

**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)	Case No. 12-1230-EL-SSO
Standard Service Offer Pursuant to)	
R.C. 4928.143 in the Form of an Electric)	
Security Plan)	

DIRECT TESTIMONY

OF

**MARK FRYE,
PRESIDENT OF PALMER ENERGY**

**ON BEHALF OF
THE NORTHEAST OHIO PUBLIC ENERGY COUNCIL
(NOPEC)**

AND

**THE NORTHWEST OHIO AGGREGATION COALITION
(NOAC)**

May 21, 2012

1 DIRECT TESTIMONY OF MARK FRYE

2
3 I. INTRODUCTION, QUALIFICATIONS AND OVERVIEW

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

5 A. My name is Mark Frye. My business address is 241 N. Superior Street, Toledo,
6 Ohio 43604.

7
8 **Q. What is your occupation?**

9 A. I am an energy consultant and the President of Palmer Energy Company in
10 Toledo, Ohio.

11
12 **Q. Please describe your educational background and work experience.**

13 A. I have worked in the energy field for 26 years and for clients in 20 states. I
14 earned a Bachelors of Science degree in Energy Technology from Pennsylvania
15 State University's Capitol College. I currently consult on energy procurement
16 and utilization matters for a number of industrial, commercial, educational,
17 institutional and governmental clients, including governmental aggregators.

18
19 **Q. On whose behalf are you testifying?**

20 A. I am testifying on behalf of Ohio's two large scale governmental aggregations:
21 the Northeast Ohio Public Energy Council ("NOPEC") and the Northwest Ohio
22 Aggregation Coalition ("NOAC"). Both NOPEC and NOAC are intervenors in
23 this case.

24
25 NOPEC is a regional council of governments established under Chapter 167 of
26 the Revised Code and comprised of 162 communities in the ten northern Ohio
27 counties of Ashtabula, Lake, Geauga, Cuyahoga, Summit, Lorain, Medina,
28 Trumbull, Huron and Portage Counties. NOPEC is currently providing
29 governmental aggregation service to more than 500,000 residential and small

1 commercial electric aggregation program customers in those counties in the
2 service territories of Ohio Edison and the Cleveland Electric Illuminating
3 Company.

4
5 NOAC is comprised of the communities of Maumee, Northwood, Oregon,
6 Perrysburg, Sylvania, Toledo, Waterville, Holland, Ottawa Hills, Perrysburg
7 Township in Wood County, Lake Township in Wood County and the Board of
8 County Commissioners of Lucas County (on behalf of the unincorporated
9 townships of Lucas County), and is currently serving approximately 160,000
10 residential and small commercial electric customers on the Toledo Edison system
11 within Lucas and northern Wood Counties.

12
13 **Q. Have you ever testified before the Public Utilities Commission of Ohio?**

14 A. Yes. I have previously submitted direct testimony in several cases before the
15 Public Utilities Commission of Ohio ("Commission" or "PUCO"), including
16 FirstEnergy's Electric Security Plan ("ESP") Application [Case No. 08-935-EL-
17 SSO], FirstEnergy's Rate Stabilization Plan ("RSP") Application [Case No. 03-
18 2144-EL-ATA], American Electric Power's ESP Application [Case No. 08-917-EL-
19 SSO], American Electric Power's IGCC Application [Case No. 05-376-EL-ATA],
20 Dayton Power and Light's ESP Application [Case No. 08-1094-EL-SSO] ,
21 FirstEnergy's Second ESP Application [Case No. 09-906-EL-SSO], American
22 Electric Power's Capacity Charge Application [Case No. 10-2929-EL-UNC] and
23 American Electric Power's modified Electric Security Plan II [Case No. 11-0346-
24 EL-SSO]. I also have provided technical support to NOAC and NOPEC in other
25 proceedings before the PUCO, including FirstEnergy's Application to reduce
26 Generation Shopping Credits [Case No. 03-1461-EL-UNC].

27
28 **Q. What is the purpose of your testimony in this case?**

1 A. My testimony addresses certain aspects of the proposed Electric Security Plan
2 Application ("ESP III") filed by Ohio Edison, The Cleveland Electric Illuminating
3 Company and The Toledo Edison Company (collectively, "the Companies" or
4 "FirstEnergy") on April 13, 2012 in this case. As discussed in this testimony, I do
5 not believe that the Companies' ESP III proposal is more favorable in the
6 aggregate as compared to the expected results of a Market Rate Offer ("MRO"). I
7 also will testify that the absence of substantial residential customer
8 representation such as NOPEC and NOAC and the Office of the Ohio Consumers
9 Counsel in the Stipulation filed in this case is troublesome, and that the proposed
10 ESP III Stipulation does not appear to benefit residential customers of the
11 Companies.

