

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of the Ohio)	
Edison Company, The Cleveland Electric)	
Illuminating Company, and The Toledo)	
Edison Company, for approval of a)	Case No. 07-796-EL-ATA
Competitive Bidding Process for Standard)	Case No. 07-797-EL-AAM
Service Offer Electric Generation Supply,)	
Accounting Modifications Associated With)	
Reconciliation Mechanisms and Phase In,)	
and Tariffs for Generation Service		

**MOTION FOR LEAVE TO INTERVENE AND
PRELIMINARY COMMENTS OF
INTEGRYS ENERGY SERVICES, INC.**

Now comes Integrys Energy Services, Inc. (“Integrys”), who in response to the Attorney Examiner’s Entry of August 16, 2007 presents its initial comments as to the application filed by the Ohio Edison Company, Toledo Edison Company, and the Cleveland Electric Illuminating Company (jointly “FirstEnergy”) in the above styled proceeding (“Application”). Further, pursuant to Section 4903.221, Revised Code and Rule 4901-1-11 of the Ohio Administrative Code, Integrys moves for intervention in the above styled proceeding as a full party of record. The reasons supporting the intervention and Integrys’ initial comments concerning the Application are contained in the accompanying Memorandum.

WHEREFORE, Integrys respectfully requests this Commission grant its motion for leave to intervene as a full party of record.

Respectfully Submitted,

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**MEMORANDUM IN SUPPORT FOR THE INTERVENTION OF
INTEGRYS ENERGY SERVICES, INC. AND
INITIAL COMMENTS AS TO FIRSTENERGY'S APPLICATION FOR AN AUCTION**

I. INTERVENTION

Section 4903.221, Revised Code and Rule 4901-1-11 of the Ohio Administrative Code, establish the standard for intervention in proceedings before the Public Utilities Commission of Ohio ("Commission"). Specifically, Rule 4901-1-11 of the Ohio Administrative Code states in part:

Upon timely motion, any person shall be permitted to intervene in a proceeding upon a showing that:

* * *

(2) The person has a real and substantial interest in the proceeding, and the person is so situated that the disposition of the proceeding may, as a practical matter, impair or impede his or her ability to protect that interest, unless the person's interest is adequately represented by existing parties.

In addition to establishment of a direct interest, the factors that the Public Utilities Commission of Ohio (the "Commission") considers when considering intervention include the nature of the intervenor's interest, the extent that such interest is represented by existing parties, the intervenor's potential contribution to a just and expeditious resolution of the issues involved, and whether intervention would result in an undue delay of the proceeding. (See also R.C. 4903.221(B) upon which the above rule is authorized). A review of these factors in light of above factors supports granting Integrys's intervention.

Integrys has been an active competitive retail electric supplier ("CRES") since the inception of electric restructuring in 2000. Integrys has been issued certificates to make both retail electric as well as retail natural gas sales. Integrys has been active in the FirstEnergy service area including acting as the CRES for the governmental aggregation program of the City

of Cleveland, and several communities in northwest Ohio. Integrys maintains two offices in Ohio; one in Cleveland, Ohio and one in Dublin, Ohio.

In the matter at bar, FirstEnergy proposes a competitive bidding process designed to procure energy for the provision of Standard Service Offer electric generation service to FirstEnergy's retail electric customers who do not purchase electric generation service from a CRES, beginning January 1, 2009. In addition, the Application also seeks to use the proposed competitive bid to fulfill FirstEnergy's obligation under Section 4929.14(B), Revised Code to provide "market priced options" to its retail customers.

Integrys is directly affected by the application in two ways. First, Integrys in coordination with its parent and sister affiliates are potential bidders in the competitive procurement process. Thus, Integrys has direct and unique interest in the method of the auction, the proposed Standard Marketing Agreement, the method and amount of financial credit that must be posted and the payment schedule for selected suppliers. Second, as a CRES provider, Integrys has a direct, pecuniary interest in the mode and manner in which the avoidable charges ("shopping credits") are administered.

The Application proposes two alternative methods of allocating wholesale bid prices for generation to the retail customers. The two methods, which are mutually exclusive, consist of allocation by: 1) awarding each successful bidder a percentage of daily load ("Slice of the System"); and 2) bidding out each load class separately ("Bid by Load Class"). FirstEnergy has proposed both methods and has left it up to the Commission to select which method to implement. The method selected by the Commission will in Integrys' opinion have a modest effect on the auction and a profound effect on retail commerce in the FirstEnergy service area.

II. INITIAL COMMENTS

A. Scope of the Initial Comments

Roughly two weeks ago, FirstEnergy held a one day technical conference at which time it presented a detailed description of: 1) the auction process; 2) bidder's credit arrangements; 3) a uniform generation purchase agreement ("Standard Marketing Agreement") under which the generation would be purchased; and two alternative methods for reconciliation. The same day, the Attorney Examiner issued an Entry establishing a comment period calling for the initial comments by September 5, 2007 - two and half weeks after the technical conference. Given the desirability to retail customers, the three operating FirstEnergy utilities and the winning suppliers alike to have firm generation arrangements in place and the price of generation known well in advance of the termination of the current generation contracts, Integrys agrees with FirstEnergy's expressed desire to conduct the auction prior to the close of the first quarter of 2008.

