

FILE

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Columbus	:	
Southern Power Company and Ohio Power	:	Case Nos. 11-346-EL-SSO
Company for Authority to Establish a Standard	:	11-348-EL-SSO
Service Offer Pursuant to Section 4928.143, Ohio	:	
Revised Code, in the Form of an Electric Security	:	
Plan.	:	

In the Matter of the Application of Columbus	:	Case Nos. 11-349-EL-AAM
Southern Power Company and Ohio Power	:	11-350-EL-AAM
Company for Approval of Certain Accounting	:	
Authority	:	

**PREFILED TESTIMONY
OF
ROBERT B. FORTNEY**
On Behalf of the Public Utilities Commission of Ohio
Utilities Department
Rates and Tariffs/Energy and Water Division

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STAFF EX. _____

May 9, 2012

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

2 A. My name is Robert B. Fortney. My business address is 180 E. Broad
3 Street, Columbus, Ohio 43215.
4

5 2. Q. By whom are you employed and in what capacity?

6 A. I am employed by the Public Utilities Commission of Ohio (PUCO) as a
7 Public Utilities Administrator 3 in the Rates and Tariffs Division of the
8 Utilities Department.
9

10 3. Q. Please outline your educational background and work experience.

11 A. I received a Bachelor of Science Degree in Business Administration from
12 Ball State University, Muncie, Indiana, in 1971. I received a Master of
13 Business Administration Degree from the University of Dayton, Dayton,
14 Ohio, in 1979. I have been with the Commission staff for 26 years,
15 involved in all aspects of electric utility rates, rules and regulations.
16

17 4. Q. What is the purpose of your testimony in this proceeding?

18 A. It is Staff's intent to provide testimony only for the issues in the companies'
19 application which Staff either does not support, or is proposing to be
20 modified. Also, I will compare the ESP, as proposed by AEP, to an MRO.
21

22 5. Q. Do you have issues in the companies' application that you oppose?

1 A. No. The issues that I reviewed are those related to the rate design and
2 resulting revenue impacts to the various classes of customers. There is
3 nothing regarding those areas in the application that I find to be
4 unreasonable; however, there may be some rate-related issues (e.g. fuel,
5 phase-in deferrals, merged rates) which may be included in the testimony of
6 other Staff.

7
8 6. Q. Did you perform a comparison between the ESP and the MRO?

9 A. Yes, I did several analyses. Those analyses are shown in the attachments to
10 this testimony. Attachment A compares the results of the application to the
11 results of a Market Rate Option using the projected market rate as
12 determined by Staff witness Johnson, which incorporates a capacity cost
13 component equal to RPM. Attachment B compares the results of the
14 application to the results of a Market Rate Option using a projected market
15 rate as determined by Staff witness Johnson. It is my understanding that in
16 his calculations, Mr. Johnson has used a formula that included a capacity
17 cost component of \$146.41 per MW-day, as provided in the testimony of
18 Emily S. Medine on behalf of Staff which was docketed on May 7, 2012 in
19 Case No. 10-2929-EL-UNC. Attachment C compares the results of the
20 application to the results of a Market Rate Option using the projected
21 market rate as determined by Staff witness Johnson, which incorporates a
22 capacity cost component equal to \$255 per MW-Day.

1 7. Q. What assumptions did you make?

2 A. I made no independent assumptions. I utilized the information provided in
3 Exhibits DMR-1 and DMR-2 attached to the testimony of David Roush and
4 in Exhibit LJT-1 attached to the testimony of Laura Thomas to determine
5 the generation rates which the company is proposing and the resulting
6 revenue impacts.

7
8 Next, one must consider what additional revenue mechanisms the applicant
9 has proposed. These take the form of various Riders. Some of the
10 proposed Riders have zero revenue associated with them because the costs
11 are unknown at this time. The comparison also makes the assumption that
12 those Riders are a function of the ESP only and that they would not be
13 present if the company were to apply for a market rate option. That may or
14 may not be a valid assumption. The only Rider I have chosen to include in
15 my analysis is the proposed Retail Stability Rider (RSR).

