

FILE

OCC EXHIBIT NO. _____

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio)
Edison Company, The Cleveland Electric) Case No. 08-936-EL-SSO et al.
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)
)

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**DIRECT TESTIMONY
of
WILSON GONZALEZ**

**ON BEHALF OF THE
OFFICE OF THE OHIO CONSUMERS' COUNSEL
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September 9, 2008

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1 **I. INTRODUCTION**

2

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

4 ***A1.*** My name is Wilson Gonzalez. My business address is 10 West Broad Street,
5 Suite 1800, Columbus, Ohio, 43215-3485. I am employed by the Office of the
6 Ohio Consumers' Counsel ("OCC" or "Consumers' Counsel") as a Principal
7 Regulatory Analyst.

8

9 ***Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND***
10 ***PROFESSIONAL EXPERIENCE.***

11 ***A2.*** I have a Bachelor of Arts degree in Economics from Yale University and a Master
12 of Arts degree in Economics from the University of Massachusetts at Amherst. I
13 have also completed coursework and passed my comprehensive exams towards a
14 Ph.D. in Economics at the University of Massachusetts at Amherst. I have been
15 employed in the energy industry since 1986, first with the Connecticut Energy
16 Office (Senior Economist, 1986-1992), then Columbia Gas Distribution
17 Companies ("Columbia Gas"), (Integrated Resource Planning Coordinator, 1992-
18 1996) and American Electric Power ("AEP") (Marketing Profitability Coordinator
19 and Market Research Consultant, 1996-2002). I have been spearheading the
20 Resource Planning activities within OCC since 2004.

21

**Q3. PLEASE DESCRIBE YOUR EXPERIENCE DIRECTLY RELATED TO
RATE DESIGN.**

A3. I have been involved with many aspects of Rate Design and demand-side management ("DSM") programs since 1986. While at the Connecticut Energy Office I represented the office in one of the first DSM collaborative processes in the country (Connecticut Department of the Public Utilities Commission Docket No. 87-07-01). There I analyzed the performance and cost-effectiveness of many efficiency programs for Connecticut's electric and gas utilities that led to demonstration projects, policy recommendations, DSM programs (including rate design recommendations) and energy efficiency standards. I also performed all the analytical modeling for United Illuminating's first integrated resource plan filed before the DPUC in 1990. At Columbia Gas, I was responsible for coordinating the Company's Integrated Resource Plan within the corporate planning department and DSM program development activities in the marketing department. I designed and managed residential DSM programs in Maryland and Virginia. At AEP, I conducted numerous cost benefit analyses of programs being sponsored by AEP's corporate marketing department, including their residential load control water heater program.

For the past 4 years at OCC, I have (among other matters):

- Been involved in DSM negotiations resulting in over \$140 million in energy efficiency programs with Ohio's investor owned utilities;
- Prepared DSM testimony in six Public Utility Commission of Ohio ("PUCO" or "Commission") cases;

- 1 • Testified before the Ohio House Alternative Energy Committee in
- 2 support of energy efficiency;
- 3 • Assisted in the preparation of energy efficiency and renewable
- 4 energy testimony and amendments for SB 221, HB 357, and HB
- 5 487; and
- 6 • Testified before the PUCO on rate design issues.

7

8 ***Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE***

9 ***PUBLIC UTILITIES COMMISSION OF OHIO?***

10 ***A4.*** Yes. I submitted testimony in the following cases before the Public Utilities

11 Commission of Ohio ("Commission" or "PUCO"): Vectren Energy Delivery of

12 Ohio, Case No. 04-571-GA-AIR; Dominion East Ohio, Case No. 05-474-GA-

13 ATA; Dominion East Ohio, Case No. 07-829-GA-AIR; Vectren Energy Delivery

14 of Ohio, Case No. 05-1444-GA-UNC; Columbus Southern Company/Ohio Power

15 Company, Case No. 06-222-EL-SLF; Duke Energy of Ohio, Case No. 07-589-

16 GA-AIR, FirstEnergy Companies, Case Nos. 07-551-EL-AIR, et al.; and Vectren

17 Energy Delivery of Ohio, Case No. 07-1080-GA-AIR.

18

19 ***Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF***

20 ***YOUR TESTIMONY?***

21 ***A5.*** I have reviewed the competitive bidding and generation rate design discussion in

