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 a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.	)))))))	Case No. 14-1297-EL-SSO

PUBLIC VERSION

SUPPLEMENTAL TESTIMONY OF

MARC A. VALLEN

ON BEHALF OF

THE NORTHWEST OHIO AGGREGATION COALLITION

AND INDIVIDUAL COMMUNITIES

PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

My name is Marc A. Vallen, and I am the principal of Vallen Energy Consulting, LLC, which is located at 708 Ocean Palm Way, St. Augustine, FL 32080.

DID YOU TESTIFY PREVIOUSLY IN THIS PROCEEDING?

Yes, I have submitted testimony previously in this proceeding.

AS PART OF THIS EARLIER TESTIMONY, DID YOU SUBMIT YOUR CREDENTIALS?

Yes, my previously submitted testimony in this case included a description of my educational background, professional experience, current occupation, and experience with testifying in rate hearings, all of which I would like to incorporate into this supplemental testimony.

WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

The primary purpose of my supplemental testimony is to critique the information and findings presented in Witness Moul's supplemental testimony regarding the financial performance of the Plants. I also have some additional comments about the supplemental testimony of Witnesses Evans, Murley, and Makovich.

DID YOU REVIEW THE SUPPLEMENTAL TESTIMONY OF DONALD MOUL?

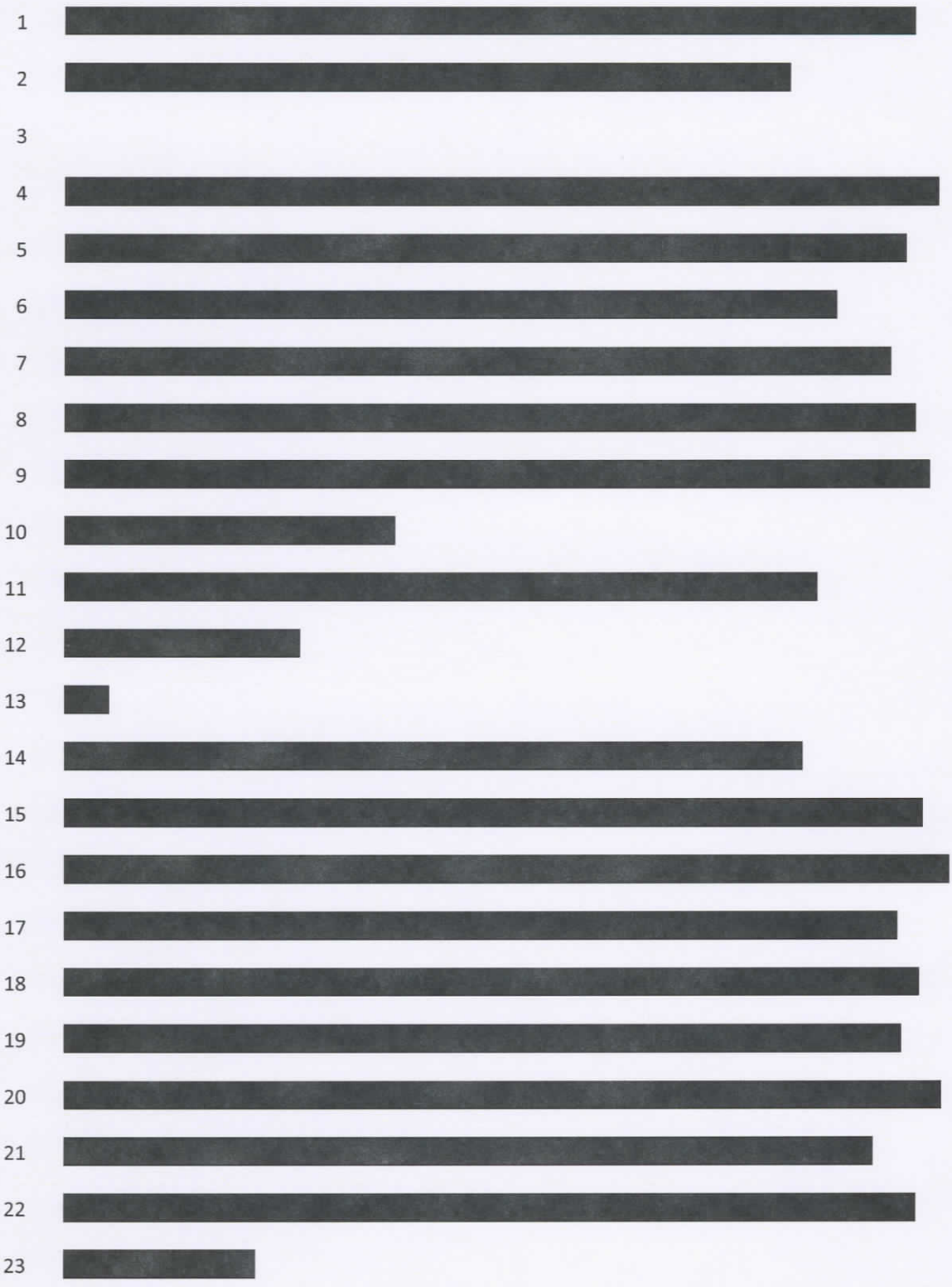
Yes, I reviewed the supplemental testimony of Donald Moul and his confidential work papers.

