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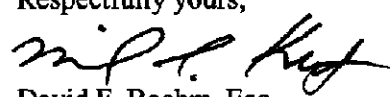
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In re: Case No. 08-935-EL-SSO

Dear Sir/Madam:

Please find attached the SUPPLEMENTAL TESTIMONY ON ESP STIPULATION 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,  
  
David F. Boehm, Esq.  
Michael L. Kurtz, Esq.  
**BOEHM, KURTZ & LOWRY**

MLKkew  
Encl.  
Cc: Certificate of Service  
Gregory Price, Hearing Examiner  
Christine Pirik, Hearing Examiner  
Steve Lesser, Esq.

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---

David F. Boehm, Esq.  
Michael L. Kurtz, Esq.

**BEFORE THE  
PUBLIC UTILITY COMMISSION OF OHIO**

<b>IN RE: IN THE MATTER OF THE APPLICATION</b>	<b>)</b>	
<b>OF OHIO EDISON COMPANY, THE</b>	<b>)</b>	
<b>CLEVELAND ELECTRIC ILLUMINATING</b>	<b>)</b>	<b>CASE NO. 08-935-EL-SSO</b>
<b>COMPANY, AND THE TOLEDO EDISON</b>	<b>)</b>	
<b>COMPANY FOR AUTHORITY TO</b>	<b>)</b>	
<b>ESTABLISH A STANDARD SERVICE</b>	<b>)</b>	
<b>OFFER PURSUANT TO R.C. § 4928.143 IN</b>	<b>)</b>	
<b>THE FORM OF AN ELECTRIC SECURITY</b>	<b>)</b>	
<b>PLAN</b>	<b>)</b>	

<p style="text-align:center"><b>SUPPLEMENTAL TESTIMONY</b></p> <p style="text-align:center"><b>OF</b></p> <p style="text-align:center"><b>STEPHEN J. BARON</b></p> <p style="text-align:center"><b>ESP STIPULATION</b></p>
--

**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 on the Companies' original ESP filing and  
9             Supplemental Testimony regarding the Interim Provisions of the ESP Stipulation.

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

12  
  
*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 providing testimony supporting the Companies' Amended Application in this  
15             case. Specifically, I am providing testimony explaining why this Stipulation is  
16             reasonable and should be adopted by the Commission. I support the overall  
17             Stipulation because it will bring certainty to all of the Companies' customers  
18             regarding the rates that will be paid for generation over the next two years. In  
19             particular, the Stipulation provides a number of benefits to Northern Ohio  
20             manufacturing customers and the members of OEG. Though OEG members, many  
21             of whom had been on special contracts until 2009, will face very large rate increases

1 under the provisions of this Stipulation, there are a number of provisions contained  
2 in the Stipulation that help mitigate these substantial increases. I will discuss some  
3 of these provisions and explain why the overall Stipulation should be adopted.  
4

5 **Q. Would you briefly explain why the overall Stipulation should be adopted by**  
6 **the Commission?**  
7

8 A. The overall Stipulation, which addresses numerous issues associated with  
9 generation, transmission and distribution rates, as well as other issues related to  
10 energy efficiency and demand side management is a reasonable settlement to the  
11 Companies' ESP case. First and foremost, it provides a level of certainty to all  
12 customers regarding SSO rates, while providing opportunities for customers to shop  
13 at their discretion. For industrial customers, such as the members of OEG, the  
14 Stipulation also provides needed mitigation to substantial rate increases that these  
15 customers are facing due to the expiration of long term contracts.<sup>1</sup> In particular, the  
16 Stipulation provides benefits to large industrial customers on rate GT (General  
17 Service Transmission) in the form a rate cap tied to the original proposed increases  
18 for each Company in their respective ESP filings made in the summer of 2008.  
19 There are also provisions addressing interruptible rate credits through riders OLR  
20 and ELR that provide credits that are designed to reflect the reliability and economic

---

<sup>1</sup> Special Contracts for customers on TE and OE expired during 2008; for customers on CEI, these contracts will expire at the end of 2010.

1 interruption benefits of interruptible load, as well as provide qualifying customers  
2 an economic development credit. These riders are available to customers who  
3 previously took service under an interruptible tariff or special contract. Many of  
4 these customers, even with the mitigation, will still face very large increases.

5  
6 **Q. Would discuss some of the specific provisions of the Stipulation that will help**  
7 **mitigate the impact of the ESP rates on large industrial manufacturing**  
8 **customers in Northern Ohio?**

9  
10 **A.** There are three significant provisions of the Stipulation that provide mitigation  
11 benefits to these customers. As I discussed in my Direct Testimony in this case, for  
12 the Companies' GT customers, many of whom took service under special contracts  
13 until the end of 2008, the impact of the rate increases that will result from market  
14 prices are very substantial. Given the economic conditions that these customers are  
15 currently facing, it is appropriate to provide some mitigation against the rate shock  
16 that would otherwise occur. The ratemaking principle of "gradualism" requires this  
17 type of mitigation and the Stipulation reasonably and adequately addresses these  
18 requirements.

