

FILE

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)
 Energy Ohio for Authority to Establish a)
 Standard Service Offer Pursuant to Section)
 4928.143, Revised Code, in the Form of) Case No. 14-841-EL-SSO
 an Electric Security Plan, Accounting)
 Modifications and Tariffs for Generation)
 Service.)

In the Matter of the Application of Duke)
 Energy Ohio for Authority to Amend its) Case No. 14-842-EL-ATA
 Certified Supplier Tariff, P.U.C.O. No. 20.)

DIRECT TESTIMONY OF

ROBERT J. LEE

ON BEHALF OF

DUKE ENERGY OHIO, INC.

May 29, 2014

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Attachment:

RJL-1: Curriculum Vitae

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME, PROFESSIONAL POSITION, BUSINESS**
2 **ADDRESS, AND FOR WHOM YOU ARE TESTIFYING.**

3 A. My name is Robert J. Lee. I am a Vice President at CRA International, Inc. d/b/a
4 Charles River Associates (CRA) and a member of CRA's Auctions &
5 Competitive Bidding consulting practice. Founded in 1965, CRA provides
6 economic and financial expertise and management consulting services to
7 businesses, law firms, accounting firms, and governments. My business address
8 is John Hancock Tower, T-32, 200 Clarendon Street, Boston, Massachusetts
9 02116. I am testifying on behalf of Duke Energy Ohio, Inc., (Duke Energy Ohio
10 or the Company).

11 **Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL**
12 **BACKGROUNDS?**

13 A. I received an MSIA degree from Carnegie Mellon University in Pittsburgh in
14 1996. I have worked at CRA since 2001. From the mid 1990s through the mid
15 2000s, my work focused on the domestic energy sector generally and the power
16 sector specifically. For the past eight years, I have focused primarily on auctions
17 and other transaction mechanisms in a range of industries, including the power
18 sector. CRA's Auction & Competitive Bidding practice designs and conducts
19 auctions and other bidding mechanisms in various industries including electricity.
20 In addition to the design and execution of such processes, CRA acts as
21 independent monitor of bidding processes and provides support to bidders. In the
22 course of that work, I have played a leadership role in a wide range of auctions in

1 a broad set of industries, including auctions in the power sector. My curriculum
2 vitae is marked as Attachment RJL-1, listing my background and experience in
3 further detail.

4 **Q. HAVE YOU PREVIOUSLY WORKED ON MATTERS ON BEHALF OF**
5 **DUKE ENERGY OHIO BEFORE THE PUBLIC UTILITIES**
6 **COMMISSION OF OHIO?**

7 A. Yes I have. In the fall of 2010, I testified on behalf of Duke Energy Ohio in
8 connection with its request, in Case Number 10-2586-EL-SSO, for approval of a
9 market rate offer (MRO).¹ I also testified for Duke Energy Ohio in Case Number
10 11-3549-EL-SSO, *et al.*, related to the competitive bidding process (CBP) plan
11 used to secure supply for its standard service offer (SSO).² In association with
12 that case, CRA was retained by Duke Energy Ohio for structured procurements
13 from 2011 through 2013 and I served as part of the CRA Auction Manager team
14 for those procurements.

15 **Q. HAVE YOU PREVIOUSLY WORKED ON OTHER MATTERS BEFORE**
16 **THE PUBLIC UTILITIES COMMISSION OF OHIO?**

¹ *In the Matter of the Application of Duke Energy Ohio for Approval of a Market Rate Offer to Conduct a Competitive Bidding Process for Standard Service Offer Electric Generation Supply, Accounting Modifications, and Tariffs for Generation Service*, Case No. 10-2586-EL-SSO, Transcript at pp. 1-80 (October 5, 2012).

² *In the Matter of the Application of Duke Energy Ohio, for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Supply, Accounting Modifications, and Tariffs for Generation Service*, Case No. 11-3549-EL-SSO, *et al.*, Transcript at pp. 45-48 (November 9, 2011).

