***OCC EXHIBIT \_\_\_\_\_\_***

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of TheDayton Power and Light Company forApproval of its Market Rate Offer.In the Matter of the Application of TheDayton Power and Light Company forApproval of Revised Tariffs.In the Matter of the Application of TheDayton Power and Light Company forApproval of Certain AccountingAuthority.In the Matter of the Application of TheDayton Power and Light Company forWaiver of Certain Commission Rules.In the Matter of the Application of TheDayton Power and Light Company toEstablish Tariff Riders. | )))))))))))))))) | Case No. 12-426-EL-SSOCase No. 12-427-EL-ATACase No. 12-428-EL-AAMCase No. 12-429-EL-WVRCase No. 12-672-EL-RDR |

**DIRECT TESTIMONY**

**OF**

**JAMES F. WILSON**

**On Behalf of**

**The Office of the Ohio Consumers’ Counsel**

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***March 5, 2013***

# I. INTRODUCTION AND SUMMARY

***Q1. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS*.**

***A1.*** My name is James F. Wilson. I am an economist and principal of Wilson Energy Economics. My business address is 4800 Hampden Lane Suite 200, Bethesda, MD 20814.

***Q2. PLEASE DESCRIBE YOUR EXPERIENCE AND QUALIFICATIONS.***

***A2.*** I have over twenty-five years of consulting experience to the electric power and natural gas industries. Many of my past assignments have focused on the economic and policy issues arising from the introduction of competition into these industries, including restructuring policies, market design, and market power. Other engagements have included contract litigation and damages; pipeline rate cases; forecasting and market assessment; evaluating allegations of market manipulation; probabilistic modeling of utility planning problems; and a wide range of other issues arising in these industries. I also spent five years in Russia in the early 1990s advising on the reform, restructuring, and development of the Russian electricity and natural gas industries for the World Bank and other clients. I have submitted affidavits and presented testimony in proceedings of the Federal Energy Regulatory Commission, state regulatory agencies, and a U.S. district court.I have been involved in electricity restructuring and wholesale market design for over twenty years in PJM, New England, Ontario, California, Russia, and other regions. With regard to the PJM system, I have been involved in a broad range of market design, planning and capacity market issues over the past several years. I hold a B.A. in Mathematics from Oberlin College and an M.S. in Engineering-Economic Systems from Stanford University. My curriculum vitae, summarizing my experience and listing past testimony, is Attachment JFW-1 attached hereto.

***Q3. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?***

***A3.*** Yes. I testified in Case No. 12-1230-EL-SSO regarding the application of The Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, “FirstEnergy”) for an Electric Security Plan (“ESP”) in June 2012. I also testified in Case No. 09-906-EL-SSO, involving FirstEnergy’s 2009 application for approval of a Market Rate Offer (“MRO”).

***Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?***

***A4.*** I was retained by the Office of the Ohio Consumers’ Counsel (“OCC”) to review and comment on the rate blending plan contained within The Dayton Power and Light Company (“DP&L” or “Utility”) Second Revised Application (“Application”) for an ESP filed December 12, 2012 in this proceeding.

***Q5. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING DP&L’S PROPOSED RATE BLENDING PLAN.***

***A5.*** DP&L’s proposed rate blending plan takes too long to transition to full competition. A more rapid transition would enhance market efficiency, consistent with the State’s policy that includes ensuring the diversity of electricity supplies and suppliers by giving consumers choices over who will supply their electricity.[[1]](#footnote-1) A more rapid transition is also more consistent with a view of the Public Utilities Commission of Ohio (“PUCO” or “Commission”) that customers should be able to benefit from market-based prices while they are low.[[2]](#footnote-2) Setting DP&L’s Standard Service Offer (“SSO”) rates through a competitive auction would, judging from current and forecasted market prices, give customers a significant benefit relative to the current base generation rates. Finally, a more rapid transition to market will enhance the competitive marketplace, providing opportunities for competitors to fulfill the electricity needs of their customers, a policy of the state under R.C. 4928.02. Therefore, OCC’s proposal, under which DP&L would acquire 100% of the power necessary to serve DP&L’s SSO load through a competitive bidding process (“CBP”) beginning with the effective date for rates under the ESP, is preferable to DP&L’s proposal for rate blending over multiple years.

# II. EVALUATION OF DP&L’S PROPOSED RATE BLENDING PLAN

***Q6. PLEASE SUMMARIZE DP&L’S PROPOSED RATE BLENDING PLAN.***

***A6.*** DP&L’s proposed rate blending plan is summarized in the Application at p. 7. According to the proposal, only 10% of the applicable load would be met through a competitive bidding process (“CBP”), and priced at a resulting Competitive Bid (“CB”) rate, through May of 2014. This fraction would rise to 40% for June 2014 through May 2015, to 70% for June 2015 through May 2016, and to 100%, representing full competition, only in June 2016.

