

**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 Establish a ) Case No. 11-346-EL-SSO  
Standard Service Offer Pursuant to Section ) Case No. 11-348-EL-SSO  
4928.143, Revised Code, in the Form of an )  
Electric Security Plan. )

In the Matter of the Application of Columbus )  
Southern Power Company and Ohio Power ) Case No. 11-349-EL-AAM  
Company for Approval of Certain ) Case No. 11-350-EL-AAM  
Accounting Authority. )

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**DIRECT TESTIMONY OF**

**PHILLIP NORTH**

**ON BEHALF OF**

**DUKE ENERGY RETAIL SALES, LLC**

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May 4, 2012

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## **I. INTRODUCTION**

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

2   A.   My name is Phillip North, and my business address is 139 East Fourth Street,  
3       Cincinnati, Ohio 45202.

4   **Q.   BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5   A.   I am employed by Duke Energy Commercial Enterprises, Inc., (DECES) as a  
6       Senior Business Analyst. DECES provides administrative and various other  
7       services to Duke Energy Retail Sales, LLC, (DER) and other affiliated companies  
8       of Duke Energy Corporation (Duke Energy).

9   **Q.   PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**  
10       **EXPERIENCE.**

11   A. I am a graduate of Miami University with a Masters in Arts in Business  
12       Economics. I have a Bachelor's degree in Business Economics also from Miami  
13       University. I serve on the Board of Directors of the Cincinnati Arts and Technical  
14       Center. I have been working with Duke Energy in various capacities since 2008.  
15       My first position was that of a contract worker in an analyst role, where I was an  
16       expert in coal market fundamentals. I was then hired as a Portfolio Analyst,  
17       followed by a promotion to Senior Business Analyst in 2011.

18   **Q.   PLEASE DESCRIBE YOUR RESPONSIBILITIES AS A SENIOR**  
19       **BUSINESS ANALYST.**

20   A.   My responsibilities as a Senior Business Analyst include managing DER's large  
21       industrial and commercial customer strategy and DER regulatory cases. I am also

1 responsible for a variety of special projects throughout the overall Midwest  
2 Commercial Generation business.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**  
4 **UTILITIES COMMISSION OF OHIO?**

5 A. No, I have not.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
7 **PROCEEDING?**

8 A. The purpose of my testimony in this proceeding is to comment on the “more  
9 favorable in the aggregate test” that was performed by Ohio Power Company  
10 (AEP Ohio) witness, Laura J. Thomas. I also recommend modifications to the  
11 test, as performed by Ms. Thomas, to accurately reflect the current Order of the  
12 Public Utilities Commission of Ohio (Commission) in Case No. 10-2929-EL-  
13 UNC (AEP Ohio capacity case), which institutes PJM Interconnection, LLC,  
14 (PJM) Reliability Pricing Model (RPM) prices beginning June 1, 2012.

## **II. DISCUSSION**

15 **Q. PLEASE PROVIDE SOME BACKGROUND ON DUKE ENERGY**  
16 **RETAIL, OR DER, THE ENTITY ON WHOSE BEHALF YOU ARE**  
17 **TESTIFYING IN THIS PROCEEDING.**

18 A. DER is a wholly owned subsidiary of Duke Energy that provides electricity and  
19 energy-related services to retail customers in Ohio. DER holds a certificate as a  
20 competitive retail electric service (CRES) provider from the Commission,  
21 allowing it to engage in the competitive sale of electric services to retail  
22 customers in Ohio. DER currently serves customers throughout Ohio, including

1 the service territories of AEP Ohio, The Dayton Power and Light Company, Duke  
2 Energy Ohio, Inc., Ohio Edison Company, The Cleveland Electric Illuminating  
3 Company, and The Toledo Edison Company (the last three of which are  
4 collectively referred to herein as the FirstEnergy).

5 **Q. WHAT IS DER'S INTEREST IN THIS PROCEEDING?**

6 A. DER is interested in ensuring the existence of fair and equitable rules that allow  
7 for a viable competitive market in AEP Ohio's service territory, thereby allowing  
8 AEP Ohio's customers to gain the benefits of choice that shopping customers in  
9 other Ohio utilities' territories have experienced.

