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July 31, 2008

Ms. Renee J. Jenkins
Director, Administration Department
Secretary to the Commission
Docketing Division
The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43266-5073

RECEIVED-DOCKETING DIV
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PUCO

Re: Application for Authority to Establish an Electric Security Plan Pursuant to R.C. § 4928.143
Case No. 08-935-EL-SSO

Application for Authority to Establish an SSO Price Under a Market Rate Offer Pursuant to R.C. § 4928.142
Case No. 08-936-EL-SSO

Dear Ms. Jenkins:

Please file this letter, the accompanying two separate Applications, attachments, work papers and supporting testimony under two separate docket numbers as Ohio Edison Company's, The Cleveland Electric Illuminating Company's and The Toledo Edison Company's ("Companies"):

- Application for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan; and
- Application for Authority to Establish a Standard Service Offer Price Pursuant to R.C. § 4928.142 for Retail Electric Generation Service Under a Market Rate Offer.

Pursuant to proposed O.A.C. 4901:1-35-04, a copy of this letter is being provided to all parties in the Companies' Rate Stabilization Plan and Rate Certainty Plan cases as well as their most recent base distribution rates case and their competitive bid proceeding. In addition, to permit more expeditious consideration of these filings, each party on the attached service list will receive each application and all accompanying documents in electronic form on two compact discs. A copy of each application and related attachments, work papers and supporting testimony also will be available through the Commission's web site and available for review at the Companies' main office.

Please contact me if you have any questions concerning this matter.

Very truly yours,

James W Burk

James W. Burk

Enc.
cc: Service List in Case Nos.: 03-2144-EL-ATA *et al.*
05-1125-EL-ATA *et al.*
07-551-EL-AIR *et al.*
07-796-EL-ATA *et al.*

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FILE

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Edison) Company, The Cleveland Electric Illuminating) Company, and The Toledo Edison Company) For Approval of a Market Rate Offer to Conduct) A Competitive Bidding Process) for Standard Service Offer Electric Generation) Supply, Accounting Modifications Associated) With Reconciliation Mechanism,) and Tariffs for Generation Service)	Case No. 08-936-EL-SSO

Application

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On behalf of Ohio Edison Company,
The Cleveland Electric Illuminating Company,
and The Toledo Edison Company

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BEFORE

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Application

Pursuant to Sections 4928.141 and 4928.142, Ohio Revised Code, and Chapter 4901:1-35, Ohio Administrative Code, Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("CEI") and The Toledo Edison Company ("Toledo Edison") (collectively, the "Companies"), hereby request the Commission to determine that the Market Rate Offer ("MRO") to conduct competitive bidding processes ("CBP") designed to procure supply for the provision of Standard Service Offer electric generation service ("SSO Generation Service") to the Companies' retail electric customers ("SSO Customers") who do not purchase electric generation service from a competitive retail electric supplier beginning January 1, 2009 meets the statutory criteria of R.C. 4928.142(A)(1) and 4928.142(B).[1] The Application also seeks approval of accounting modifications to implement the proposed reconciliation mechanism and

[1] The Companies also have filed an Electric Security Plan ("ESP") application. The Companies have proposed, as part of their ESP, a short term ESP for the period of January 1, 2009 through April 30, 2009, to allow extra time for the Commission to render a final decision on a longer term ESP and, in the event the longer term ESP is not implemented, to conduct the CBP as part of the MRO process in a more measured fashion.

tariffs for generation service.[2] Supporting testimony is being filed concurrently with this Application.[3] The Commission is required to determine this MRO application meets the statutory criteria of R.C. 4928.142(A)(1) and 4928.142(B) no later than ninety days from the filing date hereof, as set forth in R.C. 4928.142(B).

I. Introduction

Background and General Description of Application

1. Since the beginning of 2006, the Companies have been operating under the provisions of the Commission approved Rate Stabilization Plan ("RSP") and Rate Certainty Plan ("RCP"), and they will continue to do so until the end of 2008. The plans provided many important customer benefits and served well as a transitional step to market-based generation pricing in Ohio. On July 31, 2008, R.C. 4928.142 became effective, which contemplates and authorizes the filing of a Market Rate Offer whereby retail generation pricing will be based upon the results of a competitive bidding process. With this application, the Companies request the Commission to determine that the proposed Market Rate Offer ("MRO") meets the requirements of R.C. 4928.142(A)(1) and (B).[4] The Commission is required to make this determination no later than ninety days from the filing date hereof, as set forth in R.C. 4928.142(B). If the statutory criteria contained in R.C. 4928.142(B) are met, then the Companies would not be permitted to

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[2] Although filed as "SSO" pursuant to R.C. 4928.142 and to the proposed Rules, the Companies request that the proposal be considered as if filed pursuant to any other statutory authority and case designations as may be applicable to the scope of the proposals made herein.

[3] The Companies filing in Case No. 07-796-EL-ATA should be deemed withdrawn, and a Motion to that effect has been filed in that proceeding this date.

[4] Notice of this filing, as well as the separate Application filed this day pursuant to R.C. 4928.143, is being provided to the parties in the Companies' Rate Stabilization Plan and Rate Certainty Plan proceedings, as well as its recent base distribution rate case and its competitive bid proceeding. Accompanying that notice are complete copies of both of those filings, provided in electronic form on two compact discs to assist the recipients in their expeditious review.

initiate their competitive bid until 150 days after the filing of this Application, meaning December 29, 2008 is the earliest date the bid could be conducted. This situation has forced the Companies to include a very aggressive proposed CBP Timeline, attached as Exhibit H, because retail rates based on results from the CBP must go into effect on January 1, 2009, as the Companies have no wholesale power arrangements beyond December 31, 2008.[5] The Companies have proposed, as part of their ESP, a short-term ESP that contains an SSO pricing proposal for the period of January 1, 2009 through April 30, 2009, to allow extra time for the Commission to render a final decision on a longer term ESP and, in the event no longer term ESP is implemented, to conduct the CBP as part of the MRO process in a more measured fashion. Under the short-term ESP as proposed, new retail rates reflecting the result of the CBP would go into effect on May 1, 2009. If the short-term ESP is approved by the Commission, then a new, more moderate CBP timeline would be used, which is attached to this Application as Exhibit I.

