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September 29, 2008

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: Case No. 08-935-EL-SSO

Dear Sir/Madam:

Please find enclosed an original and twenty (20) copies of the DIRECT TESTIMONY OF DR. DAVID COTTRELL in Case No. 08-935-EL-SSO on behalf of the OHIO SCHOOLS COUNCIL ("OSC").

Copies have been served on all parties of record in this case. Please place this testimony on file.

Respectfully yours,

Glenn S. Krassen, Esq.
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Bricker & Eckler LLP

Counsel for OSC

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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 Establish A Standard Service Offer Pursuant to R.C. §4928.143 In the Form Of An Electric Security Plan	))))))	Case No. 08-0935-EL-SSO

DIRECT TESTIMONY OF DR. DAVID COTTRELL

ON BEHALF OF

THE OHIO SCHOOLS COUNCIL

September 29, 2008

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is David Cottrell. I am the Executive Director of the Ohio Schools Council. My business address is 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

Q. FOR WHOM ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Ohio Schools Council.

Q. PLEASE SUMMARIZE YOUR BACKGROUND AND QUALIFICATIONS.

A. I have been actively employed as a school administrator for 37 years, and continue to hold a permanent superintendent certificate for the State of Ohio. I have been in my current position as the Executive Director of the Ohio Schools Council since 2004. Prior to joining the Ohio Schools Council in 2003, I served as the superintendent of schools for 26 years in four Ohio districts: Northwood Schools, a suburban district near Toledo; Newark City Schools, an urban district east of Columbus; Berea City Schools, a suburban Cleveland district; and Franklin County Educational Service Center, Columbus, Ohio.

I am a charter member of the Buckeye Association of School Administrators, holding membership since 1968. I also have been a member of American Association of School Administrators since 1980, and am a past president of Mid-America Association of School Superintendents.

I obtained a Bachelor of Science in Education from Bowling Green State University in 1964, a Master of Arts from Kent State in 1967, and a Doctor of Education from The University of Akron in 1970 in Educational Administration.

Q. PLEASE DESCRIBE THE OHIO SCHOOLS COUNCIL.

A. The Ohio Schools Council ("Schools" or "Council" or "OSC") is a regional council of governments established under Chapter 167 of the Ohio Revised Code, and is a political subdivision of the State of Ohio. The OSC operates a variety of cooperative programs for its member school districts including the group purchasing of electricity and natural gas designed to reduce their energy costs. Savings from OSC's programs are returned to the member districts.

The Ohio Schools Council has grown to a membership of 123 school districts in 21 Ohio counties, representing over 410,000 students. The Ohio Schools Council's purpose is to save public school districts money through volume purchasing of goods and services. For example, the Ohio Schools Council's Energy for Education II program with First Energy has saved 249 participating school districts $11.7 million during the 2008 fiscal year, as well as created similar levels of savings in each of the two previous fiscal years. Ohio Schools Council also saved 137 participating school districts over $3.2 million during the 2007-2008 school year on the purchase of natural gas. Ohio Schools Council sponsors other programs which save considerable funds for districts in the area of insurance, school bus purchase, and the purchase of supplies and equipment.

In this proceeding, OSC represents the 249 public school districts that participate in its Energy for Education II electricity program, all of which are served by the Ohio Edison Company ("OE"), The Cleveland Electric Illuminating Company (CEI), and the Toledo Edison Company ("TE") (collectively the "Companies). These 249 districts include all but 5 of the public school districts served by the Companies, and represent

41% of all public school districts in the State of Ohio. There are approximately 731,000 school children enrolled in the 249 school districts represented by OSC in this case.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO ("PUCO" or "Commission")?

A. No.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY IN THIS CASE.

A. The purpose of my testimony in this case is to provide the Commission with an understanding, from a policy standpoint, of the potentially devastating impact that FirstEnergy's Electric Security Plan ("ESP"), as proposed, will have on the 254 public school districts that take service from the Companies. My testimony will explain the current financial and budgeting challenges that Ohio public school districts are facing generally as well as the negative impacts of the Companies' ESP proposal in particular. Specifically, my testimony will address the impact of the Companies' proposal to incorporate its pending distribution case, Case No. 07-551 EL-AIR, into this ESP case. The Companies' proposed rate design in that case, which eliminates currently available CEI and TE school rates, and the proposed distribution rate increase now proposed in this case, will result in severe increases in electric costs for public school customers in a manner incongruous with the Schools' usage characteristics. My testimony will address my understanding of the additional increase the Companies' proposed generation rates and its proposed riders in this case applicable to schools will have on the electricity costs of Ohio's public school districts within the Companies' service territories.