***Q7. WHAT IS THE STATUS OF THE OTHER OHIO UTILITIES’ TRANSITIONS TO COMPETITION?***

***A7.*** Some other Ohio utilities are moving rapidly to full competition. Duke Energy Ohio held an auction on December 14, 2011 to satisfy 100% of its SSO load beginning January 1, 2012.[[3]](#footnote-3) FirstEnergy held auctions on October 20, 2010 and January 25, 2011, to satisfy 100% of SSO load beginning June 1, 2011.[[4]](#footnote-4)

***Q8. WHAT IS THE STATUS OF DP&L’S TRANSITION TO COMPETITION?***

***A8.*** The transition to competition began with the passage of Senate Bill 3 in 1999.[[5]](#footnote-5) More recently, DP&L was provided additional time to make the transition to market under the approved stipulation in its last Electric Security Plan (Case No. 08-1094-EL-SSO). However, under the current ESP Application, the first auction for 100% of SSO load would not start providing SSO customers with fully market-based rates for generation until June 1, 2016.

***Q9. PLEASE SUMMARIZE THE RESULTS OF THE OTHER OHIO UTILITIES’ RECENT COMPETITIVE BID PROCESSES.***

***A9.*** Duke Energy Ohio has now completed three of the scheduled five auctions designed to provide market based generation rates to customers continuing to purchase electricity from the SSO.[[6]](#footnote-6) The first auction, held on December 14, 2011, resulted in auction prices of $49.72, $51.10, and $57.08 per MWh for supply from January 2012 through May of 2013, 2014, and 2015 respectively.[[7]](#footnote-7) Duke’s first auction produced a 17.5% rate reduction off the total bill for 2012 from December 2011 rates for residential customers consuming 1,000 kWh per month.[[8]](#footnote-8) The subsequent two auctions held in 2012 resulted in auction prices of $52.14 and $50.56 per MWh for the period June 2013 through May 2015. [[9]](#footnote-9)

FirstEnergy’s auction held on May 13, 2009 for the term June 1, 2009 through May 31, 2011, produced a clearing price of $61.50 per MWh for each of the three operating companies. The Commission found that, at that auction price, Ohio Edison’s customers would experience a 16% decrease, Toledo Edison’s customers a 12.6% decrease, and Cleveland Electric Illuminating’s customers a 7.4% decrease.[[10]](#footnote-10) FirstEnergy has completed several additional auctions to supply SSO load, of which most cleared in the $52 to $58 per MWH range, and a recent auction for supply through May of 2016 cleared at $60.89 per MWH.[[11]](#footnote-11)

***Q10. WHAT AUCTION PRICES HAS DP&L FORECASTED FOR THE ELECTRIC SECURITY PLAN PERIOD?***

***A10.*** DP&L witness Teresa F. Marrinan developed “proxy market-based auction prices” for the CBPs, used in the Application for projecting financial and rate impacts. The projected auction prices, which were developed based on forward prices, are shown in Exhibit TFM-2. I reviewed Ms. Marrinan’s methodology and concluded that her results fall within a reasonable range. DP&L witness Emily Rabb adjusted these projected auction results for losses and a revenue conversion factor to determine CB rates. This calculation is shown in Ms. Rabb’s Exhibit 5B. The resulting CB rates are $44.86 per MWh for the period January 2013 – May 2014, $58.01 per MWh for June 2014 – May 2015, $61.70 per MWh for June 2015 – May 2016, $64.07 per MWh for June 2016 – May 2017, and $65.75 per MWh for June 2017 – May 2018.

***Q11. HOW DO THESE FORECASTED COMPETITIVE BID PRICES COMPARE TO DP&L’S BASE GENERATION CHARGES THAT, UNDER THE APPLICATION, WOULD APPLY TO THE SAME TIME PERIODS?***

***A11.*** These forecasted CBP auction rates, and the corresponding DP&L Base Generation Rates with which DP&L proposes to blend them, are shown in Exhibit RJM-1 to the testimony of DP&L witness R. Jeffrey Malinak. On this Exhibit the Utility identifies its Base Generation Rate as $76.62 per MWH for 2013 through May of 2018.

If rates are based 100% on auction results, then DP&L’s auction forecast suggests that customers will see substantial savings. The forecasted CBP auction rate is 39% below the proposed Blended SSO Rate for 2013 through May 2014, 16% lower for June 2014 through May 2015, and 7% lower for June 2015 through May 2016.

***Q12. HAVE YOU IDENTIFIED ANY REASON WHY DP&L’S COMPETITIVE BID PROCESSES MIGHT HAVE SUBSTANTIALLY DIFFERENT RESULTS FROM OTHER OHIO UTILITIES’ RECENT COMPETITIVE BID AUCTIONS OR FROM DP&L’S AUCTION PRICE FORECAST?***

***A12.*** No. DP&L’s service territory is part of the large and generally unconstrained western region of PJM. While there have been recent concerns about possible transmission constraints into FirstEnergy’s service territories resulting from retirements announced in 2012, which may have had some impact on FirstEnergy’s latest CBP results, I am not aware of such concerns about the DP&L region. I am not aware of any reason why DP&L’s CBPs would have results substantially different from those of the other Ohio utilities or substantially different from DP&L’s projections.