DO YOU AGREE WITH HIS FINDINGS THAT THE PLANTS ARE UNECONOMIC AND IN DANGER OF BEING RETIRED?

[redacted]

[redacted]

[redacted]



[redacted]

DID YOU ALSO REVIEW THE SUPPLEMENTAL TESTIMONY OF SARAH MURLEY?

Yes, I reviewed Witness Murley's supplemental presentation.

WHAT DID YOU CONCLUDE UPON YOUR REVIEW?

My review of Witness Murley's supplemental testimony does not change the fundamental conclusions that I reached in my original testimony. Specifically, Witness Murley did not incorporate into either her original or her supplemental testimony the following two key points: a) by subsidizing the Plants through Rider RRS and continuing to operate the Plants when they are uneconomic, there will be higher electricity costs for Ohio residents due to the resulting sub-optimal dispatch of power plants in PJM, which will cause economic harm to Ohio; and b) the economic gain from increased employment and the multiplier effects thereof arising from the new power plants that would replace the ones that FirstEnergy asserts it may retire.

As I stated in my original testimony, since Witness Murley did not incorporate these factors into her analysis, the PUCO does not have sufficient basis to include any of Witness Murley's conclusions in their deliberations about the economic benefits to Ohio of the proposed Rider RRS.

DID YOU ALSO REVIEW THE SUPPLEMENTAL TESTIMONY OF LAWRENCE MAKOVICH?

Yes.

IN YOUR OPINION, WHAT WAS THE PURPOSE OF WITNESS MAKOVICH'S TESTIMONY?

The main point raised by Witness Makovich is that power supply diversity is important.

DO YOU AGREE WITH WITNESS MAKOVICH'S CONCLUSIONS THAT POWER SUPPLY DIVERSITY IS IMPORTANT?

Everything else being equal, yes I would prefer to have a diverse power supply than not. But everything else is not equal. To achieve the best interests of customers, the primary objective should be to have low prices, and then achieving a diverse supply becomes a secondary consideration. In fact, if Witness Makovich believes that power supply diversity is so important, the logical inference is to shut down Sammis and build a new gas-fired combined cycle plant because Ohio's power supply is too heavily concentrated in coal (at about two-thirds of net electricity generated)[2] to be considered diverse. This absurd outcome is, of course, just the opposite of what FirstEnergy is seeking to achieve with Rider RRS.

DID WITNESS MAKOVICH QUANTIFY HOW MUCH RIDER RRS WOULD CONTRIBUTE TO DIVERSITY AND PRICE STABILITY?

No, Witness Makovich did not provide any calculation or exhibit that showed, assuming for a moment that the Plants are truly in dire threat of retirement, maintaining these Plants would significantly contribute to resource diversity and thus price stability. As I

[2] Per EIA's Ohio State Energy Profile, last updated at March 19, 2015. Located at: http://www.eia.gov/state/print.cfm?sid=OH

previously mentioned, it is difficult to imagine how financially supporting uneconomic coal plants contributes to resource diversity in Ohio and PJM (again, assuming for the sake of argument that the coal plants are uneconomic), which already have a considerable amount of coal generation even after the scheduled retirements.

WHAT OTHER ISSUES DID YOU HAVE WITH WITNESS MAKOVICH'S TESTIMONY?

Witness Makovich stated that PJM and other markets experience "cash flows for energy and capacity [that] are *chronically* and artificially too low to cover the costs of a power supply portfolio that delivers reliable and efficient electric service" [see page 6, lines 5-7]. I have two issues with this statement. First, PJM and the other ISOs have been delivering power reliably and efficiently for many years, so I take exception with his conclusion that the markets have failed. And secondly, while I agree that capacity payments have been low, Witness Makovich has completely ignored the large over-build of generation capacity that occurred starting back in 2000 and continues in much of the country to this day. This over supply of generation has held down the value of capacity for a long-time, sending the appropriate price signal to the market that new power plants were not needed. While I agree that there is room for improvement in how the capacity market is designed, I do not ascribe to the view that a flawed design for capacity auctions is the main reason why capacity prices have been so low for so many years. A competitive market will send the appropriate price signal when new capacity is needed, through higher energy prices, higher capacity prices, or both.

