

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of **Ohio** :
Power Company for Authority to : Case No. 13-2385-EL-SSO
Establish a Standard Service Offer :
Pursuant to Section 4928.143, Revised :
Code, in the Form of an Electric Security :
Plan. :

In the Matter of the Application of **Ohio** :
Power Company for Approval of Certain : Case No. 13-2386-EL-AAM
Accounting Authority. :

**PREFILED TESTIMONY
OF
HISHAM M. CHOUEIKI, PH.D., P.E.
ENERGY & ENVIRONMENT DEPARTMENT
MARKET ANALYSIS & PLANNING DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit _____

May 20, 2014

TABLE OF CONTENTS

Page

Academic Background and Professional Experience.....	1
Purpose of Testimony	3
PPA Rider as Proposed – Purpose and Scope	3
Corporate Separation Amendment	5
Recovery Mechanism of OVEC-Related Expenses	6
Status of Retail Competition	7
Staff’s Recommendation	9
Summary and Recommendations	15
PROOF OF SERVICE.....	16

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

2 A. My name is Hisham Choueiki. I am employed by the Public Utilities Com-
3 mission of Ohio (PUCO or Commission) as a Senior Energy Specialist.
4 My business address is 180 East Broad Street, Columbus, Ohio 43215.

5 **Academic Background and Professional Experience**

6 2. Q. Please describe your educational background and professional experience.

7 A. I am a Registered Professional Engineer in Ohio. I hold a Philosophy Doc-
8 torate in Industrial and Systems Engineering from The Ohio State Univer-
9 sity. I currently serve as a Senior Energy Specialist in the Energy and
10 Environment Department at the PUCO.

11

12 I started my career in utility regulation as a Graduate Researcher at the
13 National Regulatory Research Institute while attending graduate school.
14 My tenure at the PUCO commenced when I joined the Forecasting Division
15 as a Senior Utility Rate Analyst. I was later promoted to a Utility Rate
16 Analyst Manager, an Energy Specialist, and finally to my current position.
17 Between 1996 and 1998, I was on sabbatical from the PUCO, and was a
18 Visiting Assistant Professor in the College of Engineering and Petroleum at
19 Kuwait University where I taught operations research, design of experi-
20 ments, and forecast modeling.

1 At the PUCO, I have contributed to numerous rule-making proceedings in
2 gas, electric, and telephone, co-authored several energy forecasting and tel-
3 ecommunications reports, lectured at the PUCO and at national and interna-
4 tional technical conferences in the areas of forecast modeling, design of
5 experiments, and artificial neural networks, and have published in peer-
6 reviewed engineering journals.

7
8 3. Q. Please describe some of your present responsibilities at the PUCO.

9 A. I am a technical/policy advisor to PUCO Commissioners and Staff on
10 energy related matters. I have other responsibilities; including (a) leading
11 the development of empirically valid, and logically consistent, short-term
12 and long-term analytical forecasting models for assessing and characteriz-
13 ing the behavior of energy and economic systems in utility service areas in
14 Ohio, and in the United States, and (b) leading the review of the long-term
15 forecast reports of electric distribution utilities in Ohio.

16
17 I serve as the Ohio member on the Staff Steering Committee in the Organi-
18 zation of PJM States, Inc. (OPSI), and the co-chair of the Staff Modeling
19 Work Group in the Eastern Interconnection States Planning Council
20 (EISPC). I have recently joined the U.S. international delegates' team that
21 trains other nations on reforming and developing energy markets.

1 I also serve as a reviewer for several engineering journals; including *IEEE*
2 *Transactions on Power Systems*, *IEEE Transactions on Neural Networks*,
3 *Computers and Industrial Engineering*, and *European Journal of Industrial*
4 *Engineering*.

5
6 4. Q. Have you testified in previous cases at the PUCO?

7 A. Yes, I have testified in numerous cases; long-term forecast hearings, tele-
8 communications alternative regulation hearings, telecommunications mer-
9 ger hearings, and, more recently, in Standard Service Offer (SSO) hearings.