2. The Companies propose as part of their MRO a CBP process to implement SSO Generation Service, which is discussed in detail below. This process will result in a standard service offer for generation services derived from competitive solicitations. This approach was designed to mitigate certain factors that would otherwise cause bidders to increase their bid prices. The proposal has aspects of energy efficiency as it contains meaningful seasonality factors.

3. The initial solicitation will take place so as to allow new generation pricing resulting from the competitive bid process to be implemented on January 1, 2009. The

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[5] If this timeline is not achieved, then the Companies will be forced to buy power from MISO administered markets until the bid occurs and retail rates based on the outcome of the bid can be placed into effect. Under the filed-rate doctrine customers will be obligated to pay whatever it costs to acquire the power.

proposed timeline for the initial CBP, attached as Exhibit B to the Application, is designed to achieve this result. The dates and timing set forth in the timeline are dependent upon the nature and timing of the Commission's rulings in this proceeding and the Companies' ESP proceeding.

4. The initial competitive solicitation is designed to procure 1/3 of the total SSO Load[6] of all three Companies for the period from January 1, 2009 through May 31, 2010; 1/3 of the total SSO Load for all three Companies for the period from the January 1, 2009 through May 31, 2011; and 1/3 of the total SSO Load for all three Companies for the period from the January 1, 2009 through May 31, 2012.

5. After the initial solicitation, commencing in 2009 and during each calendar year thereafter, the Companies will hold two competitive solicitations, one in October and one in the subsequent January. One-third of the power requirements of all three Companies' POLR load for a three year period will be bid out as part of each of the two competitive solicitations. Such an approach is utilized in order to help smooth out potentially volatile market prices. The results of these solicitations will be blended to formulate the generation price paid by SSO Customers. Therefore, the Companies seek the Commission's determination that this MRO including the competitive bidding process as proposed herein meets the requirements of R.C. 4928.142(A)(1) and (B). This proposal is similar in structure and content to the Companies' proposal in Case No. 07-796-EL-ATA, which should aid in the Commission's consideration of the matter.

[6] SSO Load is defined in the Rules for Competitive Bidding Process as the Companies' aggregate requirements associated with SSO Customers, and will include distribution losses. SSO Load will exclude the requirements of wholesale customers and the requirements of customers served by CRES suppliers. SSO Load includes the requirements of any customers of the Companies under Special Contracts approved under R.C. 4905.31 or entered into under R.C. 4905.34 and includes existing contracts and any contracts that are entered into after the filing date of this Application.

6. The proposal utilizes a "slice of system" approach, i.e., bidders will bid on tranches of total SSO Customer load. SSO Customer load represents the load that bidders will submit bids to serve as a part of the competitive solicitation. The winning bid price will reflect the blending of the pricing from the applicable solicitations. Once a winning bid price from all the applicable competitive solicitations is known, rate-specific generation prices will be derived through the application of distribution line loss (voltage adjustment) factors and seasonality factors and grossing up for applicable taxes (*see* Exhibit C to this Application).

7. A reconciliation mechanism will be used to adjust generation pricing to SSO customers to ensure that billed amounts do not exceed the costs the Companies incur and to ensure that the Companies collect sufficient amounts to pay SSO Suppliers in full for SSO Generation Service, and to otherwise keep the Companies whole. The reconciliation mechanism ensures neutral financial outcome for the Companies related to the provision of SSO Generation Service. This mechanism is explained further in Exhibit C.

8. The generation rate design and tariffs are based solely on per kWh charges, which is a departure from existing generation tariffs that include demand charges and a declining block structure. The rate design proposed in this Application will better align the way the Companies acquire power with how retail customers are charged for it. Also, the Companies have incorporated a number of terms and conditions for the purpose of obtaining lower bid prices from suppliers and therefore lower prices for consumers.

9. Certain of these terms and conditions mitigate bidders' risks, thereby reducing any commensurate risk premium that otherwise may be included in their bid price. An

example is that payments to suppliers will reflect the seasonality of the wholesale power market, thereby better matching suppliers' revenues with their expenses. In addition, suppliers will always be paid the winning bid price adjusted by the proposed seasonal factors multiplied by the MWhs they provide. The suppliers do not bear the risk of not being paid by customers, i.e., suppliers have no uncollectible risk. These costs will be recovered by the Companies through the reconciliation mechanism. The Companies believe that such efforts will result in greater participation by bidders and lower bid prices, which benefits all customers.

10. Conservation components are also included in the Companies' proposal. Seasonal pricing will apply to all residential and general service tariffs and will send more appropriate price signals to customers, thereby encouraging customers to reduce usage during higher priced summer periods. In addition, the proposed rate design changes remove disincentives for energy efficiency measures through elimination of declining block rates.

11. The Companies' MRO proposal meets the requirements of R.C. 4928.141 and 4928.142 to result in generation service to customers based upon the outcome of a competitive bidding process. The development of the MRO and the details of the CBP proposal are described below.

Satisfaction of General Electric Utility Requirements

RTO Membership

12. The Companies' transmission affiliate, American Transmission Systems, Incorporated ("ATSI"), is a member of the Midwest Independent Transmission System Operator ("MISO"), which is a regional transmission organization ("RTO") that has been approved by the Federal Energy Regulatory Commission. On December 20, 2001, FERC issued an Order Granting RTO Status to the Midwest ISO, 97 FERC 61,326 (2001). ATSI initially joined the Midwest ISO under the Grid America umbrella in October of 2003. Following the termination of GridAmerica, ATSI signed the Transmission Owners Agreement in its own right on effective November 1, 2005. Midwest ISO, 113 FERC 61,096 (2005). Footnote 7 to the Order clarifies that September 1, 2003 was the date when ATSI transferred functional control of their transmission facilities to the Midwest ISO.

