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

Dear Sir/Madam:

Please find attached the SUPPLEMENTAL TESTIMONY OF STEPHEN J. BARON ON BEHALF OF THE OHIO ENERGY GROUP fax-filed today in the above-referenced matter. The and original and twenty (20) copies will follow by overnight mail.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,

Wm. P. Kuf

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MLKkew
Encl.

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**BEFORE THE
PUBLIC UTILITY COMMISSION OF OHIO**

**IN RE: IN THE MATTER OF THE APPLICATION)
OF OHIO EDISON COMPANY, THE)
CLEVELAND ELECTRIC ILLUMINATING) CASE NO. 08-935-EL-SSO
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)**

SUPPLEMENTAL TESTIMONY

OF

STEPHEN J. BARON

**ON BEHALF OF
THE OHIO ENERGY GROUP**

**J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA**

February 2009

**BEFORE THE
PUBLIC UTILITY COMMISSION OF OHIO**

**IN RE: IN THE MATTER OF THE APPLICATION)
OF OHIO EDISON COMPANY, THE)
CLEVELAND ELECTRIC ILLUMINATING) CASE NO. 08-935-EL-SSO
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)**

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

2 A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates,
3 Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell,
4 Georgia 30075.

5

6 **Q. Have you previously submitted testimony in this proceeding?**

7

8 A. Yes. I submitted Direct Testimony.

9

10 **Q. On whose behalf are you testifying in this proceeding?**

11

J. Kennedy and Associates, Inc.

1 A. I am testifying on behalf of The Ohio Energy Group ("OEG"), a group of large
2 industrial customers of The Toledo Edison Company ("TE"), Ohio Edison
3 Company ("OE") and The Cleveland Electric Illuminating Company ("CEI"),
4 hereinafter referred to as "the Companies". The members of OEG who take service
5 from the Companies are: Air Products & Chemicals, Inc., AK Steel Corporation,
6 Alcoa Inc., ArcelorMittal, BP-Husky Refining, Inc., Brush Wellman Inc., Chrysler
7 LLC., E.I. DuPont de Nemours & Co., Ford Motor Company, Johns Manville
8 (Berkshire Hathaway), North Star BlueScope Steel, LLC, PPG Industries, Inc.,
9 Republic Engineered Products, Inc., Sunoco Toledo Refinery, Severstal Warren,
10 Inc. (formerly WCI Steel, Inc.) Worthington Industries and Linde, Inc.

11
12 Q. What is the purpose of your testimony?

13
14 A. I am responding to certain issues raised in the Company's Amended Application,
15 Section I, Interim Provisions related to subsection (v.), "Interruptible Buy Through
16 arrangements for the period prior to June 1, 2009" and subsection (vi.), "Additional
17 arrangements for the period April 1, 2009 through May 31, 2009." Specifically, I
18 am providing testimony explaining why these provisions are reasonable and should
19 be adopted by the Commission. As I will discuss, these Interim Provisions are
20 beneficial to the State of Ohio, the State's manufacturing industry and to other
21 customers of the Companies.

1

2 **Q. Would you briefly summarize the interim provisions that are the focus of your**
3 **Supplemental Testimony?**

4

5 **A. Section I, subsection (v.) of the Stipulation provides an opportunity for industrial**
6 customers who were served on interruptible contracts as of February 2008 to return
7 to interruptible service for the two month period April 1, 2009 through May 31,
8 2009. These customers, whose contracts expired during 2008, are currently firm
9 customers. The Stipulation also establishes temporary protocols that govern
10 interruptible customer buy-through of power in the event of economic interruptions
11 called by the Companies. These economic buy through protocols are applicable to
12 those industrial customers who were previously served on interruptible contracts as
13 of February 2008 as well as to industrial customers who continue taking service on
14 existing interruptible tariffs. Finally the Stipulation provides a \$10 per kW monthly
15 interruptible credit for those customers who were formerly served on interruptible
16 contracts as of February 2008.

17

18 This \$10 per kW credit, which is consistent with the interruptible credit that will be
19 applicable beginning June 1, 2009, is designed to compensate interruptible
20 customers for reliability-based emergency interruptions and also to provide an
21 economic development function, as explained in the Companies' original ESP filing

1 in this case. Customers are subject to emergency, reliability-based, interruptions at
2 any time and also are subject to economic interruptions in the event that the MISO
3 day-ahead hourly market price (LMP) exceeds 150% of the generation price paid by
4 the Companies pursuant to the December 2008 RFP results, as set forth in
5 Attachment B of the Stipulation. If a customer elects to buy-through the
6 interruption, the customer pays 110% of the MISO day ahead price.

