BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio	)	
Edison Company, The Cleveland	)	Case No. 23-301-EL-SSO
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	)	

DIRECT TESTIMONY
OF

CHRISTOPHER HEALEY

RATES AND ANALYSIS DEPARTMENT
ACCOUNTING AND FINANCE DIVISION

STAFF EXHIBIT ________

October 30, 2023

BACKGROUND

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

A. My name is Christopher Healey. My business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utilities Commission of Ohio ("PUCO" or "Commission") as Chief of the Accounting and Finance Division within the Rates and Analysis Department.

3. Q. Please briefly summarize your educational background and work experience.

A. I earned a Bachelor of Arts in Mathematics, Economics, and Linguistics from Rutgers University; a Juris Doctor from Duke University School of Law; and a Graduate Certificate in Public and Nonprofit Leadership from the John Glenn College of Public Affairs at the Ohio State University.

I have been employed by the PUCO since June 2023 as Chief of the Accounting and Finance Division in the Rates and Analysis Department. In that role, I manage teams of Staff analysts responsible for, among other things, base distribution rate cases, electric security plan ("ESP") proceedings, certain natural gas alternative regulation proceedings, various rider audits and reviews, and utility financing cases. Prior to joining Staff, I was Director of Utility Regulatory Affairs for Enervee Corp. from 2022 to 2023, an attorney for the Office of the Ohio Consumers' Counsel from 2016 to 2022, and an attorney for two international law firms from 2008 to 2015. I am a licensed attorney in the State of Ohio.

4. Q. What is the purpose of your testimony in this proceeding?

A. This case is before the Commission to address the application ("Application") filed by Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively "FirstEnergy" or the "Companies") to establish a standard service offer ("SSO") in the form of an ESP. If approved, this would be FirstEnergy's fifth ESP ("ESP V").

The purpose of my testimony is to provide Staff recommendations regarding the Application. Among other things, I discuss (i) the appropriate term length for ESP V, (ii) the need to defer consideration of certain issues to the Companies' next base distribution rate case (the "2024 Rate Case"), which I understand they are required to file in May 2024,[1] (iii) Staff's

[1] *See* Case No. 20-1476-EL-UNC, Opinion & Order (Dec. 1, 2021).

recommendations regarding FirstEnergy's Economic Load Reduction ("ELR") program, and (iv) the expected financial impact of ESP V—as modified by Staff's collective recommendations—on FirstEnergy's customers.

ESP TERM LENGTH

5. Q. The Companies are proposing an eight-year ESP term. Do you have any recommendations regarding that proposal?

A. Yes. I recommend a six-year ESP term for ESP V beginning June 1, 2024 and ending May 31, 2030.

6. Q. Why do you recommend a six-year term for ESP V?

A. There are various factors to consider when deciding how long an ESP term should be. The ESP statute (R.C. 4928.143) neither prescribes nor prohibits any particular length. It does, however, provide that an ESP that is longer than three years will be subject to an interim review in the fourth year.[2] Thus, at a minimum, the statute implicitly contemplates ESPs of varying lengths, including lengths longer or shorter than three years. Historically, the Commission has typically approved ESPs of lengths between three and

[2] That fourth-year review is to assess whether the ESP remains more favorable in the aggregate than a market rate offer (MRO) and whether the ESP is likely to result in significantly excessive earnings for the utility. The details of this fourth-year review are not directly germane to my testify; I mention them here only for context regarding the statutory ESP framework.

six years, with a few outliers (including FirstEnergy's current ESP IV, which has an eight-year term).

There are pros and cons to different ESP term lengths. A shorter ESP term allows greater flexibility to account for changes in market conditions. This is beneficial because it gives the Commission a better opportunity to revisit a utility's SSO based on the most current information and make changes that are in the public interest. On the other hand, a longer ESP term can be beneficial because it provides certainty and stability for the utility, ratepayers, and other stakeholders.

There is no real science behind determining the appropriate length for an ESP. Instead, the Commission must use its judgment on a case-by-case basis. There can be substantial changes in the market in an eight-year period, including (but not limited to) geopolitical changes, new and emerging technologies, inflation, recessions, modifications to wholesale market processes, and new laws and regulations. It would be beneficial to reassess the market before eight years to determine what is in the public interest. Thus, I propose a six-year ESP term.

ISSUES RELATED TO THE UPCOMING BASE DISTRIBUTION RATE CASE

7. Q. The Companies are required to file a base distribution rate case in May 2024. When was the Companies' last base distribution rate case?

A. The Companies last filed a base distribution rate case in June 2007. The Commission approved rates in that case in January 2009.[3]

8. Q. Why is the timing of the Companies' last base distribution rate case relevant?

A. It has been more than 16 years since the Companies last filed a base distribution rate case. This means that FirstEnergy customers are currently paying base distribution rates that are stale, based on a May 31, 2007 date certain and a test year ending February 29, 2008.[4]

9. Q. Why is it important for utilities to file periodic base distribution rate cases?

A. Base distribution rate cases provide transparency and are an opportunity for the Commission to holistically assess a utility's operations and finances. Between rate cases, the Commission does have some opportunities for review—through rider audits, the significantly excessive earnings test, and quadrennial reviews of ESPs lasting longer than three years, for example.