***Q13. WHAT DOES THIS INFORMATION SHOW ABOUT A COMPETITIVE BID PROCESS FOR DP&L’S STANDARD SERVICE OFFER?***

***A13.*** The results of the recent CBP processes indicate that DP&L’s SSO load could be satisfied at substantial savings for standard offer customers through a CBP process. Both Duke and FirstEnergy have already moved to a CBP process for 100% of their SSO load. In both cases, residential customers experienced a decrease from their then-existing SSO rates. In contrast, DP&L is proposing a three-year blending process where 100% CBP rates will not be achieved for customers until June 1, 2016. Under DP&L’s proposal, rates for some residential customers would actually increase 2.61% in the first year of the ESP.[[12]](#footnote-12) The proposed delay in moving to a 100% auction price for all of DP&L’s SSO customers will result in substantial lost savings to customers.

***Q14. ARE THERE OTHER POTENTIAL BENEFITS TO A MORE RAPID TRANSITION TO COMPETITION BY DP&L?***

**A14.** Yes.

***Q15. WHAT ARE THE OTHER POTENTIAL BENEFITS TO A MORE RAPID TRANSITION TO COMPETITION BY DP&L?***

***A15.*** A more rapid transition to competition by DP&L would result in more Ohio generation competing in retail markets to serve loads not only in DP&L’s service territory, but also in the service territories of the other Ohio utilities. This additional competition could contribute some additional downward pressure on prices in the other utilities’ CBPs, enhancing competitiveness and market efficiency and benefiting consumers.

***Q16. PLEASE SUMMARIZE YOUR CONCLUSION REGARDING DP&L’S PROPOSED TRANSITION TO COMPETITION, AS REFLECTED IN ITS PROPOSED RATE BLENDING PLAN.***

***A16.*** DP&L’s proposed rate blending plan takes too long to provide customers the benefits of full competition. A more rapid transition to market, as proposed by OCC, would enhance market efficiency and lower the price of DP&L’s electric service for Ohio consumers.

***Q17. DOES THIS COMPLETE YOUR TESTIMONY?***

***A17.*** Yes it does. However, I understand that I may be asked to supplement my testimony in the event that DP&L, the PUCO Staff or any Signatory Party submits additional testimony, or additional relevant information otherwise becomes available.

**CERTIFICATE OF SERVICE**

I hereby certify that a true copy of the foregoing *Direct Testimony of James F. Wilson* was served via electronic transmission to the persons listed below on this 5th day of March, 2013.

 */s/ Melissa R. Yost*

 Melissa R. Yost

 Deputy Consumers’ Counsel

**SERVICE LIST**

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1. See R.C. 4928.02(C). [↑](#footnote-ref-1)
2. See *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 4928.143 Ohio Rev. Code in the Form of an Electric Security Plan,* Case No. 11-346-EL-SSO, Entry on Rehearing at ¶37 (January 30, 2013). [↑](#footnote-ref-2)
3. *In the Matter of the Procurement of Standard Service Offer Generation for Customers of Duke Energy Ohio, Inc*., Case No. 11-6000-EL-UNC, Evaluation and Recommendation (Jan. 20, 2012). [↑](#footnote-ref-3)
4. *In the Matter of the Procurement of Standard Service Offer Generation for Customers of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company*, Case No. 10-1284-EL-UNC, Finding and Order (Jan. 27, 2011). [↑](#footnote-ref-4)
5. SB 3 of 1999 (Effective October 5, 1999), Ohio Revised Code §4928.01 et seq. (subsequently amended). [↑](#footnote-ref-5)
6. *In the Matter of the Procurement of Standard Service Offer Generation for Customers of Duke Energy Ohio, Inc*., Case No. 11-6000-EL-UNC, Evaluation and Recommendation (Jan. 20, 2012). [↑](#footnote-ref-6)
7. Id. Updated Auction Manager Report, (Jan. 5, 2012). [↑](#footnote-ref-7)
8. Ohio Public Utilities Commission – News Release (Dec. 15, 2011). [↑](#footnote-ref-8)
9. *In the Matter of the Procurement of* Standard *Service Offer Generation for Customers of Duke Energy Ohio, Inc.* Case No. 11-6000-EL-UNC, Updated Auction Manager Report, (Jun. 13, 2012 and Dec. 6, 2012). [↑](#footnote-ref-9)
10. Ohio Public Utilities Commission – News Release (May 14, 2009). [↑](#footnote-ref-10)
11. *In the Matter of the Procurement of Standard Service Offer Generation for Customers of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company*, Case No. 10-1284-EL-UNC. Auction Manager Reports (Nov. 15, 2010, Feb. 17, 2011, Nov. 16, 2011, Feb. 16, 2012, Nov. 14, 2012, Feb. 13, 2013). [↑](#footnote-ref-11)
12. *In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan*, Case No. 12-426-EL-SSO, Second Revised Application (Rate Blending Plan at 1) (December 12, 2012). [↑](#footnote-ref-12)