19  
20 The first mitigation provision is a rate cap on the increases that rate GT customers  
21 will face as a result of the increases associated with generation (pursuant to the

1 descending clock auction results), distribution and transmission. Under the  
2 Stipulation, on a Company by Company basis, the increase for rate schedule GT is  
3 capped at 1.5 Times the average increase for each Company's ESP, as presented in  
4 their respective 2008 filings. In the event that the "cap" is effective (i.e., the  
5 otherwise applicable increase resulting from the descending clock auction would  
6 exceed the 1.5 Times cap), the excess revenue will be recoverable in a non-  
7 bypassable charge from General Service Primary and Secondary rate schedules on a  
8 non-bypassable basis.

9  
10 Another feature of the Stipulation that provides mitigation for large manufacturing  
11 customers is the adoption of the "load factor" provision originally proposed in the  
12 Companies' ESP filing. This provision, which is funded within the GT rate class by  
13 non-bypassable demand charges and non-bypassable energy credits, will mitigate  
14 increases to high load factor customers as a result of the impact of energy-only  
15 generation rates.

16  
17 The final mitigation provisions are associated with the adoption of riders OLR and  
18 ELR that provide interruptible credits for large customers who previously took  
19 interruptible service under the Companies' tariffs and special contracts. These  
20 riders, which provide reliability, economic interruption and economic development

1           based credits, will help mitigate substantial increases to Northern Ohio  
2           manufacturing customers who are facing severe economic contractions.

3  
4           **Q.     Would you discuss Attachment B of the Stipulation, which sets forth the terms**  
5           **and conditions of interruptible riders OLR and ELR?**

6  
7           A.     Attachment B of the Stipulation describes certain modifications to the terms and  
8           conditions of riders OLR and ELR that were originally presented in the Companies  
9           2008 ESP filing in this case. The first key change is in the criteria for economic  
10          interruptions. Attachment B invokes an Economic Buy Through event when the  
11          day ahead MISO market price exceeds 150% of the wholesale price produced by the  
12          competitive bid process and limits economic interruptions to 10% of the hours in  
13          any 12 month period. The Stipulation also provides for an economic development  
14          rider interruptible credit of \$8.05 per kW. The OLR, reliability based, interruptible  
15          credit is \$1.95, which is the value in the original ESP filing. The overall  
16          interruptible credit reflects reliability, economic interruption and economic  
17          development components.

18  
19          **Q.     Does the Stipulation provide opportunities for all customers to shop, if they**  
20          **choose to do so?**

1       A.    Yes. My review of the Stipulation indicates that all customers will be able to shop  
2            without economic disincentives to do so.

3  
4       **Q.    Do you believe that these provisions are in the public interest and should be**  
5            **adopted by the Commission?**

6  
7       A.    Yes. There are a number of reasons for my recommendation and conclusion on this  
8            issue. First, as the Commission and the parties to this proceeding well know,  
9            manufacturers in Northern Ohio are being particularly and adversely affected by the  
10           significant economic downturn in the United States. Gross domestic product  
11           ("GDP") declined by 3.8% on an annual basis in the fourth quarter of 2008 and is  
12           expected to be negative through at least the first half of 2009. In a February 20,  
13           2009 article on Bloomberg.com, former Federal Reserve Chairman Paul Volcker, an  
14           advisor to the Obama administration was quoted as follows:

15                   **"We're in the middle of a kind of massive economic crisis," Volcker,**  
16                   **who heads President Barack Obama's Economic Recovery Advisory**  
17                   **Board, said today at a Columbia University conference in New York.**  
18                   **"We're going to hear the reverberations about this for a long time."**  
19

20           The article went on to say that "[T]he U.S. economy will contract 2 percent this  
21           year, making it the deepest annual slump since 1946, according to a Bloomberg  
22           News survey of economists taken this month." I don't believe that anyone would

1           dispute that Northern Ohio manufacturers are among the hardest hit sectors of the  
2           U.S. economy.

3  
4       **Q.     How does the Stipulation benefit Northern Ohio manufacturers?**

5  
6       **A.**Many of these customers previously took service under special contracts, some of  
7           which included interruptible rates. These customers have faced substantial  
8           increases beginning in January 2009, as their special contracts have expired and  
9           they transferred to firm tariffs. At the same time as these same customers were  
10          facing historic economic dislocations, they also experienced very significant  
11          electric power cost increases. The rate cap mitigation and interruptible rate  
12          provisions of the Stipulation that will become effective June 1, 2009 will mitigate  
13          the substantial economic impacts these Ohio manufacturing customers are facing.

14  
15       **Q.     Do the provisions of Section I provide benefits to all of the Companies'**  
16       **customers?**

17  
18       **A.**Yes, I believe that they do. First, to the extent that these provisions mitigate job  
19           losses in the region, the entire economy of Ohio receives economic benefits.  
20           These benefits are in the form of higher regional income and employment.



1           Focusing specifically on electric rates, riders ELR and OLR allow former  
2           industrial interruptible customers to take service once again under interruptible  
3           rates. The presence of interruptible load in the mix of POLR load that will be  
4           included in the Companies' descending clock auction provides benefits via  
5           expected lower bid costs by suppliers. Suppliers are knowledgeable regarding the  
6           mix of firm and interruptible load in the POLR obligation on which they are  
7           bidding and can incorporate that knowledge into their overall bid prices.

8  
9           **Q.     Does that complete your Supplemental Testimony?**

10  
11          **A.     Yes.**