10 **Q. HOW IS LAURA J. THOMAS' DIRECT TESTIMONY IN THIS**  
11 **PROCEEDING RELEVANT TO THE INTERESTS OF DER IN**  
12 **ENSURING A COMPETITIVE MARKET IN AEP OHIO'S SERVICE**  
13 **TERRITORY?**

14 A. As I have been informed by counsel, an electric distribution utility (EDU) seeking  
15 approval of an electric security plan (ESP) must demonstrate that its proposed  
16 ESP is better, in the aggregate, than the results expected under a market rate offer  
17 (MRO). Focusing on the practical implications, if the proposed ESP is not more  
18 favorable than the MRO, the competitive market and customers are harmed as the  
19 ESP would be imposing additional costs on customers or barriers to competition.

20 **Q. PLEASE DESCRIBE THE MODIFICATIONS THAT YOU WOULD**  
21 **RECOMMEND TO THE ANALYSIS PERFORMED BY MS. THOMAS.**

22 A. I believe the Commission should modify the analysis performed by Ms. Thomas  
23 in two ways. First, under the competitive benchmark price, as referred to by

1 Ms. Thomas, current market prices must be used for capacity and not the  
2 significantly higher costs that AEP Ohio seeks to impose upon shopping  
3 customers, via charges to CRES providers. An MRO, by definition, is based upon  
4 competitive bid prices or market rates. Accordingly, for 2012/2013 pricing, the  
5 Final Zonal Capacity Price (FZCP) reflects the current market price for capacity,  
6 as all PJM capacity auctions (base residual and incremental) for that period have  
7 been completed. For 2013/2014 pricing, the current capacity price modified for  
8 the first incremental auction was utilized. For 2014/2015 pricing, the current  
9 Base Residual Auction (BRA) price is appropriate as no incremental auctions for  
10 that period have taken place. These substitutions result in capacity prices of  
11 \$16.73/MW-Day, \$27.86/MW-Day, and \$125.99/MW-Day, respectively, for the  
12 three planning-year periods covered by AEP Ohio's proposed ESP. These  
13 capacity prices should be incorporated into the bid price that is blended with the  
14 legacy ESP.

15 On this final point, the results expected under the MRO provisions reflect  
16 a statutorily prescribed blending of the market or bid price and a utility's most  
17 recent standard service offer. Consistent therewith, the second modification that I  
18 propose to Ms. Thomas' testimony and analysis contained therein is to change the  
19 blend rate for the last five months of the 2014/2015 planning year. In doing so,  
20 the blend for the entire 2014/2015 planning year, or year three of this plan,  
21 reflects a blend of 70 percent ESP pricing/30 percent market pricing.

1           Based upon these recommendations, I have prepared a comparison of the  
2           proposed ESP and the expected results under the MRO. I discuss this comparison  
3           later in my testimony.

4   **Q.   WHY ARE THOSE MODIFICATIONS NECESSARY?**

5   A.   Again, as I have been advised by counsel, the required comparison is between the  
6           proposed ESP (and all of its terms and conditions) and the expected results under  
7           the MRO provisions. As AEP Ohio owned generating assets as of July 30, 2008,  
8           it is required, under the MRO provisions, to transition to full market pricing using  
9           a statutory blend period. This blend incorporates AEP Ohio's legacy ESP price  
10          and the results of a competitive bidding process (CBP) plan. The CBP plan  
11          should yield market-based pricing for all aspects of generation service, including  
12          capacity. Thus, to use capacity pricing that is not reflective of actual market  
13          conditions distorts the market component of the blend.

14               Furthermore, the Commission has ordered that, effective June 1, 2012, the  
15          state capacity mechanism shall be based upon the results of the PJM RPM. In  
16          other words, for the term of AEP Ohio's proposed ESP, the BRA and subsequent  
17          incremental auctions, if held, result in the applicable capacity pricing.

