

FILE

[Company Exhibit 9]

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)	Case No. 08-936-EL-SSO
Offer Electric Generation Supply,)	
Accounting Modifications Associated)	
With Reconciliation Mechanism, and)	
Tariffs for Generation Service)	

REBUTTAL TESTIMONY OF

WILLIAM R. RIDMANN

ON BEHALF OF

OHIO EDISON COMPANY
THE TOLEDO EDISON COMPANY
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

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

2 A. My name is William R. Ridmann. I am employed by FirstEnergy Service Company
3 as Director of State Regulatory Affairs. My business address is 76 South Main Street,
4 Akron, Ohio 44308.

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
6 **PROFESSIONAL QUALIFICATIONS.**

7 A. I received a Bachelor of Business Administration Degree, in 1974, and a Bachelor of
8 Science Degree in Electrical Engineering, in 1977, both from the University of
9 Cincinnati. I have been employed by FirstEnergy Service Company, or one of
10 FirstEnergy's predecessor companies since 1977. I began in the rate department of
11 The Cleveland Electric Illuminating Company ("CEI"), became Manager of Rate
12 Administration for CEI in 1986, and was promoted in 1989 to Manager, Rates and
13 Contracts at what was then Centerior Energy Corp. ("Centerior"). In 1991, I became
14 Senior Manager, Marketing Services at Centerior, and held that position until 1993,
15 when I was promoted to Director of Marketing. In 1997, I became the Executive
16 Director, Marketing, for FirstEnergy Service Corp. In 1998, I became Executive
17 Director, Customer Solutions & Energy Information Services; in 1999, Executive
18 Director, Operations & Transaction Management; in 2002, Director, Energy
19 Solutions, all with FirstEnergy Solutions Corp. In 2003, I joined FirstEnergy Service
20 Company as Manager, Rate Restructuring and in 2004, Manager of Revenue
21 Requirements. I assumed my current position in 2006.

22

1 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR OF STATE**
2 **REGULATORY AFFAIRS.**

3 A. I am responsible for State regulatory matters related to technical rate and tariff issues
4 for all FirstEnergy regulated utilities operating in the states of Ohio, New Jersey and
5 Pennsylvania.

6 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 A. The purpose of my Rebuttal Testimony is to address certain statements pertaining to
8 the Companies' proposed rate design and Cost Recovery True-up Rider ("CRT
9 Rider") made in the Direct Testimony of John Courtney, P.E. on behalf of the City of
10 Cleveland, Kevin C. Higgins on behalf of The Kroger Co., Dr. Dennis W. Goins on
11 behalf of Nucor Steel Marion, Inc., Wilson Gonzalez on behalf of the Office of the
12 Ohio Consumers' Counsel (collectively, the "Parties") and Staff Witness Robert B.
13 Fortney ("Staff").

14 **PROPOSED RATE DESIGN**

15 **Q. PLEASE IDENTIFY THE RATE DESIGN ISSUES YOU ADDRESS THAT**
16 **WERE RAISED BY THE PARTIES.**

17 A. Mr. Courtney states that the Companies' proposed rate design fails to give proper
18 recognition to the load characteristics of the individual rate classes. (Courtney p. 4,
19 lines 26, 27) He also proposes that the Companies develop factors that take into
20 consideration the load characteristics of the individual rate classes and incorporate
21 these factors into the "RCP Formula". (Courtney p. 5, lines 16-18) Mr. Higgins
22 concludes the absence of time of use cost differences constitutes a deficiency in the
23 Companies' rate design because it would result in cross subsidization. (Higgins p. 5,

1 lines 16-18). Dr. Goins states that interruptible rates (Goins p. 12, lines 9-25) and
2 time of day rate options (p. 16, lines 3-16) should be part of the Companies' MRO.
3 Mr. Gonzales suggests that demand charges should be introduced into the rate design
4 to more fully reflect the cost of generation in rates. (Gonzales p. 7, lines 12-16)

5 **Q. DO YOU AGREE WITH THESE CONCLUSIONS?**

6 A. No. I do not agree with the statements and conclusions of the Parties that I have
7 referenced above. Inclusion in retail rates of cost components (e.g. demand, time-
8 of-day or interruptible components) other than the seasonal and voltage based cost
9 differences proposed by the Companies would be arbitrary in that it cannot be
10 designed to match the costs incurred by the Companies.

