FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company for Approval of its Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets	)	Case No. 08-917-EL-SSO
and	)	
In the Matter of the Application of Ohio Power Company for Approval of its Electric Security Plan; and an Amendment to its Corporate Separation Plan	)	Case No. 08-918-EL-SSO

Direct Testimony of

Howard Solganick

On Behalf of

The Ohio Hospital Association

October 31, 2008

DIRECT TESTIMONY
HOWARD SOLGANICK
OHIO HOSPITAL ASSOCIATION
CASE NO. 08-917-EL-SSO & CASE NO. 08-918-EL-SSO

BACKGROUND AND EXPERIENCE

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

A. My name is Howard Solganick. I am a Principal of Energy Tactics & Services, Inc. I am a Senior Technical Consultant with Blue Ridge Consulting Services, Inc. My business address is 810 Persimmon Lane, Langhorne, PA 19047.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I am licensed as a Professional Engineer in Pennsylvania (active) and New Jersey (inactive). I hold a Professional Planner's license (inactive) in New Jersey. I served on the Electric Power Institute's Planning Methods Committee and on the Edison Electric Rate Research Committee. I have been an arbitrator in cases covering a pricing dispute between a municipal entity and an on-site power supplier and a commercial landlord-tenant case concerning submetering and billing. Presently, I am Chairman of the Middletown Township (PA) Planning Commission. I also served on two New Jersey Zoning Boards of Adjustment as Chairman and/or a member.

I have been actively engaged in the utility industry for 30 years holding utility management positions in generation, rates, planning, operational auditing, facilities permitting, and power procurement. I have delivered expert testimony in

utility planning and operations including rate design and cost of service, tariff administration, generation, transmission, distribution and customer service operations, load forecasting, demand side management, capacity and system planning, power purchase contract negotiations and regulatory issues.

I have been engaged by clients to review proposed distributed generation contracts, the operation and integration of generating assets within power pool operations and advised the Board of Directors of a public power utility consortium. For a period of four years I was engaged by a multiple site commercial real estate organization to manage a solicitation for the purchase of retail energy.

I have also been engaged to review utility performance before, during and after outages resulting from storms.

From 1994 to the present, I have been President of Energy Tactics & Services, Inc. From 1996 to 1998, I was a Managing Consultant for AT&T Solutions.

From 1990 to 1994, I was Vice President of Business Development for Cogeneration Partners of America and responsible for the development of independent power facilities. Concurrently, I served as President of the Mid-Atlantic Independent Power Producers.

From 1978 to 1990, I held positions of progressively increasing responsibility with Atlantic City Electric Company in generation, regulatory, performance, planning, major procurement, and permitting areas.

My last position at Atlantic Electric was Manager of Contract Capacity where I negotiated six major power purchase contracts and related interconnection agreements with planned facilities fueled by natural gas (two), coal (two), solid waste and refinery gas.

As Manager of Corporate Planning & Performance I was responsible for the fifteen year forecast, annual budget process, development of presentations for the rating agencies, economic studies and scenario planning.

As Manager of Corporate Performance I supervised an external management audit, developed performance measures for the company and its departments and provided industrial engineering and performance improvement services.

As Manager of Rate Design I was responsible for regulatory relations, tariff administrations, load research, cost of service and rate design. I also served on the Company's Load Forecasting Committee.

As Supervisor of Production Technical and Economic Services I served as Atlantic Electric's representative on the PJM Interconnection Generation Unavailability Subcommittee, managed the interchange power pricing function and performed heatrate testing of generation units.

From 1971 to 1978, I was an Engineer or Project Engineer for Univac, Soabar, Bickley Furnaces and deLaval Turbine designing card handling equipment, tagging and printing machines, high temperature industrial furnaces, and utility and industrial power generation equipment, respectively.

