BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan.	))))))	Case No. 11-346-EL-SSO Case No. 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	))))	Case No. 11-349-EL-AAM Case No. 11-350-EL-AAM

DIRECT TESTIMONY OF

PHILLIP NORTH

ON BEHALF OF

DUKE ENERGY RETAIL SALES, LLC

May 4, 2012

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Phillip North, and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Commercial Enterprises, Inc., (DECES) as a Senior Business Analyst. DECES provides administrative and various other services to Duke Energy Retail Sales, LLC, (DER) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I am a graduate of Miami University with a Masters in Arts in Business Economics. I have a Bachelor's degree in Business Economics also from Miami University. I serve on the Board of Directors of the Cincinnati Arts and Technical Center. I have been working with Duke Energy in various capacities since 2008. My first position was that of a contract worker in an analyst role, where I was an expert in coal market fundamentals. I was then hired as a Portfolio Analyst, followed by a promotion to Senior Business Analyst in 2011.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS A SENIOR BUSINESS ANALYST.

A. My responsibilities as a Senior Business Analyst include managing DER's large industrial and commercial customer strategy and DER regulatory cases. I am also

responsible for a variety of special projects throughout the overall Midwest Commercial Generation business.

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

A. No, I have not.

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

A. The purpose of my testimony in this proceeding is to comment on the "more favorable in the aggregate test" that was performed by Ohio Power Company (AEP Ohio) witness, Laura J. Thomas. I also recommend modifications to the test, as performed by Ms. Thomas, to accurately reflect the current Order of the Public Utilities Commission of Ohio (Commission) in Case No. 10-2929-EL-UNC (AEP Ohio capacity case), which institutes PJM Interconnection, LLC, (PJM) Reliability Pricing Model (RPM) prices beginning June 1, 2012.

II. DISCUSSION

Q. PLEASE PROVIDE SOME BACKGROUND ON DUKE ENERGY RETAIL, OR DER, THE ENTITY ON WHOSE BEHALF YOU ARE TESTIFYING IN THIS PROCEEDING.

A. DER is a wholly owned subsidiary of Duke Energy that provides electricity and energy-related services to retail customers in Ohio. DER holds a certificate as a competitive retail electric service (CRES) provider from the Commission, allowing it to engage in the competitive sale of electric services to retail customers in Ohio. DER currently serves customers throughout Ohio, including

the service territories of AEP Ohio, The Dayton Power and Light Company, Duke Energy Ohio, Inc., Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (the last three of which are collectively referred to herein as the FirstEnergy).

Q. WHAT IS DER'S INTEREST IN THIS PROCEEDING?

A. DER is interested in ensuring the existence of fair and equitable rules that allow for a viable competitive market in AEP Ohio's service territory, thereby allowing AEP Ohio's customers to gain the benefits of choice that shopping customers in other Ohio utilities' territories have experienced.

Q. HOW IS LAURA J. THOMAS' DIRECT TESTIMONY IN THIS PROCEEDING RELEVANT TO THE INTERESTS OF DER IN ENSURING A COMPETITIVE MARKET IN AEP OHIO'S SERVICE TERRITORY?

A. As I have been informed by counsel, an electric distribution utility (EDU) seeking approval of an electric security plan (ESP) must demonstrate that its proposed ESP is better, in the aggregate, than the results expected under a market rate offer (MRO). Focusing on the practical implications, if the proposed ESP is not more favorable than the MRO, the competitive market and customers are harmed as the ESP would be imposing additional costs on customers or barriers to competition.

Q. PLEASE DESCRIBE THE MODIFICATIONS THAT YOU WOULD RECOMMEND TO THE ANALYSIS PERFORMED BY MS. THOMAS.

A. I believe the Commission should modify the analysis performed by Ms. Thomas in two ways. First, under the competitive benchmarket price, as referred to by

Ms. Thomas, current market prices must be used for capacity and not the significantly higher costs that AEP Ohio seeks to impose upon shopping customers, via charges to CRES providers. An MRO, by definition, is based upon competitive bid prices or market rates. Accordingly, for 2012/2013 pricing, the Final Zonal Capacity Price (FZCP) reflects the current market price for capacity, as all PJM capacity auctions (base residual and incremental) for that period have been completed. For 2013/2014 pricing, the current capacity price modified for the first incremental auction was utilized. For 2014/2015 pricing, the current Base Residual Auction (BRA) price is appropriate as no incremental auctions for that period have taken place. These substitutions result in capacity prices of $16.73/MW-Day, $27.86/MW-Day, and $125.99/MW-Day, respectively, for the three planning-year periods covered by AEP Ohio's proposed ESP. These capacity prices should be incorporated into the bid price that is blended with the legacy ESP.