10 **Purpose of Testimony**

11 5. Q. What is the purpose of filing this testimony?

12 A. This testimony is very limited in scope. I will present Staff's position in
13 regard to the AEP Ohio (Ohio Power or Company) proposed Power Pur-
14 chase Agreement Rider (PPA rider)¹.

15 **PPA Rider as Proposed – Purpose and Scope**

16 6. Q. What is the purpose of including the PPA rider in the electric security plan
17 (ESP)?

¹ *In re Ohio Power*, Case Nos. 13-2385-EL-SSO, *et al.*, (Application at 8) (Dec. 20, 2013).

1 A. According to the Company, the PPA rider is intended to “stabilize customer
2 rates by providing a hedge against market volatility”.² The Company is
3 initially proposing to include its share³ of the Ohio Valley Electric
4 Corporation (OVEC) generating stations⁴ in the PPA rider.

5
6 7. Q. Is the proposed PPA rider limited to the Company’s share of the OVEC
7 generating stations?

8 A. No. Witness Allen states that the Company may petition the Commission
9 to include in the PPA rider recovery of costs associated with other Power
10 Purchase Agreements during the term⁵ of the ESP.⁶

² Direct Testimony of Company witness William A. Allen, page 8.

³ The merged Ohio Power Company has a 19.93% share (4.44% from the old Columbus Southern Power Company and 15.49% from the old Ohio Power Company) of the OVEC generating stations (Article 1 of the Amended and Restated Inter-Company Power Agreement, Sep. 10, 2010).

⁴ The OVEC generating stations include Kyger 1-5, in Cheshire, Ohio, and Clifty 1-6 near Madison, Indiana (The preamble to the Amended and Restated Inter-Company Power Agreement, Sep. 10, 2010).

⁵ As proposed by the Company, the term of the ESP will be from June 1, 2015 to May 31, 2018.

⁶ Direct Testimony of Company witness William A. Allen, page 8.

Corporate Separation Amendment

8. Q. Why did AEP Ohio maintain ownership of its share of the OVEC generating stations rather than transfer title to AEP Generation Company (AEP Genco)?

A. On October 4, 2013, AEP Ohio filed an application to amend its corporate separation plan⁷. The Company indicated that after extensive discussions with all Sponsoring Companies⁸, as required by the Inter-Company Power Agreement (ICPA), it was unsuccessful in obtaining their unanimous consent⁹ to transfer ownership of AEP Ohio's share of the OVEC generating stations to AEP Genco. Some of the Sponsoring Companies were especially concerned about the liability obligation under the ICPA in case of a default by AEP Genco, a newly formed company.

9. Q. Did the Commission grant AEP Ohio's request to amend its corporate separation plan?

⁷ *In the Matter of the Application of Ohio Power Company for Approval of Full Legal Corporate Separation and Amendment to its Corporate Separation Plan*, Case No. 12-1126-EL-UNC

⁸ Sponsoring Companies are defined in the Inter-Company Power Agreement as the co-owners of the OVEC generating stations.

⁹ All the details of the corporate separation docket may be found in docket number 12-1126-EL-UNC, *In the Matter of the Application of Ohio Power Company for Approval of Full Legal Corporate Separation and Amendment to its Corporate Separation Plan*.

1 A. Yes. In its Finding and Order, on December 4, 2013, the Commission
2 granted AEP Ohio's request to retain the OVEC contractual obligations
3 under the ICPA.

4
5 10. Q. Did the Commission allow AEP Ohio recovery of future OVEC-related
6 expenses under the ICPA in Case No. 12-1126?

7 A. No. The Commission simply stated, in its Finding an Order on
8 December 4, 2013, that OVEC retail-related issues would be addressed in
9 the next ESP proceeding; the ESP currently being reviewed and heard by
10 the Commission.

11 **Recovery Mechanism of OVEC-Related Expenses**

12 11. Q. How does AEP Ohio propose to recover the OVEC-related expenses under
13 the ICPA during the term of the proposed ESP?