RTO Market Monitor Function

13. MISO has a market monitor function and the ability to take actions to identify and mitigate market power or the electric distribution utility's market conduct. In the 2001 Order cited above, FERC found that the Midwest ISO's proposed market monitoring function met the requirements of FERC Order No.2000. More recently, FERC found that Module D of the Midwest ISO Transmission and Energy Market Tariff dealing with the market monitoring function complied with the Commission's Policy Statement on Market Monitoring Units. 119 FERC 61,196 (2007).

Availability of Pricing Information

14. A published source of information is available publicly or through subscription that identifies pricing information for traded electricity on- and off-peak energy products that are contracts for delivery beginning at least two years from the

date of the publication and is updated on a regular basis. For example, the Intercontinental Exchange ("ICE") produces daily price sheets that provide the required information. NYMEX, ICAP, and PLATTS are also sources of this information. NYMEX is publicly available and PLATTS, ICAP, and ICE are subscription based. While not required by R.C. 4928.142, the combination of the foregoing sources meets the requirements of the proposed rule at 4901:1-35 Appendix A (A)(3) to the extent that such rules are not inconsistent with the statutory requirements.

II. The Companies' Competitive Bidding Process ("CBP") Plan

Complete CBP Plan Description

Development of CBP Proposal

15. The Companies currently procure their full requirements power to supply SSO Generation Service to SSO Customers ("SSO Supply") through a wholesale power purchase agreement approved by the Federal Energy Regulatory Commission ("FERC") (ER06-117-000). This FERC-approved power purchase agreement will terminate in accordance with its terms as of December 31, 2008.

16. In this Application, the Companies propose a Market Rate Offer which will enable the Companies to procure the necessary SSO Supply upon expiration of their current FERC-approved power purchase agreement, and, thus, to provide for the uninterrupted provision of SSO Generation Service for all SSO Customers beginning January 1, 2009. Given the statutory timeframe, the CBP timeline is necessarily aggressive and requires a Commission determination by a certain date.

17. SSO Generation Service will be provided to all SSO Customers, which includes all retail customers served under special contracts approved under R.C.

4905.31 and contracts entered into under R.C. 4905.34, both existing contracts and those that may exist in the future.

18. The CBP proposal of the MRO, reflects insight from the Companies own prior experiences with competitive power procurement processes, and also publicly-available information regarding competitive power supply procurement processes conducted in other states.

19. The Companies and their regulated affiliates have experience with competitive processes for procurement of their power supply. Based on this experience and research, the Companies have concluded that implementing a CBP that effectively "smoothes out" the volatility of the wholesale market improves the CBP process. The CBP proposed by the Companies incorporates features to achieve this result. By procuring SSO Supply initially using staggered delivery periods and subsequently a CBP consisting of multiple solicitations, the Companies will procure an SSO Supply portfolio that incorporates benefits from suppliers' varying approaches to managing their supply sources and to timing and maintaining diversity in their purchases. Hence, the Companies' ultimate SSO Supply portfolio will balance out wholesale market price fluctuations and provide SSO Customers with a more stable price for a specified period of time as compared to bidding out the entire load at the same time for the same supply period.

20. Additionally, the Companies have included in their Application, detailed methodologies ("Rate Conversion Process") by which the rates for SSO Generation Service ("Standard Service Offer Generation Charges") would be set, including sample retail tariffs for SSO Generation Service. The rate design presented in the Companies' proposed Standard Service Offer Generation Charge tariffs as part of this Application

better reflects the manner in which the Companies will incur the cost of generation to serve customers. One of the rate design changes is the elimination of demand charges, which reflects the fact that the Companies' power supply expenses will be incurred strictly on a per megawatt hour basis. Another change, consistent with public policy, is the elimination of declining block rates. Compliance tariffs for the Companies' SSO Generation Service, applying the methodologies proposed in this Application to the final prices achieved by the CBP, will be filed with the Commission immediately after the close of the initial CBP. In subsequent years, compliance tariffs will be filed within 30 days of the final CBP for the designated 12-month period but at least 15 days prior to the first day of the designated 12-month period. In Schedule 1, included in the testimony of Company Witness Norris, the Companies have included rate impacts reflecting changes from 2008 rate levels based upon illustrative prices[7], since actual pricing arising from the CBP cannot be known at the time of filing this Application.

21. The Companies reserve the right to supplement or modify their filing prior to Commission approval of the MRO to reflect discussions with interested parties or the Commission Staff, as directed by the Commission, or as otherwise required to better assure a successful CBP, including modifications made due to differences between the proposed Commission rules and the final Commission rules. Any such supplements or modifications will be filed with the Commission. The Companies also request that the Commission grant any waivers from Commission rules as are necessary to implement the MRO as proposed, or to implement any Order or Entry issued by the Commission in this proceeding.

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[7] The illustrative generation prices are based upon the conclusions of Drs. Jones and Graves in the Companies' ESP case regarding expected market prices.

22. In accordance with the 90 day approval timeframe required by R.C. 4928.142(B), the Companies hereby propose the following procedural schedule:

(a)	July 31	Application, Schedules and Company Direct Testimony filed
(b)	August 12	Companies hold a technical conference in Columbus to discuss filing
(c)	August 29	Staff and intervener testimony
(d)	September 5	Company rebuttal testimony
(d)	September 9	Hearing
(e)	September 25	Initial Briefs
(f)	October 6	Reply Briefs
(g)	No later than October 29	Commission decision

While this procedural schedule may appear aggressive, it is designed with the following in mind: first, the proposed CBP is similar to those that have been previously approved by the Commission and that was filed in July 2007 in Case No. 07-796-EL-ATA; second, R.C. 4928.142 imposes a 90 day review deadline; and finally many of the issues that were discretionary in past auctions are now provided by statute, which should limit the amount of discovery and needed time for review. Given the foregoing, the proposed procedural schedule is reasonable.

