[Company Exhibit --]

**BEFORE THE**

**PUBLIC UTILITIES COMMISSION OF OHIO**

| | | |
|---|---|---|
| In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant To R.C. § 4928.143 in the Form of an Electric Security Plan | ) ) ) ) ) ) ) | Case No. 12-1230-EL-SSO |

---

DIRECT TESTIMONY OF

WILLIAM R. RIDMANN

ON BEHALF OF

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

---

**Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

A. My name is William R. Ridmann. I am employed by FirstEnergy Service Company as Vice President of Rates and Regulatory Affairs. My business address is 76 South Main Street, Akron, Ohio 44308.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.**

A**.** I received a Bachelor of Business Administration Degree, in 1974, and a Bachelor of Science Degree in Electrical Engineering, in 1977, both from the University of Cincinnati. I have been employed by FirstEnergy Service Company, or one of FirstEnergy's predecessor companies since 1977. I began in the Rate Department of The Cleveland Electric Illuminating Company, became Manager of Rate Administration for CEI in 1986, and was promoted in 1989 to Manager, Rates and Contracts at what was then Centerior Energy Corp. ("Centerior"). In 1991, I became Senior Manager, Marketing Services at Centerior, and held that position until 1993, when I was promoted to Director of Marketing. In 1997, I became Executive Director, Marketing, for FirstEnergy Services Corp. In 1998, I became Executive Director, Customer Solutions & Energy Information Services; in 1999, Executive Director, Operations & Transaction Management; in 2002, Director, Energy Solutions, all with FirstEnergy Solutions Corp. In 2003, I joined FirstEnergy Service Company as Manager, Rate Restructuring; in 2004, Manager of Revenue Requirements; and in 2006, Director of State Regulatory Affairs. I assumed my current position as Vice President of Rates and Regulatory Affairs in 2009.

**Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT OF RATES AND REGULATORY AFFAIRS.**

A**.** I am responsible for rate and regulatory activities for all of FirstEnergy's utility subsidiaries, including Ohio Edison Company ("OE"), The Cleveland Electric Illuminating Company ("CEI"), and The Toledo Edison Company ("TE") (collectively, "Companies"). My group's work includes planning and implementing regulatory strategy in the areas the Companies serve, including pricing and rate design, revenue requirements and regulatory economics, enforcement of tariffs, participation in electric supply procurement arrangements for the Companies, as well as working with customers and their representatives. My group is also responsible for forecasting sales and revenue for the FirstEnergy regulated businesses.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?**

A. Yes. I have testified as an expert witness many times before the Commission, most recently in proceedings for the Companies in Case No. 07-551-EL-AIR, Case No. 08-936-EL-SSO, Case No. 10-388-EL SSO and Case No. 10-176-EL-ATA.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my testimony is to sponsor the Companies' Electric Security Plan ("ESP 3") Application and address generally the provisions contained within the Stipulation and Recommendation ("Stipulation") attached to the Application. In particular, I provide an overview of the Stipulation and explain why the terms and conditions of the ESP 3 are more favorable to customers in the aggregate than the expected results that would otherwise apply under a market rate offer ("MRO"). My testimony also discusses the criteria the Commission has used in the past when considering stipulated agreements and how the Stipulation in this proceeding meets those criteria.

**Q. PLEASE SUMMARIZE THE PROVISIONS OF THE STIPULATION.**

A. The Stipulation, as a package, in large part extends the terms and conditions of the ESP Stipulation approved in Case No. 10-388-EL-SSO and resolves many complex issues associated with electric service after May 31, 2014. The Stipulation is a comprehensive plan designed to provide more stable and predictable electric prices than otherwise would have been in place, assure continuous supply of power for Standard Service Offer ("SSO") customers procured through a competitive bid process, provide for bidding demand resources, including demand resources associated with certain energy efficiency projects, into the PJM capacity auction for delivery years 2015/2016, enhance delivery service, promote economic development and energy efficiency, and continue support for low income programs. Importantly, the Stipulation's provisions provide significant customer value that otherwise would not have been available under an MRO. While not all inclusive, the following bullets provide an overview of a number of features of the Stipulation.

