public Utilities Commission of Ohio (“PUCO” or “Commission”).

3. Q. What is your current position with the PUCO?

A. My current position is Utility Specialist in the Regulatory Utility Services Division of the Rates and Analysis Department.

4. Q. Would you briefly state your professional and educational background?

A. I earned an Associate of Science in Accounting from Columbus State Community College and a Bachelor of Science in Accounting from Franklin University. I joined the PUCO in May of 2016 in the Rates and Analysis Department. I have also attended various rate case training programs sponsored by the Commission.

5. Q. Have you testified in previous cases before the PUCO?

A. Yes, I previously testified in Duke Energy Ohio, Inc.'s most recent electric base distribution rate case, Case No. 21-887-EL-AIR.

6. Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to provide Staff's recommendations regarding the proposal by Ohio Edison Company, The Toledo Edison Company, and The Cleveland Electric Illuminating Company (each an Electric Distribution Utility ("EDU") and collectively, "FirstEnergy" or the "Companies") to continue the Non-Market Based Services Rider ("NMB" or "Rider NMB") with modifications.

Rider NMB

7. Q. What is the purpose of Rider NMB?

A. Rider NMB is a pass-through mechanism designed to recover from FirstEnergy's customers the costs billed to FirstEnergy by the regional transmission organization, PJM, for transmission service.

8. Q. Do the Companies propose a change to the rate design of the current NMB rates?

A. Yes, the Companies have proposed to create two different rate designs for the commercial and industrial customers within Rider NMB. The first rate, called the NMB 1, will keep the current NMB rate allocations and rate design for the commercial and industrial customers. The second rate, called NMB 2, will change the rate design for commercial and industrial customers with an interval or advanced meter to a Net Service Peak Load ("NSPL") billing.

9. Q. How does PJM bill FirstEnergy?

A. PJM either directly bills specific costs, also known as Billing Line Items ("BLIs"), to the individual FirstEnergy EDU or bills BLIs in aggregate to FirstEnergy.

10. Q. Does each individual FirstEnergy EDU have a separate revenue requirement under the current NMB structure?

A. Yes, under the current NMB structure, each EDU has its own revenue requirement.

11. Q. How does Rider NMB allocate the costs billed in aggregate to each individual EDU?

A. Rider NMB currently allocates the aggregate costs based on the EDU's previous month's load share or MWh.

12. Q. Does the allocation of the aggregate costs to the individual EDUs mirror PJM's allocation to FirstEnergy?

A. No, not in its entirety. PJM allocates each BLI according to different methodologies such as MWh, 1 Coincident Peak ("CP") NSPL, and 12CP.

13. Q. How would the allocation of the aggregate costs to the individual FirstEnergy EDUs need to be changed to follow PJM's allocation?

A. To follow PJM's allocation, costs would be allocated to each individual EDU using the same methodology that PJM uses. For example, costs assigned by PJM based on 1CP NSPL would similarly be allocated to each EDU based on 1CP NSPL. Likewise, costs assigned by PJM based on energy (MWh) would then be allocated to each EDU by MWh.

14. Q. Once each individual EDU's NMB revenue requirement is determined, how do the EDUs allocate transmission costs to each customer class?

A. The current customer class allocation utilizes the most recent four summer peak months to calculate an average peak by class. This is applied to calculate a demand allocation factor for each class and is multiplied against the revenue requirement.[1]

15. Q. Do the EDUs' customer class allocations mirror PJM's cost allocation?

A. No. As discussed above, PJM allocates different BLIs according to different methodologies.

16. Q. How would the EDUs allocate costs to the customer classes if they were to follow PJM's cost allocation?

A. The EDUs would allocate costs to each class by following the cost allocation from PJM.

17. Q. Should the Commission approve the Companies' proposal to continue the current NMB rate allocations and rate design under the proposed NMB 1 rate schedule?

[1] Response to Staff DR-010- Attachment 1 Tab "Demand Allocators."

A. No. I recommend several modifications. The allocation of the aggregate costs and the customer class allocations should mirror PJM's cost allocation. Rider NMB is a pass-through mechanism and therefore should be aligned with how PJM allocates the costs of each BLI.