I received a Bachelor of Science in Mechanical Engineering (minor in Economics) from Carnegie-Mellon University in 1971 and a Master of Science in Engineering Management (minor in Law) from Drexel University in 1978. I have also taken courses covering arbitration and mediation presented by the American Arbitration Association, scenario planning presented by the Electric Power Research Institute and load research presented by the Association of Edison Illuminating Companies. I have taken courses in zoning and planning theory, practice and implementation in both New Jersey and Pennsylvania.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN REGULATORY PROCEEDINGS?

A. Yes. I have testified and/or presented testimony before the following regulatory bodies.

- Delaware Public Service Commission
- Georgia Public Service Commission
- Jamaica (West Indies) Electricity Appeals Tribunal
- Maine Public Utilities Commission
- Maryland Public Service Commission
- Michigan Public Service Commission
- Missouri Public Service Commission
- New Jersey Board of Public Utilities
- Public Utilities Commission of Ohio
- Pennsylvania Public Utility Commission

Appendix A contains more information regarding the cases in which I have been involved.

Q. WHEN DID YOU TESTIFY BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?

A. I presented testimony in the First Energy distribution Case No. 07-551-EL-AIR.

PURPOSE OF DIRECT TESTIMONY

Q. FOR WHOM ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Ohio Hospital Association ("OHA" or "Hospitals").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will support the position of the OHA with respect to rate design and tariff issues within the Electric Security Plan ("ESP") filed by the Columbus Southern Power Company ("CSP") and the Ohio Power Company ("OPC") collectively the ("Companies"). I will also make recommendations for changes to the ESP to support the efforts of the OHA and other similar organizations to manage and control their costs.

I have identified issues, which have a specific negative impact on the OHA, and/or the individual member hospitals it represents.

Issue 1- The Companies' Schedule NEMS_H conditions of service are undully restrictive, reduce the opportunities for energy conservation, may lead to less efficient operations and raise costs for hospitals unnecessarily.

Issue 2- The payment for net deliveries of energy to the Companies within Schedule NEMS-H should include credits for transmission costs that are avoided; energy losses on the subtransmission and distribution system that are avoided or

reduced; and payments for net deliveries should be made monthly by the Companies without a requirement for the customer-generator to request any net payments.

Issue 3- The proposed mechanism for managing alternate feed service does not recognize the planning horizon of a hospital or a well managed distribution system.

DIRECT TESTIMONY

Q. DID YOU FIND ANY ISSUES WITHIN THE COMPANIES' ESP FILING THAT AFFECT THE ABILITY OF HOSPITALS TO MANAGE OR REDUCE THEIR COSTS?

A. Yes. I found three issues.

ISSUE 1 - THE COMPANIES' SCHEDULE NEMS-H CONDITIONS OF SERVICE ARE UNDULLY RESTRICTIVE, REDUCE THE OPPORTUNITIES FOR ENERGY CONSERVATION, MAY LEAD TO LESS EFFICIENT OPERATIONS AND RAISE COSTS FOR HOSPITALS UNNECESSARILY

Q. WHAT IS YOUR EXPERIENCE WITH THE DEVELOPMENT AND IMPLEMENTATION OF COGENERATION AND DISTRIBUTED GENERATION FACILITIES?

A. While I was with Atlantic Electric I negotiated a number of power purchase agreements for cogeneration, resource recovery and district heating facilities. Four of those facilities representing 570 MW went into service and provided Atlantic Electric with dispatchable capacity and energy.

For a 46 MW cogeneration project with the City of Vineland Electric Utility, I negotiated the power sales agreement, the thermal sales agreement and the site lease. I obtained the required zoning and planning permits for the leased site. I obtained a private letter ruling from the Internal Revenue Service to permit tax exempt financing for the facility.

For a real estate management company, I supported their site manager in the review of an on-site cogeneration facility for a major office complex in northern New Jersey.

I have also participated in power sale renegotiations, project financings, served as an arbitrator and other activities related to independent power, cogeneration, district heating and/or distributed generation facilities.

