

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) Case No. 11-346-EL-SSO
Standard Service Offer Pursuant to Section) Case No. 11-348-EL-SSO
4928.143, Revised Code, in the Form of an)
Electric Security Plan.)

In the Matter of the Application of Columbus)
Southern Power Company and Ohio Power) Case No. 11-349-EL-AAM
Company for Approval of Certain) Case No. 11-350-EL-AAM
Accounting Authority.)

DIRECT TESTIMONY OF

SALIL PRADHAN

ON BEHALF OF

DUKE ENERGY COMMERCIAL ASSET MANAGEMENT, INC.

May 4, 2012

TABLE OF CONTENTS

	<u>PAGES</u>
I. INTRODUCTION.....	1
II. DISCUSSION.....	3
III. CONCLUSION.....	11

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Salil Pradhan, and my business address is 139 East Fourth Street,
3 Cincinnati, Ohio 45202.

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

5 A. I am employed by Duke Energy Commercial Enterprises, Inc., (DECES) as Vice
6 President, Portfolio Risk Management for Midwest Commercial Generation
7 (MCG). DECES provides administrative and various other services to Duke
8 Energy Commercial Asset Management, Inc., (DECAM) and other affiliated
9 companies of Duke Energy Corporation (Duke Energy).

10 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**
11 **EXPERIENCE.**

12 A. I am a graduate of the University of Chicago with an MBA in finance and
13 strategy. I have a Masters Degree in Chemical Engineering from the University
14 of Cincinnati and a Bachelor's Degree in Chemical Engineering from the
15 University of Mumbai. I am a Chartered Financial Analyst and also a graduate of
16 the Center for Creative Leadership Developing Strategic Leadership Program. I
17 have served on the Board of Directors of the Cincinnati Better Business Bureau. I
18 currently serve on the Investment Committee of the Cincinnati Center City
19 Development Corporation.

20 My adventures in the energy industry began in 2001. Prior to joining
21 Duke Energy in 2004, I was Manager of Fundamental Analysis at American
22 Electric Power in Columbus, Ohio. I also managed the Fundamental Analysis

1 Group with Coal Trading, Inc., of Enron Corp., in Houston. I joined Cinergy
2 Corp. (Cinergy) as a Director of Emissions Portfolio Management. Following the
3 merger of Duke Energy and Cinergy, I was promoted in 2006 and became Vice
4 President of Commodity Risk Management. I am responsible for hedging in
5 wholesale markets for power, capacity, natural gas, coal, emission allowances
6 (EAs), renewable energy credits (RECs), and Financial Transmission Rights
7 (FTRs). I am responsible for the profits and losses (P&L) of serving full
8 requirements load procured through auctions, requests for proposals, and bilateral
9 transactions. I am also responsible for hedging the commodity exposure and
10 optimizing the commercial value of 3,000 megawatts of coal assets and 3,000
11 megawatts of gas assets located in PJM Interconnection, LLC, (PJM) markets.

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

14 A. Yes. I have also submitted pre-filed testimony to the Public Utilities Commission
15 of Ohio (Commission) on several prior occasions.

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

18 A. The purpose of my testimony in this proceeding is to respond to the proposal by
19 Ohio Power Company (AEP Ohio) to “quickly transition” to a competitive
20 environment via the implementation of energy auctions during the term of its
21 modified electric security plan (ESP). In doing so, I provide recommendations for
22 a competitive auction format, which were noticeably absent from AEP Ohio’s

1 March 30, 2012, filing. I also address some of the non-bypassable riders that AEP
2 Ohio is seeking here and, more particularly, their impact on competition.

II. DISCUSSION

3 **Q. PLEASE PROVIDE SOME BACKGROUND ON DUKE ENERGY**
4 **COMMERCIAL ASSET MANAGEMENT, OR DECAM, THE ENTITY ON**
5 **WHOSE BEHALF YOU ARE TESTIFYING IN THIS PROCEEDING.**

6 A. DECAM serves as the face-to-the-market for wholesale transactions for the
7 commercial business of Duke Energy and participates in load auctions. DECAM
8 is a holding company and is currently the owner of 3,000 megawatts of gas assets
9 located in PJM.

10 **Q. WHAT IS DECAM'S INTEREST IN THIS PROCEEDING?**

11 A. DECAM is interested in participation in a load auction. Ohio's competitive
12 footprint allows DECAM to participate and procure load.

13 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

14 A. An aggressive transition to competitive markets requires an auction for AEP
15 Ohio's entire standard service offer (SSO) load, effective with the implementation
16 of the ESP. Delaying the competitive procurement process, as suggested by AEP
17 Ohio, will not function to preserve a competitive market in AEP Ohio's service
18 territory.

19 To ensure wholesale suppliers that the competitive market in Ohio will be
20 perpetuated for years to come and to encourage suppliers to dedicate resources to
21 such an Ohio market, the Commission should consider adopting an auction
22 format, with delivery commensurate with the effective date of the modified plan. I

1 address a suitable auction format below. Consistency in the data provided to
2 auction participants and auction winners is also critical.