14 A. Assuming the Commission grants AEP Ohio's request for a non-bypassa-
15 ble¹⁰ PPA rider, Company witness Allen proposes the following formulaic
16 approach for the recovery of expenses related to AEP Ohio's share of the
17 OVEC generating stations under the ICPA.¹¹

¹⁰ If the Commission grants AEP Ohio's request, all distribution customers (shoppers and non-shoppers) in AEP Ohio's service territory will have a PPA rider charge on their bills.

¹¹ Direct Testimony of Company witness William A. Allen, (Exhibit WAA-1).

- 1 • Total Expenses are computed as the sum of demand charges, energy
2 charges, and the related transmission/PJM charges associated with AEP
3 Ohio's share of the OVEC generating stations.
- 4 • Total Revenues are computed as the sum of all revenues from selling the
5 capacity, energy, and ancillary services associated with AEP Ohio's share
6 of the OVEC generating stations.
- 7 • To the extent Total Expenses are more than Total Revenues, the difference
8 is debited to all distribution customers of AEP Ohio via the PPA rider.
- 9 • To the extent Total Expenses are less than Total Revenues, the difference is
10 credited to all distribution customers of AEP Ohio via the PPA rider.
- 11 • The PPA rider will be adjusted annually to true up or down the projected
12 expenses and revenues to the actual expenses and revenues.

13 **Status of Retail Competition**

14 12. Q. What is the status of electric retail competition in Ohio?

15 A. For over a decade now, the Commission has been transitioning the four
16 electric distribution utilities (EDU) (Dayton Power and Light, Duke Ohio,
17 First Energy, and AEP Ohio) toward a fully competitive retail market. All
18 distribution customers in the Duke Energy Ohio and First Energy service

1 areas are currently purchasing electricity at competitive rates.¹² All
2 distribution customers in the Dayton Power and Light and AEP Ohio
3 service areas will be similarly situated on January 1, 2016 and June 1, 2015,
4 respectively. These are the two dates when 100% of the SSO loads¹³ in
5 Dayton Power and Light's and AEP Ohio's service areas will be procured
6 through Commission-administered SSO auctions.

7
8 13. Q. What is the status of electric retail competition in AEP Ohio's service area?

9 A. As of December 31, 2013, 61%¹⁴ of the MWHs consumed by AEP Ohio
10 customers are being supplied by CRES providers. The remaining 39% are
11 consumed by non-shoppers and are served by AEP Ohio under a special
12 SSO construct approved by the Commission.¹⁵

13
14

12 100% of the SSO loads in Duke Energy Ohio's and First Energy's service areas
are being procured through competitive retail auctions that are administered by the
Commission. Not only are the resulting SSO rates competitive, they also serve as
transparent "prices to compare to" or "benchmarks" for customers who are considering
whether to take service from a competitive retail electric service provider.

13 Energy, Capacity, and Ancillary Services.

14 [http://www.puco.ohio.gov/emplibrary/files/util/MktMonitoringElecCustSwitchRates/SW
ITCH%20RATES%20SALES/2013/4Q2013.pdf](http://www.puco.ohio.gov/emplibrary/files/util/MktMonitoringElecCustSwitchRates/SWITCH%20RATES%20SALES/2013/4Q2013.pdf)

15 The mechanics of how the SSO rate is developed can be found in *In the Matter of
Ohio Power Company to Establish a Competitive Bidding Process for Procurement of
Energy to Support Its Standard Service Offer*, Case No. 12-3254-EL-UNC.

1 On June 1, 2015, AEP Ohio will stop selling the electricity commodity to
2 any of its distribution customers. AEP Ohio will “officially” be a “wires
3 only” company and, accordingly, will no longer be responsible for selling
4 electricity in its service area. All of AEP Ohio’s distribution customers will
5 either shop (individually or via aggregation) for their electricity needs or
6 will have their electricity needs procured through a Commission-
7 administered SSO auction.

8 **Staff’s Recommendation**

9 14. Q. What is Staff’s recommendation regarding the proposed PPA rider?

