

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Ohio Power Company to Establish a)	
Competitive Bidding Process for)	Case No. 12-3254-EL-UNC
Procurement of Energy to Support Its)	
Standard Service Offer.)	

**DIRECT TESTIMONY OF KEVIN M. MURRAY
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

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Attorneys for Industrial Energy Users-Ohio

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1 **I. INTRODUCTION**

2 **Q1. Please state your name and business address.**

3 A1. My name is Kevin M. Murray. My business address is 21 East State Street, 17th
4 Floor, Columbus, Ohio 43215-4228.

5 **Q2. By whom are you employed and in what position?**

6 A2. I am employed as a Technical Specialist by McNees Wallace & Nurick LLC
7 (“McNees”) and serve as the Executive Director of the Industrial Energy Users-
8 Ohio (“IEU-Ohio”). I am providing testimony on behalf of IEU-Ohio.

9 **Q3. Please describe your educational background.**

10 A3. I graduated from the University of Cincinnati in 1982 with a Bachelor of Science
11 degree in Metallurgical Engineering.

12 **Q4. Please describe your professional experience.**

1 A4. I have been employed by McNees for 16 years where I focus on helping
2 IEU-Ohio members address issues that affect the price and availability of utility
3 services. I have also been actively involved, on behalf of commercial and
4 industrial customers, in the formation of regional transmission operators (“RTOs”)
5 and the organization of regional electricity markets from both the supply-side and
6 demand-side perspective. I serve as an end-use customer sector representative
7 on the Midcontinent Independent System Operator, Inc.¹ (“MISO”) Advisory
8 Committee and I have been actively involved in MISO working groups that focus
9 on various issues since 1999. Prior to joining McNees, I was employed by the
10 law firm of Kegler, Brown, Hill & Ritter (“KBH&R”) in a similar capacity. Prior to
11 joining KBH&R, I spent 12 years with The Timken Company, a specialty steel
12 and roller bearing manufacturer. While at The Timken Company, I worked within
13 a group that focused on meeting the electricity and natural gas requirements for
14 facilities in the United States. I also spent several years in supervisory positions
15 within The Timken Company’s steelmaking operations.

16 **Q5. Have you previously testified before the Public Utilities Commission of**
17 **Ohio (“Commission”)?**

18 A5. Yes. The proceedings before the Commission in which I have submitted expert
19 testimony are identified in Exhibit KMM-1.

20 **Q6. What is the purpose of your testimony?**

¹ Formerly known as the Midwest Independent Transmission System Operator, Inc. or Midwest ISO.

1 A6. The purpose of my testimony is to recommend that the Commission establish a
2 maximum starting price or reserve price for the competitive bidding process
3 (“CBP”) proposed by Ohio Power Company (AEP-Ohio)² equal to the forecast
4 fuel adjustment clause (“FAC”) rates expected to be in effect during the delivery
5 period for the energy secured through the CBP. There should be a different
6 reserve price for both the Ohio Power Company and Columbus Southern Power
7 Company rate zones to reflect the fact that each company presently has unique
8 FAC rates.

9 **II. HISTORY OF THIS PROCEEDING**

10 **Q7. Are you familiar with the history of this proceeding?**

11 A7. Yes. This proceeding is an outgrowth of the Commission’s approval of AEP-
12 Ohio’s most recent electric security plan (“ESP”) proceeding in Case Nos. 11-
13 346-EL-SSO, *et al.*³ In its application proposing its ESP, AEP-Ohio proposed to
14 conduct a CBP through an energy-only slice of the system auction. AEP-Ohio
15 proposed to conduct an energy-only slice of the system auction for five percent of
16 its standard service offer (“SSO”) load within six months of a final Commission
17 order in Case No. 12-1126-EL-UNC, followed by an energy-only auction for

² By entry issued March 7, 2012, the Commission approved the merger of Columbus Southern Power Company into Ohio Power Company. *In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Authority to Merge and Related Approvals*, Case No. 10-2376-EL-UNC.

³ *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO, *et al.*, (“ESP II”), Opinion and Order (Aug. 8, 2012) (“ESP II Order”).

1 100% for delivery beginning January 1, 2015.⁴ AEP-Ohio's ESP application did
2 not provide any substantive details regarding how the CBP would be conducted
3 or how the results of the CBP process would be translated into retail rates paid
4 by SSO customers.⁵

5 In its *ESP II Order*, the Commission modified AEP-Ohio's CBP proposal to
6 require the initial energy-only slice of the system auction to obtain generation
7 supply for 10% of the SSO load. Further, it ordered AEP-Ohio to conduct an
8 energy-only auction for delivery commencing on June 1, 2014, for 60% of its
9 load, and delivery commencing on January 1, 2015 for the remainder of AEP-
10 Ohio's energy load. Over the objection of some parties, the Commission stated
11 that nothing precluded AEP-Ohio or its affiliates from bidding in the energy-only
12 auctions. The Commission also directed AEP-Ohio to develop its CBP in
13 consultation with interested parties and submit an application to establish its
14 CBP.

15 On December 21, 2012, AEP-Ohio filed its application in this proceeding to
16 establish a CBP.

17 The Commission subsequently provided an opportunity for interested parties to
18 submit comments on AEP-Ohio's proposed CBP. Several parties, including IEU-
19 Ohio, submitted comments objecting to various aspects of AEP-Ohio's proposed
20 CBP.

⁴ *ESP II*, AEP-Ohio Ex. 101 at 20-21 (Powers Testimony).

⁵ *Id.* at 21.

1 On May 23, 2013, the Attorney Examiner in this proceeding issued an entry
2 finding that in light of disputes raised in the comments on AEP-Ohio's proposed
3 CBP regarding auction pricing, SSO customer retail rates, and the auction
4 schedule, an evidentiary hearing should be conducted to consider AEP-Ohio's
5 proposed CBP.

6 **Q8. What concerns did IEU-Ohio raise concerning the application filed in this**
7 **proceeding?**

8 A8. IEU-Ohio raised two concerns. The first concern addressed the need for a
9 reserve price. The second concern addressed AEP-Ohio's proposal to unbundle
10 its FAC into what AEP-Ohio characterized as variable and fixed cost components
11 and to blend the results of the CBP with only the variable portion of the FAC rate
12 to establish the SSO price that would be charged to customers. As indicated by
13 the February 11, 2013 supplement to its application in this proceeding, AEP-Ohio
14 plans to flow the costs of the energy-only bid through the FAC and make no other
15 changes to base SSO rates for distribution, transmission, and generation. In its
16 February 11, 2013 supplement to its application, AEP-Ohio also proposed to
17 unbundle the FAC into what AEP-Ohio characterized as fixed/non-energy and
18 variable/energy rate components.⁶

19 **Q9. What concern did IEU-Ohio raise concerning the lack of a reserve price?**

⁶ Supplement to Application at 3 (Feb. 11, 2013).

1 A9. In its comments filed on March 4, 2013, IEU-Ohio identified a design flaw in the
2 auction process that will likely result in a price increase to SSO customers. The
3 limited energy-only SSO bid will result in a generation rate increase to SSO
4 customers unless the cleared bid price is lower than AEP-Ohio's expected FAC
5 rate. Therefore, a reserve price set at the forecast projected FAC rates is
6 necessary to ensure the auction will produce results consistent with the
7 Commission's expectations in the *ESP II Order*.

8 **Q10. What concern did IEU-Ohio raise concerning AEP-Ohio's proposal to**
9 **unbundle its FAC rate into variable and fixed portions?**

10 A10. AEP-Ohio's proposal to unbundle the FAC does not appear to have any
11 customer benefits. AEP-Ohio does not provide any rationale to support its
12 unbundling proposal other than to claim that the current FAC contains both
13 energy and non-energy costs. Directionally, AEP-Ohio's request to unbundle the
14 FAC rate will increase the likelihood that the proposed CBP will increase SSO
15 rates.

16 **Q11. Has the Commission expressed its expectations on the results of a CBP?**

17 A11. Yes. In reviewing AEP-Ohio's proposed ESP, the Commission found that the
18 quantifiable benefits of a market rate offer ("MRO") were more favorable than the
19 ESP by approximately \$386 million. However, the Commission determined that
20 there were other not readily quantifiable benefits that outweighed the high costs
21 of the ESP. These non-quantifiable benefits included an expectation that the
22 results of the CBP would offset some of the directly quantifiable costs of the

1 ESP.⁷ In other words, the Commission expected the CBP process to produce
2 lower SSO prices for non-shopping customers.

3 **III. CBP RECOMMENDATIONS**

4 **Q12. Can you describe the proposed CBP?**

5 A12. Yes. AEP-Ohio has proposed a descending clock auction as the CBP. In the
6 proposed auction, the auction manager establishes a starting price and bidders
7 submit sealed bids indicating the number of tranches they would be willing to
8 supply at the starting price. As long as the initial round of bidding is
9 oversupplied, the auction proceeds and the auction price is lowered each round.
10 Bidders submit sealed bids each round indicating the number of tranches they
11 would be willing to supply at a lower auction price. Successive rounds of bids
12 continue so long as the auction is oversupplied. The last round of the auction
13 ends when the number of tranches bid equals or falls short of the number of
14 tranches available. If the number of tranches bid equals the number of tranches
15 available, the auction clearing price is the bid price from the last round of bidding.
16 If the number of tranches bid falls short of the tranches available, the auction
17 manager accepts all bids offered in the last round and then ranks bids withdrawn
18 based upon the lowest exit (last offered) price. Bids withdrawn are selected
19 based upon the lowest price until the number of tranches selected matches the
20 tranches offered. The auction clearing price becomes the price from the last bid
21 (highest price) selected.

⁷ *ESP II Order* at 76.

1 **Q13. Has AEP-Ohio proposed a reserve price as part of the CBP?**

2 A13. No. AEP-Ohio has proposed to let the auction manager have discretion to set
3 the starting price for the auction and there is no specified reserve price. AEP-
4 Ohio has selected NERA Economic Consulting to serve as the auction manager
5 and NERA Economic Consulting has been delegated the authority to establish
6 the starting price in the auction with no required reserve price.⁸

7 **Q14. Do you have any recommendations on modifications to the CBP?**

8 A14. Yes. I recommend that the Commission require AEP-Ohio to set a reserve price
9 equal to the forecast FAC rate expected to be in effect during the delivery period
10 for the energy secured through the CBP. There also should be a different
11 reserve price for both the Ohio Power Company and Columbus Southern Power
12 Company rate zones to reflect the fact that each company presently has
13 separate FAC rates.

14 Additionally, the Commission should reject AEP-Ohio's recommendation to
15 unbundle the FAC into fixed and variable portions for the reasons addressed in
16 IEU-Ohio's March 4, 2013 initial comments in this proceeding.

17 **Q15. Why is a reserve price needed if the Commission expects to advance the**
18 **goals it stated when it authorized the modified CBP?**

⁸ Prior to the start of the auction, qualified bidders submit indicative offers identifying the number of tranches they would be willing to supply at a minimum and maximum offer price. The auction manager uses information provided by the indicative offers to guide the selection of the auction starting price.

1 A15. AEP-Ohio has proposed that the generation secured through the CBP will be
2 treated as a purchased power cost and blended with the FAC rates to produce
3 the actual FAC rates charged to SSO customers. Based upon this methodology,
4 unless the CBP is conducted with a reserve price equal to the forecast FAC rates
5 expected to be in effect during the delivery period for the energy secured through
6 the CBP, it is possible (and indeed likely) for the CBP auction to clear at a price
7 that is higher than the forecast variable FAC rates. Mathematically, the only way
8 that the limited energy-only SSO bid will not require an overall rate increase to
9 SSO customers is if the cleared bid price is lower than AEP-Ohio's forecast FAC
10 rates.

11 The likelihood of a higher SSO price resulting from the CBP increases if the
12 Commission approves AEP-Ohio's FAC unbundling request because the removal
13 of some costs currently recovered through the FAC will reduce the FAC rate that
14 is blended with the generation price produced by the auction.

15 If the SSO price increases as a result of AEP-Ohio's proposed CBP, the
16 Commission's goal of offsetting the known costs of the ESP and the non-
17 quantifiable benefits of moving to an auction-based CBP identified by the
18 Commission will not be realized.

19 **Q16. Have you performed any analysis of AEP-Ohio's FAC rates versus the likely**
20 **results of an energy-only auction?**

21 A16. Yes. On May 30, 2013, AEP-Ohio submitted an application at the Commission to
22 update its FAC rates proposed to be effective with the first billing cycle in July

1 2013. Schedule 2 to the application identified the underlying fuel cost at the
2 generation level for each rate zone for July through September 2013. For the
3 Columbus Southern Power Company rate zone, the underlying fuel cost at the
4 generation level is projected to be \$39.941 per megawatt hour. For the Ohio
5 Power Company rate zone, the underlying fuel cost at the generation level is
6 projected to be \$33.8444 per megawatt hour.

7 By comparison, as shown on Exhibit KMM-2, as of June 10, 2013, trading data
8 on the Intercontinental Exchange for the AEP Dayton Hub reflected a weighted
9 average market price of \$38.64 per megawatt hour for the months of July 2013
10 through September 2013. When an estimated markup of 20% to 25% is added
11 to the market price to reflect basis, load shaping, risk premiums, ancillary
12 services, PJM administrative costs and margins, which can be expected to be
13 reflected in bids for an energy-only auction,⁹ the resulting range of expected bids
14 is between \$46.37 and \$48.30 per megawatt hour.

15 **Q17. Are there any other factors that mitigate in favor of a reserve price for the**
16 **CBP?**

17 A17. Yes. In its *ESP II Order*, the Commission stated that nothing in the order
18 precluded AEP-Ohio or any of its affiliates from bidding into any of the auctions.
19 Therefore, unless a reserve price is set equal to the forecast FAC rates expected
20 to be in effect during the delivery period for the energy secured through the CBP,

⁹ See, for example, *In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Market Rate Offer*, PUCO Case Nos. 12-426-EL-SSO, *et al.*, DP&L Ex. 3 at 8. Mr. Hoekstra performed a study of recent SSO auction results and derived a scaling factor of 1.24 as the average markup of energy bids in SSO auctions above the price of a flat block of energy.

1 it is possible for AEP-Ohio or an affiliate to use the CBP to increase the energy
2 prices AEP-Ohio collects from SSO customers. If the CBP auction price clears at
3 a level higher than the forecast FAC rates expected to be in effect during the
4 energy delivery period and AEP-Ohio or its affiliate is a winning bidder, the
5 tranches supplied by AEP-Ohio or its affiliates will simply re-price energy
6 supplied by AEP-Ohio under cost-based FAC rates to a higher market-based
7 rate.

8 **IV. CONCLUSION**

9 **Q18. Does this conclude your testimony?**

10 A18. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Kevin M. Murray on Behalf of Industrial Energy Users-Ohio* was served upon the Ohio Power Company this 14th day of June 2013, *via* electronic transmission.

/s/ Frank P. Darr

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EXHIBIT KMM-1

In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Market Rate Offer, PUCO Case Nos. 12-426-EL-SSO, et al.

In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company, PUCO Case No. 10-2929-EL-UNC.

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Rev. Code, in the Form of an Electric Security Plan, PUCO Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, et al.

In the Matter of the Application of Columbus Southern Power for Approval of its Program Portfolio Plan and Request for Expedited Consideration, PUCO Case No. 09-1089-EL-POR.

In the Matter of the Application of Ohio Power Company for Approval of its Program Portfolio Plan and Request for Expedited Consideration, PUCO Case No. 09-1090-EL-POR.

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, PUCO Case No. 09-906-EL-SSO.

In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan, PUCO Case No. 08-935-EL-SSO.

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, PUCO Case No. 08-936-EL-SSO.

In the Matter of the Application of Columbus Southern Power Company for Approval of its Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets, PUCO Case No. 08-917-EL-SSO.

In the Matter of the Application of Ohio Power Company for Approval of its Electric Security Plan; and an Amendment to its Corporate Separation Plan, PUCO Case No. 08-918-EL-SSO.

In the Matter of the Application of Duke Energy Ohio for Approval of an Electric Security Plan, PUCO Case No. 08-920-EL-SSO.

In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan, PUCO Case No. 08-1094-EL-SSO.

EXHIBIT KMM-2

Intercontinental Exchange Trade Data
 Trade Date June 10, 2013

Month	On Peak Hours	Off Peak Hours	AEP-Dayton Hub On Peak Price per MWH	AEP-Dayton Hub Off Peak Price per MWH	Weighted Average Price per MWH
Jul-13	352	392	\$54.05	\$31.85	\$42.35
Aug-13	352	392	\$50.15	\$29.95	\$39.51
Sep-13	320	400	\$40.60	\$28.55	\$33.91
Weighted Average for July to Sept. 2013					\$38.64
Projected Markup					20% to 25%
Forecast Bid Range					\$46.37 - \$48.30

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