- The Companies will continue to use the results of a descending-clock format Competitive Bid Process ("CBP") to determine retail generation rates for SSO customers for the period of June 1, 2014 through May 31, 2016 and blend the results from the October 2012 and January 2013 auctions with prior auctions to set the price for the June 1, 2013 through May 31, 2014 period in the existing ESP. The October 2012 and January 2013 auction products will be extended to 36 months to capture the value of currently low generation prices for the ESP 3 term to blend those lower prices with potentially higher prices during the remainder of the ESP 3 period. The CBP design continues to utilize the process that was used in the successful auctions conducted under the Companies' current ESP, the results of which were highly competitive and accepted by the Commission.

- The Companies will continue to provide their Percentage of Income Payment Plan ("PIPP") customers with a six percent (6%) discount off of the otherwise applicable price to compare during the period of ESP 3. To accomplish this pricing discount for PIPP customers, the Companies will enter into a bilateral wholesale contract with FirstEnergy Solutions Corp. ("FES") as was done under the Companies' current ESP.
- Governmental aggregation and customer shopping for competitive generation service will continue to be supported during the period of ESP 3. As in the current ESP, customers will not be subject to minimum default service charges, standby charges, or shopping caps. Further, the Companies agreed to continue the lower credit requirements for CBP bidders, provide more customer information and data to CBP bidders, and to continue to allow the Generation Cost Reconciliation Rider ("Rider GCR") to be avoidable under certain conditions, all of which support wholesale and retail competition.
- The Stipulation continues to apply the principle of gradualism to the Companies' retail rate design to continue to help transition certain customers to market based pricing. Through the Economic Development Rider ("Rider

EDR"), bill credits will be provided for non-standard residential customers, schools, interruptible customers, and domestic automaker facilities. In addition, Rider EDR will cap the average annual rate increases for lighting and transmission customers at one and one-half times the average increase by Company. Rider EDR will also continue to serve as the mechanism to recover the costs associated with these credits as well as the cost of infrastructure investment in support of economic development expansion of a large employer in the state of Ohio.

- Certain rate options that would otherwise expire will continue to be offered during the period of this ESP, such as the Economic Load Response ("ELR") peak demand reduction rider and the time-differentiated pricing riders approved in Case No. 09-541-EL-ATA.
- The Companies will continue meeting their renewable energy resource requirements by purchasing Renewable Energy Credits ("RECs") through a separate Request for Proposal ("RFP") process including RFP's to purchase ten year REC contracts. The RFP process will be conducted by an independent bid manager. If the Companies are unable to acquire the needed amount of RECs through the RFP process, the Companies may use bilateral contracts to meet the requirement, which provides greater assurance that the needed RECs will be acquired. Costs related to the procurement of RECs will be recovered through the Alternative Energy Resource Rider ("Rider AER") and reconciled on a quarterly basis.

- The Companies' base distribution rates will remain in place at current levels through May 31, 2016 providing a component of predictability to distribution rates for customers. The Delivery Capital Recovery Rider ("Rider DCR") will continue to be in place as a mechanism to encourage the Companies to continue to make investments in their delivery systems, thus benefiting customers with enhanced service reliability. Rider DCR will provide the Companies with the opportunity to recover costs associated with actual investments made in their delivery systems not included at the date certain in Case No. 07-551-EL-AIR. The maximum amounts to be recovered through Rider DCR over the ESP 3 period are set forth on WRR-Attachment 1, attached hereto.
- Similar to the current ESP, the Stipulation contains a provision related to the Significantly Excessive Earnings Test ("SEET") that provides, on an agreed upon basis, how revenues from Rider DCR will be considered as part of the SEET. The provision also contains similar adjustments as are in place under the current ESP.
- During the period of ESP 3 the Companies, in the aggregate, will continue funding support for economic development and low income customers by contributing $2 million to support economic development and job retention activities and $1.0 million to OPAE to support the fuel fund for low income residential customers. Funding of $8 million in aggregate will continue to be made available to help low income customers across the service territories pay

their electric bills. These contributions are funded without recovery from customers.