22 FirstEnergy's Market Based Rate ("MRO") Case Application, and the testimony

23 of Company witnesses Norris, Warvell, and Reitzes as well as information from

1 PUCO Case No. 07-796-EL-ATA, et al. (describing FirstEnergy's previous
2 competitive bidding proposal ("CBP")) . I have reviewed the relevant Company
3 responses to OCC discovery and Commission Staff data requests pertaining to the
4 Companies' MRO. I have also reviewed the materials cited in my testimony.

5
6 **II. PURPOSE OF TESTIMONY**

7
8 ***Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?***

9 ***A6.*** My testimony recommends that the Commission adjust the standard service offer
10 ("SSO") rate proposal for generation service submitted by the FirstEnergy
11 operating companies (collectively, "FirstEnergy" or the "Companies"). I
12 recommend that demand components be reintroduced into the structure of retail
13 rates. Also, I recommend that sufficient time be allotted for review of the
14 competitive bidding process and its associated rate design elements before future
15 auctions take place. Finally, I recommend a change to the proposed recovery of
16 delta revenues arising from special arrangements.

17
18 **III. FIRSTENERGY'S MARKET RATE OPTION PROPOSAL**

19
20 ***Q7. HOW HAVE THE COMPANIES PROPOSED TO CHARGE FOR***
21 ***GENERATION UNDER THE MARKET RATE OPTION?***

22 ***A7.*** The Companies propose to "utilize a wholesale to retail rate conversion process
23 to convert the Blended Competitive Bid Price to a retail rate, reflecting among

1 other things, a voltage based classification of customers. The converted rate will
2 be referred to as the Standard Service Offer Generation Charge (SSOGC)."¹

3
4 ***Q8. DURING THE CONVERSION PROCESS FROM A WHOLESALE RATE TO***
5 ***A RETAIL RATE, ARE THE COMPANIES PROPOSING TO ELIMINATE***
6 ***THE USE OF DEMAND CHARGES FOR NON-RESIDENTIAL***
7 ***CUSTOMERS?***

8 ***A8.*** Yes.

9
10 ***Q9. DO YOU AGREE WITH THE ELIMINATION OF THE DEMAND***
11 ***COMPONENTS IN NON-RESIDENTIAL RETAIL GENERATION RATES?***

12 ***A9.*** No. Demand components are charges that take into consideration the large load
13 for generation or the heavy burden large customers place upon a generation
14 system at a single point or points in time. The Companies proposal eliminates the
15 principal, existing source of responsiveness to differences in demands that is
16 needed going forward to reduce the bid price: demand components in generation
17 rates for large customers.

18
19 FirstEnergy's proposal focuses on its generation procurement situation, but fails to
20 recognize the important cost differences between customers whose demand
21 profiles differ. The existing tariffs, from which FirstEnergy proposes to depart,
22 recognize these differences by including demand charges for large customers.

¹ Direct Testimony of Kevin Norris, page 4.