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[3] *See* Case No. 07-551-EL-AIR.
[4] *Id.*, Opinion & Order at 3 (Jan. 21, 2009).

And while these are important regulatory tools, none is a substitute for the openness and thorough review that a base distribution rate case affords.

Over time, some of a utility's costs might increase, and others might decrease. Riders can capture some of these changes, but riders often allow the utility to increase rates based on new investments and incremental cost increases without also requiring utilities to lower rates when they reduce expenses over time.[5] A base distribution rate case, on the other hand, is intended to capture both increases and decreases, which balances the interests of the utility and its customers.

10. Q. Are you saying that all utility cost recovery should be through base rates?

A. No. As discussed above, there are benefits to periodic base distribution rate cases, and those cases are an important part of the regulatory process. But there can be benefits to ratemaking through riders as well. Allowing cost recovery through a rider can give the utility an added incentive to make investments that are beneficial to customers and the grid, including investments targeting reliability improvements. Riders can promote gradualism in rate increases, allowing for more frequent but smaller rate

[5] Some riders do allow for decreases as well. For example, they might include an offset based on operational savings resulting from new investments. Other riders might allow utilities to collect certain expenses dollar-for-dollar, so if expenses go down, so do rates under that rider.

increases. Riders can be used to provide benefits to customers between rate cases by giving customers a dollar-for-dollar reduction if the utility's costs decrease, or in special circumstances (like the Tax Cuts & Jobs Act of 2017) providing credits to customers that might otherwise be unavailable.

In short, it is not that base distribution rate cases are "better" or "worse" than single-issue ratemaking; Ohio's regulatory regime allows for both. But riders should not become the primary form of cost recovery for utilities to the exclusion of base distribution rate cases. And of course, it is important that both riders and base rates be established consistent with all applicable laws and regulations and in a way that is consistent with the public interest.

11. Q. How does all of this affect Staff's recommendations in this ESP proceeding?

A. The Companies' upcoming rate case will allow for a wholesale review of the Companies' capital investments, expenses, and revenues for the first time in more than sixteen years. This is relevant to the current ESP proceeding because FirstEnergy is asking for PUCO authority to charge customers for, among other things, capital investments through riders like the Delivery Capital Recovery Rider ("Rider DCR").

A thorough assessment of all utility plant for used and usefulness is a key component of Staff's investigation in a base distribution rate case. This investigation should provide insight into whether FirstEnergy needs Rider DCR, and it will allow for a more informed decision regarding the appropriate cap on Rider DCR charges if the Commission determines that Rider DCR should continue.

If the Commission were to approve charges under Rider DCR for the entire length of ESP V (whether eight years as proposed by FirstEnergy, six years as proposed by Staff, or some other term as approved by the Commission), it would be putting the cart before the horse. It makes more sense to allow Rider DCR to continue on an interim basis while the 2024 Rate Case is pending and then, the Commission can determine what the maximum charges under this rider should be going forward.

12. Q. What is Staff proposing with respect to the Delivery Capital Recovery Rider?

A. Staff proposes the following with respect to Rider DCR:

First, if FirstEnergy fails to file a base distribution rate case in May 2024, I recommend that Rider DCR be set to zero as of June 1, 2024 and not be increased for the duration of ESP V.[6] The Companies are already required by Commission Order to file a rate case in May 2024, but this added penalty would give them an additional incentive to comply with the Commission's Order.

Second, the annual cap on charges to ratepayers under Rider DCR should be reduced from its current $390 million amount. As a starting point, only distribution plant found in FERC Accounts 360-374 should be included in Rider DCR. Removing plant from other accounts would lower the current $390 million amount by about $51 million to a total of $339 million.[7] Then, Staff recommends an annual increase to account for new investments. The annual increase would be between $15 million and $21 million, as proposed by the Companies, depending on their reliability performance.[8] Thus, in the first year of ESP V (June 1, 2024 – May 31, 2025), the cap would be between $354 million and $360 million. While the 2024 Rate Case is pending, the cap could continue to increase by $15 million to $21 million annually, again tied to meeting reliability metrics (using the methodology

[6] If there is a final reconciliation of Rider DCR from ESP IV that requires a credit to customers as a result of overcollection, the rider could be populated as a credit. But if the final reconciliation would result in a charge, the charge should be disallowed, and the rider should remain at zero.
[7] *See* Staff DR 25 (attached hereto as Attachment CH-1) ($338.9 million estimated Rider DCR revenue requirement as of May 31, 2024, the end of ESP IV).
[8] *See* Direct Testimony of Brandon S. McMillen at 5 (Apr. 5, 2023) (providing that the increase will be $21 million if the Companies meet all six CAIDI and SAIFI reliability standards (*i.e.* CAIDI and SAIFI for each of the three Companies), $19 million if they meet five of the standards, $17 million if they meet four of the standards, and $15 million if they meet fewer than four of the standards).

proposed by the Companies). I'll refer to the period that the 2024 Rate Case is pending during ESP V—June 1, 2024 until the date that new base distribution rates go into effect—as the "Bridge Period."