- The Companies will continue to fund the Community Connections program at a level of $5 million dollars per year to provide energy efficiency and weatherization assistance to low income residential customers and provide an additional $600,000, in the aggregate, to support energy efficiency programs in the City of Cleveland, City of Akron and Lucas County.
- In regard to the transition to PJM, the Companies agree as in the existing ESP not to seek cost recovery from customers of MISO exit fees, PJM integration costs, and Regional Transmission Expansion Planning ("RTEP") charges for the longer of the five year period of June 1, 2011 through May 31, 2016 or when a total of $360 million of Legacy RTEP costs have been paid for by the Companies but not recovered through retail rates, provided PJM's cost allocation methodology is not substantially altered. This provision provides significant benefit and certainty to interested stakeholders and customers by knowing that they will not have to pay these FERC/RTO imposed charges. Currently estimated amounts for these charges, which customers will not pay under this ESP, are set forth on WRR-Attachment 1. Further, the projected Non Market Based Services Rider ("Rider NMB") charges for each of the Companies are lower than they otherwise would have been due to the exclusion of these amounts.
- The Companies will provide funding to certain energy efficiency administrators for their role in submitting completed energy efficiency

projects that count towards the Companies' energy efficiency compliance obligations. Through the ESP 3 period, the Companies will continue to be authorized to recover lost distribution revenues associated with Commission-approved programs, as is currently the case under the existing ESP, which makes energy efficiency programs more viable.

- The Stipulation also recognizes that the riders approved in the current ESP continue in their current form, with a few being modified primarily to reflect an extension of the expiration date to May 31, 2016. No new riders are introduced.
- The Stipulation would potentially enable the Companies to bid demand response resources into the PJM 2015-2016 Base Residual Auction thereby adding low-cost capacity supply in that auction.
- The Stipulation would modify the bid schedule previously approved in the Companies' current ESP so that the bids to occur in October 2012 and January 2013 will be for a three year period rather than a one year period in an attempt to capture the current historically lower generation prices for a longer period of time that would be blended with potentially higher prices occurring over the life of the ESP 3 plan thereby smoothing out generation prices and mitigating volatility in generation pricing for customers.
- The Stipulation would extend the recovery period for renewable energy credit costs over the life of the ESP 3 plan in order to mitigate the rate impact to customers related to compliance with the statutory benchmarks for renewable energy resources.

**Q. PLEASE DESCRIBE THE BACKGROUND CIRCUMSTANCES THAT LED TO THE STIPULATION, WHICH IS ESSENTIALLY AN EXTENSION OF THE CURRENT ESP.**

A. Over the past several weeks, the Companies and all the parties in Case No. 10-388-EL-SSO have engaged in a broad range of ESP discussions related to extending the current ESP and a way for smoothing the results of the competitive bidding process over a period subsequent to the expiration of the current ESP, being able to bid demand reduction resources and certain energy efficiency resources into the upcoming PJM capacity auction for delivery year 2015/2016, and extending the recovery period over a longer period of time for RECs purchased. We also discussed elements in the existing ESP covering distribution reliability and cost recovery, economic development in many forms, energy efficiency, RECs and support for low income customers. This Stipulation represents the culmination of the aforementioned discussions and is being filed as a reasonable resolution and compromise among the Signatory Parties of all such issues.

**Q. PLEASE IDENTIFY THE SIGNATORY PARTIES THAT SIGNED THE STIPULATION IN THIS PROCEEDING?**

A. The Signatory Parties to the Stipulation, in addition to the Companies, include the following: the Staff, Ohio Manufacturers' Association, Ohio Partners for Affordable Energy, Ohio Hospital Association, Industrial Energy Users of Ohio, Ohio Energy Group, The Association of Independent Colleges and Universities of Ohio, Council of Smaller Enterprises, Nucor Steel Marion Inc., the City of Akron, the Empowerment Center of Greater Cleveland, Cleveland Housing Network, Consumer Protection

Association, Material Sciences Corporation, Morgan Stanley Capital Group Inc., FirstEnergy Solutions Corp., and parties not opposing the Stipulation include Kroger Company, GEXA-Energy Ohio, LLC, EnerNoc, Duke Energy Retail Sales, LLC and Duke Energy Commercial Asset Management. As can be seen from this list, the Signatory Parties represent varied and diverse interests including large industrial customers, small and medium sized manufacturers, small businesses, hospitals, colleges and universities, low income residential customers, power marketers, and a large municipality. Additional parties regularly participated in the aforementioned ESP discussions, but ultimately decided not to sign the Stipulation.