18. Q. What is the basis for your recommendation?

A. These changes to the NMB allocations will mitigate cost shifting among FirstEnergy EDUs and customer classes. Under Staff's recommendation, the costs would flow through the NMB to each FirstEnergy EDU and customer class on the same basis that PJM utilizes to bill costs to FirstEnergy.

19. Q. Will this affect customers' bills?

A. Yes, any changes to allocations, rate design or revenue requirements will change rates, which will impact customer bills. The magnitude of Staff's recommended changes to the NMB Rider's allocations is unknown. Staff recommends that the Commission require the Companies to provide bill impacts with compliance tariffs in this case. If the bill impacts reveal unreasonable increases to customer bills, Staff recommends that the

Commission order the Companies to phase in the changes to the allocations over a period of time to implement the changes gradually.

Rider NMB Pilot Program

20. Q. What is the current FirstEnergy Transmission Pilot Program ("Pilot")?

A. The Pilot allows participating customers to shop for transmission service such that they bypass the NMB and are billed for transmission costs through a CRES.

21. Q. How does FirstEnergy remove the Pilot customers' costs and billing determinants from the NMB?

A. Currently the costs removed from the NMB for the Pilot participants uses a 5CP NSPL methodology. The Pilot customers' demand is removed from the customer class allocations and the Pilot customers' billing determinants are removed from the rate calculations.

22. Q. What is the Companies' proposal for the Pilot?

A. The Companies are proposing to eliminate the Pilot.[2]

23. Q. What will happen to the current Pilot participants?

A. The Companies are proposing to change Rider NMB to include two sets of rate schedules. All customers, including current Pilot participants, will pay rates under one of two rate schedules referred to as “NMB 1” and “NMB 2.” Any commercial and industrial customers with an interval or advanced meter will be subject to a new NMB 2 rate, and they will be billed according to their 5CP NSPL. All other customers will pay rates under the NMB 1 rate schedule.

24. Q. How will the Companies calculate the NMB 2 rates?

A. The Companies proposed a single uniform rate for all commercial and industrial customer classes which includes General Service – Secondary (GS), General Service – Primary (GP), General Service – Subtransmission (GSU), and General Service – Transmission (GT) across all three FirstEnergy EDUs. The Companies proposed to calculate the rate by first taking the total allocated revenue requirement for commercial and industrial

[2] Direct Testimony of Juliette Lawless on Behalf of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company at page 10 (April 5, 2023).

rate classes divided by their total 5CP NSPL and then dividing by twelve months.[3]

25. Q. If a customer has a new interval or advanced meter installed after the NMB 2 rates are in effect, when would the customer switch to NMB 2 rates?

A. Under the Companies' proposal, the customer with the newly installed interval or advanced meter will be switched immediately to the NMB 2 rate.[4]

26. Q. Did FirstEnergy assess bill impacts under their NMB 2 rate proposal?

A. Yes, the Companies analyzed two sets of bill impacts. One set of bill impacts analyzes the customers switching from the current NMB rates to the NMB 2 rate,[5] while the other analyzes the current NMB rates to the NMB 1 rates.[6]

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[3] FirstEnergy Response to Staff DR-010- Attachment 1 Tab "Rate Calculation."
[4] FirstEnergy Response to Staff DR 10-6.
[5] FirstEnergy Response to Staff DR 10 Attachment 2.
[6] FirstEnergy Response to Staff DR 10 Attachment 3.

27. Q. How did the Companies develop the billing determinants for the NMB 2 rate bill impacts?

A. The Companies assumed that the billing demand was equal to the NSPL.[7]

28. Q. What are the results of the bill impacts?

A. The bill impacts analyzing the NMB 2 rates show a range between a one percent decrease up to thirty nine percent increase on a customer's total bill. The NMB 2 rates would increase bills for most classes.[8] The bill impacts analyzing the NMB 1 rates versus the current NMB show a range between a twelve percent decrease up to a one percent increase. The NMB 1 rates would decrease bills for most classes.[9]

29. Q. FirstEnergy states that the NMB 2 rates will, "better align non-market-based services costs with the cost causers."[10] Do you agree with that statement?

A. No.

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[7] FirstEnergy Response to Staff DR 10.
[8] Staff DR 10 Attachment 2.
[9] Staff DR-010-Attachment 3.
[10] Direct Testimony of Juliette Lawless on Behalf of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company at page 10.