1 A. Yes I have. In addition to the Duke Energy Ohio matters I mentioned previously,
2 CRA has also been retained by FirstEnergy's Ohio electric distribution utility
3 companies (FirstEnergy Companies) for structured procurements from 2009
4 through 2015.³ I serve as part of the CRA Auction Manager team for those
5 procurements. CRA was also retained by the Dayton Power and Light Company
6 (DP&L)⁴ for structured procurements from 2013 through 2015. I submitted
7 testimony on behalf of DP&L related to their CBP plan. Finally, during the late
8 1990s, prior to joining CRA, I worked on behalf of Cinergy Corp. and DP&L on
9 their transition plans related to the deregulation of the Ohio power sector.

10 **Q. AS PART OF THE AUCTION MANAGER TEAM FOR STRUCTURED**
11 **PROCUREMENTS, HAVE YOU HAD OCCASION TO INTERACT WITH**
12 **THE PUBLIC UTILITIES COMMISSION OF OHIO?**

13 A. Yes, as I stated previously, CRA has worked with the Public Utilities Commission
14 of Ohio (Commission) in administering and conducting the structured
15 procurement auctions for Duke Energy Ohio, the FirstEnergy Companies, and
16 DP&L. This interaction included, but was not limited to, elements of the design
17 of the CBP plan, product definition, bidding format, and general indications of
18 interest from prospective bidders.

³ *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*, Case No. 10-388-EL-SSO, Opinion and Order (August 25, 2010) and *In the Matter of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 12-1230-EL-SSO, Opinion and Order (July 18, 2012).

⁴ *In the Matter of the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan*, Case No. 12-426-EL-SSO, *et al.*, Application (October 5, 2010).

1 Q. DURING THESE INTERACTIONS WITH THE COMMISSION, DID THE
2 COMMISSION EVER EXPRESS CONCERN AS TO CRA'S
3 INDEPENDENT ROLE IN THE STRUCTURED PROCUREMENT
4 PROCESS?

5 A. No. The Commission found CRA to be an active, fair, and impartial participant
6 in the structured procurement process. The Commission, either acting on its own
7 volition or through its consultant, had ready insight into the auction process and I
8 am thus confident that CRA would not have served, and would not continue to
9 serve, in this capacity as an Auction Manager if there was any question about its
10 unbiased and independent role.

11 Q. HAS THE COMMISSION FOUND CRA TO BE AN INDEPENDENT
12 AUCTION MANAGER?

13 A. Yes. To date, CRA has managed fifteen SSO auctions for utilities in Ohio. The
14 results for all fifteen have been approved by the Commission based on
15 recommendations of both CRA, the independent Auction Manager, and the
16 Boston Pacific Company, Inc., the Auction Monitor. In addition, the Stipulation
17 and Recommendation filed in association with 11-3549-EL-SSO, *et al.*, required
18 that the CBP would be conducted by CRA as an independent Auction Manager.
19 The Commission accepted that stipulated settlement and has approved the results
20 from each of the five CBP auctions conducted in associated with that case.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**
2 **PROCEEDINGS?**

3 A. CRA has been retained by Duke Energy Ohio to serve as the independent Auction
4 Manager to design and implement a CBP plan to procure SSO supply for energy,
5 capacity, ancillary services and other transmission services for delivery periods
6 beginning on June 1, 2015, and concluding on May 31, 2018. My testimony
7 describes how the proposed solicitations will work, what alternative CBP designs
8 were considered, and how the proposed CBP supports the establishment of an
9 electric security plan (ESP) under Section 4928.143 of the Ohio Revised Code.

10 **Q. WHAT ARE THE ATTACHMENTS AND SCHEDULES FOR WHICH**
11 **YOU ARE RESPONSIBLE?**

12 A. I am sponsoring all or part of the following items:

- 13 • Attachment RJL-1 – Curriculum vitae
- 14 • Attachment B to the Application – Bidding Process Schedule and
15 Timeline
- 16 • Attachment C to the Application – Bidding Rules
- 17 • Attachment D to the Application – Parts 1 and 2 Applications
- 18 • Attachment E to the Application – Communications Protocols
- 19 • Attachment F to the Application – Master SSO Supply Agreement
- 20 • Attachment G to the Application – Glossary

II. DESCRIPTION OF THE CBP SOLICITATIONS

1 Q. PLEASE SUMMARIZE THE CRITERIA THAT INFLUENCED THE
2 DEVELOPMENT OF THE CBP PLAN UNDER THE COMPANY'S
3 PROPOSED ESP.

4 A. R.C. 4928.143 does not specifically address the procurement of any aspect of
5 generation service through a competitive process. Rather, it requires that an
6 electric distribution utility include in its ESP provisions related to the supply and
7 pricing of generation service. In this regard, the Commission requirements
8 contemplate that the utility explain and support each aspect of the ESP.