**Q. WHAT CRITERIA HAVE THE COMMISSION USED IN CONSIDERING APPROVAL OF A STIPULATION AMONG SIGNATORY PARTIES TO A PROCEEDING?**

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

**Q. DOES THE STIPULATION IN THIS PROCEEDING SATISFY THE CRITERIA ABOVE?**

A. Yes, it does.

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

A. Yes, it is. Each of the Signatory Parties to the Stipulation has a history of participation and experience in matters before the Commission and is represented by experienced and competent counsel. In addition all of the parties participated in the existing ESP and many were Signatory Parties. The Signatory Parties represent a broad range of interests, including the Companies, the Staff, various consumer groups (themselves representing a range of customer classes and interests), competitive suppliers, and a city. The Stipulation is a product of serious bargaining among the Signatory Parties. Many of the provisions in the Stipulation had been the subject of significant litigation in the Companies' prior MRO and ESP cases, which included fully litigated cases involving extensive discovery, prefiled testimony, days of hearings with several witnesses, and briefs. Moreover, nearly all of the Signatory Parties to the Stipulation fully participated in the prior MRO and ESP cases. Since this Stipulation essentially is an extension of the existing ESP, the development of the records in the prior MRO and ESP cases, coupled with participation in the recent negotiations have enabled the Signatory Parties to gain familiarity with and knowledge of the various components of the Stipulation.

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

A. No, it does not. Based on my experience with the regulatory process and review of the Stipulation, I believe the Stipulation is consistent with regulatory principles and practices in Ohio. Most components of the Stipulation in this proceeding are similar or identical to those in the stipulation which was approved by the Commission in the prior ESP proceeding in Case No. 10-388-EL-SSO. This Stipulation is designed to ensure the provision of adequate, safe, reliable, and reasonably priced electric service procured through a competitive process; it supports competition and governmental aggregation; it supports improvements to the delivery system; it continues the regulatory principle of gradualism to help transition certain customers to fully market based prices and by blending auction results over a longer period of time; it encourages energy efficiency and peak demand response programs; it protects at risk populations through low income programs; and it provides benefits to large industrial customers to allow them to better compete in the global marketplace. Moreover, the Stipulation has the added benefit of being essentially an extension of an existing, successful ESP thereby reducing the risk of unforeseen or unanticipated customer outcomes.

**Q. DOES THE STIPULATION AS A PACKAGE BENEFIT CUSTOMERS AND THE PUBLIC INTEREST?**

A. Yes, it does. Customers will benefit from the structure of the Stipulation in that it supports competition both at the wholesale and retail levels. The CBP proposed in the Stipulation mirrors in material respects the process that was used in the highly competitive and successful auctions that have taken place under the existing ESP, the results of which were accepted by the Commission. Both governmental aggregation and customer shopping have been very active during the current ESP, which has led to savings for many customers. Under this Stipulation as in the existing ESP, there are no minimum default service charges, standby charges, or shopping caps. As a result, governmental aggregation and shopping will continue to be supported. Further benefiting competition, the Stipulation continues the lower credit requirements for CBP bidders and allows for Rider GCR to be avoidable under certain conditions. Other than emergencies, the Stipulation assures all customers that there will be no increases to base distribution rates during the ESP period. The Companies have committed funds to support economic development activities and low income residential programs over the period of this ESP. In addition, PIPP customers will receive a discount on their generation price. Moreover, the Stipulation continues to allow the Companies to provide targeted rate benefits to certain customer groups through Rider EDR, such as non-standard residential customers, interruptible customers, schools, local governments, and large industrial customers. The aforementioned provisions, in addition to the other comprehensive components of the Stipulation, will benefit all customers and the public interest.