12 13 II. MRO VS. ESP TEST

14 Q. **FirstEnergy's Application states its ESP III proposal creates a net present value**
15 **benefit in excess of \$200 million when compared to an MRO. Do you agree**
16 **with that analysis?**

17 A. No I do not. There are items Mr. Ridmann included in his calculations in WRR-1
18 (an attachment to the direct pre-filed testimony of William Ridmann) with which
19 I disagree.

20
21 First, Mr. Ridmann includes the benefits of RTEP savings for consumers. As part
22 of its existing Electric Security Plan ("ESP"), the Companies agreed not to seek
23 recovery of "Legacy RTEP Costs for the longer of: (1) the five year period from
24 June 1, 2011 through May 31, 2016 or (2) when a total of \$360 million of Legacy
25 RTEP Costs has been paid for by the Companies..." [Second Supplemental
26 Stipulation, Case No. 10-388-EL-SSO, paragraph 6]. Since the Companies have
27 already agreed to pay for up to \$360 million in RTEP expenses under the existing
28 ESP, this obligation of the Companies will remain whether or not the ESP III
29 proposal is approved. In fact, the Companies stated in their discovery response

1 to NOPEC Set 1 - INT-11, which is attached to this testimony as MRF-1, that the
2 Companies are "not proposing that the terms of the Second Supplemental
3 Stipulation [from the existing ESP II in Case No. 10-388-EL-SSO] would change if
4 the Commission rejected the Companies' proposed ESP III Stipulation." For that
5 reason, and since those RTEP costs have yet to be paid in full, they cannot be
6 included as a benefit towards the MRO vs. ESP test evaluation in this ESP III
7 Application.
8

9 **Q. What is your second concern regarding the items Mr. Ridmann included in his**
10 **calculations in Attachment WRR-1?**¹

11 A. Mr. Ridmann includes a distribution rate increase in PJM planning years 2014
12 and 2015 under the MRO section of his calculation [WRR-1, line 14]. While the
13 Companies could certainly request a distribution rate increase in those planning
14 years there is no evidence or guarantee that the Commission would award such
15 an increase. Even if the Commission were to approve an increase in the
16 Companies' distribution rates at that time, there is no indication that the
17 Commission would award an increase of \$376 million over two years.
18 Consequently, including a prediction of the amount, if any, of a distribution rate
19 increase the Companies would obtain in a potential future Commission
20 proceeding regarding a formal distribution rate increase application filed with
21 the PUCO is speculative, and should be removed from the calculation.
22

23 **Q. What is the effect of adjustments to the Companies' calculation of the net**
24 **present value benefit of the ESP III?**

25 A. Upon review of MRF-3 if the RTEP costs are eliminated, the net present value of
26 ESP III compared to an MRO, as previously stated by the Companies, becomes \$7
27 million less favorable than the MRO if the proposed discount rate would be

¹ The Direct Testimony of William Ridmann was filed as part of the Companies' ESP III proposal in the above-captioned proceeding, and included Attachment WRR-1. For purposes of my testimony, I will refer to this attachment as "WRR-1."

1 utilized. The Companies confirmed this in their discovery response to AEPR Set
2 1-INT-36, which indicated that if the Legacy RTEP costs are eliminated from the
3 MRO vs. ESP test, the “net present value of the benefits of the MRO-ESP would
4 change to (\$7 million).” This discovery response is attached to my testimony as
5 MRF-2.

6
7 If the Companies’ estimates of the amount of distribution rate increases they
8 would receive are eliminated from the MRO portion of the net present value
9 calculation, the ESP III proposal becomes \$339 million less favorable than the
10 MRO. This information can be reviewed in MRF-5.

11
12 **Q. Are there other aspects of the Application and Stipulation in this case that that**
13 **are cause of concern for residential and small commercial consumer ratepayers**
14 **in the NOPEC and NOAC governmental aggregation groups?**

15 A. Yes. The proposed continuation and expansion of the DCR Rider at the capital
16 expenditure levels set forth in the ESP III Application for the time period June 1,
17 2014 through May 31, 2016 totals approximately \$405 million. In seeking
18 recovery of \$111 million in the 2011 DCR recovery filing, the Companies
19 calculated the allocation to residential consumers of 3.5 mills per kWh for CEI,
20 2.1 mills for OE and 1.8 mills for TE. Since the levels of capital expenditures
21 proposed in the Application and Stipulation are substantially higher than the
22 2011 recovery request, approval of the ESP III Application would increase in the
23 DCR Rider amount for NOPEC and NOAC residential and small commercial
24 customers considerably.