My testimony also will explain the past success of the Energy for Education I and current Energy for Education II electricity prepayment programs in alleviating some of the financial challenges confronting public school districts, and how the continuation of such a program is critical to their ability to effectively educate Ohio's school children and promote economic development in this State. The Energy for Education II program expires on December 31, 2008. Finally, I will provide the Commission with my recommendations for reducing the immediate and onerous rate increases on January 1, 2009 that will confront Ohio's public schools and detrimentally impact their ability to educate Ohio's children.

Q. ARE YOU APPEARING AS AN EXPERT ON RATES IN THIS CASE?

A. No. I do not purport to be an expert on utility rate design. My testimony focuses on the policy issues presented by the adverse financial impacts the proposed plans will have on Ohio public school districts located within the Companies' service territories. My testimony also explains the Ohio Schools Council's position in the Companies' pending distribution case, Case No. 07-551.

Q. PLEASE EXPLAIN THE CURRENT BUDGETING AND FINANCIAL CHALLENGES FACING PUBLIC SCHOOL DISTRICTS IN THE COMPANIES' SERVICE TERRITORIES.

A. Ohio's public schools are not businesses. They cannot absorb drastic budget increases through increasing the price of their product. They must either call for an increase in taxes from taxpayers or reduce their own costs. Taxpayers have not been supportive of increasing taxes for school funding in recent years. Approximately 80% of school operating levies have failed in the past three years statewide. Alliance City Schools, for example, has had two school operating levies fail by more than 60% in the past year and a half. Similarly, Conneaut Area City Schools has had three levies fail in the past two and a half years, while many other districts including Stow-Munroe Falls

City School District, Medina City Schools, South Euclid-Lyndhurst School District, Chagrin Falls Exempted Village School District, and Swanton Local School District have seen their local communities say "no" to critical increases in school funding. State funding also has not increased for many districts during the past two years. A state-mandated $101 million Ohio Board of Education budget reduction for the fiscal years 2008 to 2009 will further decrease individual public school district funding. These funding woes, combined with the elimination of the Energy for Education II program, proposed drastic distribution rate increases, and the proposed generation rate increases under the ESP plan, will create fiscal hardships in many school districts. To balance their budgets, many public school districts will be forced to reduce their expenses by cutting teachers, staff, programs, and facilities in the face of increased electric rates.

Q. ARE SCHOOL SUPERINTENDENTS AND OTHER PUBLIC SCHOOL OFFICIALS AWARE OF THE POTENTIAL RATE INCREASES BEING PROPOSED IN THIS CASE?

A. Yes. They are aware and extremely concerned. OSC's member districts voiced their concern in the 07-551 distribution case with more than 45 district superintendents, business managers, and other officials testifying at the local public hearings regarding the drastic adverse impact the proposed distribution rate increase would have on their school districts. During the public hearings, these school officials described the practical reality of the proposed distribution rate increases in terms of the number of teachers, administrators, and support staff that would either be cut or not hired, the reduction of available expenditures for badly need equipment from new technology to school buses, and the need to cut programs ranging from after school athletics to elective courses to special needs programs. These rate increases also will be confronting communities that would otherwise support school funding levies at a time when many of these communities are reeling from the loss of major employers in their communities, with unemployment and poverty on the rise in many areas in northern Ohio.

Today, these school officials are even more concerned as five months have passed without resolution of the Companies' distribution rate case. The Companies now propose to incorporate the distribution case into their ESP case in a manner that takes no account of the Ohio Schools Council's position in the distribution case, and does not recognize the relatively lower cost to serve schools that traditionally has been reflected in School specific rates. Combined with the Companies' ESP proposals in this case, school districts will be confronted with drastic combined distribution and generation rate increases on January 1, 2009. Next year also signals the end of the Energy for Education II program, resulting in an automatic loss of the current average 13.4 percent discount in Schools' electric rates, before applying any distribution and generation increases proposed in this case. School officials from districts participating in OSC's Energy for Education II program are extremely concerned about the negative impact that these combined factors will have on their budgets and their ability to educate over 700,000 Ohio school children in their districts beginning on January 1, 2009.

Q. PLEASE DESCRIBE THE OSC'S PARTICIPATION IN THE COMPANIES RECENT DISTRIBUTION CASE, CASE NO. 07-551.

A. For all practical purposes, Ohio's public schools were ignored by the Companies in developing their distribution rate case. The Companies' proposal eliminated the large and small School rates currently available for CEI and TE, and simply lumped Schools into the General Service rate class without any analysis of the School's demand characteristics or the actual cost to the Companies to serve school facilities. In response to OSC's discovery, the Companies admitted that they did not develop a cost-of-service study to analyze the Schools' usage characteristics and seasonal load profile.