Description of CBP Proposal

23. The CBP proposal is described below as well as in more detail in the attached exhibits including the Master SSO Supply Agreement, the Auction Rules, and Communication Protocols, as well as in the testimonies of Mr. Kevin Warvell, Mr. James

Reitzes of The Brattle Group, and Mr. Kevin Norris, all of which are being filed at the time of this Application.

24. The total amount of SSO Supply being procured would be divided into equal-sized portions ("tranches"). A tranche is a fixed percentage share of the Companies' SSO hourly load. The total number of tranches will be determined so that an SSO Supplier's load obligation for one tranche at the time of the coincident Companies' peak will be expected to be about 100 MW. Multiple bidders will bid through a descending clock format to provide SSO Supply. The CBP Manager will establish the starting price for the solicitation in a manner so as to foster bidder participation in the bidding process. In each round of bidding, bidders will submit bids for the number of tranches that they wish to serve at the price "offered" during that round. As the rounds progress, the prices offered "tick" down. Bidding concludes when the number of bids for the tranches is equal to the total number of tranches being offered. Hence, the price at which the tranches are being offered during the final round will be the price paid to each of the winning bidders for SSO Supply (the "clearing price").

25. The product is designed to be a "full requirements" SSO Supply, which includes all energy and capacity, resource adequacy requirements (capacity associated with planning reserve requirement), transmission service and transmission ancillaries, provided for a specified term by the winning bidders.

26. Each winning bidder (thereafter, an "SSO Supplier") will be required to execute an agreement for the provision of the product to a specified number of tranches, which agreement will set forth uniform terms for each SSO Supplier (the "Master SSO Supply Agreement"). For the initial bid scheduled for December 29, 2008, winning bidders in the auction will immediately execute the Master SSO Supply

Agreement following the close of the solicitation once the specific pricing information and load obligations have been inserted. For subsequent solicitations, winning bidders will be required to execute the Master SSO Supply Agreement within three business days of the close of a solicitation. The Master SSO Supply Agreement is attached hereto as Exhibit F.

27. An independent, third party competitive bidding process manager (the "CBP Manager") will be retained for each solicitation. The CBP Manager will be responsible for ensuring that the competitive bidding process is designed to ensure an open, fair, and transparent competitive solicitation consistent with S.B. 221, that there is a clear product definition, and standardized bid evaluation criteria. In order to achieve this outcome, the CBP Manager will design the solicitation, which solicitation will involve, among other things, publicizing the competitive bidding process to prospective bidders, conducting information sessions for prospective bidders, responding to bidder questions, and providing relevant data to bidders. Through the communications described above, the CBP Manager will also ensure a clear product definition. The CBP Manager will establish the starting price for the solicitation so as to foster bidder participation, administer the bidding process itself, and communicate with the Commission regarding the progress of the competitive bidding process and the competitive bidding process results.

28. The initial CBP will be conducted to procure SSO Supply for staggered delivery periods, with each period beginning on January 1, 2009 but ending at different points in time.[8] At their conclusion, each of the delivery periods align the SSO Supply

[8] In that the statutory timeline to implement an MRO in 2008 for SSO Generation Service to commence on January 1, 2009 is – to say the least – tight and given that SB 221 does not require a Commission Order

periods with the Midwest Independent System Operator ("MISO") planning year, which begins on June 1st of each year and ends on May 31st of the succeeding year. Exhibit B sets out the CBP solicitation schedule. Aligning the SSO Supply period with the MISO planning year will assist SSO Suppliers in controlling their MISO costs and associated risks, thus resulting in lower Standard Service Offer Generation Charges for SSO Customers. Additionally, the total SSO Supply needed for each delivery period will be procured in multiple solicitations conducted over the course of a 12-month period in order to smooth out potential wholesale market price fluctuations.

29. The initial bid will take place so as to allow new generation pricing resulting from the competitive bid processes to be implemented on January 1, 2009. The timeline for the initial bidding process is attached as Exhibit J to the Application. The dates and timing set forth in the timeline are dependent upon the Commission's rulings, and the timing of such rulings. As part of the CBP and each specific solicitation, if the indicative offers received through the bidder registration and application process, or during the first round of bidding, do not yield sufficient bids to serve tranches offered, the next step in the process would be for the CBP Manager to reevaluate the starting price and immediately communicate with potential bidders any adjustments to the starting price as part of the effort to foster sufficient bidder participation. Such adjustment to the starting price may be made prior to the commencement of the solicitation or after the first round of the solicitation as part of the ongoing competitive solicitation.

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in an ESP case until 150 days after filing (December 28th), the Companies proposed as part of their ESP application a short-term SSO pricing mechanism that would serve to bridge the time period between January 1, 2009 and the date that the retail rates resulting from a more measured MRO competitive bidding process could be implemented, in the event the longer term ESP is not implemented.

30. The initial competitive solicitation is designed to procure 1/3 of the total SSO load of all three Companies for the period from January 1, 2009 through May 31, 2010; 1/3 of the total SSO load for all three Companies for the period from January 1, 2009 through May 31, 2011; and 1/3 of the total SSO load for all three Companies for the period from January 1, 2009 through May 31, 2012.

31. After the initial bid, the Companies will hold two competitive solicitations, one in October and one in the subsequent January. One-third of the power requirements of all three Companies' POLR load for a three year period will be bid out as part of each of the two competitive solicitations. Such an approach is utilized in order to smooth out potentially volatile market prices. The results of these solicitations will be blended to formulate the generation price paid by SSO Customers.

32. Upon the conclusion of each solicitation, the CBP Manager will submit a report to the Commission which will include data necessary to enable the Commission to determine whether the three statutory criteria delineated in R.C. 4928.142(C) have been met, along with recommendations regarding the least cost winning bidder(s). The Commission will select the least cost winning bidder(s), and such selected bid or bids, as prescribed as retail rates by the Commission, shall be the Companies standard service offer unless the Commission, before the third calendar day following the competitive solicitation, determines that one or more of the three statutory criteria delineated in R.C. 4928.142(C) were not met.