**Q. DO YOU BELIEVE THE PARTIES HAD SUFFICIENT TIME TO CONSIDER AND DISCUSS ESP TOPICS, AND TO BECOME KNOWLEDGEABLE ABOUT THE DIFFERENT COMPONENTS OF THE STIPULATION?**

A. Yes. This Stipulation is essentially an extension of the existing ESP. There are very few provisions that changed between the Stipulation and the existing Stipulation in Case No. 10-388-EL-SSO. Therefore, the Stipulation benefits from the discussions and negotiations that occurred with the existing Stipulation. Many of the parties to the previous ESP and MRO cases have also participated in the more recent discussions about this Stipulation. Not only are the parties generally familiar and knowledgeable regarding the components of an ESP, they have been litigating or discussing these topics since mid-2008. Discussions regarding the minor changes between the Stipulation and the existing Stipulation have occurred over several weeks. Even the parties who did not sign the Stipulation were involved in these discussions and negotiations and had adequate time to provide recommendations and input to the development of this ESP.

**Q. PLEASE DESCRIBE ATTACHMENT B-1 THAT WAS FILED WITH THE STIPULATION.**

A. Attachment B-1 contains riders by Company that are existing riders that continue with primarily a modification to the expiration date. The riders are provided in redline form to show the changes that are necessary as a result of the Stipulation.

**Q. AS PART OF THE CHANGE FROM THE EXISTING STIPULATION, IS THERE AN AGREEMENT TO INCREASE THE ANNUAL CAPS APPLICABLE TO RIDER DCR?**

A. Yes, the caps were increased by $15 million on an annual basis for the Companies in aggregate, which is consistent with the annual increase in the annual cap that occurs in the existing Stipulation.

**Q. DO YOU HAVE AN OPINION WHETHER THE PROVISIONS OF THE ESP STIPULATION ARE MORE FAVORABLE IN THE AGGREGATE AS COMPARED TO THE EXPECTED RESULTS THAT WOULD OTHERWISE APPLY AS A RESULT OF AN MRO?**

A. Yes. My opinion is that the provisions of the ESP Stipulation are more favorable in the aggregate than the expected results of an MRO. The ESP provides significant customer benefits that are not available through a more narrowly focused MRO process. As discussed below, the ESP is more favorable to customers from both a qualitative and quantitative perspective.

**Q. PLEASE DESCRIBE THE QUALITATIVE BENEFITS OF THE ESP 3 STIPULATION THAT SHOULD BE CONSIDERED WHEN COMPARING THE ESP TO AN MRO.**

A. Under S.B. 221, a comprehensive ESP can address several components of electric service, whereas an MRO is primarily a plan just for power procurement. The qualitative benefits of implementing this Stipulation on the accelerated timeline as proposed include enabling the Companies to bid demand response into the PJM 2015-2016 Base Residual Auction on May 7, 2012 thereby increasing comparatively low-cost supply, modifying the bid schedule previously approved in the Companies' current ESP so that the bids to occur in October 2012 and January 2013 will be for a three year product rather than a one year product in an attempt to capture the current historically lower generation prices for a longer period of time that would be blended with potentially higher prices occurring over the life of the Stipulation plan thereby smoothing out generation prices and mitigating volatility in generation pricing for customers, and to extend the recovery period for renewable energy credit costs over the life of the Stipulation in order to lower the rates charged to customers related to compliance with the statutory benchmarks for renewable energy resources. When coupled with keeping the current base distribution rates in place through May 31, 2016, ESP 3 will allow customers to better proactively plan and budget for their electricity needs. Customers often point to a need for predicable electricity pricing as a requirement for economic development. A significant continuing benefit of ESP 3, as in the existing ESP, is that the Companies agree not to seek cost recovery from customers of MISO exit fees, PJM integration costs, and RTEP charges for the longer of the five year period of June 1, 2011 through May 31, 2016 or when a total of $360 million of Legacy RTEP costs have been paid for by the Companies but not recovered through retail rates, provided PJM's cost allocation methodology is not substantially altered. The provisions of the Stipulation continue to support competitive electric generation markets, governmental aggregation, and shopping, all of which have led to savings for customers under the current ESP. The Signatory Parties have agreed to continue a number of rate design issues and programs which preserve and enhance the rate options and programs that the Companies offer to customers under the current ESP. In agreeing to the Stipulation, the Signatory Parties concur that the provisions of the ESP Stipulation are more favorable in the aggregate than the expected results that would occur under an MRO.