25
26 **Q. Are you opposed to the Companies investments in their distribution system?**

27 A. No. Appropriate investments in the Companies distribution systems are
28 necessary for reliable service to the residential and small business NOAC and
29 NOPEC offer aggregation services. However, the Companies should be required

1 to file a formal distribution rate increase application with the Commission, rather
2 than continuing to utilize a DCR Rider mechanism.

3
4 **Q. What is NOPEC's and NOAC's opinion of the residential consumer
5 representation in the Stipulation filed as part of the Application?**

6 A. NOPEC and NOAC collectively have nearly 700,000 residential and small
7 commercial customers participating in their respective governmental
8 aggregation programs. The Ohio Consumer's Counsel's Office is the
9 representative of all residential customers in the State of Ohio, representing
10 nearly 2 million residential customers of the Companies in this case. None of
11 these three organizations, representing all of the residential customers of the
12 Companies, are signatories to the Stipulation. This indicates that the ESP III
13 Application and Stipulation, as currently constituted, is not supported by broad
14 residential customer representation.

15
16 **Q. Are you recommending that the Commission reject the Companies
17 Application and Stipulation?**

18 A. While NOPEC and NOAC are not opposed to an appropriate ESP, this particular
19 ESP III proposal should be rejected by the Commission. This proposed ESP III
20 fails the quantitative MRO vs. ESP test and does not provide sufficient benefits to
21 customers, especially NOPEC and NOAC governmental aggregation residential
22 and small business customers.

23
24 **III. CONSUMER IMPACT OF EXTENSION**

25 **Q. Would residential and small business consumers be impacted by the
26 Companies request to extend the length of certain auction products?**

27 A. Yes. Page 8, lines 16-18 of Mr. Ridmann's direct testimony discusses the
28 Companies reasoning for requesting that the previously approved auction
29 products in the current ESP (and scheduled for auction in October 2012 and

1 January 2013) be extended from one year products to three year products is to
2 “capture the current historically lower generation prices for a longer period of
3 time that would be blended with potentially higher prices occurring over the life
4 of ESP 3 plan...”
5

6 **Q. Would the impact on residential and small business consumers of changing**
7 **the length of certain auction products ultimately be positive or negative?**

8 A. No one knows. The auction results for a three year product may be higher or
9 lower than what would otherwise be available if auctions were held closer to the
10 time when power flow is required. Power prices are driven by many factors
11 including energy inputs (e.g., coal and natural gas prices), generation supply and
12 demand balance, potential transmission constraints, alternative energy costs and
13 developments, credit markets and market liquidity.
14

15 Increasing the difficulty of the evaluation is the fact that many consumers are
16 already shopping either through participation in a governmental aggregation
17 program such as NOPEC or NOAC, or through a supply relationship of some
18 other type. Many consumers not participating in a governmental aggregation
19 programs are in fixed price arrangements of varying lengths and would not be
20 directly impacted by the results of either auction.
21

22 Finally, there is the potential for FirstEnergy customers to migrate between the
23 Companies’ SSO, governmental aggregation programs and competitive retail
24 electric service (“CRES”) purchases through a means other than governmental
25 aggregation. All of these factors make it very difficult to determine what the net
26 impact would be on residential and small business consumers.
27

28 **Q. Are there factors that impact consumer prices that can be determined with**
29 **some degree of certainty?**

1 A. Yes. The cost of capacity can be determined a few years into the future based
2 upon the result of various PJM Reliability Pricing Model Base Residual Auctions
3 ("PJM BRA").
4

5 **Q. What impact does capacity pricing have on auction results?**

6 A. The cost of capacity is a direct input in determining power supply costs for a
7 CRES provider. This capacity charge is included by a supplier who bids into the
8 FirstEnergy power supply auction. Thus, as the cost of capacity increases or
9 decreases, the price the supplier can bid into the auction rises and falls.
10

11 **Q. What are the current capacity costs in PJM associated with FirstEnergy's Ohio
12 service territories?**

13 A. In the final year of the current ESP (PJM planning year June 2013 through May
14 2014), the RPM BRA results for PJM were \$27.73 per MW-day. For the first year
15 of the Companies proposed ESP III (PJM planning year June 2014 through May
16 2015), the RPM BRA results for were \$125.99 per MW-day. The RPM capacity
17 costs for FirstEnergy in the final year of the ESP III were announced by PJM on
18 Friday, May 18, 2012 and were \$357 per MW-day in ATSI.
19

20 **Q. Did you estimate the impact on residential and small commercial consumers
21 despite the lack of information on capacity costs in the Companies' ESP III
22 proposal?**