Q. WHAT CONDITION OF SERVICE IN SCHEDULE NEMS-H CREATES THE PROBLEMS YOU CITED ABOVE?

A. Schedule NEMS-H (Net Energy Metering Service – Hospitals) for both Companies includes the requirement that a qualifying hospital customer-generator must comply with the requirement that it be "owned and operated by the customer and is located on the customer-generator's premises;."[1]

[1] Exhibit DMR-9 page 103 and Exhibit DMR-10 page 101

Q. WHAT REGULATORY, OPERATIONAL, FINANCIAL, BILLING OR OTHER REQUIREMENTS DO THE COMPANIES CITE FOR THIS REQUIREMENT?

A. "Schedule NEMS-H is based on the Companies' current approved schedule NEMS with the adjustment made for the requirements of SB 221 specifically for hospitals. See also Ohio Administrative Code 4901:1-10-28 Net Metering."[2]

Q. WHY IS THIS CONDITION DETRIMENTAL?

A. The requirement that a hospital own and operate the generating facility that serves them will exclude some hospitals from benefiting from economies of scale by utilizing the expertise of distributed generation or cogeneration companies. As written the condition would even disqualify a joint effort of the OHA to own and operate multiple generating facilities located at its member hospitals.

The experience of a successful generating facility developer should not be under estimated. While individual facilities may differ from one location to the next, the capability to perform the engineering, permitting and financing is limited and Ohio is best served by encouraging hospitals to gain energy efficiency and lower costs by allowing the option of contracting with third parties to design, build own and operate cogeneration and distributed generation facilities as part of a "fleet" of units.

Centralized operation and maintenance of on-site generation can lead to lower costs when properly executed. A hospital owned facility must approach the labor and equipment markets on its own for services not directly related to its core

[2] *Companies' Interrogatory Response to OHA No. 1-2*

mission. A "fleet" operator can obtain and utilize labor and equipment and derive economies of scale. For example, a centralized operations center could monitor multiple facilities at lower costs and potentially at a higher level of excellence. A coordinated maintenance "gang" could move dedicated full time mechanics from one facility to another at lower cost compared to an individual hospital contracting for maintenance services once or twice per year. Similarly, fuel purchasing expertise and expenses could be spread among the "fleet".

The requirement for the facility to be located on the hospital's premises[3] may also form a roadblock to the development of a cost effective energy conserving facility. Space limitations, legal requirements and/or financing requirements may suggest that a facility be located on property not owned by the hospital. The co-location requirement only restricts opportunities.

All of these potential savings are diminished or precluded by the Companies' unnecessarily restrictive Schedule NEMS-H condition of service.

Q. WHAT DO YOU RECOMMEND TO ADDRESS THIS ISSUE?

A. The Companies' Interrogatory Response fails to cite or explain any regulatory, operational, financial, billing or other requirement that would support the ownership requirement and outweigh the potential benefits to hospitals. Therefore, I recommend that the Commission remove that condition of service and only require that the hospital contract for services and the Companies' interconnection requirements be met.

[3] Exhibit DMR-9 page 103 and Exhibit DMR-10 page 101

ISSUE 2 – THE PAYMENT FOR NET DELIVERIES OF ENERGY TO THE COMPANIES WITHIN SCHEDULE NEMS-H SHOULD INCLUDE CREDITS FOR TRANSMISSION COSTS THAT ARE AVOIDED; ENERGY LOSSES ON THE SUBTRANSMISSION AND DISTRIBUTION SYSTEM THAT ARE AVOIDED OR REDUCED; AND PAYMENTS FOR NET DELIVERIES SHOULD BE MADE MONTHLY BY THE COMPANIES WITHOUT A REQUIREMENT FOR THE CUSTOMER-GENERATOR TO REQUEST ANY NET PAYMENTS

Q. WHAT ARE NET ENERGY DELIVERIES?

A. Net energy deliveries from a distributed generation source occur when the output of the generator exceeds the load of the on-site customer. This excess energy production may occur because the distributed generation facility is more economical to operate at a single load point or it may be dispatched by the local distribution utility to meet the needs for energy and/or capacity at either the system or local distribution level.