16
17 Also, the analysis takes into account a blending of the market rate with a
18 standard service offer. Section 4928.142 (D) of Senate Bill 221 indicates
19 that a company's first application for a MRO requires a proportionate
20 blending of that market rate with the generation service price equal to the
21 utility's most recent standard service offer which can be adjusted by the
22 Commission for known and measurable changes (including fuel) in that

1 most recent standard service offer. My analysis does not contemplate a
2 change in the fuel component. While the Commission can determine the
3 blending percentages, the statute suggests a blending of 10%/90%,
4 20%/80% and 30%/70% for the first three years.

5
6 Finally, while actual ESP rates can be determined with some degree of
7 objectivity, the market rate is subject to significant uncertainty due to the
8 volatility of forward contract prices.

9
10 8. Q. Can you summarize the results of the analysis?

11 A. The following chart summarizes the results:

12 Attachment A: RPM

Description	Average Rate in cents per kWh
June 2012 – May 2013 AEP ESP Proposal, including the RSS	6.412
June 2012 – May 2013 Staff Blended Market Rate	6.054
June 2013 – May 2014 AEP ESP Proposal, including the RSS	6.379
June 2013 – May, 2014 Staff Blended Market Rate	6.000
June 2014 – Dec, 2014 AEP ESP Proposal, including the RSS	6.382
June, 2014 – Dec 2014 Staff Blended Market Rate	6.132

1 Attachment B: \$146.41

Description	Average Rate in cents per kWh
June 2012 – May 2013 AEP ESP Proposal, including the RSS	6.412
June 2012 – May 2013 Staff Blended Market Rate	6.138
June 2013 – May 2014 AEP ESP Proposal, including the RSS	6.379
June 2013 – May, 2014 Staff Blended Market Rate	6.153
June 2014 – Dec, 2014 AEP ESP Proposal, including the RSS	6.382
June, 2014 – Dec 2014 Staff Blended Market Rate	6.172

2 Attachment C: \$255

Description	Average Rate in cents per kWh
June 2012 – May 2013 AEP ESP Proposal, including the RSS	6.412
June 2012 – May 2013 Staff Blended Market Rate	6.208
June 2013 – May 2014 AEP ESP Proposal, including the RSS	6.379
June 2013 – May, 2014 Staff Blended Market Rate	6.293
June 2014 – Dec, 2014 AEP ESP Proposal, including the RSS	6.382
June, 2014 – Dec 2014 Staff Blended Market Rate	6.382

3

4 I then assume that for the period of January, 2015 through May of 2013, the
5 generation rate for AEP would be a market rate, but that the Retail Stability
6 Rider would still be in place.

7

8 9. Q. What do you conclude?

1 A. For illustration purposes, the following table summarizes the average rates
2 per kWh for the time period of June, 2012 through December, 2014. That
3 is, the rates are averaged over 31 months.

Description	Average Rate in cents/kWh Over the Term
AEP ESP Proposal, including the RSS	6.392
Staff Blended MRO Attachment A-RPM	6.051
Staff Blended MRO Attachment B-\$146.41	6.152
Staff Blended MRO Attachment C-\$255	6.280

5
6 I conclude that under all three of these quantitative scenarios the ESP as
7 proposed by AEP is not more favorable than the blended MRO utilizing the
8 forecasted market rates as determined by Staff witness Johnson.

9
10 10. Q. You have mentioned that your analysis is strictly quantitative in nature.
11 Are there qualitative benefits that an ESP provides over an MRO?

12 A. I believe there are other considerations, which cannot be quantified, that the
13 Commission should take into account when making its final decision. Staff
14 has indicated in previous proceedings (most recently in the Staff comments
15 filed in DP&L's Case No.12-426-EL-SSO) , that, although either an
16 electric security plan or a market rate option would fulfill the obligation
17 under R.C. 4928.141, the electric security plan can offer advantages for the
18 ratepayers of the applicant, the applicant, and the public at large. The
19 transition to competitive markets is beneficial to ratepayers because under

1 the plan as proposed in the application the move to a full market rate can be
2 achieved more quickly than through the blending phase-in of an MRO.

3
4 While the market is subject to fluctuations and may be at times
5 unpredictable, the proposed ESP would provide a transition to market by
6 allowing for rate certainty and stability such that customers, and the utility,
7 know what to expect.


8
9 Further, if there is an established need for additional generation in the
10 future, the GRR provides a mechanism to enable the Commission to allow
11 for the construction of generation facilities, while committing to the
12 diversity of state supply, and allowing the applicant to fulfill its REC
13 obligations.

