BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company.	))))	Case No. 10-2929-EL-UNC

DIRECT TESTIMONY OF
RAYMOND HAMMAN

On behalf of Interstate Gas Supply, Inc.

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I. INTRODUCTION

Q1. Please introduce yourself.

A1. My name is Raymond Hamman. I am employed by Interstate Gas Supply, Inc. ("IGS") as its Chief Supply and Risk Officer. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

Q2. Briefly describe your relevant qualifications.

A2. I have a BS/BA in accounting from The Ohio State University, which was completed in 1989. I have over twenty years' experience working in energy retail and wholesale markets, where I initially began my career working for Interstate Gas Marketing, then moved to Access Energy, Enron Energy Services, Columbia Gas Distribution, AEP, Accent Energy, and now with IGS. I have managed the supply and risk functions for Accent since 2002, which has been active in the New York and Texas electric markets, and accordingly work with both NYISO and ERCOT. Accent was purchased in 2010, and since 2011 IGS Energy has been active behind several electric utilities in the PJM service territory, including recently Ohio Power Company d/b/a AEP Ohio ("AEP"). I continue to manage the risk and energy supply functions for IGS and Accent Energy, with six direct reports and a team of over twenty supply and risk personnel.

Q3. What is the purpose of your testimony?

A3. My testimony explains why AEP's capacity costs should be based on the price of capacity as determined in the PJM reliability-pricing-model ("RPM") auction process. This auction is the relevant market for what a supplier would pay for the capacity. Contrary to AEP's testimony, the cost a competitive retail electric service ("CRES") provider, including its own affiliate AEP Retail, would pay in the PJM service territory is the price established in the market, and thus, is a just and reasonable rate for CRES suppliers to pay to AEP for capacity on its system. Further, I will refute AEP's contention that its capacity costs are any greater than the cost of PJM RPM auction priced capacity.

II. PRICING FOR CRES SUPPLIER CAPACITY

Q4. Please briefly describe the concept of "capacity" and the capacity obligations of market participants.

A4. "Capacity" refers to the generation resources a supplier must have available to meet its customers' demand. It is an obligation that has been placed on load serving entities ("LSEs") by RTOs and ISOs. The effect of a capacity obligation is that LSEs must pay electric generators for making electric capacity available to serve the system. Capacity charges are independent of electric energy charges. In fact, capacity obligations are not necessary for an electric system to function. For example, LSEs in ERCOT do not have capacity obligations, and electric generators only receive compensation for the energy that they sell. LSEs in PJM are required to secure capacity, however, and they may meet the capacity requirements in one of several ways.

Q5. Currently how do CRES providers serving customers in AEP's service territory pay for their capacity obligations?

A5. As a Fixed Resource Requirement ("FRR") entity, AEP has committed its generation assets to satisfy PJM's capacity requirements for the AEP system. As a result of AEP's election to become an FRR entity, CRES providers in Ohio must pay AEP for capacity based on the pro rata share of the load that CRES providers serve in the AEP system.

Q6. Is this how CRES providers satisfy their capacity obligations in all utility service territories?

A6. No. For utilities that are not FRR entities, CRES suppliers (or their non-Ohio equivalents) satisfy their capacity obligations either by purchasing capacity in the RPM capacity markets or self-supplying capacity. A CRES supplier that purchases capacity from the RPM capacity markets will remit payment for that capacity to PJM, and PJM will then pay generators that have committed their capacity to the RPM auctions on behalf of the CRES supplier. A CRES supplier that self-supplies capacity either uses its own generation to satisfy its capacity requirements or enters into bilateral agreements to purchase capacity from third parties. The vast majority of CRES suppliers that I am aware of purchase capacity from the RPM capacity markets.

Q7. Before December 31, 2011, what price did CRES providers pay to AEP to satisfy the CRES provider's capacity obligations?

A7. Before December 31, 2011, CRES providers paid AEP the price for capacity established by the PJM RPM capacity auctions. The capacity auctions establish capacity prices that all LSEs must pay that are not FRR entities. The RPM capacity prices established by the auctions are market based and thus establish a price based on the supply and demand for capacity resources. Therefore, this compensation mechanism allows AEP to receive the price of capacity that AEP would have otherwise received for its capacity had AEP not elected to be an FRR entity.

Q8. Would you characterize AEP's use of its capacity resources to serve its system as a true "cost" to AEP?

A8. No. By electing to become an FRR entity, AEP chose to forgo its right as an electric generator to receive capacity revenues for its generation, in exchange for avoiding the payment of capacity charges for the customers it serves. AEP, however, is not incurring any actual costs by dedicating its electric generation as a capacity resource; it is simply forgoing revenue it would have received had it not chosen to use its capacity resources to meet the obligations of its system. Nevertheless, AEP would like to recover from CRES providers additional revenue for those capacity assets in excess of RPM pricing.

Notwithstanding the complex and unsubstantiated formula proposed by AEP to calculate capacity charges, quantifying the value of the capacity is simple. What AEP charges CRES providers for capacity should equal that capacity's value to AEP—and that is what CRES suppliers would pay, and AEP would receive, for the capacity if the parties went to market. In this instance, since there is a readily available market mechanism in PJM to quantify capacity cost (the RPM auctions), it is the most appropriate benchmark for the charge CRES providers would pay to purchase capacity in the PJM market.

Q9. Why is the RPM auction price the most appropriate mechanism to determine the price CRES suppliers must pay to AEP for its capacity?

A9. The most appropriate mechanism to price the capacity that CRES suppliers must pay is the RPM auctioned prices. The RPM price is the market price for capacity; it is the price that most generators receive for their capacity; and it is the price CRES suppliers would pay in the PJM market if they needed to obtain capacity. In a state like Ohio, which has elected to encourage the development of competitive electricity markets, using a readily available market price to set capacity charges only makes sense. Further, it is the price AEP would have received for its capacity had it not chosen to be an FRR entity. To require CRES suppliers to pay any more for the market capacity would be artificially subsidizing AEP. Finally, allowing the market to set capacity prices is fair. CRES suppliers are not insisting that the Commission *depress* the value of AEP's capacity, but merely adopt a pricing mechanism that will recognize its true value. If the value of AEP's capacity rises, the market will recognize it and compensate AEP accordingly.

Q10. What would be the consequence of requiring a CRES provider to pay AEP capacity charges that exceeded the market price of capacity?

A10. CRES suppliers would have to charge higher rates for service or be prevented from entering the market altogether. In the near term, at least, AEP would receive a windfall, receiving compensation well in excess of the value provided.

Q11. Does that conclude your testimony?

A11. Yes it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony of Raymond Hamman was served by electronic mail to the following this 4th day of April, 2012:

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