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FAX

**FREDDI L. GREENBERG
ATTORNEY AT LAW**

1603 ORRINGTON AVENUE
SUITE 1050
EVANSTON, ILLINOIS 60201

TELEPHONE: (847) 864-4010
FACSIMILE: (847) 864-4037
E-MAIL: flgreenberg@flglaw.com

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Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street, 13th Floor
Columbus, OH 43215-3792

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PUCO

**Re: In the Matter of the Application of the Ohio Edison Company, The Cleveland Illuminating Company, and the Toledo Edison Company, for Approval of a Competitive Bidding Process for Standard Service Offer Electric Generation Supply, Accounting Modifications Associated with Reconciliation Mechanisms and Phase In, and Tariffs for Generation Service.
Case Nos. 07-796-EL-ATA and 07-797-EL-AAM**

To Whom It May Concern:

Pursuant to the procedures established in the above-captioned proceeding, I am submitting for the record this letter on behalf of the Midwest Independent Power Suppliers ("MWIPS") in response to the Staff Comments filed in this proceeding. MWIPS is a group of leading competitive power suppliers that share an interest in achieving full and fair competition in the wholesale electric power markets in the Midwest¹. MWIPS members are involved in developing and owning electric generation in the Midwest and in selling energy at market-based rates in the Midwest. MWIPS members are potential participants in the auction process proposed in this proceeding.

MWIPS supports the Competitive Bidding Process for Standard Service Offer Electric Generation Supply proposed by the Ohio Edison Company, The Cleveland Illuminating

¹ The comments contained in this filing represent the position of MWIPS as an organization but not necessarily the views of any individual member with respect to any issue.

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Company and the Toledo Edison Company. The competitive procurement of wholesale electricity benefits electric consumers even in the absence of competitive retail markets. In fact, a competitive process is particularly beneficial for retail electric customers that may not have an opportunity to select a competitive retail electric supplier or where retail market conditions may not provide certain customer classes with an opportunity to "shop" for a better deal in the retail market.

MWIPS is writing these comments in response to the Staff Comments that were filed in this proceeding. Staff points to increases in retail rates in Maryland and Illinois as evidence of the failure of wholesale competitive markets. The retail price increases in those states resulted from multi-year rate freezes which, when lifted, inevitably resulted in price increases. This was not due to failure of the competitive wholesale markets but rather to the fact that the capped retail rates did not reflect cost increases over the period of the rate freeze. Due to the frozen rates, retail customers felt the impact of those cost increases all at once, rather than spread over the years when rates were frozen. For the same reason, it will not be due to lack of wholesale competition if retail rates in Ohio increase when Ohio's rate stabilization mechanisms expire in 2008. It also should be noted that rate freezes hamper the development of retail competition by making it difficult for competitive retail suppliers to compete with the artificially low capped retail rates.

Contrary to the assertions in Staff's Comments, recent studies have shown that retail customers have saved billions of dollars due to wholesale competition. A 2005 study by Global Energy Decisions, Inc., "Putting Competitive Power Markets to the Test," concluded that competitive wholesale power markets in the eastern United States and Canada produced at least \$15.1 billion in customer savings during 1999-2003 in the Eastern Interconnection alone. Another study, focused on Maryland, found that, even with the recent end to rate stabilization mechanisms, Maryland residential customers saved approximately \$1.8 billion during the 1999-2006 period.² Competitive procurement of wholesale power not only results in reasonable and clear rates for customers, but it also assures the most reliable and efficient market possible.³

Uniform clearing price auctions are utilized in most wholesale electricity markets. The Staff Comments are highly critical of uniform clearing price auctions, stating that they are not competitive because all generators receive the same clearing price regardless of their cost to produce the electricity and regardless of the price they bid.⁴ This argument is not surprising as critics of uniform clearing price auctions often argue that a "pay-as-bid" auction, where generators are paid what they bid rather than a uniform clearing price, would result in lower wholesale prices. Proponents of the "pay-as-bid" approach assume that a generator would bid the same prices in a "pay-as-bid" auction as in a uniform clearing price auction, resulting in an overall lower average price.⁵ Under a pay-as-bid scenario, all bidders, including plants with low operating costs, have an incentive to bid above their marginal operating costs, bidding the

² *An Empirical Assessment of the Benefits of Competition in Wholesale and Retail Electric Markets*. Prepared by Bates White, LLC (May 2006).

³ See Global Energy Decisions Study. .

⁴ Staff Comments, p. 9.

⁵ Thomas L. Welch, *The Most Effective Way; Market prices send investors clear signals to invest in the most efficient means for producing electricity*, Public Utilities Fortnightly (October 2006), p. 20.

highest price they expect to be accepted as a winning price.⁶ It follows that the winning bidders are those that can best predict market prices, not necessarily those who can operate most efficiently.

In a uniform clearing price auction, generators are encouraged to bid their generation at their "break even" point for their variable costs.⁷ Despite the fact that all bidders are paid the same price, economists generally agree that in many supply and demand scenarios, pay-as-bid prices will exceed the clearing price established through marginal cost based bids.⁸

The Staff Comments expressed concern about the ability to detect market power abuse and the lack of demand response programs in the state;⁹ The uniform clearing price auction provides the transparency necessary to allow regulators to identify market power abuse and also encourages demand side response. A uniform clearing price auction establishes a market clearing price based on marginal cost and therefore sends an accurate price signal to consumers of the true cost of meeting the last increment of demand. In contrast, a pay-as-bid auction gives customers a weighted average cost signal that does not encourage demand response and other conservation measures.

⁶ Id.

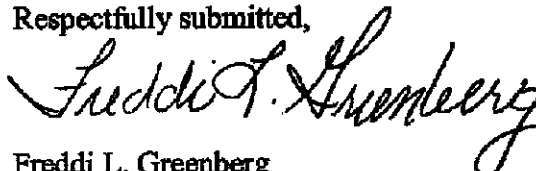
⁷ Id.

⁸ Id.

⁹ Staff Comments, p. 12.

As discussed above, competitive procurement of wholesale power brings the benefits of competition to the electric consumer even in the absence of opportunities to take service from competitive retail electric suppliers. The proposed auction process, which is open, transparent, fair and independently administered, will encourage robust competition by competitive power suppliers which, in turn, will ensure that the Ohio Edison Company, The Cleveland Illuminating Company and the Toledo Edison Company get the "best deal" when shopping for electricity to supply retail customers.

Respectfully submitted,



Freddi L. Greenberg
Executive Director and General Counsel
Midwest Independent Power Suppliers