33. For the benefit of SSO Suppliers, the Master SSO Supply Agreement will set forth seasonal factors by which the clearing price will be multiplied over the term of the Master SSO Supply Agreement, in order to more closely match the SSO Suppliers' payments to their seasonal costs and to more closely align the Companies' expenses

and revenues. The seasonal factors will be known to the bidders prior to the solicitations and will remain constant during the term of a specific Master SSO Supply Agreement.

34. Once all solicitations have concluded for a particular product, with such products being differentiated by the length of time the power must be provided or resulting from a separate solicitation occurring during the same calendar year, the Companies will blend each of the clearing prices to arrive at a single price (the "Blended CBP Price"). After adjusting the Blended CBP Prices for distribution line losses, applying a seasonal factor and grossing up for applicable taxes, the Companies will develop a Standard Service Offer Generation Charge for each rate class. Table 1 below includes a list of the rate classes.

Table 1. Rate Classes

Voltage Classes	Voltage Schedules
Secondary	RS - Secondary Service, less than or equal to 600 volts GS - Secondary Service, less than or equal to 600 volts STL - Street Lighting Service TRF -Traffic Lighting Schedule POL - Private Outdoor Lighting Service
Primary	GP - Primary Service, all other available voltages

Sub-Transmission	GSU - Sub-Transmission service, 23,000 volts three wire and 34,500 volts three wire (for Ohio Edison and Toledo Edison) GSU - Sub-Transmission service, 11,000 volts three wire and 36,000 volts three wire (for CEI)
Transmission	GT - Transmission Service – Greater than or equal to 69,000 volts

The foregoing voltage classes and voltage schedules includes all existing and future special contract customers and load approved under R.C. 4905.31 and all existing and future contract customers and load approved under R.C. 4905.34.

35. Consistent with R.C. 4928.142(A), affiliates of the Companies may participate as bidders in the solicitations and win the right to provide SSO Supply.

36. The Companies will make available a competitive bidding process website to keep interested parties informed of developments and notices related to the competitive bidding process. The website will permit potential bidders and other stakeholders alike to find information about the competitive bidding process. The website will provide all documents necessary for potential bidders to participate in the process, including the CBP rules, the application forms, standard forms for credit instruments, and standard contracts. The website will also have a data room populated with the data series that bidders need to prepare their bids. Questions and answers from potential bidders will be posted in a "Frequently Asked Questions" page. Materials from information sessions, including presentations that provide detailed information regarding the competitive bidding process, will be posted to the website. Information generally

consistent with proposed rule OAC 4901:1-35-03 Appendix A Section (B)(5) will be set forth on this website.

37. Costs for the CBP Manager for conducting the competitive bidding process will primarily be recovered through a tranche fee paid by winning bidders. Any difference between the fees collected and the actual costs incurred will be included in a reconciliation mechanism described below (the "Reconciliation Mechanism").

38. Bidders in the solicitations would provide SSO Supply for tranches comprised of all SSO Customer voltage classes for all of the Companies. Attached as Exhibit A, are the proposed CBP rules for the proposed slice of system competitive bidding process.

39. After the initial solicitation, two solicitations will be conducted over the course of a 12-month period to procure one-third of the total SSO Supply for a 36-month period. Exhibit B is a proposed schedule for solicitations.

40. To determine the Standard Service Offer Generation Charge for each rate class, the Blended CBP Price will be adjusted by the applicable distribution line loss factor (voltage adjustment). The rate so calculated will be adjusted by the rate class seasonal factor, and the result grossed up for applicable taxes to determine the individual Standard Service Offer Generation Charge for each rate class. Attached Exhibit C illustrates the methodology the Companies will use to arrive at the Standard Service Offer Generation Charge for each rate class.

III. Rate Design

General Principles

41. The Companies' current generation tariffs and rates reflect the concepts prevalent in the industry, and the Companies' circumstances, prior to the introduction of

competitive generation and the restructuring of the Ohio electric industry, which went into effect in 2001. Such tariffs do not reflect the current structure of the electric industry in Ohio and need to be revised to conform to the changes that resulted from restructuring.

42. The Companies state that as of July 31, 2008 the Companies do not directly own, in whole or in part, operating electric generating facilities that had been used and useful in the state of Ohio.

43. All Standard Service Offer Generation Charges will be seasonal. The seasonal factors will be fixed but based on the seasonality characteristics observable in historical Locational Marginal Prices.

44. To ensure that SSO Supply costs are fully recovered and so that the customers pay and Companies recover no more or less than the costs to procure power and implement the program, the Companies are proposing a quarterly reconciliation adjustment, which will adjust the retail price to account for differences between SSO Generation Service revenues and SSO Supply costs (i.e., amounts paid to the SSO Suppliers plus the Companies' additional costs incurred in the provision of SSO Generation Service) during the prior quarter.

45. As stated above, in order to match the SSO Supply terms with MISO planning years, the different delivery periods for which SSO Supply is being procured initially are designed ultimately to correspond with MISO planning years which run from June 1st to May 31st of the subsequent year.

Special Rates

46. With respect to CEI's special contract customers remaining after December 31, 2008, the load associated with these special contracts would be included in the SSO

Load, and the Companies propose to recover the difference in the total bill these contract customers would pay under the otherwise applicable tariff and the total bill these contract customers pay under the contract provisions, through a non-bypassable charge paid by all other CEI customers. Additio nally, any economic development schedule, energy efficiency schedule, governmental special contracts, or unique arrangement (special contracts) approved by the Public Utilities Commission of Ohio with an effective date of January 1, 2009 or later that create a difference in the total bill these contract customers would pay under the otherwise applicable tariff, and the total bill these contract customers pay under the contract provisions shall be recovered through a non-bypassable charge paid by the customers of all the Companies. The non-bypassable charges described in this paragraph shall be included in the Cost Recovery True-up Rider (Rider CRT), as set forth in Exhibit C.

Reconciliation Mechanism

47. The Companies propose a quarterly reconciliation to recover, among other things, the difference between amounts paid to suppliers and amounts actually billed to customers (the "Reconciliation Charge"). Reconciliation Charges will be calculated for each calendar quarter and included in charges to SSO Customers approximately 60 days following the conclusion of the reconciliation period.