7
8 **Q. Would you describe subsection (vi.) of Section I?**

9
10 **A.** This section of the Stipulation provides for a fixed generation price for domestic
11 automaker facilities during the two month period covered by the Interim Provisions
12 (April 1, 2009 through May 31, 2009). This subsection is designed to provide
13 economic development incentives for Northern Ohio domestic automakers, a group
14 of large manufacturers who are facing unprecedented economic hardship. These
15 manufacturers employ thousands of Northern Ohio residents. The obvious benefit
16 of this generation price provision is to provide economic assistance to these
17 customers and hopefully preserve jobs in the region.

18
19 **Q. Do you believe that these provisions are in the Public Interest and should be**
20 **adopted by the Commission?**
21

1 A. Yes. There are a number of reasons for my recommendation and conclusion on this
2 issuc. First, as the Commission and the parties to this proceeding well know,
3 manufacturers in Northern Ohio are being particularly and adversely affected by the
4 significant economic downturn in the United States. Gross domestic product
5 ("GDP") declined by 3.8% on an annual basis in the fourth quarter of 2008 and is
6 expected to be negative through at least the first half of 2009. In a February 20,
7 2009 article on Bloomberg.com, former Federal Reserve Chairman Paul Volcker, an
8 advisor to the Obama administration was quoted as follows:

9 **"We're in the middle of a kind of massive economic crisis," Volcker,**
10 **who heads President Barack Obama's Economic Recovery Advisory**
11 **Board, said today at a Columbia University conference in New York.**
12 **"We're going to hear the reverberations about this for a long time."**
13

14 The article went on to say that "[T]he U.S. economy will contract 2 percent this
15 year, making it the deepest annual slump since 1946, according to a Bloomberg
16 News survey of economists taken this month." I don't believe that anyone would
17 dispute that Northern Ohio manufacturers are among the hardest hit sectors of the
18 U.S. economy.

19
20 Q. How do the interim provisions in subsection (v.) benefit Northern Ohio
21 manufacturers?
22

1 A. Many of these customers, who are also members of OEG, previously took service
2 under special contracts that included interruptible rates, and have done so for
3 many years. These customers have faced substantial increases beginning in
4 January 2009, as their special contracts have expired and they transferred to firm
5 tariffs. At the same time as these same customers were facing historic economic
6 dislocations, they also experienced very significant electric power cost increases.
7 The interruptible rate provisions that will become effective upon approval of the
8 interim provisions would mitigate the substantial economic impacts these Ohio
9 manufacturing customers are facing.

10
11 Q. Which types of manufacturing customers will benefit from these interim
12 provisions associated with interruptible terms and rates?

13
14 A. Customers taking service under the Companies interruptible rate provisions, who
15 would be subject to the changes discussed in Section I of the Companies'
16 Amended Application, include a large number of steel companies and industrial
17 gas suppliers. The steel companies, in particular, provide thousands of jobs to
18 Northern Ohio residents. The income generated by these employees supports
19 thousands of other jobs in commercial and service industries in Ohio.

20

1 The interruptible rate provisions included in Section I provide interruptible credits
2 and improved terms and conditions that increase the ability of these large
3 manufacturing customers to respond to the requirements of interruptible service.
4

5 **Q. Do the provisions of Section I provide benefits to all of the Companies'**
6 **customers?**
7

8 **A.** Yes, I believe that they do. First, to the extent that these provisions mitigate job
9 losses in the region, the entire economy of Ohio receives economic benefits.
10 These benefits are in the form of higher regional income and employment.
11

12 Focusing specifically on electric rates, the presence of interruptible load in the
13 mix of POLR load that is included in the Companies' Request For Proposal or
14 Auction provides benefits via expected lower bid costs by suppliers. Suppliers are
15 knowledgeable regarding the mix of firm and interruptible load in the POLR
16 obligation on which they are bidding and can incorporate that knowledge into
17 their overall uniform dollar/mWh bid price. Finally, the economic interruption
18 provisions have the effect of mitigating the cost of power to firm customers in the
19 event that interruptible customers elect to buy through economic interruptions and
20 pay 110% of the MISO day ahead market price in lieu of the CBP generation rate.
21 These revenues are included in the Fuel reconciliation procedure.

1

2 **Q. Does that complete your Supplemental Testimony?**

3

4 **A. Yes.**