23 A. Yes. Confidential Exhibit MRF-4 estimates the incremental capacity costs borne
24 by residential and small business consumers from June 2013 through May 2014
25 to be [REDACTED].
26

27 **Q. What information and data did you utilize to calculate the impact?**

28 A. The estimate assembles and utilizes various pieces of information including: (i)
29 the PJM RPM capacity prices for ATSI during the ESP III time period; (ii) data

1 available on the Public Utilities Commission of Ohio ("PUCO") website (e.g., the
2 December 2011 Market Monitoring Report customer counts for FirstEnergy); (iii)
3 FirstEnergy's FERC Form 1 for 2011 (to determine commercial and residential
4 use and use per customer); (iv) the July 2011 peak demand numbers for
5 residential and commercial consumers as provided by the Companies in their
6 confidential response NOAC Set 1-RPD-2 (Attachment 1); and, (v) my experience
7 with governmental aggregation customer use.

8
9 **Q. Why did you utilize a different usage level for SSO and governmental**
10 **aggregation participants for commercial consumers and not for residential**
11 **consumers?**

12 A. At this time virtually all residential consumers that are buying third party
13 supplies are participants in a governmental aggregation programs. This can be
14 verified by reviewing the PUCO's aggregation activity report on its website
15 ([http://www.puco.ohio.gov/puco/index.cfm/industry-information/statistical-](http://www.puco.ohio.gov/puco/index.cfm/industry-information/statistical-reports/aggregation-activity-in-ohio/)
16 [reports/aggregation-activity-in-ohio/](http://www.puco.ohio.gov/puco/index.cfm/industry-information/statistical-reports/aggregation-activity-in-ohio/)), which shows the 2011 percentage of
17 residential customers switching through aggregation averaged 96%.
18 Furthermore, since the residential shopping customer count is so high in
19 FirstEnergy's Ohio service territories, it is logical to assume that such a large
20 number of residential consumers would be consuming electricity at the system
21 average. Likewise, SSO consumers, which still represent a large percentage of
22 the total residential consumers would also have an average annual use
23 equivalent to the system average. Finally, any discrepancies in annual use
24 between the SSO and shopping residential customers would effectively balance
25 each other out as nearly all the residential shopping going on in FirstEnergy's
26 Ohio service territories is currently based on a percentage off the price to
27 compare.

28
29 **Q. Please explain what information you used to determine this judgment.**

1 A. First, As you can see from MRF-4, of the 177 communities that have filed for
2 electric governmental aggregation certification in the FirstEnergy Ohio service
3 territories, only one (the Village of Swanton) is not served by FirstEnergy
4 Solutions ("FES"). From a review of the opt-out aggregation notices and various
5 communities' PUCO certification cases, the residential and commercial
6 participants in these FES-served communities all are currently utilizing a
7 percentage discount to the Price to Compare. Since NOAC, NOPEC, the Cities of
8 Cleveland, Akron, Youngstown and many other communities are included in
9 that list, it is logical to determine that the use per residential consumer
10 participating in governmental aggregations is effectively the same as the
11 Companies' average annual use.
12

13 **Q. Why did you use an annual usage level for commercial SSO and governmental**
14 **aggregation participants that is different from the system averages?**

15 A. My general knowledge of commercial participants in governmental aggregation
16 programs is that participants tend to use less than the system average. Larger
17 commercial consumers tend to shop on their own or through other programs
18 that may be available to them. When determining the amount to use, I estimated
19 the annual use at 30,000 kWh for these customers.
20

21 **Q. How would customers be impacted by these higher capacity charges?**

22 A. Customers that are purchasing SSO supplies, and any customer whose pricing is
23 connected to SSO pricing, would be impacted by higher capacity charges. Since
24 nearly all governmental aggregation participants, including NOAC and NOPEC
25 consumers, are currently buying their supplies at a percentage off the Price to
26 Compare, any increase in SSO power supply costs would increase these
27 consumers' costs.
28

1 **Q. Aren't these customers just paying the higher capacity costs sooner than they**
2 **otherwise would?**

3 A. Some customers are accelerating their payment of the money from future
4 capacity charges, but other customers would be disadvantaged.
5

6 **Q. What type of customers could be paying more?**

7 A. The first example is any SSO or governmental aggregation participant utilizing a
8 percentage off the price to compare product that accepts distribution service
9 from FirstEnergy for some months during the period June 2013 through May
10 2014, but discontinues services for other portions of that time period. Such
11 customers in that category may be people who move or business consumers who
12 shut down operations. This group also would include many thousands of
13 previous participants in NOPEC's and NOAC's governmental aggregation
14 programs. Another example would be a business customer taking service under
15 FirstEnergy's SSO or a percentage off the price to compare product whose
16 electric demand declines from year one of the extended ESP (June 2013 through
17 May 2014) to the second year of the ESP (June 2014 through May 2015). Another
18 example would be a consumer that installs more energy efficient equipment that
19 reduces the demand in year two. In all of these cases, a consumer has paid for
20 something (e.g. higher capacity costs for future years) where they will not receive
21 the benefit in later years of the ESP.
22