Third, the Commission should not approve charges under Rider DCR beyond the Bridge Period at this time. It should assess whether to do this as part of the 2024 Rate Case. Stakeholders (including intervenors, the Companies, and Staff) would reserve all rights to take any position in the 2024 Rate Case regarding Rider DCR. If the Commission does not make a ruling in the 2024 Rate Case affirmatively ordering continuation of Rider DCR beyond the Bridge Period, then Rider DCR would be set to zero when new base rates become effective.

Fourth, effective June 1, 2024, Rider DCR would be modified to adopt various recommendations found in the testimony of Staff witness Mackey.[9]

13. Q. Why should the Commission adopt your recommendations with respect to Rider DCR?

A. Staff's recommendations are fair and reasonable when considering the scope of this ESP proceeding and the timing of the 2024 Rate Case. They

[9] Staff witness Mackey makes several recommendations that should be implemented effective June 1, 2024. He also recommends Rider DCR caps beyond the Bridge Period should the Commission approve Rider DCR for the duration of ESP V instead of only for the Bridge Period.

would allow for a Bridge Period while the rate case is pending, during which FirstEnergy could continue to charge customers under its DCR Rider, though with a reduced cap that sets more appropriate boundaries for what should be recovered through a capital investment rider. Then, in the 2024 Rate Case, parties will have an opportunity to weigh in on the appropriateness of continuing Rider DCR for the remainder of the ESP V term, and they can do so with the benefit of a complete record as developed in the 2024 Rate Case. The Commission can then make a well-informed decision about whether Rider DCR should continue after the Bridge Period, and if so, how much FirstEnergy should be allowed to collect for the remainder of ESP V.

14. Q. What is the financial impact of Staff's recommendations regarding Rider DCR?

A. During the Bridge Period, the annual cap for Rider DCR would be about $30 million lower than what customers currently pay under ESP IV,[10] and about $50 million lower than what FirstEnergy proposed in its Application.[11] Based on recent experience and the complexity of the 2024

[10] $390 million currently minus Staff's proposed cap of $360 million (assuming the Companies meet all six of their reliability metrics).

[11] FirstEnergy's Application proposes to increase the current $390 million cap by $15-21 million for a total of $405-$411 million in the first year, depending on whether the Companies meet their reliability standards. *See* McMillen Testimony at 5 (Apr. 5, 2023).

Rate Case (especially complex given the 16 year lag between base distribution rate cases and the need to address rider issues), I expect that the Bridge Period could last 18 months or more.[12] Thus, the savings to FirstEnergy customers could be $45 million or more as compared to ESP IV and $75 million or more as compared to the proposal in the Application.

15. Q. You have discussed Rider DCR. Are there other parts of the Companies' ESP V proposal that are impacted by the fact that FirstEnergy will be filing a base distribution rate case in May 2024?

A. FirstEnergy's 2024 Rate Case primarily impacts Staff's recommendations in this ESP proceeding regarding the DCR, as I've discussed above.

Other riders might also be affected by the 2024 Rate Case. The Advanced Metering Infrastructure ("AMI") Rider, for example, is a capital rider, and it is typical for capital riders to be reset after a rate case when assets are rolled into base rates and a new rate of return is approved. Staff witness Devin Mackey addresses Staff's position on this rider. The Companies' proposed Vegetation Management Cost Recovery Rider ("Rider VMC") and Storm Cost Recovery Rider ("Rider SCR") should also be reconsidered in the 2024 Rate Case when new baselines are set for the costs recovered

[12] The four most recent electric base distribution rate cases in Ohio have taken 25 months (AES, Case No. 20-1651-EL-AIR), 18 months (AEP, Case No. 20-585-EL-AIR), 15 months (Duke, Case No. 21-887-EL-AIR), and 34 months (AES, Case No. 15-1830-EL-AIR).

through those riders. These riders are addressed by Staff witnesses Natalia Messenger and Jonathan Borer, respectively.

Likewise, FirstEnergy witness Fanelli proposes the continuation of various riders without modification, some of which might be more appropriately addressed in another docket, including the 2024 Rate Case.

16. Q. FirstEnergy proposes the continuation of certain riders without modification. Does Staff have a position on these riders?

A. Not at this time. FirstEnergy witness Fanelli attached to his testimony a list of riders as Attachment SLF-1. He proposes that many of these riders continue without modification, and most of those proposed for continuation without modification are not otherwise addressed by FirstEnergy in its Application or testimony.