11 **Q. MR. HIGGINS FURTHER STATES THAT THE COMPANIES' RATE**
12 **DESIGN IS INCOMPLETE AND INADEQUATE. (HIGGINS P. 5, LINES 21-**
13 **22) PLEASE EXPLAIN WHY THE COMPANIES ONLY PROPOSED**
14 **SEASONAL AND VOLTAGE BASED COST DIFFERENCES.**

15 A. Under the MRO, the Companies purchase full requirements service from winning
16 bidders at a stated price per kWh. There are no identifiable demand, time of day or
17 interruptible components of the purchase price. In fact, there is no reasonable way to
18 quantify such items for all winning bidders in the aggregate, or even to know whether
19 or to what extent suppliers have included such components in their bid. Moreover,
20 establishing retail rates on a recovery basis different from how the costs are incurred
21 by the Companies is likely to increase the discrepancy between the revenues collected
22 from customers and the payments the Companies are required to make to the
23 suppliers (which must then be recovered in the reconciliation process). Further, if the

1 retail rate for a certain class of customers is reduced as a result of the modifications
2 suggested by the Parties, such rate reduction must be made up by increasing the retail
3 rate to other classes of customers.

4 **Q. ON PAGE 5, LINES 10-17, MR. GONZALEZ TAKES ISSUE WITH THE**
5 **FACT THAT THE COMPANIES' PROPOSAL DOES NOT INCLUDE**
6 **DEMAND COMPONENTS IN NON-RESIDENTIAL RETAIL RATES. DO**
7 **YOU BELIEVE SUCH DEMAND CHARGES SHOULD BE INCLUDED?**

8 A. No. Introducing demand charges means that higher-than-average load factor
9 customers could pay lower-than-average Standard Service Offer Generation Charges
10 ("SSOGC"), and conversely lower-than-average load factor customers could pay
11 higher-than-average SSOGC. As a result, the lower-than-average load factor
12 customers have an increased incentive to shop in comparison to the higher-than-
13 average load factor customers. Therefore, the level of shopping would be influenced
14 by rate design, rather than cost. To the extent that such rate design-based shopping
15 occurs, the revenue received by the Companies will be reduced by a greater
16 proportion than the reduction in the Companies' cost. That will result in unrecovered
17 costs by the SSOGC, and lead to higher reconciliation costs for customers. This
18 impact will likely escalate rate design-based shopping, with the resultant
19 "spiral" of ever-increasing reconciliation factors.

20 **Q. DO YOU AGREE WITH THE TESTIMONY OF MR. GONZALEZ ON**
21 **CROSS-EXAMINATION (Tr. III. p. 82, at 1-9 and p. 98-99) WHERE HE**
22 **RAISES CONCERNS ABOUT SUPPLIERS' USE OF CUSTOMER LOAD**
23 **PROFILES BASED ON A RATE STRUCTURE THAT INCLUDE DEMAND**

1 **CHARGES?**

2 A. No. Based on my experience, the removal of demand charges from retail rates will
3 not cause a change in the load profiles of the Companies' customers.

4 **Q. WHY?**

5 A. I have reviewed customer load data from our affiliate Jersey Central Power & Light.
6 Demand charges in generation rates were eliminated in 2003 for general service
7 customers. My observation from that review is that customer load profiles remained
8 basically the same as they were prior to the demand charge elimination.

9 **PROPOSED COST RECOVERY TRUE-UP RIDER**

10 **Q. PLEASE IDENTIFY THE SPECIFIC STATEMENTS THAT YOU WILL BE**
11 **ADDRESSING IN MR. COURTNEY'S TESTIMONY.**

12 A. Mr. Courtney (Courtney p. 3, lines 24, 25; p. 4, lines 1, 2) states that the Companies'
13 proposed Cost Recovery True-Up Rider represents non-qualified, unidentified and
14 uncontrolled costs without adequate review by the Commission, its staff, customers
15 and other interested parties. He also expresses an opinion that an electric utility does
16 not have the right to recover 100% of the delta revenue associated with special
17 contracts pursuant to this filing. (Courtney p. 7, lines 11-16)