**Q. IN ADDITION TO THE QUALITATIVE BENEFITS OF THE ESP DESCRIBED ABOVE, HAVE YOU CALCULATED THE QUANTITATIVE BENEFITS OF THE PROVISIONS OF THE ESP STIPUATION?**

A. Yes. We identified and analyzed several provisions of the ESP that have quantitative benefits as compared to an MRO, with such analysis attached to my testimony as WRR-Attachment 1. As can be seen on WRR-Attachment 1, the ESP provides present value benefits to customers exceeding $200 million over the duration of the ESP. As the substantial qualitative benefits discussed above are not reflected in this present value calculation, this quantitative measure represents a minimum value.

**Q. PLEASE DESCRIBE HOW YOU CALCULATED THE PRESENT VALUE FIGURE ABOVE.**

A. First, we identified the provisions of the ESP that have quantitative impacts as compared to an MRO. Then, we calculated the year-by-year value of each of the identified provisions. Finally, we determined the present value of the yearly sum of the identified provisions for the ESP and the MRO, and compared the difference between the two present value amounts to complete our evaluation. A positive difference between the two present value amounts represents that the quantitative benefits to customers of the ESP are greater than that of an MRO.

**Q. WHAT SPECIFIC PROVISIONS OF THE ESP DID YOU CONSIDER IN WRR-ATTACHMENT 1 TO DEVELOP THE QUANTITATIVE BENEFITS?**

A. We considered the following quantitative ESP provisions in WRR-Attachment 1:

1) Estimated Rider DCR revenues from June 1, 2014 through May 31, 2016. The Rider DCR revenue requirement represents the annual cap allowed under this Stipulation. Since this is the maximum level Rider DCR permitted the analysis is a conservative estimate of the benefit of the ESP.

2) Estimated PIPP generation revenues for the period of this ESP, reflecting the 6% discount provided by the Companies as outlined in the Stipulation.

3) Economic development funds and fuel fund commitments that will not be recovered from customers.

4) Estimated RTEP costs that will not be recovered from customers.

**Q. WHAT QUANTITATIVE PROVISIONS OF AN MRO DID YOU CONSIDER IN THE ANALYSIS?**

A. An MRO does not contain the comprehensive provisions that the ESP provides. As such, we considered the following MRO provisions which are likely to be in effect in the absence of an ESP, and that correspond to the components included in the ESP analysis:

1) Estimated revenues associated with base distribution rate increases that would go into effect June 1, 2014 and June 1, 2015, based on the annual revenue caps for Rider DCR proposed under the ESP. As can be seen on WRR-Attachment 1, the revenues associated with a base distribution rate increase in the MRO lag the revenues associated with Rider DCR due to the assumption of a date certain in August 2013 and August 2014, respectively.

2) PIPP generation revenues for the same time period as the ESP 3.

**Q. HOW DID YOU TREAT OTHER PROVISIONS OF THE ESP AND AN MRO IN YOUR ANALYSIS?**

A. Some provisions that would be expected to impact both the ESP and the MRO in a similar manner are not included on either side of the analysis. For example, certain riders that were approved in prior cases will continue under their own terms regardless of whether the ESP or MRO is approved. Also, the CBP proposed in the ESP and that was previously proposed in the Companies' MRO filings are similar and would be expected to produce generally comparable results. As such, we did not forecast the results of future CBP's for the purpose of this analysis.

**Q. WAS THIS THE SAME APPROACH TO EVALUATING THE QUANTITATIVE BENEFIT OF AN ESP COMPARED TO AN MRO AS USED IN THE COMPANIES' PREVIOUS ESP CASES AND ADOPTED BY THE COMMISSION?**

A. Yes. It should be recognized that the approach employed in this proceeding to complete a quantitative evaluation of the provisions of the ESP 3 compared to an MRO was presented in the Companies' previous ESP proceedings and cited by the Commission with respect to its consideration of the Companies' previous ESPs.

**Q. PLEASE SUMMARIZE THE RESULTS OF THE ESP AND MRO COMPARISON.**

A. As can be seen on WRR-Attachment 1, the ESP provides quantitative customer benefits of approximately $200 million. As such, the Commission should approve the Stipulation in this proceeding.

