

FILE

[Company Exhibit]

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio)	
Edison Company, The Cleveland Electric)	Case Nos. 09-21-EL-ATA
Illuminating Company and The Toledo)	09-22-EL-AEM
Edison Company for Approval of Rider)	09-23-EL-AAM
FUEL and Related Accounting Authority)	

In the Matter of the Application of Ohio)	
Edison Company, The Cleveland Electric)	
Illuminating Company, and The Toledo)	
Edison Company for Authority to)	Case No. 08-935-EL-SSO
Establish a Standard Service Offer Pursuant)	
To R.C. § 4928.143 in the Form of an Electric)	
Security Plan)	

SUPPLEMENTAL TESTIMONY OF

DAVID M. BLANK

ON BEHALF OF

OHIO EDISON COMPANY
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
THE TOLEDO EDISON COMPANY

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1 Q. ARE YOU THE SAME DAVID M. BLANK WHO HAS TESTIFIED
2 PREVIOUSLY IN THIS PROCEEDING?

3 A. Yes

4 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

5 A. This testimony addresses the matters set by the Attorney Examiner Entry of
6 February 19, 2009 for consideration at the hearing commencing February 25. I
7 sponsor and address generally the provisions embodied within Section I of the
8 Stipulation and Recommendation ("Stipulation") attached to the Amended
9 Application filed by the Companies in Case No. 08-935-EL-SSO on February 19,
10 2009, other than provisions related to prudence in Section A.2. Section I includes
11 by reference the provisions of Sections A.1., A.2., A.3, A.4. and A.12. of the
12 Stipulation. In light of the Attorney Examiner Entry, the consideration of Section
13 A.12. has been removed from the scope of the hearing commencing February 25
14 and, accordingly, I do not address that provision in this testimony. In particular, I
15 recommend that the Commission approve the provisions contained within Section I,
16 other than Section A.12., by March 4, 2009. My testimony discusses the
17 advantages to customers that would result from adoption of these provisions and
18 sets out why, in the aggregate, the prices and other terms and conditions of these
19 provisions are more favorable in the aggregate to customers than the expected
20 results that would otherwise apply under a Market Rate Offer ("MRO") for the
21 period April to May 2009.

1 Q. IS THE ISSUE OF THE PRUDENCE OF THE GENERATION
2 PROCUREMENT FOR THE PERIOD JANUARY THROUGH MARCH 2009
3 WITHIN THE SCOPE OF YOUR TESTIMONY?

4 A. No. That subject is addressed in the testimony of Company witnesses Stathis,
5 Miller and Jones.

6 Q. PLEASE SUMMARIZE THE PROVISIONS OF SECTION I OF THE
7 STIPULATION.

8 A. The principal interim provisions of Section I provide for the continued supply of
9 retail Standard Service Offer ("SSO") service for the period April 1 through May
10 31, 2009. The generation for that period will be provided pursuant to a power
11 supply agreement with FirstEnergy Solutions Corp. at the same average price that
12 resulted from the December 31, 2008 competitive bid. The price to customers will
13 remain at the existing levels established and currently included in Rider FUEL.
14 Section I reflects the Signatory Parties' agreement that the costs for procurement of
15 generation for the period January 1 through March 31 was not imprudent and that it
16 is unnecessary for the Commission to determine whether cost recovery is required
17 to avoid a confiscatory result in order for the Companies to be granted recovery.
18 Authorization for the deferrals with respect to CEI established under Rider FUEL is
19 continued for purchased power costs incurred in the April through May period and a
20 recovery period for all these deferred amounts is set to commence June 1, 2011.
21 Section I includes provision for the accrual of carrying charges on the deferred
22 amounts and recovery of the deferred amounts commencing June 1, 2011.
23 Additionally, Section I makes available interruptible buy through arrangements for

1 certain customers and establishes certain pricing provisions applicable to certain
2 automaker facilities within the Companies' service territories.