Some of these riders are not, strictly speaking, part of FirstEnergy's electric security plan. So their "continuation" as proposed by FirstEnergy witness Fanelli should be considered more an acknowledgement that they are not being modified as opposed to an affirmative Commission ruling that they are being continued as part of ESP V. This includes the Conservation Support Rider (a decoupling rider approved as part of House Bill 6 but which has now been set to zero); the Consumer Rate Credit (a rider providing credits to customers as a result of a settlement in a recent significantly excessive earnings test case); the County Fairs and Agricultural Societies Rider (a special rate approved under House Bill 6); the Delta Revenue Recovery Rider (a rider that allows FirstEnergy to recover delta revenues resulting from things like reasonable arrangements); the Phase-in Recovery Rider (approved under R.C. 4928.231); the Net Energy Metering and Hospital Net Energy Metering tariffs (required under R.C. 4928.67); the Solar Generation Fund Rider (required under R.C. 3706.46); the Business Distribution Credit (approved in the Companies' last base distribution rate case); and the School Distribution Credit (costs recovered through base distribution rates[13]). My understanding is that to the extent the Commission were to make any changes to these riders, it would be done in a different proceeding (including, potentially, the 2024 Rate Case). Thus, Staff is not taking any position on these riders and reserves the right to address them in a future proceeding as appropriate.

There are, however, at least two riders that might be deemed to be part of ESP V, if approved. The first is the Residential Non-Standard Credit Provision found under subsection (a) of the Economic Development Rider, and the second is the “Additional Provision” under the Residential

[13] Staff DR-22.

Generation Credit Rider ("RGC"). These provisions are related, with the Residential Non-Standard Credit Provision providing credits to certain SSO customers on special all-electric rates, and the Additional Provision under Rider RGC providing similar credits to shopping customers on those same all-electric rates.[14] These legacy credits have been in place for more than ten years without being substantively addressed in a Commission proceeding. Staff is not opposed to discounts for residential customers when they are just and reasonable (and otherwise lawful). Staff recommends that the credits continue for now but that the Commission preserve the issue for further review, either in the 2024 Rate Case or in a separate docket.

17. Q. FirstEnergy is proposing a change to the way unaccounted for energy (UFE) is addressed. Does Staff have a position on FirstEnergy's proposal?

A. Yes. According to FirstEnergy witness Stein, UFE is currently the responsibility of suppliers, but the Companies propose that it instead be charged to customers on a non-bypassable basis through their transmission rider, Rider NMB.[15] Staff recommends that the Commission maintain the status quo and not adopt the Companies' proposal at this time. According to the Companies, UFE will be less volatile once they install more smart

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[14] The credits are 1.9 cents per kWh for kWh over 500 monthly for most rates, except for customers under electric water heating rates for Cleveland Electric and Toledo Edison, which receive credits of 0.5 cents instead.
[15] Direct Testimony of Edward B. Stein at 8-9 (Apr. 5, 2023).

meters because one contributor to UFE is the need to mathematically derive customer hourly load data where the customer does not have a smart meter. The Commission might reconsider the proposed change to UFE in a future case when FirstEnergy has completed or is closer to completing its smart meter rollout. I also understand that no other Ohio utility addresses UFE in the way that FirstEnergy proposes in its Application. This further supports maintaining the current process for now.

ECONOMIC LOAD REDUCTION PROGRAM

18. Q. The Companies propose the continuation of their Economic Load Reduction ("ELR") program with some modifications. What is the ELR program?

A. The ELR program is a form of demand response that is designed to improve reliability. It provides credits to participating nonresidential customers who agree to curtail their load—*i.e.* reduce their demand for electricity, sometimes referred to as "interruption"—when called upon. Currently, participants receive two credits: (i) a $5 per kW credit under the Companies' existing Demand Side Management and Energy Efficiency

Riders ("DSE1"[16]), and (ii) a $5 per kW credit under the Companies' Economic Development Riders ("EDR").

19. Q. How much have participating ELR customers received under the program?

A. During the ESP IV term, participating customers have received, in the aggregate, between $55.1 million and $67.5 million per year:[17]

TABLE CH-1

Date	Credits
June 2016 - May 2017	$67,483,141
June 2017 - May 2018	$64,726,780
June 2018 - May 2019	$65,313,963
June 2019 - May 2020	$63,132,340
June 2020 - May 2021	$55,138,140
June 2021 - May 2022	$60,575,415
June 2022 - May 2023	$61,046,075

According to the most recent data provided by the Companies, there are 24 customers participating in the ELR.[18]

[16] This rider is referred to as "DSE1" because the rider was previously bifurcated into two rates, with DSE1 for the ELR program and DSE2 for FirstEnergy's former statutory energy efficiency programs. Rider DSE2 is a zero charge (subject to final reconciliation) because the required energy efficiency programs were repealed under House Bill 6.
[17] This data was provided by FirstEnergy through a data request as PUCO DR-006 Attachment 1.
[18] OEG Set 1, DR-004 (24 participating customers in 2020, 2021, and 2022).

