

FILE

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

In the Matter of the Application of)
Ohio Power Company for Approval of its) Case No. 08-918-EL-SSO
Electric Security Plan; and an Amendment)
to its Corporate Separation Plan)

PREPARED TESTIMONY

Of

**Daniel R. Johnson
Policy and Market Analysis Division
Public Utilities Commission of Ohio**

STAFF EXHIBIT _____

November 10, 2008

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

2 A. My name is Daniel R. Johnson. I am employed by the Public Utilities
3 Commission of Ohio, 180 East Broad Street, Columbus, Ohio 43266-0573.

4

5 2. Q. What is your current position and what are your responsibilities?

6 A: I am a Public Utilities Administrator III, Chief of the Policy and Market
7 Analysis Division. My responsibilities include directing the division staff in
8 monitoring and assessing markets in transition to or from competition.

9

10 3. Q. What are your qualifications for this position?

11 A: I hold an MBA from the University of Pittsburgh, and a Master of Energy
12 Resources from the University of Pittsburgh. Prior to joining the Staff of the
13 Commission I was employed by Battelle, Pacific Northwest Laboratory, as a
14 Research Scientist. In that position, I performed technology assessments and
15 R&D appraisals in order to assist the United States Department of Energy
16 with funding allocations for research. I have also led projects on technology
17 innovation and diffusion into the marketplace.

18

19 I joined the Staff of the Commission in October of 1986 as a Utilities
20 Examiner III, in which capacity I helped shape the Integrated Resource
21 Planning process and rules. In November 1998 I was promoted to Public
22 Utilities Administrator III, Chief of the Policy and Market Analysis Division.
23 In that capacity I have monitored the development of wholesale and retail

1 electricity markets, and I have led staff teams in the development of rules
2 implementing Senate Bill 3 and Senate Bill 221.

3
4 4. Q: What is the purpose of your testimony?

5 A: The purpose of my testimony is to review the Companies' market price
6 estimate, which is sponsored by J. Craig Baker. I recommend that certain
7 cost components of the companies' market price calculation be revalued.
8 The components, to which I refer, are identified on page 13 of Mr. Baker's
9 testimony. All of the adjustments I recommend are shown in Exhibit 1.

10
11 5 Q: What is the basis of your recommendations?

12 A: There are four bases for adjusting or revaluing the cost components used by
13 Mr. Baker to construct a market price. First, it was impossible for the
14 companies to submit an application that reflects today's forward market
15 prices, which have changed significantly from the time when they calculated
16 them. Unlike a rate case, there is no date certain in an ESP case. In periods
17 of significant price movements, the forward price and cost components that
18 are affected by forward prices should be updated in order to provide to the
19 record a best projection of the future. I provide such an update.

20
21 Second, there are certain cost components identified by Mr. Baker, which are
22 recovered by the companies in their Transmission Cost Recovery Riders.
23 While these components may often be included in market price calculations

1 in other contexts, it is inappropriate to include them here because they would
2 not be recovered in a standard service offer that resulted from this ESP
3 proceeding. They are not part of the ESP proposal. Because the reason for
4 calculating a market price in the first place is to provide a basis for
5 comparison to the ESP package, it is appropriate to compare on an apples to
6 apples basis.

7
8 Third, I identify some issues with valuing capacity requirements according to
9 the PJM RPM auction results. The Companies do not purchase their capacity
10 requirements from the RPM auction. Rather, they self-supply capacity under
11 PJM's FPP option. This can affect a competitive procurement such as would
12 be conducted under an MRO construct.

13
14 Fourth, it is inappropriate to include some Retail Administrative Costs either
15 because they would be incurred only by retail competitive suppliers, or
16 because they might be included in other cost categories identified by Mr.
17 Baker. A retail competitor cannot provide the standard service offer. Only a
18 utility can provide the standard service offer. Generator profit margins are
19 already included in the ATC Simple Swap price.

20
21 6 Q: How did you update the cost components of the companies' price to account
22 for changed market conditions?

1 A: Mr. Baker indicates the companies used an average of forward prices for the
2 term of the ESP from fifteen different days - the first five days of each of the
3 first, second, and third quarters of 2008 - to calculate the ATC Simple Swap
4 price. I reproduced a calculation of ATC prices for the term of the ESP using
5 cleared settlement forward on peak and off peak quotes from ICE for those
6 same fifteen days.¹

7
8 I then calculated an updated average of ATC Swap price using quotes from
9 the most recent 15 days available at the time of analysis, ending with October
10 31, 2008. The average of recent ATC prices were 83.4% of the average of
11 ATC prices from the sample of days from the first, second and third quarter.
12 I therefore applied that percentage to those cost components on page 13 of
13 Mr. Baker's testimony, which are a function of forward prices. Those
14 components are the ATC Simple Swap, Load Shape and Following, Losses,
15 and Transaction Risk Adder. The results are shown in Exhibit DRJ-1 in the
16 "adjusted" columns.