1 The Commission and the Ohio Supreme Court have recognized that demand
2 charges are an important way of reflecting the costs to provide generation service
3 to large customers.² The elimination of historic demand charges from all non-
4 residential generation tariffs will tend to encourage an inefficient demand for, and
5 use of, generation resources. This weakness in the design of the retail generation
6 tariffs will be recognized by bidders, and will result in higher bids.³

7
8 FirstEnergy's affiliates are engaged in the competitive bidding process that exists
9 in New Jersey. In fact, FirstEnergy's proposal in New Jersey contains both a
10 "RTF" (i.e. a weighted average PJM LMP) component for energy and a capacity
11 charge for customers with a greater than one megawatt of demand.⁴ FirstEnergy's
12 tariffs for large customers in Ohio should reflect demand charges, as it does in
13 New Jersey. Such charges can be re-introduced without any concern over
14 additional metering costs because the metering exists for such customers. In
15 future auctions, the Companies and the Commission (in its oversight capacity)
16 should consider the benefits of mandatory real time pricing for large customers,
17 rather than demand charges, as a preferred pricing mechanism.⁵

² E.g., *Smith v. Public Utilities Commission of Ohio*, 130 Ohio St. 328 (December 26, 1935).

³ For example, some customers may operate with multiple shifts, and the elimination of demand charges could encourage reductions in shift work that is currently designed to reduce demand charges. The result could be to increase overall demand by the Companies' customers and result in a more costly supply environment.

⁴ See Jersey Central Power and Light, Proposal for Basic Generation Service Beyond May 31, 2008, Docket No. ER07060379, June 29, 2007, pages 16-17.

⁵ If a fixed priced product is desired by a large customer they can contract for such a product with a competitive retail supplier.

1 **Q10. DOES THE COMPANIES' PROPOSAL IN THE INTERRUPTIBLE LOAD**
2 **AND SEASONALITY FACTOR AREAS PROVIDE ENOUGH CONTROL**
3 **OVER THE GROWTH IN DEMAND?**

4 **A10.** No. While the Companies' two interruptible programs for large general service
5 customers and the included seasonality element are important to help control the
6 growth in demand, they do not suffice to overcome that lack of a more granular
7 demand signal. This is especially true given the voluntary nature of the
8 interruptible rate programs.

9

10 **Q11. WHAT RECOMMENDATIONS DO YOU PROPOSE THE COMMISSION**
11 **ADOPT WITH REGARD TO DEMAND CHARGES?**

12 **A11.** The Commission should adjust FirstEnergy's proposal. Demand components
13 should be re-introduced (i.e. similar to existing generation tariffs) before any
14 bidding takes place in order to more fully reflect the cost of generation in rates.
15 The result, everything else being equal, is likely to reduce the bid price in the
16 proposed auctions.

17

18 **Q12. IS THERE SUFFICIENT TIME ALLOTTED IN FIRSTENERGY'S**
19 **PROPOSAL FOR REVIEW AND COMMENT REGARDING THE CBP**
20 **PROPOSED BY THE COMPANIES?**

21 **A12.** No. According to the Companies' application, "the final prices achieved by the
22 CBP will be filed with the Commission immediately after the close of the initial
23 CBP. In subsequent years, compliance tariffs will be filed within 30 days of the

1 final CBP for the designated 12-month period but at least 15 days prior to the first
2 day of the designated 12-month period.”⁶ I agree that the bidding report should
3 be filed immediately in the first year and required, at a minimum, within thirty
4 days of the completion of all bids in subsequent years. The application, however,
5 leaves out any mention of a public review and comment process for interested
6 parties affected by the outcome of the bid.

7 The Commission needs to be clear regarding the number of reviews to be done of
8 the CBP in the first years. The Commission should hold a general review of the
9 bidding process, at a minimum, once in each of the first three years of competitive
10 bidding. These reports should be submitted with sufficient time to make any
11 needed changes to the process before the MISO planning period begins. Such a
12 process would be consistent with the requirement for a detailed CBP report
13 proposed in Case No. 08-777-EL-ORD.⁷ Fifteen days, as the Companies propose,
14 would not be sufficient time to allow for review and implementation of any
15 needed changes. Also, the process should include the opportunity for
16 stakeholders to submit comments to the Commission regarding the CBP. This is
17 especially important during the first few years for the process.
18

⁶ 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, Page 10.

⁷ Proposed OAC 4901:1-35-11(D).