On this final point, the results expected under the MRO provisions reflect a statutorily prescribed blending of the market or bid price and a utility's most recent standard service offer. Consistent therewith, the second modification that I propose to Ms. Thomas' testimony and analysis contained therein is to change the blend rate for the last five months of the 2014/2015 planning year. In doing so, the blend for the entire 2014/2015 planning year, or year three of this plan, reflects a blend of 70 percent ESP pricing/30 percent market pricing.

Based upon these recommendations, I have prepared a comparison of the proposed ESP and the expected results under the MRO. I discuss this comparison later in my testimony.

Q. WHY ARE THOSE MODIFICATIONS NECESSARY?

A. Again, as I have been advised by counsel, the required comparison is between the proposed ESP (and all of its terms and conditions) and the expected results under the MRO provisions. As AEP Ohio owned generating assets as of July 30, 2008, it is required, under the MRO provisions, to transition to full market pricing using a statutory blend period. This blend incorporates AEP Ohio's legacy ESP price and the results of a competitive bidding process (CBP) plan. The CBP plan should yield market-based pricing for all aspects of generation service, including capacity. Thus, to use capacity pricing that is not reflective of actual market conditions distorts the market component of the blend.

Furthermore, the Commission has ordered that, effective June 1, 2012, the state capacity mechanism shall be based upon the results of the PJM RPM. In other words, for the term of AEP Ohio's proposed ESP, the BRA and subsequent incremental auctions, if held, result in the applicable capacity pricing.

As I noted previously, the MRO provisions require EDUs owning generation as of July 30, 2008, to transition to market. As I have been advised by counsel, this transition covers a five-year period, where the blending percentages are 10 percent market in year one, 20 percent market in year two, 30 percent market in year three, 40 percent market in year four, and 50 percent market in year five. The corresponding percentages (90, 80, 70, 60, and 50, respectively)

would reflect the legacy ESP pricing. I am further advised by counsel that, in Duke Energy Ohio's MRO proceeding (Case No. 10-2586-EL-SSO, *et al.*), the Commission held that it can consider adjustments to the blending percentages, but not before the beginning of the second year of the MRO. Until such time, the default percentages in the MRO provisions are applicable and the expected results under the MRO must therefore reflect a blend of 70 percent ESP pricing/30 percent market pricing for the third year of AEP Ohio's proposed ESP.

Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS?

A. By modifying the MRO pricing to accurately reflect the current market prices for capacity and to incorporate the correct blending percentages, I have determined that the proposed ESP harms customers versus the expected results under the MRO by over $200 million through the three-year period. Furthermore, when including the Retail Stability Rider and the Generation Resource Rider, which are terms of the proposed ESP, the proposed ESP is worse than the MRO by $493.1 million dollars over the term. This is detailed in Attachments PN-1 and PN-3.

Q. WHY DID YOU INCLUDE THE GENERATION RESOURCE RIDER IN YOUR ANALYSIS?

A. Although Laura Thomas suggests that the Generation Resource Rider is available under both the ESP and MRO option, I have been advised by counsel that R.C. 4928.142 does not authorize, as a component of an MRO, a non-bypassable rider for new generation. As such, this is a term or condition of the proposed ESP that reflects an additional cost to customers and should be used to consider in the "more favorable in the aggregate" test

Q. WAS THE FULL COST OF THE GENERATION RESOURCE RIDER INCLUDED IN YOUR ANALYSIS?

A. Unfortunately, no. The supplemental testimony recently submitted by AEP Ohio in response to Commission order did not show the full cost to customers of the project as proposed by AEP. I have included the costs as shown in Ms. Thomas' supplemental testimony for the one and a half years that would be recovered in this ESP. That being said, as the Generation Resource Rider was proposed as a non-bypassable charge for the life of the project, the full cost to customers should be considered. As such, the cost that customers would be forced to bear is many times the estimates presented by AEP Ohio as an additional unknown cost over the life of the asset.