17
18 7 Q: What about costs that are recovered through the Transmission Cost Recovery
19 Rider?

¹ The settlement data available to me from ICE includes forward on peak prices for the AD Hub for only two years into the future (i.e., 2009 and 2010), and no off-peak prices for the AD Hub. However, data from the Cinergy Hub was available for the full 3 years of the term of the ESP, and included both on and off peak data. As demonstrated in Exhibits DRJ-2 and DRJ-3, the AD Hub prices are highly correlated with the Cinergy Hub prices, thus validating the use of Cinergy Hub data to determine the relative difference in prices between the two time periods at the AD Hub. I therefore used the Cinergy data for the full term of the ESP.

1 A: These costs include Ancillary Services and the ARR Credit. As stated above,
2 those costs are recovered through a mechanism that is separate from, and
3 independent of the ESP.² They are not in the ESP proposed package, and
4 should not be included in the market price projection. I have therefore
5 adjusted those costs to zero.

6
7 8 Q: What about capacity costs, which are valued in the companies' price estimate
8 according to the PJM RPM auction results?

9 A: The companies do not participate in the RPM auction for nearly the entirety
10 of their Ohio load. They self-supply capacity under PJM's FPP option.
11 Presumably the companies have chosen the FPP option because it is cost
12 advantageous to do so. In concept, the cost advantage could be as much as
13 the difference between the RPM value of capacity and the companies'
14 depreciated book value of the capacity. I have, however, found no place
15 where the companies identify the cost advantage to them of taking the FPP
16 option.

17
18 AEP is widely recognized as a low cost provider of energy. The cost
19 advantage of the FPP option instead of the RPM option with regard to
20 meeting PJM capacity requirements would give AEP generation an extra
21 edge in a competitive procurement pursuant to an MRO.

22

² See Case No. 08-1202-EL-UNC, Exhibit 2.

1 Assuming that AEP generation would participate in any procurement the
2 companies might undertake pursuant to an MRO, and if such a procurement
3 were highly competitive, AEP may likely use its FPP advantage to flex its
4 offer price downward in order to capture a greater percentage of SSO load.
5 At least some of the companies' cost advantage of self-supplying PJM's
6 capacity requirements would then be reflected in the resulting MRO price.

7
8 Given that I do not know the value of the cost advantage, or the extent to
9 which competition might induce AEP to flex its bid prices to reflect this cost
10 advantage, I have not adjusted the PJM Capacity Requirement cost
11 component.

12
13 However, my adjusted price estimate, like Mr. Baker's market price estimate,
14 and any other estimate or projection, falls within a range of uncertainty. I
15 suggest that the cost advantage of the FPP option would cause my price
16 estimate to be in the high part of the range. That is, due to the FPP cost
17 advantage, the probability is greater that an actual market price will turn out
18 to be lower than my adjusted price than the probability that it will turn out to
19 be higher.

20
21 9. Q: What do you recommend with respect to Retail Administration costs?

22 A: Retail Administration costs are described as including marketing, personnel,
23 overhead, taxes and profit. I have reviewed the direct testimony of Lee

1 Smith on behalf of the Office of Consumers' Counsel and I generally agree
2 with his assessment.

3
4 Marketing costs may apply to a situation in which a retail provider were
5 supplying power to end use customers. However, marketing costs, would
6 likely not apply to an MRO based SSO in which the suppliers would be
7 wholesale sellers only, not retailers, who would be responding to a
8 competitive bid solicitation.

9
10 Participants in a wholesale competitive bid process may include entities that
11 own generation and are responding to the bid by offering that generation, or
12 they may include intermediary broker entities that would bid in response to
13 the solicitation, and then procure the power to fulfill the obligation if they
14 were a successful bidder. In the case of generation owners, the profit and
15 overheads for the generation function are built-in to the Simple Swap price.
16 Otherwise there would be no willing seller and the swap would not be
17 offered.

18
19 Wholesale brokers may require personnel and a profit margin over and above
20 that which is built into the swap price, but their overheads would apply to
21 office and trading operations, not directly tied to generation facilities. On the
22 basis of these factors I have adjusted the \$5.00 Administrative adder to
23 \$2.50.