10 A. *Staff recommends that the Commission deny the Company’s proposed PPA*
11 *rider. Since AEP Ohio will no longer be in the business of selling electric-*
12 *ity after May 31, 2015, Staff does not see a need for granting a PPA rider*
13 *that is tied to electric generation. None of the MWs coming out of AEP*
14 *Ohio’s interests in the OVEC generation is being sold to AEP Ohio’s*
15 *distribution customers. It took over a decade for the Commission to*
16 *transition the four Ohio EDUs to a fully competitive retail electricity*
17 *market. Granting a PPA rider is a move in the opposite direction.*

18
19 Given Staff’s recommendation to the Commission, it is only fair to shift not
20 only the risks but also the benefits associated with that generation to the
21 investors of AEP. *To accomplish this objective, Staff recommends that all*

1 *expenses and revenues associated with AEP Ohio's interests in the OVEC*
2 *generating stations be excluded from the Significantly Excessive Earnings*
3 *Test (SEET) calculation.* AEP traders will accordingly be free to develop
4 bidding strategies for the Company's interests in the OVEC generating sta-
5 tions that serve AEP's interests.

6
7 15. Q. What is Staff's response to the Company's claim that the PPA rider will
8 provide a hedge for AEP Ohio customers against market volatility?

9 A. Staff agrees with the Company that the market prices have been quite vola-
10 tile recently. This is especially noticeable in the PJM capacity market
11 where prices have moved from \$110/MW-day during the 2011/2012 deliv-
12 ery year to \$16, to \$27, to \$125, to \$136, and more recently to \$59/MW-
13 day for the 2016/2017 delivery year¹⁶.

14
15 The Company claims that a PPA rider will provide a hedge for consumers
16 against market volatility. Staff believes that a more effective approach for
17 mitigating price volatility is the *modus operandi* that the Commission has

¹⁶ <http://www.pjm.com/markets-and-operations/rpm/rpm-auction-user-info.aspx#Item07>.

1 adopted in administering past SSO procurement auctions; such as stagger-
2 ing the procurement of the products (twice a year), and laddering multiple
3 products (12 months, 24 months, 36 months, *etc...*).
4

5 16. Q. To the extent the Commission agrees with AEP Ohio's request for includ-
6 ing a PPA rider, does Staff have a set of conditions that could mitigate its
7 concerns?

8 A. If the Commission opts to approve a PPA rider, Staff recommends that the
9 Commission condition that approval on terms that could mitigate Staff's
10 concerns. The following is an outline of Staff's concerns if the
11 Commission ultimately decides to approve a PPA Rider, and Staff's
12 recommendations for conditional terms to mitigate these concerns.

13 1) Other Potential PPAs in the PPA Rider: The Company is proposing
14 under the PPA rider that it may petition the Commission to include
15 recovery of other future power purchase agreements in the PPA
16 rider. Staff is opposed to the concept of a PPA rider for the OVEC
17 generation, and even more opposed to including additional PPAs in
18 the PPA rider. AEP Ohio's interest in the OVEC generating stations
19 arguably presents a unique circumstance that may need to be
20 addressed. Although the Commission did not grant the recovery of
21 any future expenses (post May 31, 2015) of AEP Ohio's interests in
22 the OVEC generating stations, the Commission did grant AEP Ohio

1 its request for an amendment to its corporate separation plan on
2 December 4, 2013.

3
4 Staff is concerned that AEP Ohio may use this rider as a venue for
5 other unregulated generation to be contracted and paid for by AEP
6 Ohio distribution customers without it being competitively bid. *To*
7 *mitigate this concern, Staff recommends that the PPA rider, to the*
8 *extent granted by the Commission, be restricted to only AEP Ohio's*
9 *interests in the OVEC generating stations, and nothing more.*