To meet such an ambitious schedule, yet to allow time for reflection on the hundreds of details covering payment and credit, especially in the Standard Marketing Agreement, Integrys offers its views on the basic design of the auction now and reserves the right to add comments concerning the Standard Marketing Agreement at a later time.

B. The Auction Process

FirstEnergy has proposed a descending clock auction. A descending clock auction was used several months ago by Dominion East Ohio and achieved a standard service offer for natural gas substantially below the previously regulated price. To attract a national audience to the auction, FirstEnergy has proposed using a computerized bidding method so that bidders can bid from their home office and to ensure integrity in the system, FirstEnergy proposes to employ

an experienced, independent auctioneer. These are steps that will have added attraction for quality bidders, and Integrys supports FirstEnergy's basic auction design.

C. Competitive Bidding Process by Load Class – Wholesale

Electric energy cannot be efficiently stored, and requires capital investment in intermediate and peaker generation plants to cover the substantial demand for weather driven space cooling and heating. Since these intermediate and peak plants only run for a few hundred hours of the 8,760 clock hours during the year, their cost per megawatt hour ("MWh") basis is relatively high. Thus, it is not unusual for the market cost per MWh for generation at three o'clock in the afternoon in August when the peakers are running to be four or five times the cost per MWh at three o'clock in the morning in May when only base units are running. To account for this wide range in the cost of producing generation FirstEnergy in the Slice of the System method of allocation proposes to run the closing bid price – which will be based on the winning bidder serving a pre set percentage of all classes of customer – through a price matrix. Specifically, industrial class customers will pay only 80% of the winning bid price while commercial customers will pay 120% of the closing bid price¹. Applying these allocation percentages is one way of recognizing the industrial customer's greater use of lower priced power during off peak times and mild weather months.

The problem with the Slice of System is two fold. First, the price matrix is controversial. At best it captures an historic relationship among the classes. Past is not prologue, especially where weather is concerned. The number of heating and cooling degree days varies widely from year to year. Further, the industrial load varies due to economic conditions. In fact, during the time period 2000 to 2006, industrial class energy use fell 19%, while commercial use

¹ Adjusted for seasonal pricing.

increased 6%². Finally, there is no set correlation between the percentage of off peak power and the price, yet the price matrix by its very nature establishes a fixed relationship.

Recognizing the shortfalls of using the price matrix, FirstEnergy has offered an alternative: merely bid out the generation by class. This alternative has two outstanding features for bidders. First, it creates more auctions, each requiring a smaller dedication of generation capacity. That alone should increase the number of bidders and lower the closing price as more discrete dedication of resources is being required. More important, it will let the bidders value the relative cost difference of supplying generation to the different classes. That is likely to produce a more accurate, and equitable allocation of cost among the customer classes as well as reducing the over costs.

D. Competitive Bidding Process by Load Class – Retail

The Application has a unique feature in the Slice of the System proposal that will be devastating to CRES suppliers. The Application recognizes that customers who purchase their own generation should not have to pay for the Standard Service generation they do not take. In the Load Class Bid alternative the avoided price of generation is the closing bid price which FirstEnergy will pay the winning suppliers. Thus, if the summer price of generation for a commercial customer paid to the supplier is \$70 MWh, then the shopping customer avoids \$70 MWh. This direct method of determining the avoided cost provides retail customers with a price that is transparent and easily understood comparison when deciding whether to take the Standard Service Offer or shop. The same is not true of the Slice of the System. The Application states that the avoided cost is the lower of the closing bid cost or the price matrix price. Thus, if the closing bid was \$70 and the price matrix multiplier were 1.2, then the Standard Service Offer

² Calculation based upon PUCO Quarterly Energy Reports 2000 - 2006

price of generation would be \$84 MWh. The avoided price however would only be \$70 MWh which is the lower of the price matrix or the bid price.

Industrial customers fare no better under this Slice of the System proposal in terms of price transparency or the ability to shop. In the above example, if the winning bidders were being paid \$70 MWh then the Standard Service Offer price would be \$56 dollars an MWh for the industrial customer, and that would also be the avoided cost since it is the lower of the bid price or the price matrix price. Bottom line, the customer will have a hard time understanding the price to compare, and commercial customers will always receive less than their cost of generation as an avoided cost.

In sum, selection between the two alternatives is simple and easy; to foster price transparency, give commercial customers a fair opportunity to shop and to obtain the lowest price the Commission should select the auction by class method.

III. CONCLUSION

In sum, Integrys has a direct pecuniary stake in the outcome of this proceeding and thus has demonstrated it has a real and substantial interest. Further, Integrys' application is timely made and, by its experience and position in the market, Integrys has the expertise to help fully develop the record in the matter at bar. For these reasons, Integrys should be granted intervention as a full party of record.

For purposes of receiving service in this proceeding Integrys requests that in addition to the undersigned counsel, that Integrys' corporate representative, Teresa Ringenbach, Bank One Center, 600 Superior Avenue, Suite 1300, Cleveland, Ohio 44114, Email address TLRingenbach@integrysenergy.com, be placed on the official service list so she may receive pleadings directly.

Finally, Integrys asks the Commission to consider its initial comments including selecting the Load Class Bid alternative.

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing documents was served this 5th day of September, 2007 by regular U.S. mail, postage prepaid, or by electronic mail, upon the persons listed below.

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