18               As I noted previously, the MRO provisions require EDUs owning  
19          generation as of July 30, 2008, to transition to market. As I have been advised by  
20          counsel, this transition covers a five-year period, where the blending percentages  
21          are 10 percent market in year one, 20 percent market in year two, 30 percent  
22          market in year three, 40 percent market in year four, and 50 percent market in  
23          year five. The corresponding percentages (90, 80, 70, 60, and 50, respectively)

1 would reflect the legacy ESP pricing. I am further advised by counsel that, in  
2 Duke Energy Ohio's MRO proceeding (Case No. 10-2586-EL-SSO, *et al.*), the  
3 Commission held that it can consider adjustments to the blending percentages, but  
4 not before the beginning of the second year of the MRO. Until such time, the  
5 default percentages in the MRO provisions are applicable and the expected results  
6 under the MRO must therefore reflect a blend of 70 percent ESP pricing/30  
7 percent market pricing for the third year of AEP Ohio's proposed ESP.

8 **Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS?**

9 A. By modifying the MRO pricing to accurately reflect the current market prices for  
10 capacity and to incorporate the correct blending percentages, I have determined  
11 that the proposed ESP harms customers versus the expected results under the  
12 MRO by over \$200 million through the three-year period. Furthermore, when  
13 including the Retail Stability Rider and the Generation Resource Rider, which are  
14 terms of the proposed ESP, the proposed ESP is worse than the MRO by \$493.1  
15 million dollars over the term. This is detailed in Attachments PN-1 and PN-3.

16 **Q. WHY DID YOU INCLUDE THE GENERATION RESOURCE RIDER IN**  
17 **YOUR ANALYSIS?**

18 A. Although Laura Thomas suggests that the Generation Resource Rider is available  
19 under both the ESP and MRO option, I have been advised by counsel that R.C.  
20 4928.142 does not authorize, as a component of an MRO, a non-bypassable rider  
21 for new generation. As such, this is a term or condition of the proposed ESP that  
22 reflects an additional cost to customers and should be used to consider in the  
23 "more favorable in the aggregate" test



1   **Q.    WAS THE FULL COST OF THE GENERATION RESOURCE RIDER**  
2       **INCLUDED IN YOUR ANALYSIS?**

3    A.    Unfortunately, no. The supplemental testimony recently submitted by AEP Ohio  
4           in response to Commission order did not show the full cost to customers of the  
5           project as proposed by AEP. I have included the costs as shown in Ms. Thomas'  
6           supplemental testimony for the one and a half years that would be recovered in  
7           this ESP. That being said, as the Generation Resource Rider was proposed as a  
8           non-bypassable charge for the life of the project, the full cost to customers should  
9           be considered. As such, the cost that customers would be forced to bear is many  
10          times the estimates presented by AEP Ohio as an additional unknown cost over  
11          the life of the asset.

12   **Q.    DID YOU CONSIDER THE ALLEGED BENEFIT OF “DISCOUNTED**  
13       **TIERED CAPACITY PRICING FOR CRES PROVIDERS”?**

14   A.    I did not show any benefit to discounted capacity because, as previously stated,  
15          counsel has advised me that the applicable capacity pricing should reflect BRA  
16          and, where applicable, incremental auction pricing. Although AEP Ohio has  
17          proposed the use of other capacity prices, these prices are significantly above the  
18          state capacity mechanism and reflect a significant premium charged to customers  
19          under this ESP proposal.

20   **Q.    WHAT IS THE VALUE OF THE ABOVE-MARKET TIERED CAPACITY**  
21       **PRICING UTILIZED BY AEP OHIO?**

22   A.    Using the same switching analysis that AEP Ohio has utilized in Exhibit WAA-4,  
23          I have determined that AEP Ohio would receive \$923 million of above-market

1 capacity payments throughout the term of this ESP. This schedule is detailed in  
2 Attachment PN-2.

3 **Q. SHOULD THE TIERED CAPACITY PRICING BE INCLUDED IN THE**  
4 **“MORE FAVORABLE IN THE AGGREGATE” TEST?**

5 A. I have been advised by counsel that the MRO comparison is based upon the  
6 expected results under the MRO, which includes a market-based component. As  
7 the tiered capacity proposal is not based upon market prices – or any other  
8 transparent, verifiable pricing mechanism – it should not be used to determine  
9 whether the proposed ESP is “more favorable in the aggregate,” than the MRO.