30. Q. Why?

A. By combining all the EDUs and customer classes in the calculation under one unified rate, FirstEnergy's proposal would shift costs across all classes and EDUs. The revenue requirement for each customer class in each EDU may vary significantly. A single uniform rate for all classes and EDUs is not appropriate. This most likely will cause interclass and intraclass cost shifting.

31. Q. Do you agree with the Companies' proposal to create a unified NMB 2 Rate?

A. No, not as currently proposed. The Companies' proposal to create a unified NMB 2 rate has several flaws.

1. The Companies' proposed unified rate design for NMB 2 rates will cause interclass and intraclass cost shifts as it does not align with PJM's cost allocation.
2. The total bill impacts under the Companies' proposed NMB 2 rates are too severe and do not follow the principle of gradualism. The total bill impacts are also not actual customer data and are not a true representation of what will occur if the NMB 2 rates take effect.

3. The Companies' proposal to immediately switch commercial and industrial customers to NMB 2 rates upon the installation of a new advanced meter could change their bills dramatically with little to no warning.

4. The Companies do not propose changes to the allocation to each EDU and customer class in their proposal. The current allocations will create cost shifting between EDUs and classes.

32. Q. How do you recommend changing the NMB 2 rate structure?

A. I recommend the following:

1. The EDU and customer class allocations would need to be changed to follow PJM's allocation methodology.

2. The rate would not be unified for each EDU and customer class. Currently, all FirstEnergy EDUs have separately calculated revenue requirements for Rider NMB. My recommendation is that the NMB 2 rates be designed for each individual EDU and customer class.

3. FirstEnergy would need to work with Staff to review bill impacts that include actual NSPL data with the allocation changes compared to the current NMB rates. These bill impacts should be broken out by each EDU and customer class and should include customers that will be switching rates from the current NMB rates to NMB 2 rates. It

should also include an analysis of customers switching rates from the current NMB rates to NMB 1 rates.

4. The GS classes should have the option to opt-in to the program on a voluntary basis. This would avoid the severe bill impacts and a customer being unknowingly switched when a new meter is installed.

5. Customers would only be switched to the new NSPL billing method at the time of the annual rider review updates in April.

6. The Companies would work with Staff after the Commission Order to structure the mechanics of the rider before the annual filing is made. The NMB 2 rate would start in April of 2025 after the annual review has been completed.

33. Q. What would you propose to do with the Pilot program?

A. If all the above recommendations were adopted, I would recommend eliminating the current Pilot at the time the new NMB 1 and NMB 2 rates take effect.

34. Q. How will these recommendations in Q32 and Q33 mitigate the interclass and intraclass cost shifting?

A. Correcting the EDU and customer class allocations will effectively follow the PJM allocation from the start of the rider to the customer classes. The creation of an NMB 2 rate for each individual EDU and customer class would remove the cost shifts that would occur with the Companies' NMB 2 proposal. Eliminating the current Pilot would stop the interclass and intraclass cost shifting caused by this program. This would ensure that the costs would follow the appropriate customers all the way from the PJM BLIs to the allocation of the customer classes.

35. Q. If the recommendations in Q32 were not adopted, what would you recommend doing with the Pilot program?

A. The Pilot program should not be eliminated if all the above recommendations are not adopted. Correcting the EDU and customer class allocations should be changed to align with PJM's allocation methodology whether or not the Pilot is eliminated. The allocation recommendations also ensure that the costs would follow the appropriate customers all the way from the PJM BLIs to the allocation of the customer classes.

If the Pilot program remains, it should be gradually extended and available to all customers within the GS, GP, GSU, and GT classes. Currently the Pilot participants' costs are removed from Rider NMB using a 5CP NSPL methodology. If the Pilot program remains, Pilot participant's costs removed from the NMB should be changed to mirror PJM's allocation for each BLI. This would eliminate the interclass and intraclass cost shifting caused by this program.

36. Q. Does this conclude your testimony?

A. Yes. However, I reserve the right to submit supplemental testimony as new information subsequently becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Direct Testimony of Annie Baas** 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 30th day of October, 2023.

/s/ Thomas G. Lindgren
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