**Q13. DO THE COMPANIES PROPERLY HANDLE THE RECOVERY OF THE
LOSS IN REVENUES ASSOCIATED WITH SPECIAL CONTRACTS?**

A13. No. Cleveland Electric Illuminating ("CEI") has customers with whom it has entered into special contracts. Accordingly, CEI may only charge the rate specified in those contracts rather than the market-based standard service offer. The Companies propose "Rider CRT" to recover the difference in revenue between the amount collected under the special contract and the market-based standard service offer (known as "delta revenue") among other thing.⁸ The Companies propose to charge Rider CRT to customers who are not under a special contract, as an unavoidable charge, in order to make up this difference in revenues.

For the collection of this difference in revenues, the Companies propose two components of Rider CRT. One component, "CRT1," would reconcile aggregate SSO Revenue Requirements for the three Companies. The other component, "CRT2," would recover the revenue variance associated with CEI special contract customers remaining after December 31, 2008⁹ and would be charged to CEI customers.

⁸ The Companies also propose to recover, under this rider, the total amount of SSO supply costs (SSO Revenue Requirements). The SSO Revenue Requirements are equal to payments to SSO Suppliers for purchased power plus the Companies' costs for providing SSO Generation Service plus applicable interest. This explanation and further detail can be found in Exhibit C to the Companies' Application.

⁹ Exhibit C to the 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.

1 FirstEnergy should be responsible to recover all or a portion of the delta revenues.
2 Previous to this filing, FirstEnergy shareholders contributed to the recovery of
3 delta revenues resulting from special contracts. The situation faced by the
4 Companies -- discounted generation rates without ownership of generation assets
5 -- was one of their own making when they permitted the assets to be transferred to
6 FirstEnergy Solutions without the transfer of responsibility for the discounted
7 rates. I recommend the Commission permit no more than 50% recovery of the
8 delta revenues from customers who do not have special contracts. This division
9 of responsibility is consistent with prior Commission practice and the
10 expectations of parties, including the Companies, at the time the special contracts
11 were executed.¹⁰
12

13 **VI. CONCLUSION**
14

15 ***Q14. DOES THIS CONCLUDE YOUR TESTIMONY?***

16 ***A14.*** Yes. However, I reserve the right to incorporate new information that may
17 subsequently become available. I also reserve the right to supplement my
18 testimony in response to positions taken by the PUCO Staff.

¹⁰ Cleveland Electric Illuminating Rate Case 95-299-EL-AIR, April 11, 1996, Opinion and Order at pages 17-18.

PUCO – DR # 17

Witness: Norris

Case No. 08-936-EL-SSO

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

RESPONSES TO REQUEST

**PUCO DR
17**

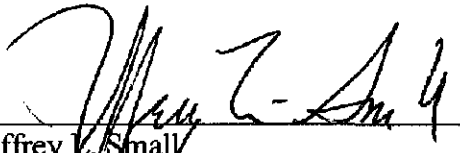
In Kevin Norris' testimony, on page 6, lines 10-11, Rider CRT is described as an unavoidable charge. Please explain the companies' rationale for making this rider unavoidable.

Response:

The Companies' ability to provide Standard Service Offer ("SSO") supply is conditioned on the Companies' ability to recover expenses associated with providing such service, such as those proposed for collection under Rider CRT. Rider CRT reduces the risk to both the Companies and to potential suppliers in the competitive bidding process, thereby eliminating the need for potential suppliers to add risk premiums associated with supplying the service. In addition, all customers, including customers who choose an alternative supplier, have access to the service provided by the Companies, as such customers may choose to return from those alternative suppliers to the SSO. Therefore, all customers benefit from the Companies' SSO, and it is appropriate for all customers to be responsible for paying Rider CRT to assure these benefits are maintained for all customers.

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing the *Direct Testimony of Wilson Gonzalez on Behalf of the Office of the Ohio Consumers' Counsel* has been served electronically and via First Class US Mail , this 9th day of September, 2008.



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