10 **Q. DO YOU HAVE ANY ADDITIONAL COMMENT ON THE USE OF**  
11 **TIERED CAPACITY PRICING IN THIS CASE AS TO ITS EFFECT ON**  
12 **COMPETITION?**

13 A. I would note that any increase in the costs associated with serving a customer will  
14 hurt the competitive market. Although some customers may, or may not, still  
15 have an economic incentive to switch under the tiered capacity pricing regime, the  
16 effect of the grossly inflated capacity costs that AEP Ohio is proposing versus the  
17 Commission-approved market-based capacity cost is detrimental to the  
18 competitive market as a whole. By allowing AEP Ohio to receive above-market  
19 subsidies for its generation, the Commission would send the message that  
20 competitors are not on an equal footing with the EDU in providing electric  
21 service. Furthermore, the Commission would be taking a step back from the  
22 robust competitive market structure that has been implemented in the FirstEnergy

1 service territories, and recently affirmed by the ESP approved for Duke Energy  
2 Ohio.

3 **Q. WHAT IS THE TOTAL PREMIUM THAT AEP OHIO IS REQUESTING**  
4 **IN THE PROPOSED ESP, AS COMPARED TO AN MRO?**

5 A. In all, AEP Ohio is proposing an ESP that is \$1.416 billion more than the MRO  
6 alternative for the three-year period. This is detailed in Attachment PN-3.

### **III. CONCLUSION**

7 **Q. WERE ATTACHMENTS PN-1 THROUGH PN-3 PREPARED BY YOU**  
8 **OR UNDER YOUR DIRECTION?**

9 A. Yes.

10 **Q. IS THE INFORMATION CONTAINED IN THESE ATTACHMENTS**  
11 **ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?**

12 A. Yes.

13 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

14 A. Yes.

Generation Service Price *	PY 2012/2013	PY2013/2014	PY 2014/2015	
			Jun-Dec	Jan-May
1 Current Base ESP g Rate	\$21.26	\$21.26	\$21.28	\$21.22
2 Current TCCR 'g' component	\$2.95	\$2.95	\$2.95	\$2.94
3 Current EICCR	\$1.60	\$1.60	\$1.61	\$1.60
4 Market Comparable Base 'g'	\$25.81	\$25.81	\$25.84	\$25.76
5 Current Fuel Factor	\$36.35	\$36.36	\$36.39	\$36.32
6 Total Generation Service Price	\$62.16	\$62.17	\$62.23	\$62.08
<u>Expected Bid Price</u>				
7 Competitive Benchmark (at BRA)	\$47.59	\$51.37	\$60.35	\$60.35
<u>MRO Pricing - corrected for BRA pricing and MRO Blending</u>				
8 Generation Service Price	\$62.16	\$62.17	\$62.23	\$62.08
9 Generation Service Weight	90%	80%	70%	70%
10 Expected Bid Price	\$47.59	\$51.37	\$60.35	\$60.35
11 Expected Bid Weight	10%	20%	30%	30%
12 MRO Annual Price	\$60.70	\$60.01	\$61.67	\$61.56
<u>MRO - ESP Price Comparison</u>				
13 Proposed ESP Price	\$62.16	\$62.17	\$62.23	\$62.08
14 MRO Annual Price (BRA)	\$60.70	\$60.01	\$61.67	\$61.56
15 Above Market Pricing of Proposed ESP** (\$/MWh)	\$1.46	\$2.16	\$0.56	\$0.52
16 Connected Load (MWh's)*	48,194,887	48,260,877	28,433,800	19,738,046
17 Market Pricing over ESP Price (Line 15 * Line 16)	\$70,202,113	\$104,196,034	\$16,020,626	\$10,232,913

\* From Exhibit JLT - 1

\*\* Does not include all ESP Costs see PN - 2 Page 3

\*\*\* From Exhibit WAA - 6

Competitive Benchmark Prices\*  
Market Priced Capacity - PJM RPM based on base residual auction