9 Duke Energy Ohio's CBP plan is supported – and guided – by the relevant
10 statutory and Commission rule requirements applicable to a CBP plan under R.C.
11 4928.142. The CBP plan proposed in these proceedings is nearly identical in
12 structure to the CBP plan approved by the Commission as part of the Company's
13 current ESP, which will terminate on May 31, 2015.

14 Q. PLEASE DESCRIBE THE CBP PLAN.

15 A. The CBP plan is designed to promote open, fair, and transparent competitive
16 solicitations with clear product definitions, standardized bid evaluation criteria,
17 oversight by an independent third party, and the evaluation of the submitted bids
18 prior to the selection of the least-cost bid winner or winners. The major elements
19 include the following:

- 20 • Developing products and contract terms, as formalized in the Master
21 Supply SSO Agreement, that encourage participation from a range of
22 power industry and financial institutions.

- 1 • Maintaining a CBP Information Website that facilitates interest and
2 participation by providing documents, announcements, a timeline
3 including deadlines for the CBP, load and other data, frequently asked
4 questions (FAQs), and other information.
- 5 • Conducting bidder information sessions and other pre-bidding activities to
6 promote and encourage participation.
- 7 • Developing communications protocols to ensure parties have equal access
8 to information.
- 9 • Administering the two-part bidder application process, including
10 establishing financial and non-financial requirements to encourage
11 participation by serious parties.
- 12 • Developing the auction design and bidding procedures to attract bidders
13 and to promote competitive bidding.
- 14 • Educating and training bidders through informational materials and mock
15 auctions.
- 16 • Customizing and testing the bidding platform and help desk facility.
- 17 • Providing starting prices for the CBP auction that are intended to attract
18 bidding participation.
- 19 • Conducting each solicitation in accordance with the bidding rules and in a
20 manner that promotes participation and allows for verification of
21 procedures and results.
- 22 • Submitting a post-bidding report to the Commission that allows the
23 Commission to select the least-cost bid(s) and bidder(s) in the CBP.

1 **Q. WHAT IS THE PRODUCT THAT WILL BE PROCURED IN THE**
2 **WHOLESALE ENERGY AUCTIONS UNDER THE CBP PLAN?**

3 A. The product in Duke Energy Ohio's CBP plan is an hourly, load-following full
4 requirements tranche of the Company's entire SSO load, which includes the
5 percentage of income payment plan (PIPP) customers. For purposes of this
6 description, a tranche is defined as 1.0 percent, or a slice, of the Company's total
7 SSO load obligation for energy, capacity, ancillary services and other
8 transmission services. The Company will include different products of varying
9 contract durations necessary to meet all of its SSO load via a competitive process.
10 To achieve consistent, price-smoothing benefits for customers over the long term,
11 Duke Energy Ohio is planning for a mix of varying term contract durations, where
12 possible, for the ESP period. Regardless of the length of time to which a supplier
13 commits, each successful supplier will provide full requirements SSO supply,
14 including energy, capacity, transmission ancillaries, and other transmission
15 services as defined in the Master SSO Supply Agreement.

16 **Q. HOW OFTEN WILL THE AUCTIONS BE CONDUCTED?**

17 A. Duke Energy Ohio proposes to conduct two auctions prior to each delivery year
18 of the ESP, consistent with the comments received through a survey of
19 participants conducted in January 2012. This bidding schedule is also consistent
20 with the recommendations of the Commission's consultant, Boston Pacific
21 Company, presented in January 2014.⁵ Multiple procurements reduces the risk

⁵ Review of Duke Energy Ohio SSO procurements, presented by Frank Mossburg of the Boston Pacific Company on January 17, 2014.

1 that SSO prices will be significantly impacted by short-term market conditions at
2 the time an individual procurement is conducted.