Q. DID THE COMPANIES RECOGNIZE ENERGY LOSS REDUCTIONS IN SCHEDULE NEMS-H?

A. Based on Schedule NEMS-H it is unclear how the Companies plan to treat energy losses. The schedule uses the words "adjusted for energy losses".[4]

Q. HOW DO THE COMPANIES PROPOSE TO ADJUST FOR ENERGY LOSSES?

A. The Companies propose to reduce the Market Rate by the application of the formula "Market Rate = (average of hourly LMP – Operating reserve Charges) x (1-energy losses percentage)."[5]

[4] Exhibit DMR-9 page 104 and Exhibit DMR-10 page 102
[5] Companies' Interrogatory Response to OHA No. 1-3

The effect of this equation is to reduce payments or credits to the distributed generation source.

Q. WHAT IS THE IMPACT OF NET DELIVERIES ON TRANSMISSION COSTS?

A. To the extent that a local customer- generator delivers energy into the local distribution system those deliveries offset generation or energy purchases made by the Companies. Because the deliveries are made close to other utility customers the local distributed generator reduces flows on the transmission system and the value of those reduced losses should accrue to the customer-generator providing the energy into the local distribution system. A similar situation occurs at the subtransmission level.

Q. WHAT IS THE IMPACT OF NET DELIVERIES ON DISTRIBUTION COSTS?

A. The delivery of energy to the distribution system by a local distributed generator should result in the reduction of distribution system delivery losses. Therefore the adjustment for energy losses should be a positive value and accrue to the customer-generator providing the energy into the local distribution system.

Q. WHAT DO YOU RECOMMEND TO ADDRESS THIS ISSUE?

A. The Companies should provide a detailed example of how billing credits will be calculated and specifically credit the positive value energy losses at the transmission, subtransmission and distribution levels to the customer-generator providing the energy into the local distribution system.

ISSUE 3 - THE PROPOSED MECHANISM FOR MANAGING ALTERNATE FEED SERVICE DOES NOT RECOGNIZE THE PLANNING HORIZON OF A HOSPITAL OR A WELL MANAGED DISTRIBUTION SYSTEM

Q. WHAT IS ALTERNATE FEED SERVICE?

A. According to Schedule AFS (Alternate Feed Service), "Standard Alternate Feed Service ("AFS") is a premium service available to customers served under Schedules GS-2 and GS-3 who request an AFS from existing distribution facilities which is in addition to the customer's basic service, provided that the Company can reasonably provide available capacity from alternate distribution facilities."[6]

Q. HAS THE UTILITY INDUSTRY PROVIDED REDUNDANT DISTRIBUTION SERVICE SIMILAR IN CAPABILITY TO THE COMPANIES' ALTERNATE FEED SERVICE?

A. There are several examples of redundant service within the industry.

Network service may be provided in electrically dense locations often with automatic switching between network services.

Some utilities design their residential underground systems in loops with manual switching located within the padmount transformer enclosure to more rapidly restore service when underground distribution fails between two padmount locations.

[6] Exhibit DMR-9 page 105 and Exhibit DMR-10 page 103

Some utilities encourage dual services due to the time required to locate and repair underground cable failures.

In some situations utilities "loop" overhead distribution circuits to allow manual switching of loads from one feeder to another to more quickly restore service.

Q. WHAT IS THE COMPANIES RATE PROPOSAL FOR ALTERNATE FEED SERVICE?

A. Existing AEP Ohio customers that are currently paying for alternate feed service will continue to receive service at the same cost under the proposed tariff.[7]

Existing customers that are not paying for alternate feed service can continue to receive service until such time as AEP Ohio must upgrade or otherwise make new investments in facilities providing the alternate feed. At that time, the customer will have three options: to discontinue alternate feed service, to take partial alternate feed service, or to continue alternate feed service by paying for such service under Schedule AFS.[8]

Q. ARE THE COMPANIES PROPERLY MANAGING ALTERNATE FEED SERVICE?

A. The Companies' proposal as explained in testimony does not define the lead time and planning criteria that is used to evaluate "...until such time as AEP Ohio must upgrade or otherwise make new investments..." Any customer needs

[7] Direct Testimony of David M. Roush (filed July 31, 2008), page 8, line12
[8] Direct Testimony of David M. Roush (filed July 31, 2008), page 8, line 14

adequate warning of this potential transition situation to determine in a careful manner how to ensure its reliability at the lowest appropriate cost.