48. There will be a single Reconciliation Mechanism. See Rate Conversion Process and Reconciliation Mechanisms, Exhibit C. All of the Companies' SSO Customers, except for CEI's special contract customers whose contracts specify a fixed price and were in effect on December 31, 2008, will pay the Reconciliation Charges. See Proposed Tariffs, Exhibit D.

49. Additionally, the Companies propose to recover through the Reconciliation Mechanism certain categories of incremental expenses associated with the implementation of the proposed CBP: (1) competitive bidding process expenses permitted by R.C. 4928.142(C) not recovered through the tranche fees paid by SSO Suppliers including, without limitation and as more specifically delineated in the Reconciliation Mechanism, fees and expenses associated with the independent third party and any consultant hired by the Commission, (2) a working capital component consisting of the interest on the difference between the cash outlay for purchased power for January 2009 and the cash received from customers for service rendered in January 2009, (3) actual uncollectible expense amounts related to the provision of SSOG service, and (4) the revenue difference for special contracts described in paragraph 46 above.

50. The Reconciliation Mechanism is intended to allow the Companies to be made whole and to ensure that SSO Customers do not pay more than the expenses incurred through the CBP alternatives and the costs described above.

Avoidable Charges

51. The avoidable charge for each rate class will be equal to the customer's Standard Service Offer Generation Charge.

Additional Riders

52. RTC – SB 221 allows for the continuation of transition cost recovery as provided for in the utility's then current rate plan. Consistent with that, Rider RTC was developed and is necessary to charge the RTC component for CEI customers only through December 31, 2010 in accordance with the Companies' Rate Certainty Plan (RCP). The RCP contemplated this outcome and tariffs are necessary to effect the

application of these charges. The charges shown on the filed Rider RTC will be for the period beginning January 1, 2009 and will be updated, as mentioned on the rider, sometime around May 1, 2009 to account for the reductions called for in the RCP.

53. GRC - Rider GRC, applicable only to certain customer facilities under a special contract pursuant to R.C. 4905.31 entered into prior to January 1, 2001, is necessary to bill these contract customers at current contract levels for specific tariff charges referenced in the contracts. The rider essentially preserves components in the Companies' existing tariffs that are used only to bill a handful of customers under their existing special contracts. No additional charges or costs will result from implementation of this rider.

54. DIS - Rider DIS is only applicable to CEI customers from January 1, 2009 through April 30, 2009. The rider is necessary to provide for application of distribution charges to CEI for the designated period, since distribution rates for CEI customers do not change under Case No. 07-551-EL-AIR until May 1, 2009. This rider does not impact generation charges.

55. DTC - Rider DTC is necessary to recover certain incremental transmission and ancillary service-related costs deferred pursuant to the Commission's Finding and Order in Case No. 04-1931-EL-AAM , with recovery of such deferrals authorized in Case No. 04-1932-EL-ATA. Recovery of such deferrals, which began January 1, 2006, will continue, commencing January 1, 2009, and ending December 31, 2010, pursuant to the Rider.

Tariff Filings

56. The Companies have filed tariffs with this Application that incorporate the rate design methodologies described herein, and will update the tariffs to include actual

pricing amounts in those tariff sheets to reflect the Standard Service Offer Generation Charges resulting from the CBP process, expressed in cents/kWh, based on the results of the initial solicitation conducted following implementation of this Application. Forms of such tariffs in some cases exclusive of pricing are attached hereto as Exhibit D.

57. Beginning in 2010, and on May 1st of each subsequent year, the Companies will file tariffs that incorporate the revised Standard Service Offer Generation Charges, expressed in cents/kWh, based on the results of the solicitations conducted during October and January per Exhibit B blended with the previous solicitations from which Master SSO Supply Agreements remain in effect.

58. SSO Customers will be billed on a service rendered basis beginning on January 1, 2009.

IV. Master SSO Supply Agreement Terms

59. Each winning bidder will be required to execute the Master SSO Supply Agreement immediately upon the conclusion of the initial solicitation, and within three business days following the close of subsequent competitive solicitations. The Companies have attached to this Application, a form of the Master SSO Supply Agreement for a competitive bidding process (Exhibit F). Furthermore, for the initial solicitation, the same version of the Master SSO Supply Agreement will be used except the different SSO Supply period will be delineated. None of the purchases by the Companies under the Master SSO Agreement shall constitute planned system purchases, as that term is used in existing documents outside of the CBP process. In the paragraphs below, the Companies describe some of the more significant uniform provisions.

60. Pursuant to the Master SSO Supply Agreement, every SSO Supplier must be a MISO load serving entity.

61. The Master SSO Supply Agreement will obligate every SSO Supplier to join the MISO Planning Reserve Sharing Group and to abide by the resource adequacy requirements of that group, thus ensuring that there is sufficient generating capacity to reliably serve future load and comply with applicable capacity requirements and reliability standards.

V. *Components of the CBP Proposal*

62. With this Application, the Companies' have included CBP rules together with bidder registration and credit forms (Exhibit A), Proposed Competitive Bidding Process Schedule (Exhibit B), Rate Conversion Process and Reconciliation Mechanism (Exhibit C), Proposed Tariffs (Exhibit D), Competitive Bidding Process Documents (Exhibit E), a form of the Master SSO Supply Agreement (Exhibit F), Communications Protocols (Exhibit G), a proposed Contingency Plan (Exhibit H) and a Competitive Bidding Process Timetable (Exhibit I).

63. The Master SSO Supply Agreement will go into effect after the Commission selects the least cost bidder(s) and they do not determine before the third calendar day following the conclusion of the competitive solicitation that one or more of the three statutory criteria delineated in R.C. 4928.142(C) was not met, i.e., essentially taking no action after the selection of the least cost bidder(s). Similarly, the approved tariffs will go into effect on January 1, 2009 and will reflect the Companies' ultimate costs of procuring SSO Supply, including the results of the competitive bidding processes and all adjustments and costs discussed herein.