20. Q. How do the Companies fund the ELR program?

A. The Companies recover the costs of the program through Rider DSE1 and Rider EDR.

21. Q. Who pays for the costs of the ELR program under Rider DSE and Rider EDR?

A. According to the testimony of FirstEnergy witness Patel, customers in all customer classes (RS STD, RS ELC, RS WTR, GS, GP, GSU, GT, STL, POL, and TRF) pay the same per kWh rate for Rider DSE1.[19] Thus, the costs are allocated to customers based on their respective energy usage.

Allocation of ELR costs under Rider EDR is more complex. Currently, ELR costs are divided into two buckets under Rider EDR, which FirstEnergy refers to as EDR(e)-1 and EDR(e)-2. The majority of the ELR costs fall under EDR(e)-1 and are allocated only to customers in the GS and GP rate classes.[20] The remainder of the ELR costs fall under EDR(e)-2, which is allocated across customer classes (RS, GS, GP, GSU, GT, STL, TRF, and POL) based on allocation factors from the Companies' most

[19] Direct Testimony of Dhara Patel, Attachment DP-1 at 32-37 (Apr. 5, 2023).
[20] PUCO DR-08, Attachment 2.

recent base distribution rate case.[21] After costs are allocated to each class, they are then converted to a per kWh rate for each customer class.

22. Q. Do you recommend any changes to FirstEnergy's recovery of costs for the ELR program?

A. Yes. All ELR program costs should be recovered through Rider EDR. What was formerly recovered through Rider DSE1 should be added as a new component of Rider EDR, with the same per-kWh allocation currently being used under Rider DSE1. The allocations and calculation of per kWh rates for Rider EDR(e)-1 and Rider EDR(e)-2 should continue without modification. Then, all three per kWh rates should be included in the overall Rider EDR rate. This will simplify the recovery of costs for the ELR program. It has the added benefit of allowing Rider DSE to be completely removed from the Companies' tariffs once there is a final reconciliation of Rider DSE2 (the Companies' cost recovery for former statutory energy efficiency and peak demand reduction programs).

23. Q. Are the Companies proposing changes to the ELR program?

A. Yes. First, the Companies are proposing that they no longer serve as the curtailment service provider (CSP) for the ELR program.[22] Under the

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[21] Staff DR-19.
[22] *See* Direct Testimony of Edward B. Stein at 4-5 (Apr. 5, 2023).

current program, ELR participants cannot bid their interruptible load into PJM's capacity markets and can only participate through FirstEnergy. As CSP, FirstEnergy was responsible for offering ELR resources into PJM's capacity auctions, and 80% of revenues derived from PJM were used to offset the programs (with FirstEnergy shareholders keeping the remaining 20% of PJM revenues). Under the Companies' proposal for ESP V, however, customers will be responsible for their own curtailment activities through a separate CSP or directly with PJM.[23] Thus, in addition to any credits participants receive under the ELR program, they can also receive money by participating in PJM on their own.

24. Q. Have any intervenors taken a position on FirstEnergy's proposal that it no longer serve as the CSP for the ELR program?

A. Yes. Ohio Energy Leadership Council (OELC) witness Matthew Brakey recommends that if the Companies stop serving as CSP, that change not take effect until June 1, 2025 because there is not enough time for participants to transition to a third-party CSP by June 1, 2024.[24] Ohio Energy Group (OEG) witness Kevin Murray recommends that the Companies continue to serve as CSP.[25] He suggests, however, that even if

[23] *See* Stein Testimony at 5.
[24] Direct Testimony of Matthew Brakey at 54-55 (Oct. 23, 2023).
[25] Direct Testimony of Kevin M. Murray at 18-19 (Oct. 23, 2023).

the Companies continue to serve as CSP, they *not* bid the interruptible load into PJM because, according Mr. Murray, doing so is "risky and not efficient."[26] Instead, he proposes that FirstEnergy continue to administer the ELR program but that participants also be allowed (but not required) to separately participate in PJM demand response programs on their own and keep any revenues from such programs.[27]

25. Q. Do you support the Companies' proposal to no longer serve as CSP for the ELR program?

A. Yes. Allowing large nonresidential customers to participate in demand response programs on their own is a more market-based approach. Further, as described above, customers currently receive a credit for 80% of PJM revenues, with the remaining 20% going to FirstEnergy shareholders. Under the modified approach where FirstEnergy is no longer the CSP, participating customers would be allowed to keep any PJM revenues that they derive from their participation. This will allow FirstEnergy to reduce the credits paid to participants, thus lowering the amount that other customers pay for the program, while giving participants a new revenue stream not currently available to them. But OELC witness Brakey's proposal to postpone the transition to third-party CSPs until 2025 is

[26] Murray Testimony at 19.
[27] Murray Testimony at 19.

reasonable, in light of concerns about participants' ability to transition in time for 2024.

26. Q. If the Companies continue to serve as CSP, should the Commission adopt OEG's proposal that they no longer bid the interruptible load into PJM?

A. No. Revenues generated from bidding into PJM serve as an offset to the charges that other customers pay to fund the program.