18 **Q. ARE MR. COURTNEY'S STATEMENTS CORRECT?**

19 A. No. As discussed in the Application, the CRT Rider mechanism ensures that
20 customers will pay only what it costs the Companies to procure and provide the
21 generation service for the SSO. The CRT Rider thus keeps the Companies revenue
22 neutral. In addition, the Companies will file an initial amount for the CRT Rider, as
23 well as changes on a quarterly basis, with the Commission, which ensures that such

1 costs will be identified and will be available for review. The Companies have
2 proposed to recover in the CRT Rider the delta revenues associated with CEI special
3 contracts that extend past December 31, 2008 ("CEI extended contracts"). Under the
4 proposed MRO, the Companies would be serving the load associated with CEI
5 extended contracts using generation procured through the competitive bidding
6 process ("CBP"). Moreover, as I understand, the Companies are permitted to
7 recover the costs associated with providing generation service to customers, including
8 CEI extended contracts. In other words, all delta revenue should be entirely
9 recoverable from all customers.

10 **Q. PLEASE DESCRIBE THE RATIONALE FOR YOUR OPINION.**

11
12 A. All costs incurred by the electric distribution utility as a result of or relating to the
13 CBP or to procuring generation service to provide the standard service offer shall be
14 timely recovered through the standard service offer price, including approval of
15 reconciliation mechanisms. In addition, an electric distribution utility may recover
16 costs incurred in conjunction with any economic development or job retention
17 program, including foregone revenues. The Companies are entitled to recover their
18 full costs of power supply procured in the MRO process. Further, if the Companies
19 do not recover such costs from the customer for which a reasonable arrangement is
20 approved, such shortfall -- or delta revenue should be recoverable from all
21 customers.

22 **Q. WOULD NOT ALLOWING THE COMPANIES TO RECOVER DELTA**
23 **REVENUES HAVE A SIGNIFICANT NEGATIVE FINANCIAL IMPACT ON**
24 **THE COMPANIES?**

1 A. Yes. Not allowing the recovery of delta revenues by electric distribution utilities, as
2 suggested by other parties, would have severe financial consequences for the
3 Companies. If utilities had to bear some or all of the economic impact of
4 Commission approval of reasonable arrangements, the Companies would be denied
5 the opportunity to earn a reasonable rate of return. For example, the expected
6 earnings for FE's Ohio utilities combined is about \$124 million, with CEI
7 contributing about \$48 million to that total. The delta revenue from only CEI
8 contracts continuing until 2010 is in the range of \$130 million annually. If the delta
9 revenue recovery for these contracts was limited to 50%, CEI's income would be
10 reduced by about \$39 million ($\$130 \text{ million} \times 50\% \times 60\% \text{ after-tax factor}$), resulting
11 in annual earnings of \$9 million, or a return on equity of approximately 2.0%. If CEI
12 was not allowed to recover any of this delta revenue, CEI would incur an annual loss
13 of \$30 million, or a return on equity of -6.6%. Obviously, neither of these situations
14 results in the timely recovery of CEI's costs for procuring generation service. The
15 same concerns exist for new reasonable arrangements for all three companies.

16 **Q. MR. HIGGINS ON PAGE 6, LINES 9-12 SUGGESTS THAT UNDER THE**
17 **MRO OPTION THE COMPANIES SHOULD ABSORB THE COSTS OF**
18 **SPECIAL CONTRACTS. DO YOU AGREE?**

19 A. No. Essentially all of the electricity purchased by the Companies is resold to
20 customers. To the extent that the reasonable arrangement contract price is less than
21 the MRO price, the Companies will incur a loss on that sale. So selling at a price
22 less than the MRO price is not a benefit. Even with 100% delta revenue recovery,
23 the Companies only break even on the transaction.

1 **Q. PLEASE IDENTIFY THE SPECIFIC STATEMENT THAT YOU WILL**
2 **ADDRESS IN MR. FORTNEY'S DIRECT TESTIMONY.**

3 A. Mr. Fortney proposes that all components of the Cost Recovery True-Up Rider (other
4 than the delta revenue) should be avoidable. (Fortney p. 3, lines 13-17)

5 **Q. DO YOU AGREE WITH MR. FORTNEY'S POSITION THAT THE**
6 **COMPETITIVE BIDDING PROCESS EXPENSES SHOULD BE**
7 **BYPASSABLE?**

8 A. No. The costs associated with the CBP are expected be in the range of \$300,000 to
9 \$450,000, as discussed by Companies' Witness Dr. Reitzes. The Companies
10 anticipate that tranche fees paid by SSO Suppliers will collect the majority of such
11 costs. These costs could include fees paid to any consultant hired to monitor the CBP
12 on behalf of customers.

13 **Q. DO YOU AGREE WITH MR. FORTNEY'S CONCLUSION THAT THE**
14 **DIFFERENCE BETWEEN PURCHASE POWER EXPENSES AND RETAIL**
15 **GENERATION REVENUE SHOULD BE BYPASSABLE?**

16 A. No. As stated in the Companies' Application, this component of the CRT Rider
17 ensures that billed amounts do not exceed costs incurred, and that the Companies
18 collect sufficient amounts to keep the Companies whole. The Companies propose to
19 include these amounts in the CRT Rider because, if customers are allowed to shop
20 and avoid such costs, there would be a shrinking pool of customers from which to
21 recover those costs. Thus, the Companies would bear the risk of not recovering all of
22 their costs of procuring generation.

23 **Q. DO YOU AGREE WITH MR. FORTNEY'S CONCLUSION THAT**

1 **UNCOLLECTIBLE EXPENSE AMOUNTS SHOULD BE BYPASSABLE?**

2 A. No. The Companies have an obligation to provide SSO service to customers in their
3 service territories, and as such have credit and collection practices that are consistent
4 with state policy objectives and are governed by the Commission. Alternative
5 suppliers can pick the customers they want and establish their own credit rules to
6 minimize credit risk, both of which serve to mitigate the costs associated with
7 uncollectibles. In addition, the arrears of alternative suppliers are paid first in the
8 partial payment posting priority in the Companies' service territories. The
9 Companies do not have these options or benefits. Specifically, winter moratoria
10 have been implemented that prevent the Companies from disconnecting service to
11 customers during the cold winter months. The Commission issues an annual winter
12 reconnect order that allows customers to reconnect or avoid disconnection by paying
13 less than their arrearage amount owed to the Companies. The Companies also have a
14 responsibility to maintain service to customers that agree to established payment
15 arrangements. If recovery of the uncollectible costs associated with providing SSO
16 generation service (that results in large part from application of state policy) is to be
17 avoidable, then those customers taking service from third party suppliers would avoid
18 sharing in the cost of this state policy of protecting at-risk populations.

19 **Q. DO YOU AGREE WITH MR. FORTNEY'S CONCLUSION THAT FINES,**
20 **PENALTIES, AND/OR DAMAGES SHOULD BE BYPASSABLE?**

21 A. No. Fines, penalties or damages arising from or associated with the use of a
22 descending clock auction or request for proposal format would represent costs
23 incurred to fulfill the statutory requirement of acquiring power through a competitive

1 bidding process and/or the power purchased thereunder. If such costs are incurred, the
2 Companies must be held harmless for their actions taken to implement the bidding
3 process adopted by the Commission. To make this category of costs bypassable –
4 especially if the amount is particularly large -- would put the Companies at risk for
5 non-collection, as customers could choose an alternative supplier to avoid such
6 charges.

7 **Q. CONTRARY TO MR. FORTNEY'S TESTIMONY, WHY IS IT IMPORTANT**
8 **THAT THE CRT RIDER REMAIN NONBYPASSABLE?**

9 A. In sum, the Companies have proposed a nonbypassable CRT Rider to collect the
10 Companies' costs to make SSO generation service available to all customers. As
11 Staff Witness Fortney acknowledged during cross-examination, the Companies are
12 entitled to recover these categories of costs. (Tr. II. p. 38 at 16-22) As discussed
13 above, making the CRT Rider nonbypassable is the only way to ensure that the
14 Companies have a sufficient pool of customers from which to recover these costs

15 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

16 A. Yes, it does.

17