3 Further, the Commission should reject AEP-Ohio's request for a non-
4 bypassable revenue stability rider, which is intended to subsidize generation.

5 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION THAT AEP**
6 **OHIO TRANSITION IMMEDIATELY TO AUCTIONS?**

7 A. As I have been informed by counsel, the policies of the state of Ohio include the
8 assurance of effective competition in the provision of electric retail service and of
9 diversity in suppliers. These goals cannot be implemented when the distribution
10 utility erects barriers to full competition. Here, AEP Ohio is proposing limitations
11 that delay access to competition, thereby denying its customers access to today's
12 low market rates and depriving wholesale suppliers of competitive opportunities.

13 **Q. PLEASE SUMMARIZE AEP OHIO'S PROPOSAL IN RESPECT OF**
14 **COMPETITIVE PROCUREMENTS.**

15 A. As summarized in its March 30, 2012, filing, AEP Ohio suggests that it would be
16 willing to entertain an energy-only auction for delivery commencing in January
17 2015, provided its corporate separation and pool termination are completed by
18 that time. AEP Ohio also states that will consider an energy-only, slice of system
19 auction for just 5 percent of its SSO load prior to January 2015, provided it is
20 made financially whole. It is only for those PJM delivery periods that begin after
21 the modified ESP expires for which AEP Ohio proposes to use competitive
22 procurements for its entire SSO load.

1 **Q. DOES DECAM SUPPORT AEP OHIO'S PROPOSALS REGARDING**
2 **COMPETITIVE PROCUREMENTS?**

3 A. No. As I mentioned briefly above, any protracted delay in implementing full
4 auctions deprives customers of today's low market rates and removes from
5 prospective auction participants the opportunity to invest in a process designed to
6 keep costs as low as possible for customers.

7 The proposal is further complicated by the limited auction products and
8 lack of detail in the auction format.

9 **Q. CAN YOU PLEASE ELABORATE ON WHY LIMITED AUCTION**
10 **PRODUCTS AND LACK OF DETAIL IN THE AUCTION FORMAT IS**
11 **PROBLEMATIC?**

12 A. AEP Ohio is now proposing an ESP that expires on May 31, 2015. As such, the
13 auction product would be a five-month product, with no confirmed structure for
14 subsequent competitive procurements. This, in and of itself, may not be sufficient
15 to ensure a robust process with sufficient levels of participation to yield
16 competitively reasonable rates.

17 Furthermore, there is no detail in the March 30, 2012, filing related to how
18 the auction would be conducted, the credit requirements to which prospective
19 suppliers would be subject, and the information that prospective suppliers would
20 receive from AEP Ohio in respect of the auction product. The lack of detail
21 regarding the auction proposal forces prospective suppliers to blindly accept an
22 auction format without relevant details.

1 **Q. AEP OHIO STATES THAT IT WILL CONDUCT THE AUCTIONS IN A**
2 **MANNER SIMILAR TO THAT EMPLOYED BY OTHER OHIO**
3 **DISTRUBTION UTILITIES. DOES THAT STATEMENT PROVIDE**
4 **SUFFICIENT ASSURANCE OF THE AUCTION FORMAT?**

5 A. No. The competitive procurements used by the other Ohio utilities incorporate
6 very detailed bid documents, including, but not limited to, bidding rules,
7 applications, and master supply agreements. These documents set forth the
8 requirements for participation as well as the suppliers' obligations should they
9 win any part of the auctioned load. Here, however, AEP Ohio has not provided
10 any level of meaningful detail regarding the auction format or the related bid
11 documents. To address this oversight in the filing, the Commission should
12 require AEP Ohio to include in its filing, and seek Commission approval of, those
13 bid documents previously approved for use by other Ohio distribution utilities.
14 Further, the Commission should consider improving upon these bid documents
15 and approved auction formats, consistent with my recommendations below.

16 **Q. WHAT CHANGES TO THE EXISTING, COMMISSION-APPROVED**
17 **COMPETITIVE BIDDING PROCESS PLANS WOULD YOU**
18 **RECOMMEND?**

19 A. The Commission should give consideration to removing capacity from the
20 auction, as the capacity price will have been already determined via the PJM base
21 residual and incremental auctions. The PJM process yields capacity prices that
22 are market-based, presumptively reasonable, and known. Indeed, the capacity
23 prices are determined on a three-year forward basis.

1 There is no compelling need to add capacity as an auction product as the
2 distribution utility company can simply pass PJM's charges for capacity on to all
3 customers – regardless of their shopping status – using a transparent and easily
4 verifiable process.

5 The Commission should also consider including renewable energy credits
6 (RECs) as an auction product. Inclusion of RECs will send the appropriate
7 signals to those active in the renewable energy market that encourage investment
8 in the market.