27. Q. Are the Companies proposing other changes to the ELR program?

B. Yes. Another change that the Companies propose is to gradually reduce the amount of the credits that ELR participants receive. Under ESP IV, ELR participants are receiving credits totaling $10/kW-month of curtailable load.[28] The Companies propose that this credit stay the same in the first year of ESP V and then decrease by $1 each year. Thus, under the Companies' proposal, credits would be reduced to $9/kW in the second year of ESP V and would be $3/kW in the eighth and final year of ESP V. The Companies explain that their proposed reduction is intended to "balance rate impacts to both participating Rider ELR customers who

[28] As discussed above, customers actually receive two $5/kW credits for a total of $10/kW, and FirstEnergy is proposing the continuation of the two $5/kW credits. I will refer to this as a $10/kW credit, and all further discussion of credits in my testimony refers to a single credit that incorporates both of the former credits.

receive the credits and the other customers who pay for the credits"[29] and to "better align with market clearing prices."[30]

28. Q. If the Commission were to adopt the Companies' proposal to reduce ELR credits, how much would ELR participants be expected to receive during ESP V?

A. Based on data that the Companies provided to Staff, it is estimated that ELR participants would receive about $300 million in credits under FirstEnergy's proposal over eight years, or around $38 million per year on average.[31] This would be a material reduction compared to the $55 to $67 million in annual credits paid during ESP IV.[32]

29. Q. Do you agree with FirstEnergy's proposal to reduce ELR credits by $1 each year, starting in the second year of ESP V?

A. I agree with the Companies' overall aim to lower the amount of ELR credits over the term of ESP V and with the Companies' stated goals of balancing the interests of participating and non-participating customers and better aligning the program with the market. But I recommend modifications to the Companies' proposal.

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[29] *See* McMillen Testimony at 13.
[30] *See* Stein Testimony at 5.
[31] PUCO DR-08 Attachment 2.
[32] *See* Table CH-1.

The reduction in ELR credits should not wait until the second year of ESP V. I recommend an initial credit of $5/kW in year one (*i.e.*, June 1, 2024 – May 31, 2025).[33] The credit would be $4 in years two through four, and $3 in years five and six.

30. Q. Are your proposed ELR credits reasonable?

A. Yes. I agree with FirstEnergy witness Stein that the ELR program should "better align the costs of the program with market pricing."[34] Since 2016, ELR participants have received credits of $10/kW-month. This is substantially higher than PJM clearing prices. Clearing prices vary year-to-year, but they have averaged around $110/MW-day over the last decade,[35] which is equivalent to a credit of less than $3.40/kW-month.[36] It is true that the Commission has found that the ELR program supports both reliability and economic development, which would justify ELR benefits higher than capacity clearing prices. But the premium paid above market prices for economic development should be reasonable and should not result in undue subsidies paid by nonparticipating customers.

[33] To reiterate, this would be a total credit of $5/kW, compared to the current $10/kW total credit.
[34] Stein Testimony at 5.
[35] Historical clearing prices are available at https://www.pjm.com/markets-and-operations/rpm.
[36] $110 × (365 ÷ 12) ÷ 1,000 = $3.35

Further, Staff's proposed ELR credits are reasonable because they avoid rate shock for participating customers and move Ohio toward a more market-based approach. Under the current program, customers are not allowed to participate in PJM capacity markets, but under ESP V, they will. Thus, participants can generate revenues that they would be able to keep, and which would be on top of Staff's proposed ELR credits.

Finally, Staff supports the Commission's role in economic development for the State of Ohio, consistent with R.C. 4928.02(N) ("It is the policy of this state to … [f]acilitate the state's effectiveness in the global economy."). Staff's recommended ELR credits provide continued support for both reliability and economic development in the State of Ohio.

31. Q. What are the Companies' and intervenors' positions on whether the ELR program should be expanded to include new participants?

A. FirstEnergy is recommending that no new participants be added to the ELR program. OELC witness Brakey testifies that there should be no limit on participation.[37] OMAEG witness Seryak does not recommend a cap on participation, testifying that the program "should be open to any commercial and industrial customer desiring to participate and who can

[37] Brakey Testimony at 54.

demonstrate its ability to curtail load or dispatch behind-the-meter generation or storage when called upon."[38]

32. Q. What is Staff's position on expanding the ELR program to new participants?

A. There are competing interests with respect to ELR participation. Staff generally supports competition and open access to participation in utility programs. Staff also generally supports caps on participation in utility programs to mitigate the bill impacts for nonparticipating customers. Accordingly, Staff recommends that the ELR program be increased by 50MW each year for five years, beginning June 1, 2025.[39] It should be open to new participants on a first-come-first-served basis, with the same per-kW credit amounts and requirements as current participants.

33. Q. OEG witness Murray similarly recommends that existing ELR participants be allowed to increase the amount of interruptible load that they enroll in the program. Do you agree with this proposal?