1

2 10 Q: Taken together, what impact do your adjustments have on the companies'
3 market price projection?

4 A: It lowers the market price projection for CSP by a little more than 15%, from
5 \$88.15 to \$74.71. It lowers the market price projection for OP by almost
6 14%, from \$85.32 to \$73.59.

7

8 11. Q: What effect do your recommended adjusted prices have on the ESP?

9 A: As may be seen in exhibit JEH-1 sponsored by staff witness J. Edward Hess,
10 it reduces the benefits claimed for the ESP.

11

12 12. Q: Does this conclude your testimony?

13 A: Yes, it does.

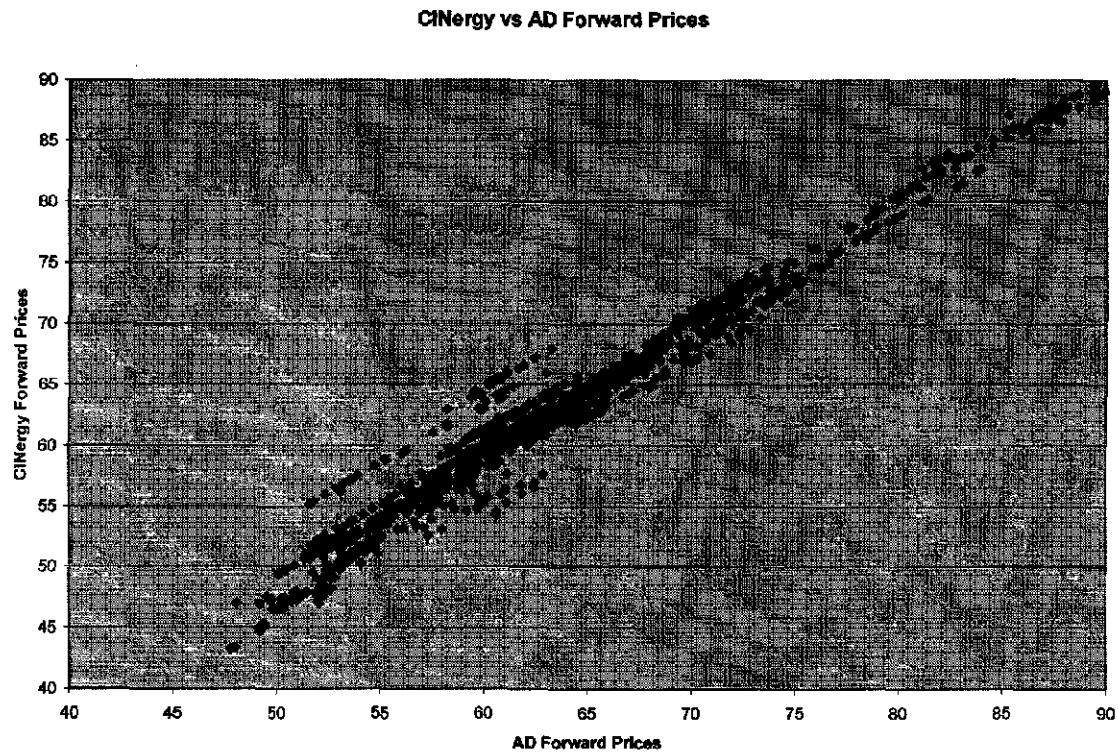
**Adjusted CSP Estimated Full Requirements Service Price for Calendar
Year 2009 - 2011 Term**

Cost Components	Residential (Baker)	Residential Adjusted	Commercial (Baker)	Commercial Adjusted	Industrial (Baker)	Industrial Adjusted
ATC Simple Swap	\$57.84	\$48.24	\$57.84	\$48.24	\$57.84	\$48.24
Basis	\$0.51	\$0.51	\$0.51	\$0.51	\$0.51	\$0.51
Load Shape and Following	\$9.59	\$8.00	\$5.33	\$4.45	\$2.31	\$1.93
Retail Administration	\$5.00	\$2.50	\$5.00	\$2.50	\$5.00	\$2.50
Ancillary Services	\$1.19	\$0.00	\$1.19	\$0.00	\$1.19	\$0.00
Losses	\$4.01	\$3.34	\$2.53	\$2.11	\$0.91	\$0.76
PJM Capacity Requirements	\$15.78	\$15.78	\$11.80	\$11.80	\$7.86	\$7.86
ARR Credit	-\$2.73	\$0.00	-\$2.05	\$0.00	-\$1.40	\$0.00
Transaction Risk Adder	\$5.47	\$4.56	\$4.93	\$4.11	\$4.45	\$3.71
Class Total	\$96.66	\$82.93	\$87.08	\$73.72	\$78.67	\$65.51
CSP System		\$88.15			\$74.71	
Total Adjustment	\$13.44					
Percentage Adjustment	15.24%					