Planning Year 2012/2013  
\$/MWh

	Residential	Commercial	Industrial
Simple Swap	\$32.68	\$32.68	\$32.68
Basis Adjustment	\$0.49	\$0.49	\$0.49
Load Following/Shaping Adjustment	\$6.12	\$2.54	\$1.91
Capacity	\$1.41	\$1.08	\$0.81
Ancillary Services	\$0.85	\$0.85	\$0.85
Alternative Energy Requirement	\$0.55	\$0.54	\$0.54
ARR Credit	-\$1.54	-\$1.11	-\$0.97
Losses	\$2.52	\$1.44	\$0.64
Transaction Risk Adder	\$3.83	\$3.27	\$2.92
Retail Administration	\$5.00	\$5.00	\$5.00
Class Total	\$51.93	\$46.81	\$44.89
Weighted Average		\$47.59	
Total Load (000's MWH)	14,616	14,317	19,262

Planning Year 2013/2014  
\$/MWh

	Residential	Commercial	Industrial
Simple Swap	\$35.34	\$35.34	\$35.34
Basis Adjustment	\$0.49	\$0.49	\$0.49
Load Following/Shaping Adjustment	\$6.35	\$2.68	\$1.90
Capacity	\$2.25	\$1.72	\$1.22
Ancillary Services	\$0.85	\$0.85	\$0.85
Alternative Energy Requirement	\$0.71	\$0.71	\$0.71
ARR Credit	-\$1.44	-\$1.04	-\$0.89
Losses	\$2.71	\$1.55	\$0.69
Transaction Risk Adder	\$3.93	\$3.37	\$2.98
Retail Administration	\$5.00	\$5.00	\$5.00
Class Total	\$56.19	\$50.67	\$48.29
Weighted Average		\$51.37	
Total Load (000's MWH)	14,489	14,417	19,355

Planning Year 2014/2015  
\$/MWh

	Residential	Commercial	Industrial
Simple Swap	\$37.75	\$37.75	\$37.75
Basis Adjustment	\$0.49	\$0.49	\$0.49
Load Following/Shaping Adjustment	\$6.57	\$2.79	\$1.99
Capacity	\$10.23	\$7.97	\$5.61
Ancillary Services	\$0.85	\$0.85	\$0.85
Alternative Energy Requirement	\$0.92	\$0.91	\$0.92
ARR Credit	-\$1.46	-\$1.08	-\$0.92
Losses	\$2.87	\$1.65	\$0.73
Transaction Risk Adder	\$4.09	\$3.54	\$3.13
Retail Administration	\$5.00	\$5.00	\$5.00
Class Total	\$67.30	\$59.87	\$55.55
Weighted Average		\$60.35	
Total Load (000's MWH)	14,384	14,440	19,348

\*All values besides capacity are from Exhibit JLT - 2

<b>Value of Above-Market Capacity Payments</b>				
	<b>PY 12/13</b>	<b>PY 13/14</b>	<b>PY 14/15</b>	<b>Total</b>
Capacity Revenues at Full Cost***	\$684	\$732	\$867	\$2,283
Capacity Revenues at BRA	\$54	\$57	\$260	\$371
Proposed Capacity Revenue in ESP***	\$391	\$413	\$490	\$1,294
<b>Premium to Market Pricing</b>	<b>\$337</b>	<b>\$356</b>	<b>\$230</b>	<b>\$923</b>
*** As detailed in Exhibit WAA-4 Page 1				

	Aggregate Market Rate Offer Test			Total ESP Term
	Planning Year 2012/2013	Planning Year 2013/2014	Planning Year 2014/2015	
MRO Price Test* (MM of \$)	70.2	104.2	26.3	200.7
Retail Stability Rider** (MM of \$)	44.1	102.9	137.2	284.1
Above-Market Capacity Payments*** (MM of \$)	337.3	355.6	230.2	923.1
Generation Resource Rider**** (MM of \$)				8.4
Total Quantifiable Detriments of ESP (MM of \$)	451.6	562.6	393.7	1416.2

\* From Exhibit PN - 1

\*\* From AEP Exhibit WAA-6

\*\*\* From Exhibit PN - 2

\*\*\*\* From Exhibit LIT-1 (TPS Alternative)

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**5/4/2012 5:21:09 PM**

**in**

**Case No(s). 11-0346-EL-SSO, 11-0348-EL-SSO, 11-0349-EL-AAM, 11-0350-EL-AAM**

Summary: Testimony Phillip North on behalf of DERS electronically filed by Carys Cochern on behalf of Kingery, Jeanne W Ms.