9 Further, including RECs as an auction product should equalize SSO rates
10 with competitive retail electric service (CRES) provider offers. The competitive
11 landscape in FirstEnergy (FE) and Duke Energy Ohio (DEO) territories is not
12 apples-to-apples for wholesale and retail load providers. SSO load auction
13 participants provide full requirements services that exclude RECs. However,
14 CRES providers full requirements services including RECs. The price-to-
15 compare (PTC) is a calculated number using the sum of SSO load auction price
16 determined in a competitive manner and the REC component that is a cost-based
17 calculation of the utility's management of the RECs. This is not an apples-to-
18 apples comparison between the SSO load auction price and the load price for the
19 retail providers in FE and DEO territories to be compared with SSO load PTC.
20 By including RECs in the SSO load auction, the Commission will eliminate the
21 need for calculation and allow the all inclusive price to be the PTC.

1 **Q. DOES ANY OTHER COMPETITIVE BIDDING PROCESS PLAN IN**
2 **OHIO EXCLUDE CAPACITY AND INCLUDE RECS?**

3 A. Not at this time, although DP&L has proposed including RECs in the auctions
4 conducted under a market rate offer. And the fact that the current auction formats
5 do not incorporate these suggestions should not serve to summarily exclude them
6 from Commission consideration. The Commission's focus is understandably on
7 competitive processes that attract sufficient participation while yielding the lowest
8 costs for customers. Refinements to the approved and admittedly successful
9 formats currently in place should be considered where consistent with the
10 Commission's objective.

11 **Q. ARE THERE ANY CHANGES YOU WOULD RECOMMEND WITH**
12 **REGARD TO DATA PROVIDED TO PARTICIPANTS AND WINNERS IN**
13 **PREVIOUS OHIO UTILITIES' AUCTIONS?**

14 A. Yes. Thus far, there has not been consistency in the data provided in auctions in
15 the FirstEnergy utilities auctions and the Duke Energy Ohio auctions. The
16 amount of historic data provided, the type of class, and the transmission level at
17 which the data was provided were all different between those utilities. Also, upon
18 completion of the auctions, the frequency of updates provided to auction winners
19 varies as well.

20 **Q. PLEASE EXPLAIN HOW YOU WOULD PROPOSE TO ELIMINATE**
21 **THE AUCTION DATA INCONSISTENCIES THAT YOU HAVE**
22 **DESCRIBED.**

1 A. AEP Ohio can serve as a benchmark for providing auction data. I recommend
2 that the auction load data provided by AEP Ohio provide the following data: at
3 least three years of historic data, data by customer class, data by shopping or non-
4 shopping customers, load data at the control area including transmission and
5 distribution losses but not unaccounted-for-energy (UFE). Also, I suggest that
6 AEP Ohio provide deration factors and UFE for the same three-year time period.
7 Finally, once an auction winner begins serving load, the utility should provide
8 weekly updates to load data, with consistency in the updates. The data should be
9 updated for the same time period (load, deration factor, etc.).

10 These recommendations will help an auction participant be more
11 competitive and an auction winner better serve the load.

12 **Q. PLEASE ELABORATE ON YOUR RECOMMENDATION THAT THE**
13 **COMMISSION REJECT AEP OHIO'S PROPOSED RETAIL STABILITY**
14 **RIDER.**

15 A. As I understand, AEP Ohio is seeking a retail stability rider pursuant to which it
16 will be guaranteed a fixed level of non-fuel generation revenues for the term of
17 the proposed ESP. More specifically, AEP Ohio is asking the Commission to
18 ensure an annual level of non-fuel generation revenue of \$929 million. The
19 revenues would be collected from all customers, regardless of their shopping
20 status. Further, the collected revenues would be given to AEP Ohio's non-
21 regulated affiliate after the anticipated transfer of generating assets.

22 AEP Ohio's proposal is anti-competitive. The effect of the rider is to
23 finance generation operations – including the prospective operation by a non-

1 regulated affiliate – through retail rates. I have been informed by counsel that
2 Ohio law prohibits improper cross-subsidies.

3 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH THE PROPOSED**
4 **REVENUE STABILITY RIDER?**

5 A. DECAM currently owns 3,000 megawatts of gas-fired generation and anticipates
6 assuming ownership of coal-fired generation currently owned by DEO. AEP
7 Ohio is a joint owner of some of these units. With regard to the jointly owned
8 units, DECAM will make investment and operational decisions consistent with
9 wholesale market signals. This is to be expected within a non-regulated,
10 competitive framework. And DECAM will seek to recover proportionate costs
11 from its co-owners, including AEP Ohio and eventually its generation-owning
12 affiliate. Conversely, under the structure proposed by AEP Ohio, both it and its
13 affiliate will not be bound to the market in respect of investment and operational
14 decisions. Rather, with a guaranteed, significant revenue stream, AEP Ohio and
15 its affiliate will be in a position to make uneconomic investments and incur
16 uneconomic costs in their operated assets, without regard to prevailing market
17 conditions. And AEP Ohio and such affiliate can, in turn, demand that their co-
18 owners reimburse them for their proportionate share of these potentially
19 unreasonable costs. The motivations of co-owners of these generating assets
20 should be the same, properly tempered by external market conditions.

21 Additionally, AEP Ohio and its generation-owning affiliate would be in a
22 position to use this subsidy to participate uneconomically in load deals, thus

1 eliminating competition and subsequently causing higher prices for consumers in
2 the AEP Ohio territory.

III. CONCLUSION

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

4 **A. Yes.**