3 **Q. WHAT ARE THE CRITERIA APPLICABLE TO THE COMMISSION'S**
4 **APPROVAL OF A STIPULATION AMONG PARTIES TO A**
5 **PROCEEDING?**

6 A. My understanding is that the stipulation must satisfy three criteria: (1) it must be a
7 product of serious bargaining among capable, knowledgeable parties; (2) it must not
8 violate any important regulatory principle or practice; and (3) it must, as a package,
9 benefit ratepayers and the public interest.

10 **Q. DOES THE STIPULATION HERE, WITH RESPECT TO THE**
11 **PROVISIONS OF SECTION I, SATISFY THOSE CRITERIA?**

12 A. Yes, it does.

13 **Q. IS THE STIPULATION A PRODUCT OF SERIOUS BARGAINING**
14 **AMONG CAPABLE, KNOWLEDGEABLE PARTIES?**

15 A. Yes. Each of the Signatory Parties to the Stipulation has a history of participation
16 and experience in matters before the Commission and is represented by experienced
17 and competent counsel. In reviewing the list of Signatory Parties to the Stipulation,
18 a broad range of interests is represented including the Companies, the Staff of the
19 Commission, various consumer groups (themselves representing a range of
20 customer interests and customer classes), and governmental entities. The
21 negotiations, encouraged by Commission Entry and facilitated by the Staff,
22 involved significant give-and-take, with the Signatory Parties to the Stipulation

1 compromising on numerous issues which had been the subject of significant
2 litigation in the earlier proceedings in the Companies' MRO and ESP cases.

3 **Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY**
4 **PRINCIPLE OR PRACTICE?**

5 A. No, it does not. Based upon my examination of the Stipulation and my experience
6 in and familiarity with the regulatory process, I believe the Stipulation conforms
7 with regulatory principles and practice in Ohio.

8 **Q. WHAT ARE THE BENEFITS OF SECTION I TO CUSTOMERS AND TO**
9 **THE PUBLIC INTEREST?**

10 A. Section I provides a number of significant benefits for customers. First, there
11 would be stable and predictable generation prices for customers during the April
12 through May 2009 period, a benefit not only to customers directly but as well as to
13 the economy of the State of Ohio. Generation prices during this period will remain
14 substantially unchanged from the January-March period. Further, adoption of the
15 Section I provisions would avoid the uncertainty, time and expense associated with
16 a separate competitive bidding process for the April-May period, and the generation
17 pricing will be fixed and known *now* by all customers, not delayed until after the
18 conclusion of the bidding process. Additionally, many customers, especially many
19 industrial and manufacturing businesses which are the economic backbone in the
20 service territories of the Companies, will be able to take advantage of rate
21 mitigation provisions immediately upon the Commission's approval of the Section I
22 provisions.

1 **Q. PLEASE EXPLAIN THE BENEFIT ASSOCIATED WITH THE**
2 **AVAILABILITY OF THESE CUSTOMERS BEING ABLE TO MITIGATE**
3 **THEIR RATES PRIOR TO JUNE 2009?**

4 A. Provisions within Section I provide mechanisms to mitigate the market effect of
5 electricity costs for the period from the Commission's approval of Section I (which
6 the Stipulation contemplates as March 4) through May 31 through the availability
7 of interruptible buy through arrangements and establishing the generation price for
8 certain automotive facilities as described in Section I(1)(vi) of the Stipulation.
9 These provisions would be available to the steel, automotive, and other large
10 manufacturing businesses which comprise the backbone of the economy in the
11 service territories of the Companies. These businesses especially have been
12 adversely affected by the current recessionary economic circumstances and any
13 opportunity such as this that permits them to mitigate their costs should have a
14 significant beneficial impact on their ability to continue their level of operations, if
15 not their ability to survive. This, in turn, should have a direct beneficial impact on
16 the preservation and, hopefully, creation of jobs and the important community
17 support provided by these businesses and their employees – all vitally important to
18 the economic health of the State of Ohio.