During the hearing, the Schools presented expert testimony showing how Schools, which generally do not operate during the summer months when the Companies experience their highest peak demand, provide beneficial demand diversity in contrast with the remainder of the summer-peaking general service class customers. Demand diversity should be and traditionally has been reflected in the lower rates paid by school customers. This position had been previously accepted by the Companies and approved by the Commission in each of the Companies' prior rate cases in which the Companies recognized that it is less expensive to serve Schools than commercial customers and had previously proposed lower school rates reflective of this lower cost-of-service.

The Schools also addressed in their testimony and at the hearing how the Companies attempts to adhere to the rate-design principles of gradualism and reasonableness through the proposed "Business Distribution Credit Rider" should include School customers or that a School-specific rider should be developed. As explained in the Companies' application, Rider BDC was proposed to mollify the drastic impact on customers' bills on certain schedules. However, perhaps based on the lack of analysis of School usage characteristics and cost-of-service, the Companies did not propose a credit to alleviate some of the rate increases on drastically impacted school customers. The Schools' distribution portions of their bills were estimated by OSC's expert in the distribution rate case to increase as much as 150% for individual OE school customer accounts, as much as 31% for individual CEI customer accounts, and as much as 208% for individual TE customer accounts.

In summary, the Companies completely ignored the usage characteristics and seasonal load profile of the Schools in designing their proposed distribution rates. Additionally, the Companies failed to take into consideration the prior existence of school rates or even analyze whether their new voltage-based rate classes would impact Ohio's public schools. At the same time, the Companies requested non-gradual, very significant distribution rate increases from School customers without providing any mechanism to alleviate these potentially extreme rate increases. While the Companies ESP proposal may reduce the amount of the overall distribution rate increase requested, the impact on Ohio's public schools is still expected to be substantial.

Q. WHAT RECOMMENDATIONS DID OSC PROPOSE IN THE COMPANIES DISTRIBUTION RATE CASE?

A. OSC presented the Commission with three alternative rate design or rate adjustment recommendations to reflect the actual cost to the Companies to serve school customers. The proposed alternatives were either to 1) retain school rates currently in place for CEI and TE, and set school rates in OE's service territory; or 2) if the Commission found it reasonable to eliminate school rates as the Companies propose, a 27% downward adjustment for distribution demand charges for schools within the General Service Class should be ordered based on the schools lower cost-of-service; or 3) if the Commission finds it more reasonable to follow the Companies' approach to alleviating drastic rate increases on customer classes, a School Demand Credit Rider, similar to the Business Distribution Credit Rider currently proposed by the Companies for gradualism purposes, should be established to temper the drastic increase to school accounts. The Schools also provided specific language for each of these proposal in their Post Hearing Brief. Additionally, the Schools also proposed revisions to the Companies

Contract Demand language and a reasonable reduction of 50 basis points to the Schools' class rate of return based on requested increased revenue stability.

Q. PLEASE DESCRIBE YOUR CONCERNS ABOUT THE INCORPORATION OF DISTRIBUTION RATE ISSUES INTO THE COMPANIES' ESP CASE.

A. My concern about the Companies incorporation of the distribution rate case into the Companies' ESP case is twofold. First, there is a complete record in Case No. 07-551 upon which the Commission can make its determination. Based on the complexity of both of these cases and the necessarily hasty procedural schedule in the ESP case, I am concerned that the Schools' issues and recommendations will be lost and will not receive the full consideration they otherwise deserve.

My second concern is that the manner in which the Companies have proposed the distribution case be incorporated and resolved within their ESP case continues to ignore the legitimate concerns and arguments presented by the Schools. While the Companies may have reduced the overall amount of their distribution rate increase request, they also have proposed in this ESP that the revenue distribution and rate design stipulation from the distribution case be approved the Commission. OSC objected to the stipulation throughout the distribution case as it attempted to settle the rate design for the general service class, into which the Schools were forced, without any consideration of the actual impact on the Schools. It was unjust and unreasonable for the Companies to stipulate to the elimination of school rates when the only signatory parties to the agreement are interveners with interests that make them relatively indifferent to the plight of public schools and the continuation of school rates. Together with the Schools, the City of Cleveland, the only other party with an interest in retaining reasonable cost-based rates for schools, also refused to sign onto the stipulation.