14
15 11. Q. Doe this conclude your testimony?

16 A. Yes, it does. However, I reserve the right to submit supplemental testi-
17 mony as described herein, as new information subsequently becomes avail-
18 able or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Robert B. Fortney submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the following parties of record, this 9th day of May, 2012.


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*Current rate = $6.216 - 3.635 + 3.635$

Capacity in Staff projected MRO= RPM

EX LT-1,p.3

Subtotal	\$ 426,252.840
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2015 Jan:2015 May	\$	39,476,092	Retail Stability Rider

TOTAL \$ 465,728,932 An MRO is less expensive by:

Figure 1. The effect of the number of iterations (n) on the accuracy of the proposed algorithm. The figure shows two plots side-by-side. The left plot shows the error norm $\|e\|_2$ versus n , and the right plot shows the relative error $\frac{\|e\|_2}{\|x\|_2}$ versus n . Both plots show a decreasing trend as n increases from 0 to 1000.

\$	289,255,221	Total RSR Rev
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ESP v. MRO cents per kWh (Staff MRO Capacity = \$146.41)

Category	Current	2012 June 2013 May Proposed ESP	Proposed Incr 2012	Staff Projected MRO	2013 June 2014 May Proposed ESP	Proposed Incr 2013	Staff Projected MRO	2014 June 2014 Dec Proposed ESP	Proposed Incr 2014	Staff Projected MRO
Base Generation	2.126	2.286	\$ 77,111,920		2.286	\$ -		2.289		
Transmission Adjustment	0.295	0.291	-		0.291	\$ (15,904,313)		0.291		
Fuel	3.635	3.635	\$ (77,111,920)		3.602	\$ -		3.602		
EICC	0.16	0	\$ 96,389,775		0	\$ -		0		
Market Comparable Total Generation	6.216	6.212	\$ 96,389,775	5.437	6.179	\$ (15,904,313)	5.901	6.182		6.069
Things that are part of the ESP but would not be in an MRO (or are already included in the MRO price #):										
Standard Offer Generation Service #										
Fuel Adjustment Clause #										
Environmental Investment carrying Cost Rider (EICC) #										
Stability Rider										
Sub Total		6.121	\$ 96,389,775		6.088	\$ (15,904,313)		6.091	\$ 1,445,847	
Plus: Transmission Adj to Compare to MRO #		0.291		5.437	0.291		5.901	0.291		6.069
Total to compare										
				55.944						43.512
				5.437						18.207
				61.381						61.719
				Comparable MRO						
				Current rate * 90%						70%
				Market rate * 10%						30%

*Current rate = 6.216-3.635+3.635

6.216

Capacity in Staff projected MRO= \$146.41

kWhs

EX LJ-1.p.3 48,194,887,407 2012 Jun:2013 May
 48,260,877,259 2013 Jun: 2014 May
 28,433,799,761 2014 Jun: 2014 Dec
 19,738,045,996 2015 Jan: 2015 May
 144,627,610,423 2012 Jun: 2015 May

2012 Jun:2013 May \$ 132,005,797
 2013 Jun:2014 May \$ 109,069,583
 2014 Jun:2014 Dec \$ 59,739,413
 Subtotal \$ 300,814,793
 2015 Jan:2015 May \$ 39,476,092 Retail Stability Rider
TOTAL \$ 340,290,885 An MRO is less expensive by:

\$ 289,255,221 Total RSR Rev

4/26/2012

[illegible]

*Current rate = $6.216 \div 3.635 + 3.635$

6.216

Capacity in Staff projected MRO= \$255

kw'ns

EX LJT-1,p.3
48,194,887,407 2012 Jun:2013 May
48,260,877,259 2013 Jun: 2014 May
28,433,799,761 2014 Jun: 2014 Dec
19,738,045,996 2015 Jan: 2015 May
144,627,610,423 2012 Jun: 2015 May

2012 Jun:2013 May \$ 98,221,181

2013 Jun:2014 May \$ 41,407,833

2014 Jun:2014 Dec	\$	(56,868)
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Subtotal \$ 139,572,146

2015 Jan:2015 May	\$	39,476,092	Retail Stability Rider
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TOTAL	\$	179,048,238	AN MRO IS LESS EXPENSIVE BY:
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\$ 289,255,221 Total RSR Rev