DOES WITNESS MAKOVICH AGREE WITH FIRSTENERGY'S APPROACH TO MODELING FUTURE FUEL AND POWER PRICES?

Not at all. FirstEnergy requested a market price forecast from Witness Rose that consisted of a single, "rifle-shot" forecast of future power prices. As discussed in detail in my original forecast, this was against all industry accepted standards, which would be to prepare multiple forecasts to bound the inherent uncertainty associated with future fuel and power prices. Witness Makovich appears to agree with this industry accepted view of how to forecast, as shown in his testimony where he states: "The cost of generating electricity is inherently uncertain. Oil, natural gas, coal, and uranium prices are difficult to predict and are prone to multiyear price cycles, short term price volatility, and deliverability constraints" [see page 13, lines 14-17]. The logical inference from such a statement is that using a single point forecast for prices is not the appropriate way to evaluate a large dollar-value transaction to account for the inherent uncertainty in the marketplace. Multiple forecasts that bracket the uncertainty in the market are certainly the norm for all the price forecasts that I have seen produced by Witness Makovich's company, IHS/CERA.

DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

Yes it does. I reserve the right to supplement my testimony further, if required.

FINANCIAL HIGHLIGHTS

KEY ACCOMPLISHMENTS

- Generated $2.7 billion in cash from operations
- Invested $1.4 billion to expand and strengthen our transmission system as part of our *Energizing the Future* initiative
- Achieved five consecutive years of growth in the industrial sector of our distribution business
- Repositioned our competitive generation business to reduce risk and better capture market opportunities
- Moved forward with our program to install 2 million new smart meters in Pennsylvania by mid-2019
- Efforts to ensure competitive energy markets adequately value baseload coal and nuclear generation helped produce initial market reforms

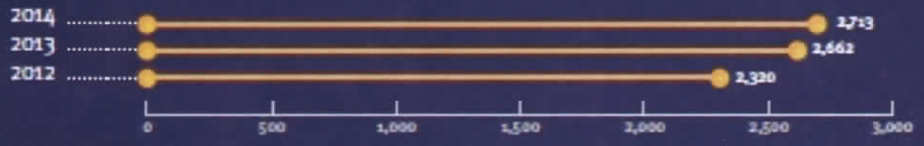
FINANCIALS AT A GLANCE

(dollars in millions, except per share amounts)

	2014	2013	2012
TOTAL REVENUES	$15,049	$14,892	$15,255
NET INCOME	$299	$392	$771
BASIC EARNINGS per common share	$0.71	$0.94	$1.85
DILUTED EARNINGS per common share	$0.71	$0.94	$1.84
DIVIDENDS PAID per common share	$1.44	$2.20	$2.20
BOOK VALUE per common share	$29.49	$30.32	$31.29
NET CASH FROM OPERATING ACTIVITIES	$2,713	$2,662	$2,320

NET CASH FROM OPERATING ACTIVITIES

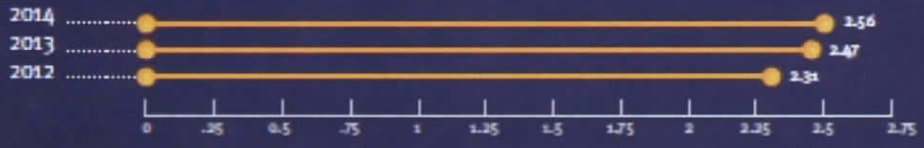
(in millions)



INDUSTRIAL DISTRIBUTION ELECTRIC SALES

(in thousands of megawatt-hours)

TRANSMISSION AND DISTRIBUTION RELIABILITY INDEX*



*FirstEnergy's index is comprised of two indices that are commonly used in the electric utility industry: Transmission Outage Frequency (TOF) and System Average Interruption Duration Index (SAIDI). Our index measures frequency and duration of service interruptions: the better the performance, the higher the score. The highest score possible is 2.75.

ATTACHMENT 2 – CONFIDENTIAL

Summary: Testimony Public Version Supplemental Testimony of Marc Vallen electronically filed by Mr. Thomas R. Hays on behalf of NOAC and Lucas County Board of Commissioners and City of Toledo and City of Sylvania and Village of Ottawa Hills and City of Perrysburg and City of Northwood and City of Maumee and The Village of Holland and The Village of Waterville and Lake Township Board of Trustees