A. In part. Mr. Murray agrees that the credits provided to participants under the program should be reduced.[40] But he recommends that participants be

[38] Seryak Testimony at 12.
[39] Thus, in year six of ESP V, an additional 250MW will have been made available to new participants.
[40] Murray Testimony at 18 (proposing $9/kW in the second year of ESP V, $8/kW in the third year, and $7/kW in any years thereafter).

allowed to increase their interruptible load to offset any reduction resulting from the lower per KW credits. Staff recommends that the additional 50MW per year added to the ELR program first be made available to new participants. If there is insufficient interest from new participants after a reasonable open enrollment period, the remaining MW could be offered to current participants seeking to increase their interruptible load.

34. Q. How much in ELR credits would participants receive under your proposal over the term of ESP V?

A. Under Staff's proposal, ELR participants would receive a total of about $163 million over five years, or around $27 million per year for participating in the program. They would also get to keep any PJM revenues that they derive from participating in PJM capacity markets or other demand response programs. Depending on future capacity prices, those credits could be substantial.[41]

[41] OELC witness Brakey believes that capacity prices "could rise from current levels *approaching or exceeding* previous historical highs." Brakey Testimony at 50 (emphasis added). If this were to happen, ELR participants could earn more by participating in PJM capacity markets than they would under FirstEnergy's ELR program. Staff is not endorsing Mr. Brakey's prediction regarding future capacity prices and offers this as an illustrative example only.

SUMMARY AND RATE IMPACTS

35. Q. Can you summarize the financial benefits of Staff's recommendations compared to ESP IV and compared to what FirstEnergy proposed in its Application?

A. Yes. First, I note that because Staff is recommending that some issues be addressed in the upcoming base distribution rate case, and because Staff is recommending a six-year ESP term instead of eight years as the Companies propose, it is difficult to do a complete "apples-to-apples" comparison between the Application and Staff's recommendations for the entirety of the ESP V term.

That being said, Staff's recommendations represent a reduction in charges to FirstEnergy customers as of the start of ESP V (June 1, 2024), both compared to what they currently pay under ESP IV, and compared to what they would pay if ESP V were adopted as filed in the Application.

As described above, Staff's proposal for the DCR would immediately reduce the annual cap on charges by $30-36 million as compared to ESP IV. The Application, in contrast, would increase the cap by $15-21 million per year.

Staff's proposal under the VMC could result in new charges of up to $22.1 million in year one of ESP V, which customers do not currently pay under ESP IV. These charges would be partially offset in the first year by credits resulting from the reconciliation of defunct riders. These credits total $14.6 million, as discussed in Staff witness Messenger's testimony. The net impact on customers in year one of ESP V would therefore be about a $7.5 million increase under Rider VMC. Further, based on Staff witness Messenger's recommendations, Staff is recommending vegetation management charges under Rider VMC that are lower than what FirstEnergy proposed in its Application by about $40 million per year, on average.[42]

Staff's proposal for the ELR program would reduce what nonparticipating customers pay to fund the program. Currently, customers are paying around $60 million per year under ESP IV, and under the Companies' proposal for ESP V, they would pay an average of around $38 million per year for eight years. Under Staff's proposal, however, they would pay an average of around $27 million per year for six years.

[42] FirstEnergy proposes vegetation management charges under Rider VMC of $524 million over eight years, or an average of about $68 million per year. *See* McMillen Testimony, Attachment BSM-4, Page 5 (sum of "Incremental Spend"). Staff witness Messenger is proposing a total of $157 million in vegetation management charges under Rider VMC over six years, or an average of about $26 million per year.

Regarding energy efficiency programs, the Companies proposed an annual budget of $72.1 million, as discussed in the testimony of Staff witness Kristin Braun. In contrast, Staff witness Braun recommends an annual budget of less than $16 million per year (while still providing benefits to low-income customers).

Staff's recommendations regarding the Companies' proposal for the Storm Cost Recovery Rider are also more favorable to customers than what was proposed in the Application. As described in more detail in the testimony of Staff witness Borer, the Companies are proposing up to $35 million per year in charges for future storm costs, plus another $30 million per year over five years for deferred storm costs dating back to 2009. Staff's recommendation would reduce rider costs for future storm costs by limiting the types of storms that are eligible for recovery. Likewise, Staff's proposal would not allow recovery of deferred storm costs until a full audit is complete, which should be addressed in a future docket. Thus, while Staff's recommendation would allow for recovery of some storm costs above the baseline through the proposed Rider SCR, these costs are reasonable and would be lower than what the Companies propose in their Application.

Other provisions remain revenue neutral (or approximately revenue neutral). For example, the price that customers pay for generation is determined by an auction, so there is no basis to say that the results under ESP IV vs. the Application vs. Staff's recommendations would differ. Likewise, some obligations (like the Alternative Energy Rider, which funds the Companies' compliance with Ohio's renewable energy resource standards) are based on statutory requirements that would be the same regardless of whether ESP IV continued, ESP V were adopted as filed in the Application, or Staff's recommendations were adopted.