23 **Q. Do you propose a solution for those consumers that are impacted?**

24 A. I can think of no economically realistic way for the Companies to monitor these
25 ongoing customer changes. The point is that under the Companies' ESP III
26 proposal some consumers will end up paying for something in advance that they
27 will not benefit from.
28

1 **Q. Are consumers who remain with FirstEnergy's SSO or a percentage off product**
2 **over the entire three year ESP term negatively impacted?**

3 A. To the extent that they begin to pay for something starting in June 2013 that the
4 will not receive the benefit of for 2 years, they are negative impacted due to the
5 time value of money or discount rate.

6
7 **Q. What solutions do you propose to make these customers economically**
8 **indifferent?**

9 A. FirstEnergy should discount the value of the future capacity for these consumers
10 and provide that amount as a credit to the Price to Compare. The amount of the
11 credit would vary based upon the discount rate utilized. In WRR-1, Mr.
12 Ridmann uses a present value discount rate for the Companies of 8.48%. Using
13 that present value discount rate, the discount necessary for the acceleration
14 would be \$13 million.

15
16 **Q. Do you believe the present value discount rate the Companies utilized in**
17 **WRR-1 to be reasonable in this instance?**

18 A. No. In determining the net present value over such a short period of time such
19 as three years, shorter term debt would be more applicable. To develop two
20 more reasonable alternatives, I evaluated the Companies' 2011 Annual report,
21 which indicates on page 33 that FirstEnergy's money pool rate is 0.44%. Under
22 the Companies money pool rate, the acceleration credit would be \$0.8 million.
23 Another alternative would be to use the current prime interest rate of 3.25%.
24 Using the current prime interest rate acceleration credit to SSO and
25 governmental aggregation participating residential and small commercial
26 consumers would be \$5.6 million. These calculations are set forth on MRF-5.

27
28 **Q. Doesn't the benefit of capturing the currently low energy prices in the future**
29 **outweigh that time value impact?**

1 A. Perhaps and perhaps not. As I testified to earlier, no one knows what energy
2 costs will actually be during these future years. They may well be substantially
3 higher or they could be lower than the outcome of any auction.

4
5 **Q. Are you opposed to FirstEnergy auctioning off future SSO supplies at the**
6 **current price levels?**

7 A. No. It may well be economically beneficial to consumers to do so. But, if that
8 action is approved by the Commission, no one will know what premium they are
9 paying from June 2013 through May 2015 to smooth out the costs.

10
11 **Q. Do you have an alternative to FirstEnergy's ESP III proposal if the PUCO**
12 **wishes to have a new ESP in place after June 1, 2014?**

13 A. Yes. First, the Commission should eliminate the continuation of the DCR Rider
14 after May 31, 2014 and require the Companies to file for a distribution rate
15 increase if they believe it is warranted.

16
17 Second, it is beneficial to give the Commission more information and not less to
18 determine if spreading the costs over the approximately three year term is
19 appropriate. If the Commission were to approve an ESP for the Companies after
20 June 1, 2014, it will not know the premium really paid by consumers to help it
21 determine if the potential benefit of such extensions in the future outweigh its
22 cost to consumers. To enhance the Commission's and consumers' knowledge, I
23 propose that auctions be held in October 2012 and January 2013 for two different
24 terms. The first term would be for the final year of the current ESP (e.g. June
25 2013 through May 2014). The second auction time period would be for June 2014
26 through May 2016.

27
28 At the completion of the January 2013 auctions, the Commission would have a
29 one year price for the 34 tranches of SSO from June 2013 through May 2014 and it

1 would also have a two year price for 34 tranches of SSO from June 2014 through
2 May 2016. If the Commission decides smoothing out pricing is in the consumers'
3 best interest then it could do so knowing the true impact on consumers. This
4 could be accomplished by authorizing FirstEnergy to collect an average of one
5 year auction results and the two year auction results over a three year term.
6 Given current power price levels the Companies would very likely over collect in
7 the first year. If the Commission decides to average the prices over the three year
8 term then they would at least be making that decision with additional
9 knowledge of the real impact on customers.