Q. HOW DO THE COMPANIES PROPOSE TO NOTIFY EXISTING CUSTOMERS RECEIVING AFS AT NO COST?

A. "AEP Ohio evaluates capacity on an annual basis in the context of the next critical load period. When such capacity deficiencies are projected, the affected AFS customer is notified both verbally and in writing and is given six months notice of AEP Ohio's need to terminate the existing AFS arrangement. During the six month notice period, AEP Ohio and the customer will explore three options: discontinue alternate feed service, take partial alternate feed service at a demand level that avoids the need for system improvement (and thus avoidance of the AFS fee) or continue AFS by paying for such service under Schedule AFS. The earliest such a customer would be expected to pay for service under Schedule AFS would be once, after the six month notice period, AEP Ohio has completed the requisite system improvements such that capacity is available. If the customer desires the AFS and system improvements cannot be completed prior to the next critical load period, AEP Ohio would work with the customer to develop an interim solution that meets the customer's needs without jeopardizing AEP Ohio facilities or service to other AEP Ohio customers."[9]

[9] Companies' Interrogatory Response to OHA No. 1-4

Q. WHAT IS THE COMPANIES' FOCUS AS DEFINED BY THE ABOVE RESPONSE?

A. The response provided by the Companies focuses on its facilities and its revenue with only a modest period of concern for the customer.

The expected six month notice is inadequate to allow a customer a reasoned approach to consider all alternates to full or reduced AFS. Some customers may want to consider partial alternate feed service but will need to study the operational and engineering impacts including costs and lead time for load management equipment.

Further, the Companies indicate "... they would develop an interim solution ..." if the "... systems improvements cannot be completed prior to the next critical load period ..." This statement highlights the inadequacy of a six month notice.

Q. HOW DO SOME UTILITIES MANAGE THEIR DISTRIBUTION CIRCUITS?

A. Some utilities manage individual feeders by appointing circuit owners or managers. Circuit owners are responsible for many or all facts of the one or more distribution circuits. They monitor loading, patrol the circuit for damage or encroachment, track outages and reliability and request funds for maintenance or circuit improvements. The circuit owner is focused on distribution performance and adopts a long term view.

Q. WHAT NOTICE SHOULD THE COMPANIES PROVIDE TO EXISTING AFS CUSTOMERS CONCERNING CAPACITY LIMITATIONS?

A. Each existing customer presently provided with AFS should be given an estimate of when the facilities serving them may require an upgrade. This good faith estimate can be derived by the Companies' distribution load forecasts and feeder loading. Subsequently, those customers should receive at least 24 months of notice before a decision will be required on customer measures to maintain reliability.

Q. HAVE THE COMPANIES DEFINED THE INCREASED LEVEL OF RELIABILITY THAT AFS WILL PROVIDE?

A. Schedule AFS does not specify the level of reliability that an AFS customer will receive. The schedule includes a disclaimer that "The Company assumes no responsibility should the alternate distribution circuit, the transfer switch, or other equipment required to provide the AFS fail to operate as designed or be unavailable for any reason. Service under this Schedule does not guarantee that power will be available through the AFS at all times."[10]

Q. WHAT DO YOU RECOMMEND TO RESOLVE THIS ISSUE?

A. The Companies' Schedule AFS Availability of Service should be amended to provide existing customers with a minimum of 24 months notice before a decision will be required.

[10] Exhibit DMR-9 page 109 and Exhibit DMR-10 page 107

Additionally, until the Companies demonstrate that AFS service offers an increase in reliability compared to other forms of General Service all customers should be treated equally and the Companies' existing practice of providing alternate feeds to hospitals should entail no incremental costs.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing DIRECT TESTIMONY OF HOWARD SOLGANICK was served via electronic mail upon the following, this 31st day of October 2008.

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