**Q. PLEASE EXPLAIN WHY COMMISSION APPROVAL OF THE STIPULATION IS REQUESTED BY MAY 2, 2012.**

A. Approval of the Stipulation by May 2, 2012 is necessary in order for the Companies to undertake the necessary steps to bid the demand response resources available from Rider ELR and possibly additional demand resources from energy efficiency lighting programs into the upcoming PJM capacity auction beginning May 7, 2012 for the delivery year 2015/2016. Bidding in such capacity should have a mitigating effect on the capacity auction prices, which would be favorable to customers. In the event the Commission is unable to approve the Stipulation by that date, then we ask Commission approval by June 20, 2012 to allow sufficient time for the Companies to modify the October 2012 auction to allow for a three year product instead of the one year product currently contained in the Companies' existing ESP. While this is an aggressive timeline, there may be significant customer benefits to be captured through bidding in demand response resources into the PJM auction and changing the October

2012 CBP to allow for a three year product given current market conditions. Since the Signatory Parties and the Commission are well versed in the topics and provisions of the Stipulation, I believe the proposed timeline is reasonable and achievable. Delaying, modifying, or denying the ESP Stipulation will not permit the demand reduction resources to be bid into the PJM auction, may not permit the auction process in October 2012 to go forward as contemplated and will prevent capturing the significant customer benefits of the favorable market conditions.

**Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?**

A. Yes.

## TOTAL OHIO

| | Assumptions | |
|---|---|---|
| | *All prices in $/MWH* | |
| (1) | CBP Price | $55.60 |
| (2) | RS Retail Generation Rate (Non-Seasonal) | $60.05 |
| (3) | PIPP RS Generation Discount | 6% |
| (4) | PIPP RS Retail Generation Rate (Non-Seasonal) | $56.45 |
| (5) | Net Present Value Discount Rate | 8.48% |

| | Sales Forecast | June 14 - May 15 (MWH) | June 15 - May 16 (MWH) | June 16 - May 17 (MWH) | June 17 - May 18 (MWH) | June 18 - May 19 (MWH) | June 19 - May 20 (MWH) | June 20 - May 21 (MWH) | June 21 - May 22 (MWH) |
|---|---|---|---|---|---|---|---|---|---|
| (6) | RS PIPP | 1,460,864 | 1,434,999 | | | | | | |
| (7) | Total | 55,247,164 | 54,790,895 | | | | | | |

| | ESP Provisions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (8) | Delivery Capital Recovery (DCR) Rider | $3.53 | $195.0 | $3.83 | $210.0 | | | | | | | | | | | | |
| (9) | PIPP RS Generation Revenue | $56.45 | $82.5 | $56.45 | $81.0 | | | | | | | | | | | | |
| (10) | Economic Development Funds | | ($1.0) | | ($1.0) | | | | | | | | | | | | |
| (11) | Fuel Fund | | ($4.5) | | ($4.5) | | | | | | | | | | | | |
| (12) | RTEP Estimate | | ($33.7) | | ($39.0) | | ($38.6) | | ($37.9) | | ($37.2) | | ($36.5) | | ($35.7) | | ($35.1) |
| (13) | Total Revenues Per Year | | $238.2 | | $246.5 | | ($38.6) | | ($37.9) | | ($37.2) | | ($36.5) | | ($35.7) | | ($35.1) |

| | MRO Provisions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions | Rate ($/MWH) | Revenue $ millions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (14) | Distribution Rate Case (Based on Rider DCR) | $3.21 | $177.2 | $3.63 | $198.8 | | | | | | | | | | | | |
| (15) | PIPP RS Generation Revenue | $60.05 | $87.7 | $60.05 | $86.2 | | | | | | | | | | | | |
| (16) | Total Revenues Per Year | | $264.9 | | $284.9 | | $0.0 | | $0.0 | | $0.0 | | $0.0 | | $0.0 | | $0.0 |

| | Net Present Value Summary | Total Ohio |
|---|---|---|
| (17) | NPV: ESP | $285.8 |
| (18) | NPV: MRO | $486.3 |
| (19) | Benefits to Customers (MRO - ESP) | $200.6 |