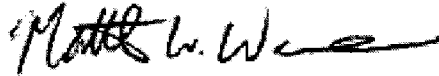
10
11 **IV. CONCLUSION**
12

13 **Q. Does this conclude your testimony?**

14 **A. Yes.**
15

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served upon the following parties of record by e-mail this 21st day of May 2012.



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NOPEC Set 1
Witness: Ridmann

Case No. 12-1230-EL-SSO
Ohio Edison Company, The Cleveland Electric Illuminating 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

REQUEST FOR PRODUCTION OF DOCUMENTS

NOPEC Set 1 If the Commission does not approve the Application or proposed ESP 3 Stipulation, does
-INT-11 FirstEnergy intend to honor the commitments made in Paragraphs 5 and 6 in the Second Supplemental Stipulation, including, in particular, the agreement in Paragraph 6 of the Second Supplemental Stipulation that First Energy agrees "to not seek recovery through retail rates from Ohio retail customers of Legacy RTEP Costs for the longer of: (1) the five year period from June 1, 2011 through May 31, 2016 or (2) when a total of \$360 million of Legacy RTEP Costs has been paid for by [the Companies] and has not been recovered by [the Companies] in the aggregate through retail rates from Ohio retail customers."

Response: Objection. The request is ambiguous. It refers to "the Second Supplemental Stipulation", but only one Stipulation has been filed in this case.

Subject to and without waiving the objections, if the reference to Second Supplemental Stipulation refers to the Companies' existing ESP 2 in Case No. 10-388-EL-SSO, then the Companies respond that they are not proposing that the terms of the Second Supplemental Stipulation would change if the Commission rejected the Companies' proposed ESP 3 Stipulation.

Case No. 12-1230-EL-SSO
Ohio Edison Company, The Cleveland Electric Illuminating 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

RESPONSES TO REQUEST

**AEPR Set 1 –
INT-36**

Mr. Ridmann opines at page 16 of his Direct Testimony that the ESP provides net present value benefits to all customers of \$200million over the duration of the ESP. Provide the net present value benefits to all customers of the ESP-3 stipulation if the Commission were to exclude FE's ESP-2 commitment to forego \$360 million in RTEP recovery.

Response: The Companies object to the characterization of the RTEP commitment. Notwithstanding that objection, the effect of eliminating the value of the Legacy RTEP Costs from the MRO vs. ESP test would result in a decrease to the ESP benefit to customers. All else equal, the net present value of the benefits of the MRO – ESP would change to (\$7 million).

Governmental Aggregation Communities - FE Territory

Community	EDU	Supplier	Res Pricing	Comm Pricing
Sugar Creek Twp, St	FE/AEP	FES	% off	% off
Toledo	FE	FES	% off	% off
Parma	FE	FES	% off	% off
Silver Lake	FE	FES	% off	% off
Stow	FE	FES	% off	% off
Aurora	FE	FES	% off	% off
Lucas County	FE	FES	% off	% off
Oregon	FE	FES	% off	% off
Sylvania	FE	FES	% off	% off
Munroe Falls	FE	FES	% off	% off
Holland	FE	FES	% off	% off
NOPEC	FE	FES	% off	% off
Maumee	FE	FES	% off	% off
Green	FE	FES	% off	% off
Norton	FE	FES	% off	% off
Sandusky	FE	FES	% off	% off
Alliance	FE	FES	% off	% off
Cleveland Heights	FE	FES	% off	% off
Euclid	FE	FES	% off	% off
Marion	FE	FES	% off	% off
Fairlawn	FE	FES	% off	% off
Barberton	FE	FES	% off	% off
Huron	FE	FES	% off	% off
Mogadore	FE	FES	% off	% off
Perrysburg	FE	FES	% off	% off
Ashland	FE	FES	% off	% off
Seven Hills	FE	FES	% off	% off
Ottawa Hills	FE	FES	% off	% off
Akron	FE	FES	% off	% off
Summit County	FE	FES	% off	% off
Westlake	FE	FES	% off	% off
Troy Township	FE	FES	% off	% off
Burton Township	FE	FES	% off	% off
Tallmadge	FE	FES	% off	% off
Ravenna	FE	FES	% off	% off
Canal Fulton	FE	FES	% off	% off
Navarre	FE	FES	% off	% off
Lordstown	FE	FES	% off	% off
Doylestown	FE	FES	% off	% off
Youngstown	FE	FES	% off	% off
Lake Township	FE	FES	% off	% off
Rittman	FE	FES	% off	% off
East Palistine	FE	FES	% off	% off
Crestline	FE	FES	% off	% off
Fairfield Township	FE	FES	% off	% off