Notably, if the Commission were to adopt all of Staff's recommendations, then in the first year of ESP V, customers should see around $52 million in annual rate *decreases* compared to current ESP IV rates.[43] In contrast, the Companies are proposing a rate *increase* of more than $145 million in the first year of ESP V.[44]

36. Q. Does this conclude your testimony?

A. Yes.

[43] This includes an approximately $30 million reduction in Rider DCR, a $29 million reduction for the ELR program, a $22.1 million increase for vegetation management expenses, and a $14.6 million credit for reconciliation of inactive tariffs. It does not include any charges for energy efficiency programs or storm cost recovery because Staff's recommendations do not contemplate charges under those riders as of June 1, 2024.

[44] This includes (i) a $15-21 million increase under Rider DCR, (ii) a $14.6 million credit for reconciliation of inactive tariffs, plus (iii) three new riders that are not currently being charged under ESP IV: $11.7 million in energy efficiency program costs, $64.6 million for storm costs under Rider SCR, and $69 million in vegetation management costs under Rider VMC.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Direct Testimony of Christopher Healey** 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
Thomas G. Lindgren
Assistant Attorney General

Parties of Record:

mkurtz@BKLlawfirm.com;
jkylercohn@BKLlawfirm.com;
trhayslaw@gmail.com;
Leslie.kovackik@toledo.oh.gov;
cgrundmann@spilmanlaw.com;
dwilliamson@spilmanlaw.com;
slee@spilmanlaw.com;
bojko@carpenterlipps.com;
easley@carpenterlipps.com;
dstinson@brickergraydon.com;
gkrassen@nopec.org;
dparram@brickergraydon.com;
rmains@brickergraydon.com;
dborchers@brickergraydon.com;
kherrnstein@brickergraydon.com;
glpetrucci@vorys.com;
mjsettineri@vorys.com;
aasanyal@vorys.com;
Stacie.Cathcart@igs.com;
Michael.nugent@igs.com;
Evan.betterton@igs.com;
ahaque@bakerlaw.com;
eprouty@bakerlaw.com;
pwillison@bakerlaw.com;
todd.schafer@outlook.com;
jpetroff@lawforlabor.com;
jrb@smxblaw.com;
mkl@smxblaw.com;
jrb@sxblaw.com;
MKeaney@beneschlaw.com;
KHehmeyer@beneschlaw.com;
bknipe@firstenergycorp.com;
cwatchorn@firstenergycorp.com;
TAlexander@beneschlaw.com;
Paul@carpenterlipps.com;
Brian.gibbs@nationwideenergypartners.com;
dromig@nationwideenergypartners.com;
emcconnell@elpc.org;
trent@hubaydougherty.com;
mpritchard@mcneeslaw.com;
awalke@mcneeslaw.com;
cpirik@dickinsonwright.com;
todonnell@dickinsonwright.com;
kshimp@dickinsonwright.com;
knordstrom@theOEC.org;
ctavenor@theOEC.org;
eowoyt@vorys.com;
jdunn@oneenergyllc.com;

john.finnigan@occ.ohio.gov;
keith.layton@occ.ohio.gov;
connor.semple@occ.ohio.gov;
rdove@keglerbrown.com;
nbobb@keglerbrown.com;
meissnerjoseph@yahoo.com;
little@litohio.com;
hogan@litohio.com;
ktreadway@oneenergyllc.com;
whitt@whitt-sturtevant.com;
jlang@calfee.com;
mbarbara@calfee.com;
dproano@bakerlaw.com;
ahaque@bakerlaw.com;
eprouty@bakerlaw.com;
pwillison@bakerlaw.com

Attorney Examiners:

megan.addison@puco.ohio.gov;
gregory.price@puco.ohio.gov;
jacqueline.St.John@puco.ohio.gov

PUCO DR 025

Case No. 23-0301-EL-SSO
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

RESPONSES TO THE PUBLIC UTILITIES COMMISSION OF OHIO'S DATA REQUESTS

PUCO DR-025

1. For each of the three Companies, please provide the DCR eligible balances for the following items, for FERC accounts 360-374, as of the date certain from the 07-551-EL-AIR rate case (5/31/2007).
   a. Gross Plant
   b. Accumulated Depreciation
   c. ADIT
   d. Depreciation Expense
   e. Property Tax Expense
2. Please provide any analysis or calculations the Companies have performed to determine what percentage of the current DCR revenue requirement is attributable to plant in FERC accounts 360-374.

Response:

1. See PUCO DR-025 Attachment 1.
2. See PUCO DR-025 Attachment 1 for the annual Rider DCR revenue requirement calculation including FERC accounts 360-374 only based on actual rate base balances as of August 31, 2023 of approximately $324 million. The attachment also includes an estimate for the annual revenue requirement based on May 31, 2024 rate base balances of approximately $339 million, using historical revenue requirement growth. See summary table below.

Annual Revenue Requirement Based on Actual 8/31/2023 Rate Base	$ 323.9
Average Annual Change since 5/31/2007 Date Certain in Rate Case	$ 19.9
Estimated Growth from 8/31/2023 to 5/31/2024 (9 months)	$ 15.0
Estimated Annual Revenue Requirement Based on 5/31/2024 Rate Base	**$ 338.9**