64. The CBP rules establish the process under which the CBP Manager will conduct the competitive bidding process. In addition to certain topics covered by the Master SSO Supply Agreement, the CBP rules focus upon the process in place prior to the competitive bidding processes, including, but not limited to, information provided to bidders and the application and bidder credit process, the specific rules regarding the bidding format, indicative offers, rounds of bidding, calculation of next round prices, and conclusion of bidding. The CBP rules also address confidentiality requirements and contain an extensive glossary of terms.

65. The Rate Conversion Process, Reconciliation Mechanism and Proposed Tariffs work together (a) to translate the clearing prices into Standard Service Offer Generation Charges and then (b) to ensure that the Standard Service Offer Generation Charges initially implemented are reconciled to balance all costs incurred by the Companies in the provision of SSO Generation Service.

66. The Reconciliation Mechanism is designed to ensure that amounts billed to SSO Customers provide sufficient funds for the Companies to pay the clearing price to SSO Suppliers and keep the Companies whole. Included with the Application are proposed riders to be included as part of the Companies' Standard Service Offer Generation Charge tariffs, which implement the proposed Rate Conversion Process and Reconciliation Mechanisms described above and in Exhibits C and D.

67. The Companies have also included, as part of this Application, Communications Protocols. This document describes the information made available during and by the CBP and, on the basis of the Commission's determination regarding the confidentiality of different types of information resulting from the CBP, sets forth which information is confidential. This document also describes the undertakings, with

respect to the confidential information generated by the CBP, the CBP Manager, the Companies, Commission Staff, the Commission's Advisor (if one assists the Commission), the Commission, and the bidders participating in the CBP.

VI. Contingency Plans

68. The Companies have developed plans for the following contingencies:

(a) one or more winning bidders repudiate the Master SSO Supply Agreement prior to the beginning of the delivery period; or

(b) one or more SSO Suppliers default during the delivery period.

69. Other contingencies that may arise outside of the bidding process are discussed elsewhere in this Application.

70. If a winning bidder(s) repudiates the Master SSO Supply Agreement prior to the start of the SSO Supply period, then, at the Companies' option, the defaulted tranches may be included in the next solicitation for that product, offered to the other SSO Suppliers, bid out as quickly as commercially possible or procured in MISO-administered markets.

71. If an SSO Supplier defaults prior to or during the SSO Supply period, then, at the Companies' option, the defaulted tranches may be offered to the other SSO Suppliers, bid out as quickly as commercially possible or procured in MISO-administered markets.

72. Replacement power procured by the Companies arising due to any or all of the foregoing contingencies that is not procured in the next solicitation, bought in response to an offer to another SSO supplier or bid out as quickly as possible on a commercial basis will be obtained in MISO-administered markets at prevailing FirstEnergy zonal spot market prices, and, unless instructed otherwise by the

Commission in a timely fashion, the Companies will not enter into discretionary hedging transactions to attempt to manage the associated price or volume risks to serve these tranches. All costs, including, without limitation, energy and capacity costs and transmission and ancillary costs, incurred by the Companies in implementing this Contingency Plan will be assessed first against the defaulting SSO Supplier's credit security, to the extent available. If the credit instrument is insufficient to cover such costs or recovery is unreasonably delayed, the Companies shall be permitted to recover the costs through the Reconciliation Mechanism, or if such alternative is not available, then such costs shall be collected either directly through the implementation of a tariff or rider for such purpose, as permitted by R.C. 4928.142(C) or otherwise.

VII. Requests Contained in Proposed Commission Rules

Financial Projections

73. There will be no financial impact on distribution rates arising from this Application. Winning bidders will be responsible for providing all transmission and ancillary services as part of their bid, so there will be no amount included in the Companies' transmission rider, except in the case of the implementation of the contingency plan where the Companies acquire power to serve SSO Load. Generation charges will be a pass through for the Companies.

Rate Impacts

74. Rate impacts arising from this Application cannot be known at the time of filing because such impacts will be derived from the results of a competitive bid process that has not yet occurred. In an effort to comply with the Commission's proposed rules,

illustrative transmission and generation charges[9] were used to compare rate levels in 2008 with those that may possibly be in place following the implementation of the results of the competitive bid process.

Provisions for an Open, Fair, and Transparent Competitive Solicitation of Generation Services

75. As set forth in paragraphs herein, as well as in Testimonies and Exhibits, the MRO Application provides for an open, fair, and transparent competitive solicitation of the generation services necessary to serve the SSO load that is the subject of the CBP.

Customer Load Descriptions

76. The Application contains detailed descriptions of the customer load(s) to be served by the winning bidder(s), and any known factors that may affect customer loads. The following are included in the Application:

There are no load subdivisions for bidding purposes as the proposal is to conduct the bid on a slice of system basis.

Rate class descriptions are included in Exhibit A.

Customer load profiles that include historical hourly load data for each load and rate class for at least the two most recent years are included in the information in the Companies' website-based data room.

Applicable tariffs are attached as Exhibit D.

Information regarding historical shopping behavior is available on the Commission's website and will also be made available as part of the Companies' website-based data room.

[9] The illustrative generation prices are based upon the conclusions of Drs. Jones and Graves in the Companies' ESP case regarding expected market prices.

77. Any requirements for meeting renewable energy resource requirements will be achieved through a separate request for proposal during 2009 so that all such requirements are met by the end of 2009. The renewable energy resources will be in the form of renewable energy credits, and the cost will be passed on to customers through the reconciliation mechanism proposed in this Application. [Plans for meeting targets pertaining to load reductions, and energy efficiency will be pursued and achieved through programs separate from this Application. No specific requirements related to advanced energy or advanced energy technologies are applicable during the time period contemplated by the initial subscription under this Application.