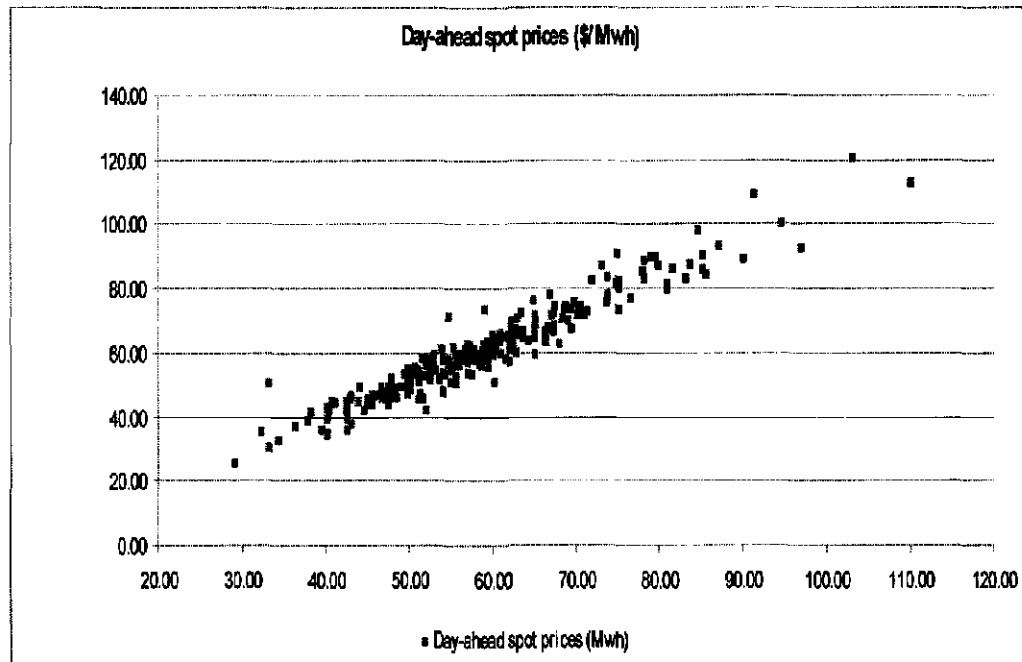
**Adjusted OP Estimated Full Requirements Service Price for Calendar Year
2009 - 2011 Term**

Cost Components	Residential (Baker)	Residential Adjusted	Commercial (Baker)	Commercial Adjusted	Industrial (Baker)	Industrial Adjusted
ATC Simple Swap	\$57.84	\$48.24	\$57.84	\$48.24	\$57.84	\$48.24
Basis	\$0.51	\$0.51	\$0.51	\$0.51	\$0.51	\$0.51
Load Shape and Following	\$7.66	\$6.39	\$6.06	\$5.05	\$2.58	\$2.15
Retail Administration	\$5.00	\$2.50	\$5.00	\$2.50	\$5.00	\$2.50
Ancillary Services	\$1.19	\$0.00	\$1.19	\$0.00	\$1.19	\$0.00
Losses	\$1.28	\$1.07	\$4.46	\$2.11	\$2.49	\$2.08
PJM Capacity Requirements	\$13.47	\$13.47	\$12.51	\$12.51	\$8.15	\$8.15
ARR Credit	-\$2.42	\$0.00	-\$2.16	\$0.00	-\$1.41	\$0.00
Transaction Risk Adder	\$5.07	\$4.23	\$5.13	\$4.28	\$4.58	\$3.82
Class Total	\$89.60	\$76.40	\$90.54	\$75.20	\$80.93	\$67.45
CSP System		\$85.32			\$73.59	
Total Adjustment	\$11.73					
Adjustment Percentage	13.74%					

Correlation of Forward Prices at the AD Hub and the Cinergy Hub



Correlation of Day-Ahead Prices at AD Hub and Cinergy Hub



PROOF OF SERVICE

I hereby certify that true copy of the foregoing Testimony submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 10th day of November, 2008.


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