Q. PLEASE DESCRIBE THE ENERGY FOR EDUCATION PROGRAMS THAT OSC AND THE COMPANIES NEGOTIATED AND OFFERED IN THE PAST.

A. The "Energy for Education II" program and its predecessor, the "Energy for Education" program, are electricity programs containing both a base rate discount element and an additional discount element which recognizes the Schools' arranging for the issuance of municipal bonds to prepay a lump sum amount to the Companies for participating school districts' anticipated electric usage for the contract term. The term of the current E4E II program is from 2005 through the end of 2008, and the Schools prepaid the Companies $241 million for estimated electricity usage during the program period in early 2005. The Schools and the Companies continued in the Energy for Education II program a 10% base rate discount (excluding fuel) that was part of the Energy for Education program, which combined with additional financing savings derived from the municipal bond prepayment, resulted in a current average savings of 13.4% ($11.7 million) to participating school districts for fiscal year 2008. The contract term of the E4E II program ends December 31, 2008.

Q. HAVE THE ENERGY FOR EDUCATION PROGRAMS SUCCESSFULLY ALLEVIATED SOME OF THE FINANCIAL BURDENS ON OHIO'S PUBLIC SCHOOLS?

A. Yes, they have. OSC believes that these programs have been extremely successful for a number of reasons. First, the programs allow school districts to effectively budget for and finance their anticipated electricity usage in equal payments over the term of the program. This has been critical to the school districts' planning and budgeting process. Second, the discount obtained for prepaying for electricity usage has created meaningful savings to participating districts. This has allowed participating districts to use the money saved to fund other needed programs such as after-school sports programs, additional busing, or special needs programs that otherwise could not be funded by the district. Third, the Companies have received over $350 million cash from OSC's issuance of municipal prepayment bonds, thus securitizing an important part of the Companies' customer receivables, providing a financial benefit to the Companies.

Q. HAVE THE ENERGY FOR EDUCATION PROGRAMS PROMOTED ECONOMIC DEVELOPMENT IN THE STATE OF OHIO?

A. Yes. OSC believes that these programs have a positive impact on the economic development in the Companies' service territories, as public school districts produce, in large measure, the future work force in the State of Ohio. One of the three key components of Governor Strickland's Strategic Plan for Economic Development for Ohio, unveiled in early September, 2008, was to create and retain jobs. There is nothing more important to the State in creating and retaining jobs than to have an educated work force.

Q. HAS OSC ATTEMPTED TO NEGOTIATE A THIRD ENERGY FOR EDUCATION PROGRAM WITH THE COMPANIES?

A. Yes. OSC has requested that the Companies offer a third Energy for Education program. To date, the Companies have declined to do so. OSC is still hopeful that the Companies will agree to offer an Energy for Education III program. An Energy for Education program will assist public school districts in coping with the proposed rate increases in this case, promote economic development in their service territories, recognize the favorable load and credit characteristics of public schools, and promote energy efficiency.

Q. WHAT DOES JANUARY 1, 2009 REPRESENT FOR OHIO'S PUBLIC SCHOOLS?

A. January 1, 2009 represents a day of reckoning for Ohio's public school districts in the Companies service territories. By OSC's calculations, the expiration of the Energy for Education II program on December 31, 2008 will result in an automatic annual loss of an \$11.7 million discount in electricity costs to Ohio's public schools and an automatic additional \$11.7 annual million in revenues to the Companies. As the record in Case No. 07-551 shows, the distribution rate increases that Ohio's public school districts will be forced to pay on January 1, 2009 are substantial. This distribution rate increase, as incorporated in the ESP proposal, will be combined with the generation rate increase proposed in the ESP plus applicable new riders resulting in another substantial, yet currently unknown, increase in school rates. The Schools have requested specific information from the Companies as to the amount of the increases proposed in the ESP as applied specifically to the Schools, but, due to the procedural schedule of this case, have not yet received such information.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION FOR ALLEVIATING THE IMPACT OF THE RATE INCREASES RESULTING FROM CASE NO. 07-551, THE PROPOSED ESP, THE EXPIRATION OF THE ENERGY FOR EDUCATION PREPAYMENT PROGRAM AND THE ECONOMIC DEVELOPMENT IMPACT ON THE STATE?

A. In order to moderate the potentially devastating financial impact that the Companies' ESP, including the proposed resolution of Case No. 07-551, will have on public school districts in the Companies' service territories, the Commission should condition any approval of FirstEnergy's ESP proposal in this case on the Companies' offering the public school districts within their service territories an Energy for Education III program, substantially similar to the currently available Energy for Education II program, at a minimum, for the ESP period. From the Schools' perspective, the ESP proposed in this Application, including the substantial distribution, generation and potentially other rate increases, will not be more favorable in the aggregate than a market rate offer, unless the Companies incorporate an Energy for Education contract mechanism to moderate some of the financial pressures on Ohio's public schools resulting from the Companies' proposals. The Commission's action in assisting the Schools also will promote economic development in this State and promote energy efficiency.

I also would respectfully request that the Commission consider the valid arguments and recommendations made by the Schools in Case No. 07-551, and implement those recommendations to establish reasonable, cost-based, school rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.