Community	EDU	Supplier	Res Pricing	Comm Pricing
Salem	FE	FES	% off	% off
Rocky Ridge	FE	FES	% off	% off
Ontario	FE	FES	% off	% off
New Waterford	FE	FES	% off	% off
Butler Twp	FE	FES	% off	% off
Mansfield	FE	FES	% off	% off
Baughman Twp	FE	FES	% off	% off
Chippewa Twp	FE	FES	% off	% off
Rogers	FE	FES	% off	% off
Ashland County	FE	FES	% off	% off
Wauseon	FE	FES	% off	% off
Mount Gilead	FE	FES	% off	% off
Shawnee Hills	FE	FES	% off	% off
Center Twp	FE	FES	% off	% off
Archibold	FE	FES	% off	% off
Wakeman	FE	FES	% off	% off
Westfield Center	FE	FES	% off	% off
Calednoia	FE	FES	% off	% off
Tremont	FE	FES	% off	% off
Clay Center	FE	FES	% off	% off
Medina	FE	FES	% off	% off
Marion Twp	FE	FES	% off	% off
Yankee Lake	FE	FES	% off	% off
Marblehead	FE	FES	% off	% off
Canaan Twp	FE	FES	% off	% off
WashingtonTwp	FE	FES	% off	% off
Ottawa County	FE	FES	% off	% off
Fulton County	FE	FES	% off	% off
Wood County	FE	FES	% off	% off
Gloria Glens	FE	FES	% off	% off
Sandusky County	FE	FES	% off	% off
Cardington Twp	FE	FES	% off	% off
Defiance County	FE	FES	% off	% off
Chippewa Lake	FE	FES	% off	% off
Richland County	FE	FES	% off	% off
Richwood	FE	FES	% off	% off
Cardington	FE	FES	% off	% off
Catawba	FE	FES	% off	% off
Huron County	FE	FES	% off	% off
Fayette	FE	FES	% off	% off
Lisbon	FE	FES	% off	% off
Huron	FE	FES	% off	% off
Perrysburg Township	FE	FES	% off	% off
Bay Village	FE	FES	% off	% off
Walbridge	FE	FES	% off	% off

Community	EDU	Supplier	Res Pricing	Comm Pricing
Cleveland	FE	FES	% off	% off
Streetsboro	FE	FES	% off	% off
Cortland	FE	FES	% off	% off
Trumbull County	FE	FES	% off	% off
Boardman Twp	FE	FES	% off	% off
Lagrange	FE	FES	% off	% off
Defiance	FE	FES	% off	% off
Struthers	FE	FES	% off	% off
Girard	FE	FES	% off	% off
Northwood	FE	FES	% off	% off
Austintown Twp	FE	FES	% off	% off
Poland Twp	FE	FES	% off	% off
Massillon	FE	FES	% off	% off
Canfield	FE	FES	% off	% off
Campbell	FE	FES	% off	% off
Poland Village	FE	FES	% off	% off
Canfield Twp	FE	FES	% off	% off
Mahoning County	FE	FES	% off	% off
London	FE	FES	% off	% off
Boston Heights	FE	FES	% off	% off
Rossford	FE	FES	% off	% off
Creston	FE	FES	% off	% off
Richmond Heights	FE	FES	% off	% off
Washington Twp	FE	FES	% off	% off
Erie County	FE	FES	% off	% off
Limaville	FE	FES	% off	% off
Lake Township	FE	FES	% off	% off
Lawrence Twp	FE	FES	% off	% off
Sugar Creek Twp	FE	FES	% off	% off
Marlboro Twp	FE	FES	% off	% off
Tuscarawas Twp	FE	FES	% off	% off
Lexington Twp	FE	FES	% off	% off
Dalton	FE	FES	% off	% off
Andover	FE	FES	% off	% off
Sebring	FE	FES	% off	% off
Bethlehem Twp	FE	FES	% off	% off
Mantua	FE	FES	% off	% off
Millbury	FE	FES	% off	% off
Elkrun Twp	FE	FES	% off	% off
Perry Twp	FE	FES	% off	% off
Springfield	FE	FES	% off	% off
Hartville	FE	FES	% off	% off
Middleton Twp	FE	FES	% off	% off
Medina County	FE	FES	% off	% off