Description of Services to be Provided

78. The CBP includes detailed descriptions of the generation and related services that are to be provided by the winning bidders. None of the following list will be provided by the Companies except under extreme Contingency Plan scenarios. All of the following generation/RTO/transmission services will be included by the winning bidders in the form and amount required to adequately serve SSO Supply, specific to each winning bidder relative to the number of tranches they are obligated to serve, and all in accordance with all tariffs, requirements, rules, and orders of FERC, RTO, NERC, and any other applicable entity with proper authority:

a. Capacity services,

b. Energy services

c. Transmission services

d. Ancillary services

e. Resource adequacy services (also referred to as designated network resources and planning reserve requirement)

f. The term during which generation and related services are to be provided. This term is specifically set forth elsewhere in the Application.

Drafts of Forms, Contracts, and Other Documents.

79. Bidder registration forms and application forms and the Master SSO Supply Agreement are attached as Exhibits E and F, respectively.

Evaluation of Bids

80. Bid evaluation criteria is contained in the CBP Manager's testimony.

Conversion of Bid Results Into Rates

81 A detailed explanation of the conversion of the bid results to retail rates is attached as Exhibit C.

Statement regarding Ownership of Generation Facilities

82. The Companies do not, as of July 31, 2008, directly own, in whole or in part, operating electric generating facilities that had been used and useful in the state of Ohio.

Provision for Consultant Funding.

83. The Companies agree to provide funding of a consultant that may be selected by the Commission on the design of the competitive bidding process, and the cost of such consultant shall be recovered through the Reconciliation Mechanism as discussed above, as permitted by R.C. 4928.142(C).

Portfolio Approach to SSO Generation Supply

84. As permitted by the Commission's rules, the Companies have elected to use a portfolio approach to procure SSO generation supply. In particular, as noted in

paragraphs 14 and 15, the Companies have proposed staggered procurements and time periods, as contemplated by the rules.

Advancement of State Policy as Enumerated in R.C. 4928.02

85. The plan described in the Companies' Application consistent with the policy of this state as delineated in R.C. 4928.02(A)–(N) by providing for a bid process that is designed to result in stable pricing through the use of staggered bids and multiple supply periods, and including provisions that should result in lower prices for customers than those that would otherwise be expected. The Application does not attempt to prohibit switching to alternative generation suppliers or limit a customer's access to such suppliers. Customers may switch to alternative generation suppliers at any time in accordance with switching rules. The proposed CBP encourages energy efficiency through elimination of declining block rates for retail generation services. Through adherence to the auction rules and communication protocols, no cross subsidization will occur. The proposed CBP has safeguards built into the process and is designed to encourage bidders to participate, and MISO also has authority to monitor to market and address market power issues.[10]

Corporate Separation Plan

86. The Companies have complied with their corporation separation plan as set out in their transition plan cases. FirstEnergy has separated its organization into three independent business entities: a competitive services unit, a corporate support unit and a utility services unit. The competitive services unit now owns all FirstEnergy generating assets. The corporate support services unit retains corporate related functions such as accounting, treasury, legal, human resources and industrial relations,

[10] Because certain of the provisions listed in R.C. 4928.02 simply do not apply to a competitive bid process to procure generation, so it may be that certain provisions are not specifically addressed.

communications, real estate and other shared functions. Finally, the utility services unit, containing the Companies, maintains physical and operational control of the distribution assets. FirstEnergy's transmission assets are owned by American Transmission Systems Inc. Additionally, the Companies have in place a Commission-approved Code of Conduct and a Cost Allocation Manual as a means to ensure regulatory compliance and eliminate the sharing of information and resources between the regulated transmission and distribution units and the competitive services unit. The Companies are now strictly distribution companies owning no generation assets. The waivers granted by the Commission related to generation assets that have been divested are no longer being relied upon. The Corporate Separation Plan is in Compliance with R.C. section 4928.17 and O.A.C. Chapter 4901:1-37. There are no anticipated amendments to the Companies' corporation separation plan at this time.

Relationship to Aggregation Programs

87. Because the proposed MRO contains no phase-in or stand by charge, R.C. 4928.20(I) and (J) do not apply.

VIII. CONCLUSION

88. As discussed above, in the event the ESP is not approved and implemented, the Companies urge the Commission to issue its Opinion and Order that determines the MRO as filed by the Companies including the competitive bidding process described herein, meets the requirements of R.C. 4928.142(A)(1) and (B), and all required waivers from Commission rules necessary to implement the MRO are granted, and for all other necessary and proper relief, so that pricing for SSO Generation Service may be implemented by January 1, 2009.

Ohio Edison Company
The Cleveland Electric Illuminating Company
The Toledo Edison Company

By ______________________________

Senior Vice President & CFO

By ______________________________

Assistant Corporate Secretary

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On behalf of Ohio Edison Company,
The Cleveland Electric Illuminating Company,
and The Toledo Edison Company

VERIFICATION

STATE OF OHIO)
) ss.
COUNTY OF SUMMIT)

The undersigned, being first duty sworn, state that they have the authority to verify the foregoing Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company (collectively, the "Companies") for approval of a market rate offer to implement a competitive bidding process for Standard Offer Service electric generation supply. Also, they state that they have read said Application and are familiar with the contents in support; and that all of the statements contained in said filing made on behalf of the Companies are true and correct to the best of their knowledge and belief.

Richard H. Marsh
Senior Vice President & CFO

Ohio Edison Company
The Cleveland Electric Illuminating Co.
The Toledo Edison Company

Edward J. Udovich
Assistant Corporate Secretary

Ohio Edison Company
The Cleveland Electric Illuminating Co.
The Toledo Edison Company

Sworn to and subscribed before me, a notary public, in and for said County and State, this 31st day of July, 2008.

Notary Public

Kathleen Anne Grant
Notary Public, State of Ohio
Resident of Summit County
My Commission Expires Nov. 8, 2009.

Index of Exhibits

Exhibit Number	Title
A	Competitive Bidding Process Rules
B	Competitive Bidding Process Schedule
C	Rate Conversion Process and Reconciliation Mechanism
D	Proposed Tariffs
E	Competitive Bidding Process Documents
F	Master SSO Supply Agreement
G	Communication Protocols
H	Competitive Bidding Process Timetable
I.	Alternative Competitive Bidding Process Timetable