10
11 2) Expenses: In the Formulaic approach that Company witness Allen
12 proposes in his testimony, the demand and energy expenses will be
13 components of the purchased power contract between AEP Ohio and
14 the entity that is managing AEP Ohio's interests in the OVEC gener-
15 ating stations. Such a contract would be under the jurisdiction of the
16 Federal Energy Regulatory Commission (FERC). As a result, if the
17 Commission believed that any expense items in the purchased power
18 contract were not in the public interest, the Commission would have
19 to file at FERC challenging these expense items, and the burden of
20 proof would be on the Commission to demonstrate its case. A
21 *method to mitigate this concern would be for AEP Ohio to accept*

1 *that all expense items (demand and energy related expenses) in the*
2 *purchased power contract will be audited annually by staff (or by an*
3 *outside consultant representing Staff) and for AEP Ohio to accept a*
4 *Commission's finding to the extent there is a disagreement between*
5 *AEP Ohio and Staff and a hearing is conducted. The latter condition*
6 *would be explicitly included in the structure of the contract prior to*
7 *being filed for approval at FERC.*

8
9 3) Revenues: Similar to expenses, all revenues from AEP Ohio's inter-
10 ests in the OVEC generating stations will be components of the pur-
11 chased power contract. Staff is concerned that the AEP regulated
12 business unit that bids the OVEC generating stations into the PJM
13 capacity, energy, and ancillary services markets may use different
14 strategies than those used by its unregulated affiliate, AEP Genco.
15 *A method to mitigate this concern is for Staff to periodically moni-*
16 *tor/evaluate the bidding strategies used for the OVEC generation*
17 *with those used by AEP Genco.*

18
19 4) Loss of a Potential SSO Supplier: In his testimony, Company wit-
20 ness Allen (page 10) states that AEP Ohio's interests in the OVEC

1 generating stations will NOT be bid into the Commission-adminis-
2 tered SSO auctions. Staff is concerned that future SSO auctions in
3 Ohio (post May 31, 2015) could potentially result in higher prices
4 because 438 MWs¹⁷ of economic generation would not participate as
5 competitive supply in these auctions. On the other hand, Staff is
6 also concerned that to the extent the Commission disagrees with
7 AEP Ohio's position and allows the 438 MWs of supply to
8 participate in SSO auctions, other suppliers may be discouraged
9 from bidding for tranches because these suppliers would be
10 competing, in one sense, with generation that is "subsidized" by all
11 of AEP-Ohio's distribution customers. *Staff is unable at this time to*
12 *make a recommendation that would resolve this dilemma but thought*
13 *that the Commission should be aware of it. The only way to avoid*
14 *the dilemma pertaining to OVEC capacity participating in SSO*
15 *auctions is to accept Staff's recommendation and deny the PPA*
16 *rider. The OVEC capacity will then be free to participate or not*
17 *participate in SSO auctions, just like all other capacity.*

¹⁷ AEP Ohio's 19.93% interest in the OVEC generating stations represents about 438 MWs.

Summary and Recommendations

17. Q. Would you summarize your recommendations?

A. Staff recommends that the Commission deny AEP Ohio the PPA rider. On June 1, 2015, AEP Ohio will no longer be in the business of selling the electricity commodity. It will simply be distributing electricity to all of the customers in its service area. AEP Ohio distribution customers will either shop for their electricity needs or opt not to shop and have their electricity needs procured in Commission-administered SSO auctions. It took the Commission over a decade to transition all four electric utilities into a competitive retail market construct. Granting any generation-related riders post May 31, 2015 for AEP Ohio would be a move in the opposite direction.

Finally, should the Commission agree with AEP Ohio and grant them a PPA rider during the term of the proposed ESP, Staff recommends that this rider be very specific to AEP Ohio's interests in the OVEC generating stations and nothing more. Additionally, Staff recommends that the necessary conditions outlined above be adopted by the Commission.

18. Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available 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 **Hisham Choueiki, Ph.D., P.E.**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 20th day of May, 2014.

/s/ Devin D. Parram

Devin D. Parram

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Case No(s). 13-2385-EL-SSO, 13-2386-EL-AAM

Summary: Testimony Prefiled Testimony of Hisham M. Choueiki submitted on behalf of the Staff of the Public Utilities Commission of Ohio by Assistant Attorney General Devin Parram electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio