

FILE

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Columbus Southern Power Company and)	
Ohio Power Company for Authority to)	Case No. 11-346-EL-SSO
Establish a Standard Service Offer)	Case No. 11-348-EL-SSO
Pursuant to §4928.143, Ohio Rev. Code,)	
In the form of an Electric Security Plan.)	
In the Matter of the Application of)	Case No. 11-349-EL-AAM
Columbus Southern Power Company and)	Case No. 11-350-EL-AAM
Ohio Power Company for Approval of)	
Certain Accounting Authority.)	

**DIRECT TESTIMONY OF
GLEN THOMAS**

ON BEHALF OF

THE PJM POWER PROVIDERS GROUP

PUCO

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DIRECT TESTIMONY OF GLEN THOMAS

INTRODUCTION AND QUALIFICATIONS

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

2 **A. My name is Glen Thomas. My business address is 1060 First Avenue, Suite 400, King of**
3 **Prussia, Pennsylvania 19406.**

4 **Q. WHAT IS YOUR OCCUPATION?**

5 **A. I am the President of the PJM Power Providers Group ("P3").**

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
7 **EXPERIENCE.**

8 **A. I have been involved with policy matters affecting electricity for nearly 20 years with a**
9 **particular emphasis on competitive wholesale and retail markets. I am the former**
10 **chairman of the Pennsylvania Utility Commission ("PA PUC"). Before my appointment**
11 **to the PA PUC, I served as Deputy Director of Governor Tom Ridge's Policy Office,**
12 **where I advised the Governor on energy and environmental issues. In addition, in 2003, I**
13 **was appointed by California Governor Arnold Schwarzenegger to serve on the**
14 **Governor's transition team for energy related issues. After leaving the PA PUC in 2005,**
15 **I became a partner at the law firm of Blank Rome, until P3's creation in 2007.**
16 **During my tenure at the PA PUC, I served as President of the Mid-Atlantic Association**
17 **of Regulatory Utilities Commissioners, Chairman of the National Association of**
18 **Regulatory Utility Commissioners Washington Action Committee, and as a member of**
19 **the U.S. Department of Energy's Electricity Advisory Board, the National Regulatory**
20 **Research Institute's Board of Directors, the Keystone Center Energy Board, the**
21 **Organization of MISO States Board of Directors, and the National Association of**

1 Regulatory Utility Commissioners Committee on International Relations,
2 Telecommunications and Critical Infrastructure.

3 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

4 A. I am testifying on behalf of P3. P3 is a nonprofit corporation dedicated to promoting
5 policies that allow the PJM region to fulfill the promise of its competitive wholesale
6 electricity markets. P3 strongly believes that properly designed and well-functioning
7 competitive markets are the most effective means of ensuring a reliable supply of power
8 to the PJM region, facilitating investments in alternative energy and demand response
9 technology, and promoting prices that benefit consumers. Combined, P3 members own
10 over 87,000 megawatts of power and over 51,000 miles of transmission lines, serve
11 nearly 12.2 million customers and employ over 55,000 people in the PJM region, which
12 encompasses 13 states and the District of Columbia. The comments contained herein
13 represent the views of P3 as an organization, but not necessarily the views of any
14 particular member with respect to any issue. For more information on P3, please visit
15 www.p3powergroup.com.

16 **Q. HAVE YOU EVER TESTIFIED BEFORE THE PUBLIC UTILITIES**
17 **COMMISSION OF OHIO?**

18 A. No. However, the P3 Group previously intervened and actively participated in two
19 proceedings before the Public Utilities Commission of Ohio ("Commission" or
20 "PUCO"). On September 5, 2007, P3 submitted comments supporting FirstEnergy's
21 Application for a Competitive Bidding Process to offer a Standard Service Offer in
22 docket nos. 07-796-EL-ATA and 07-797-EL-AAM. Also on May 21, 2009, P3

submitted comments highlighting the value of Regional Transmission Organizations to public utilities in Ohio in Case No. 09-90-EL-COI.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. My testimony addresses certain aspects of the Electric Security Plan (“ESP”) proposed on January 27, 2011 (“2011 ESP Filing”) by Columbus Southern Power Company and Ohio Power Company (collectively, “the Companies” or “AEP Ohio”) for the twenty nine month period January 1, 2011 through May 31, 2014 (“ESP Period”). Although P3 respects AEP Ohio’s business decision to file an ESP, rather than a Market Rate Offer (“MRO”),¹ and recognizes their right to self supply their capacity by choosing the Fixed Resource Requirement (“FRR”) option, P3 is concerned with the Companies’ apparent attempt to obligate customers to pay exclusively for AEP’s aging generation fleet, instead of promoting lower cost competitive options for its customers. For example, the failure to explore and utilize an open, transparent competitive bidding process to secure any portion of its FRR Capacity Plan needs will place Ohio consumers at a long term disadvantage by precluding them from future viable competitive options. In short, this filing represents a significant missed opportunity for AEP’s consumers that the Commission should resist.

Q. IN WHAT OTHER WAYS DOES AEP OHIO’S PROPOSED ESP BURDEN OHIO CONSUMERS WITH UNNECESSARY COSTS?

A. Without considering less costly alternatives available in the wholesale market, AEP Ohio seeks to charge consumers an above-market level of compensation for its own resources committed to fulfill its FRR capacity obligation as opposed to considering lower cost, competitively procured capacity resources. Notably, the proposal does not include the

¹ AEP specifically reserves the right to file an MRO in the future, should the Commission not accept its ESP filing. Docket No. 11-346-EL-SSO, and 11-348-EL-SSO, filed on January 27, 2011, Vol. I, p 3.

1 substantial additional, undetermined costs that will be recovered through the many
2 proposed generation-related non-bypassable charges that are included in the filing.
3 Consumers should not bear the entire burden of above-market, higher-priced generation
4 resources and costs. Rather, AEP should be required to avail itself of an open,
5 transparent and non-discriminatory auction where all resources would be allowed to
6 compete to serve AEP load. If wholesale providers other than AEP can serve that load
7 more efficiently, they should be allowed to do so. Not only is a competitive option the
8 most cost-effective means by which to reliably serve customers, it also would abide by
9 the long-standing policy of the Ohio Legislature to foster the competitive supply of
10 generation in the state, first with the passage of Senate Bill 3 in 1999, and continued with
11 the passage of Senate Bill 221 in 2008. This Commission should reject those portions of
12 AEP's ESP that foreclose new entrants from supplying the Ohio market and otherwise
13 clearly thwart any opportunity to advance competitive options.

14 **Q. EXPLAIN WHY YOU BELIEVE AEP OHIO COULD COMPETITIVELY**
15 **PROCURE CAPACITY RESOURCES TO MEET ITS FRR CAPACITY**
16 **OBLIGATION AT A LOWER COST THAN THROUGH ITS OWN**
17 **RESOURCES?**

18 A. There is no indication AEP Ohio attempted to find lower cost resources outside of its
19 own generation fleet, nor any evaluation that its resources are the most cost effective. By
20 not allowing competitively-priced offerings, consumers are undoubtedly paying more
21 than they need to. For example, in its 2011 ESP Filing, AEP Ohio proposes to charge its
22 consumers \$347.97 MW-day² for capacity throughout the ESP Period, yet PJM's forward
23 capacity auctions pursuant to its Reliability Pricing Program ("RPM") for the delivery

² AEP Ohio Interrogatory Response, Industrial Energy Users, Set 2, INT-092, Attachment 1.

1 years during the ESP Period produced transparent market prices of \$110.04 MW-day for
2 2011/2012, \$16.46 MW-day for 2012/2013 and \$27.73 MW-day for 2013/2014. While
3 P3 is troubled that these capacity prices are unsustainably low, they are nonetheless the
4 prices produced by the market and well below what AEP is asking their consumers to pay
5 as part of this filing.

6 Furthermore, this Commission is no doubt aware that AEP has recently announced a
7 “transformation” of AEP companies’ operations in order to “grow, prosper and remain
8 sustainable.” AEP’s proposed “sustainability journey,” in part, would include
9 “collaboration . . . with many different stakeholders to find the best solutions. . . [to]
10 reduce [AEP’s] environmental impacts and assure (their) long-term financial health.”
11 Allowing different wholesale providers to offer competitively priced supply options to
12 satisfy AEP’s FRR obligations comports completely with AEP’s transformative
13 “sustainability journey.”³

14 **Q. ARE CAPACITY RESOURCES OTHER THAN AEP OHIO’S OWN**
15 **GENERATION AVAILABLE DURING THE ESP PERIOD?**

16 A. Yes, although resources that cleared in the RPM auctions held for the ESP Period are
17 unavailable to meet AEP Ohio’s FRR capacity obligation, the significant amount of
18 resources that failed to clear potentially are available to meet the FRR need at a price
19 below the \$347 MW-day capacity price proposed by AEP-Ohio in its 2011 ESP filing.

³ AEP Chairman and CEO Mike Morris’ “Chairman’s Message,” April, 2011;
<http://www.aepsustainability.com/chairmansmessage/>

The following table depicts the volume of capacity that failed to clear the in the capacity auctions for the ESP Period.⁴

2011/2012 auction	5,211 MW
2012/2013 auction	6,345 MW
2013/2014	5,211 MW

Those capacity resources will receive no RPM capacity compensation during the indicated delivery year and may likely provide lower cost capacity for AEP Ohio's customers.

Q. CAN THE PUCO ADDRESS THIS ISSUE?

A. Yes. The Commission could require that, in fulfilling its FFR capacity obligation during the ESP Period, AEP Ohio seek competitive offers as an alternative to utilizing its own generation resources. A competitive solicitation might well be able to replace AEP Ohio's most expensive and uneconomic plants at a lower cost to consumers. Once selected, the competitively procured capacity resources would be designated as resources meeting AEP's FFR commitment.

Q. HOW WOULD SUCH CAPACITY RESOURCES BE COMPETITIVELY PROCURED?

A. P3 members have extensive experience in the wholesale markets and would welcome the opportunity to compete to supply AEP Ohio capacity to meet its FFR obligation at a cost that is almost certain to be lower than that proposed in AEP Ohio's 2011 ESP Filing. Thus, the PUCO can protect Ohio consumers and fulfill the state's policy of advancing

⁴ Derived from "2013/2014 RPM Base Residual Auction Results Report", Table 5 - Generation, Demand Resources, and Energy Efficiency Resources Offered and Cleared Represented in Unforced Capacity MW, p. 14.

1 competition by ensuring that if P3 members and others can provide capacity more cost
2 effectively than AEP Ohio can through its own resources, they have the full opportunity
3 to do so.

4 **Q. DOES PJM ALLOW NON-AEP CAPACITY RESOURCES TO BE UTILIZED TO**
5 **MEET ITS FRR CAPACITY OBLIGATION?**

6 A. Yes, under PJM's Reliability Assurance Agreement ("RAA") Schedule 8.1, Section D.4.,
7 "[a]n FRR Capacity Plan may include bilateral transactions that commit capacity...."

8 **Q. CAN AEP OHIO CHANGE THE RESOURCES IN ITS FRR CAPACITY PLAN**
9 **FOR THE ESP PERIOD?**

10 A. Yes, PJM's RAA Schedule 8.1, Section D.2. provides "[s]uch FRR Entity's FRR
11 Capacity Plan may be updated to release previously designated Capacity Resources." In
12 addition, Section G. allows an FRR Entity to "cure deficiencies and avoid or reduce
13 associated charges prior to the Delivery Year by procuring replacement Unforced
14 Capacity outside of any RPM auction and committing such capacity in its FRR Capacity
15 Plan." Both of these provisions confirm that as an FRR entity, AEP Ohio can change the
16 resources it utilizes to meet its FRR capacity obligation.

17 AEP's recent press release announcing the retirement of several Ohio units, beginning in
18 2012, purportedly to comply with proposed U.S. Environmental Protection Agency air
19 regulations, underscores the importance of exploring competitive options to fulfill AEP's
20 FRR capacity obligation. Notably, the announcement included several of the units AEP
21 has committed to fulfill its FRR obligation. Not only can competitive offerings help
22 offset any loss of capacity from these proposed retirements, but also, and even more
23 importantly, Ohio customers should not bear the burden of paying for uneconomic units

1 scheduled to be retired within the next three years when viable alternatives are available
2 during the ESP term.⁵

3 **Q. IN ITS JANUARY 27, 2011, LETTER TO THE COMMISSION REGARDING**
4 **THE 2011 ESP FILING, AEP OHIO HAS REFERENCED THE STATES OF NEW**
5 **JERSEY AND MARYLAND WHICH HAVE “RECOGNIZE[D] THE NEED FOR**
6 **LONG-TERM PRICE CERTAINTY ASSOCIATED WITH GENERATION**
7 **CAPACITY...” SHOULD THIS COMMISSION FOLLOW THE LEAD OF**
8 **THOSE STATES?**

9 A. While both Maryland and New Jersey have conducted separate investigations regarding
10 new generation, neither state has retreated from a model that is based upon competitive
11 wholesale procurements for consumers that do not choose an alternative supplier. Both
12 states still require their utilities to have open, transparent and non-discriminatory auctions
13 to meet the default supply needs of the state.

14 **Q. HAS AEP OHIO ITSELF PARTICIPATED IN WHOLESALE COMPETITIVE**
15 **PROCUREMENTS?**

16 A. Yes. It is especially perplexing that AEP Ohio seeks to preclude competition in its own
17 backyard given that it sells into the wholesale market in other states. In fact, on May 18,
18 2011, the Illinois Commerce Commission announced the winning bidders for the
19 procurement of standard energy products for Commonwealth Edison Company. AEP, as

⁵ Proposed retirements include units at the Kammer, Sporn, Picway, Conesville and the Muskingum River Plants, all of which have been listed by AEP for fulfilling their future FRR obligation to PJM. News release: AEP Shares Plans For Compliance with Proposed EPA Regulations, June 9, 2011; <http://www.aep.com/newsroom/newsreleases/?id=1697>

1 an agent for Appalachian Power Company, Indiana Michigan Power Company, Kentucky
2 Power Company and the *Ohio Power Company*, was one of the nine winning bidders.⁶

3 Q. **IS AEP SELLING ANY CAPACITY INTO THE RPM BASE RESIDUAL**
4 **AUCTIONS FOR USE BY NON-AEP CUSTOMERS?**

5 A. Yes⁷. To the extent that AEP has capacity beyond what is required to meet the
6 requirements of the FRR, it is free to sell that up to 1,300 MW (UCAP) of excess
7 capacity into the BRA auctions to be used by non-AEP Ohio customers. AEP earns the
8 clearing price in that auction for any excess that is committed. In 2012/13, that price was
9 \$16.46/MW-day; a sharp contrast to the \$347.97/MW-day that AEP Ohio seeks in this
10 proceeding. AEP may also have capacity that was bid in but did not clear. Either way,
11 the Commission should be aware that AEP is probably selling capacity to non-AEP Ohio
12 customers at rates lower than what they seek to recover from AEP Ohio ratepayers as part
13 of this filing. Under PJM's data confidentiality rules, the Commission has an opportunity
14 to review the bids AEP submitted into the capacity auctions. Certainly, if AEP is selling
15 "cheaper" capacity into the auctions while reserving more expensive capacity for its FRR
16 plan, captive AEP Ohio ratepayers fully fund, AEP Ohio's customers are being harmed.

17 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

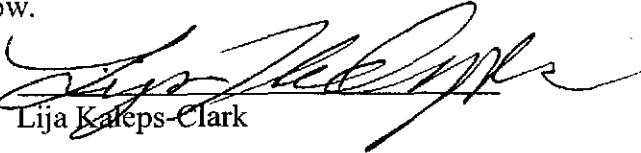
18 A. Yes.
19

⁶ ICC Public Notice of Procurement Results, May 18, 2011. http://www.comed-energyvrfp.com/docs/Standard_Products_Documents/2011_Standard_Products_RFP_Results_May_18_2011.pdf

⁷ According to the AEP-East 2010 Integrated Resource Plan, AEP had RPM Auction sales as follows: 2007/2008 – 777 MW; 2008/2009 – 1,408 MW; 2009/2010 – 1,389 MW; 2010/2011 – 1,463 MW; 2011/2012 – 1,404 MW; 2012/2013 – 690 MW (all figures are stated in "Installed Capacity" (ICAP)). See footnote (h) in Appendix D of the AEP-East 2010 Integrated Resource Plan (Supplemental Appendix 2, p 145 of 169).

CERTIFICATE OF SERVICE

I hereby certify that the foregoing document was served this 25th day of July, 2011 by electronic mail, upon the persons listed below.


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