Community	EDU	Supplier	Res Pricing	Comm Pricing
Gilead Twp	FE	FES	% off	% off
Perry Twp	FE	FES	% off	% off
Unity Twp	FE	FES	% off	% off
Hanover Twp	FE	FES	% off	% off
West Farmington	FE	FES	% off	% off
Salem Twp	FE	FES	% off	% off
Green Camp	FE	FES	% off	% off
Lowellville	FE	FES	% off	% off
New Middletown	FE	FES	% off	% off
Bellevue	FE	FES	% off	% off
Jackson Twp	FE	FES	% off	% off
Stryker	FE	FES	% off	% off
Swanton	FE	Duke Ret	fixed	fixed
Waterville	FE	FES	% off	% off
Vermillion	FE	FES	% off	% off
Marietta	FE	FES	% off	% off
Leetonia	FE	FES	% off	% off
Loudenville	FE	FES	% off	% off
Perry Twp	FE	FES	% off	% off
Madison Twp	FE	FES	% off	% off
Weston	FE	FES	% off	% off
West Twp	FE	FES	% off	% off
Grafton twp	FE	FES	% off	% off
Green Camp Twp	FE	FES	% off	% off
Ney	FE	FES	% off	% off
Know Twp	FE	FES	% off	% off
Lyons	FE	FES	% off	% off
Hanoverton	FE	FES	% off	% off
Van Wert County	FE	FES	% off	% off
GrandPrairie Twp FES	FE	FES	% off	% off
Columbia Twp	FE	FES	% off	% off
Madison Twp	FE	FES	% off	% off
Grand Rapids	FE	FES	% off	% off
Beloit	FE	FES	% off	% off
Orangeville	FE	FES	% off	% off
Edon	FE	FES	% off	% off
Williams County	FE	FES	% off	% off
Castalia	FE	FES	% off	% off
Liverpool Twp	FE	FES	% off	% off
East Liverpool	FE	FES	% off	% off
St.Clair Twp	FE	FES	% off	% off
Henry County	FE	FES	% off	% off
Metamora	FE	FES	% off	% off

Present Value Benefits of ESP III Compared to MRO

Total Ohio

Assumptions	
All prices in \$/MWH	
1 CBP Price	55.6
2 RS Retail Generation Rate (Non-Seasonal)	60.05
3 PIPP Generation Discount	6%
4 PIPP RS Retail Generation Rate (Non-Seasonal)	56.447
5A WRR-1 Net Present Value Discount Rate	8.48%
5B All #1 Net Present Value Discount Rate	0.44%
5C All #2 Net Present Value Discount Rate	3.25%

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
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		\$ -		\$ -								
13 Total Revenues Per Year		\$ 272.0		\$ 285.5								

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
14 Distribution Rate Case (Based upon 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		\$ 285.0								

Net Present Value Summary	Total Ohio WRR-1 Rate	Total Ohio Alternative #1	Total Ohio Alternative #2
17 NPV: ESP	\$493.3	\$553.8	\$531.2
18 NPV: MRO	\$486.4	\$546.2	\$523.9
19 Benefits to Customers (MRO - ESP)	(\$7.0)	(\$7.6)	(\$7.3)

Alternative #1 rate based upon FirstEnergy's 2011 Money Pool Rate for its regulated companies (p. 33 of FE 2011 Annual Report)
Alternative #2 rate based upon current prime rate.

Present Value Benefits of ESP III Compared to MRO

Total Ohio

Assumptions	
All prices in \$/MWH	
1 CBP Price	55.6
2 RS Retail Generation Rate (Non-Seasonal)	60.05
3 PIPP Generation Discount	6%
4 PIPP RS Retail Generation Rate (Non-Seasonal)	56.447
5A WRR-1 Net Present Value Discount Rate	8.48%
5B Alt. #1 Net Present Value Discount Rate	0.44%
5C Alt. #2 Net Present Value Discount Rate	3.25%

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
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		\$	\$ -	\$	\$ -								
13 Total Revenues Per Year			\$ 272.0		\$ 285.5								

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
14 Distribution Rate Case (Based upon Rider DCR)		\$ 3.21	\$ -	\$ 3.63	\$ -								
15 PIPP RS Generation Revenue		\$ 60.05	\$ 87.7	\$ 60.05	\$ 86.2								
16 Total Revenues Per Year			\$ 87.7		\$ 86.2								

Net Present Value Summary		Total Ohio	Total Ohio
	WRR-1 Rate	Alternative #1	Alternative #2
17 NPV- ESP	\$493.3	\$553.8	\$531.2
18 NPV- MRO	\$154.1	\$172.8	\$165.8
19 Benefits to Customers (MRO - ESP)	(\$339.3)	(\$381.1)	(\$365.4)

Alternative #1 rate based upon FirstEnergy's 2011 Money Pool Rate for its regulated companies (p. 33 of FE 2011 Annual Report)
Alternative #2 rate based upon current prime rate.

This foregoing document was electronically filed with the Public Utilities

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Case No(s). 12-1230-EL-SSO

Summary: Testimony of Mark Frye electronically filed by Teresa Orahod on behalf of
Northeast Ohio Public Energy Council and Northwest Ohio Aggregation Coalition