Q. DID YOU CONSIDER THE ALLEGED BENEFIT OF "DISCOUNTED TIERED CAPACITY PRICING FOR CRES PROVIDERS"?

A. I did not show any benefit to discounted capacity because, as previously stated, counsel has advised me that the applicable capacity pricing should reflect BRA and, where applicable, incremental auction pricing. Although AEP Ohio has proposed the use of other capacity prices, these prices are significantly above the state capacity mechanism and reflect a significant premium charged to customers under this ESP proposal.

Q. WHAT IS THE VALUE OF THE ABOVE-MARKET TIERED CAPACITY PRICING UTILIZED BY AEP OHIO?

A. Using the same switching analysis that AEP Ohio has utilized in Exhibit WAA-4, I have determined that AEP Ohio would receive $923 million of above-market

capacity payments throughout the term of this ESP. This schedule is detailed in Attachment PN-2.

Q. SHOULD THE TIERED CAPACITY PRICING BE INCLUDED IN THE "MORE FAVORABLE IN THE AGGREGATE" TEST?

A. I have been advised by counsel that the MRO comparison is based upon the expected results under the MRO, which includes a market-based component. As the tiered capacity proposal is not based upon market prices – or any other transparent, verifiable pricing mechanism – it should not be used to determine whether the proposed ESP is "more favorable in the aggregate," than the MRO.

Q. DO YOU HAVE ANY ADDITIONAL COMMENT ON THE USE OF TIERED CAPACITY PRICING IN THIS CASE AS TO ITS EFFECT ON COMPETITION?

A. I would note that any increase in the costs associated with serving a customer will hurt the competitive market. Although some customers may, or may not, still have an economic incentive to switch under the tiered capacity pricing regime, the effect of the grossly inflated capacity costs that AEP Ohio is proposing versus the Commission-approved market-based capacity cost is detrimental to the competitive market as a whole. By allowing AEP Ohio to receive above-market subsidies for its generation, the Commission would send the message that competitors are not on an equal footing with the EDU in providing electric service. Furthermore, the Commission would be taking a step back from the robust competitive market structure that has been implemented in the FirstEnergy

service territories, and recently affirmed by the ESP approved for Duke Energy Ohio.

Q. WHAT IS THE TOTAL PREMIUM THAT AEP OHIO IS REQUESTING IN THE PROPOSED ESP, AS COMPARED TO AN MRO?

A. In all, AEP Ohio is proposing an ESP that is $1.416 billion more than the MRO alternative for the three-year period. This is detailed in Attachment PN-3.

III. CONCLUSION

Q. WERE ATTACHMENTS PN-1 THROUGH PN-3 PREPARED BY YOU OR UNDER YOUR DIRECTION?

A. Yes.

Q. IS THE INFORMATION CONTAINED IN THESE ATTACHMENTS ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

	Generation Service Price *	PY 2012/2013	PY2013/2014	PY 2014/2015 Jun-Dec	PY 2014/2015 Jan-May
1	Current Base ESP g Rate	$21.26	$21.26	$21.28	$21.22
2	Current TCCR 'g' component	$2.95	$2.95	$2.95	$2.94
3	Current EICCR	$1.60	$1.60	$1.61	$1.60
4	Market Comparable Base 'g'	$25.81	$25.81	$25.84	$25.76
5	Current Fuel Factor	$36.35	$36.36	$36.39	$36.32
6	Total Generation Service Price	$62.16	$62.17	$62.23	$62.08
	Expected Bid Price				
7	Competitive Benchmark (at BRA)	$47.59	$51.37	$60.35	$60.35
	MRO Pricing - corrected for BRA pricing and MRO Blending				
8	Generation Service Price	$62.16	$62.17	$62.23	$62.08
9	Generation Service Weight	90%	80%	70%	70%
10	Expected Bid Price	$47.59	$51.37	$60.35	$60.35
11	Expected Bid Weight	10%	20%	30%	30%
12	MRO Annual Price	$60.70	$60.01	$61.67	$61.56
	MRO - ESP Price Comparison				
13	Proposed ESP Price	$62.16	$62.17	$62.23	$62.08
14	MRO Annual Price (BRA)	$60.70	$60.01	$61.67	$61.56
15	Above Market Pricing of Proposed ESP** ($/MWh)	$1.46	$2.16	$0.56	$0.52
16	Connected Load (MWh's)*	48,194,887	48,260,877	28,433,800	19,738,046
17	Market Pricing over ESP Price (Line 15 * Line 16)	$70,202,113	$104,196,034	$16,020,626	$10,232,913