19 **Q. IF THESE CUSTOMERS ARE ABLE TO USE THESE MECHANISMS TO**
20 **MITIGATE THEIR COSTS, DOESN'T THAT MEAN THAT THERE WILL**
21 **BE SOME SHIFT OF COST RESPONSIBILITY TO OTHER**
22 **CUSTOMERS?**

1 A. Large customers using these provisions will tend to shift costs to all other
2 customers, but the impact would be modest and would be spread across all
3 customer classes as part of the reconciliation procedure. For example, for the
4 average residential customer using 750 kWh per month, we estimate that the effect
5 would be approximately 60 cents per month or well under two dollars in total for
6 the less than three month period at issue. On balance, the value of the direct and
7 derivative economic benefits that flow from these provisions outweighs the limited
8 amount of costs shifted to other customers.

9 **Q. WHAT OTHER BENEFITS RESULT FROM ADOPTION OF THE**
10 **PROVISION OF SECTION I?**

11 A. Importantly, prompt adoption of the provisions of Section I means that the
12 Commission will have additional time to consider the full Stipulation and overall
13 provisions of the longer term Stipulated ESP. Moreover, upon adoption of Section
14 I, Signatory Parties have agreed to withdraw pending complaints and cases
15 regarding contract termination dates, interruptible protocols and other similar issues
16 related to special contracts or interruptible protocols applied prior to June 2009.
17 Similarly, the adoption of Section I should bring prompt resolution to outstanding
18 issues associated with the Companies' procurement of SSO supply during the
19 January through March period. While the Stipulated ESP is being addressed in a
20 two step process, the provisions of Section I are integral parts to the overall
21 Stipulated ESP as agreed to by the Signatory Parties, without which the overall
22 Stipulation may not have been achievable. The overall Stipulated ESP, of course,
23 brings with it many more benefits, including, importantly, approximately \$40

1 million of annual benefits to residential customers. Therefore, an additional benefit
2 of the Section I provisions is that they make the overall Stipulation, including all the
3 benefits contained therein, available for the Commission's consideration as part of
4 the March 11, 2009 hearing.

5 **Q. DO YOU HAVE AN OPINION WHETHER THE PROVISIONS OF**
6 **SECTION I ARE MORE FAVORABLE IN THE AGGREGATE**
7 **COMPARED TO THE EXPECTED RESULTS THAT WOULD**
8 **OTHERWISE APPLY UNDER R.C. § 4928.142?**

9 A. Yes. My opinion is that the provisions of Section I are more favorable in the
10 aggregate than the expected results of a R.C. § 4928.142 market rate offer filing.
11 While the generation price provisions within Section I, if considered separately,
12 would tend to be generally comparable to a market rate offer result since they in
13 fact reflect the results of a competitive bidding procurement process, the additional
14 benefits provided in Section I make it, in the aggregate, more favorable than the
15 expected result of a market rate offer for the subject time period.

16 **Q. FOR PURPOSES OF THIS COMPARISON, WHAT DO YOU CONSIDER**
17 **WOULD BE THE EXPECTED RESULTS THAT WOULD OTHERWISE**
18 **APPLY UNDER AN MRO FOR THE APRIL TO MAY 2009 TIMEFRAME?**

19 A. In order to provide for generation supply for SSO customers after the expiration of
20 the power supply agreement with FirstEnergy Solutions Corp. on December 31,
21 2008, the Companies held a competitive bid process using an RFP mechanism at
22 the end of 2008. This process was described in detail in the Companies'
23 Application in the Rider FUEL matter, Case No. 09-21-EL-ATA et al. and is

1 addressed in detail in the testimony of other Company witnesses. The RFP process
2 used to establish the rates under Rider FUEL was not precisely designed as an
3 MRO within the meaning of the statute. However, because it reflected a
4 competitive bidding process and was held quite recently, I consider its results to be
5 a reasonable proxy for the expected results that would otherwise apply under a
6 MRO applicable to the April to May 2009 timeframe, especially since it captures
7 the costs of a full product, including both energy and capacity costs. As a practical
8 matter, using the January to March RFP results is a conservative proxy since a
9 precise equivalent, i.e. a two-month MRO necessarily developed within a very
10 limited timeframe, would undoubtedly have disproportionately high administrative
11 costs and would likely draw less bidder interest than a longer term procurement.

12 **Q. DOES THIS CONCLUDE YOUR ADDITIONAL TESTIMONY?**

13 **A.** Yes, it does.

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