* From Exhibit JLT - 1

** Does not include all ESP Costs see PN - 2 Page 3

*** From Exhibit WAA - 6

Competitive Benchmark Prices*
Market Priced Capacity - PJM RPM based on base residual auction

Planning Year 2012/2013
$/MWh

	Residential	Commercial	Industrial
Simple Swap	$32.68	$32.68	$32.68
Basis Adjustment	$0.49	$0.49	$0.49
Load Following/Shaping Adjustment	$6.12	$2.54	$1.91
Capacity	$1.41	$1.08	$0.81
Ancillary Services	$0.85	$0.85	$0.85
Alternative Energy Requirement	$0.55	$0.54	$0.54
ARR Credit	-$1.54	-$1.11	-$0.97
Losses	$2.52	$1.44	$0.64
Transaction Risk Adder	$3.83	$3.27	$2.92
Retail Administration	$5.00	$5.00	$5.00
Class Total	$51.93	$46.81	$44.89
Weighted Average		$47.59	
Total Load (000's MWH)	14,616	14,317	19,262

Planning Year 2013/2014
$/MWh

	Residential	Commercial	Industrial
Simple Swap	$35.34	$35.34	$35.34
Basis Adjustment	$0.49	$0.49	$0.49
Load Following/Shaping Adjustment	$6.35	$2.68	$1.90
Capacity	$2.25	$1.72	$1.22
Ancillary Services	$0.85	$0.85	$0.85
Alternative Energy Requirement	$0.71	$0.71	$0.71
ARR Credit	-$1.44	-$1.04	-$0.89
Losses	$2.71	$1.55	$0.69
Transaction Risk Adder	$3.93	$3.37	$2.98
Retail Administration	$5.00	$5.00	$5.00
Class Total	$56.19	$50.67	$48.29
Weighted Average		$51.37	
Total Load (000's MWH)	14,489	14,417	19,355

Planning Year 2014/2015
$/MWh

	Residential	Commercial	Industrial
Simple Swap	$37.75	$37.75	$37.75
Basis Adjustment	$0.49	$0.49	$0.49
Load Following/Shaping Adjustment	$6.57	$2.79	$1.99
Capacity	$10.23	$7.97	$5.61
Ancillary Services	$0.85	$0.85	$0.85
Alternative Energy Requirement	$0.92	$0.91	$0.92
ARR Credit	-$1.46	-$1.08	-$0.92
Losses	$2.87	$1.65	$0.73
Transaction Risk Adder	$4.09	$3.54	$3.13
Retail Administration	$5.00	$5.00	$5.00
Class Total	$67.30	$59.87	$55.55
Weighted Average		$60.35	
Total Load (000's MWH)	14,384	14,440	19,348

*All values besides capacity are from Exhibit JLT - 2

Value of Above-Market Capacity Payments				
	PY 12/13	**PY 13/14**	**PY 14/15**	**Total**
Capacity Revenues at Full Cost***	$684	$732	$867	$2,283
Capacity Revenues at BRA	$54	$57	$260	$371
Proposed Capacity Revenue in ESP***	$391	$413	$490	$1,294
Premium to Market Pricing	**$337**	**$356**	**$230**	**$923**
*** As detailed in Exhibit WAA-4 Page 1				

Aggregate Market Rate Offer Test

	Planning Year 2012/2013	Planning Year 2013/2014	Planning Year 2014/2015	Total ESP Term
MRO Price Test* (MM of $)	70.2	104.2	26.3	200.7
Retail Stability Rider** (MM of $)	44.1	102.9	137.2	284.1
Above-Market Capacity Payments*** (MM of $)	337.3	355.6	230.2	923.1
Generation Resource Rider**** (MM of $)				8.4
Total Quantifiable Detriments of ESP (MM of $)	451.6	562.6	393.7	1416.2

* From Exhibit PN - 1

** From AEP Exhibit WAA-6

*** From Exhibit PN - 2

**** From Exhibit LJT-1 (TPS Alternative)