3 **Q. HOW WILL THE PRODUCT DEFINITIONS AND CONTRACT TERMS**
4 **ENCOURAGE PARTICIPATION?**

5 A. The products and contract terms are familiar to market participants and
6 prospective bidders. They are standardized and yet provide flexibility through
7 staggered contract delivery periods that allow participants to bid their preferred
8 supply profile over time. The tranche size also encourages participation from a
9 range of potential suppliers, where each tranche is a specified, fixed percentage of
10 the SSO load. Additionally, the contract term for Master SSO Supply Agreement
11 will be aligned with the PJM Interconnection, L.L.C., (PJM) calendar for the
12 purpose of providing potential suppliers with better information as to the potential
13 cost of their capacity obligations under the Master Supply SSO Agreement.

14 **Q. HOW WILL PROSPECTIVE BIDDERS AND OTHER PARTICIPANTS**
15 **BE KEPT INFORMED DURING THE CBP?**

16 A. Documents, announcements, a timeline, load data, FAQs, and other information
17 will be readily available via the CBP Information Website, which will be hosted
18 and updated regularly by the Auction Manager. Interested parties can register at
19 the Information Website to receive updates and announcements about the CBP
20 directly via email. Parties can submit questions and comments to the Auction
21 Manager directly via a link on the Information Website or via email. Responses
22 will be posted to the FAQ section of the Information Website, and registered
23 parties will receive email notifications of new information posted to the

1 Information Website. In addition to the Information Website, bidder information
2 sessions will be conducted with presentations about the CBP and with time
3 allowed for attendees to ask questions. To date, the bidder information sessions
4 have all been conducted via Web conference to accommodate prospective bidders
5 that may not be able to attend such sessions in person. Web conferences provide
6 the additional benefit that participation is anonymous and low cost and requires a
7 limited time commitment from interested parties. Although CRA would be
8 willing to conduct open sessions to the extent that the Commission or Staff feels
9 such sessions would be useful, it is my recommendation that the Web-based
10 format be retained for the proposed solicitations. Bidders also will be encouraged
11 to participate in mock auctions to familiarize themselves with the bidding
12 platform and procedures.

13 **Q. WHAT LOAD INFORMATION WILL BE MADE AVAILABLE TO**
14 **BIDDERS?**

15 A. As described in the Bidding Rules provided as Attachment C to the Application,
16 Duke Energy Ohio will make available to prospective suppliers the following
17 information: historical hourly load data for the retail load and SSO load for a
18 three-year period; historical switching statistics including counts of switched
19 customers by revenue class; Peak Load Contribution and NSPL for eligible and
20 SSO load; and monthly consumption information specific to the Percentage of
21 Income Payment Plan (PIPP) load that includes hourly consumption and number
22 of accounts. This information will be available on the CBP Information Website

1 prior to qualification. The Company's retail electric tariffs are available on its
2 public website.

3 **Q. WHAT PRECAUTIONS AND PROCEDURES WILL BE FOLLOWED TO**
4 **ENSURE APPROPRIATE COMMUNICATIONS AND INFORMATION**
5 **EXCHANGE?**

6 A. The Communications Protocols establish what communications are permitted
7 among various parties including the Auction Manager, Duke Energy Ohio, the
8 Commission, Commission Staff, and prospective bidders. The Communications
9 Protocols are found as Attachment E to the Application. The protocols are
10 intended to protect confidential information and to allow equal access to
11 information without providing any advantage or disadvantage to prospective
12 bidders.

13 The Auction Manager will provide the communications channel for
14 interested parties. This includes addressing questions from parties about the CBP,
15 providing information via the CBP Information Website, broadcasting email
16 notifications to registered parties (using the bcc email field), conducting bidder
17 information sessions, managing the auctions, communicating results, and
18 submitting a post-bidding report. This will facilitate a process in which
19 information is provided consistently, in a timely manner, and on an equal basis to
20 all parties.

21 Certain individuals at Duke Energy Ohio will be part of the information
22 exchange, but in a limited way and only to support the competitiveness and
23 success of the CBP. Their role primarily will be as follows: development of data

1 posted to the CBP Information Website, assistance on FAQs (they will not know
2 the identity of those asking questions), assistance in reviewing certain information
3 in the Part 1 Applications (to determine creditworthiness and pre-bid security
4 requirements), confirming the pre-bid security posted as part of the Part 2
5 Applications, and administration of the Master SSO Supply Agreement.

6 **Q. PLEASE DESCRIBE THE MASTER SSO SUPPLY AGREEMENT.**

7 A. The Master SSO Supply Agreement sets forth the contractual obligations of
8 successful suppliers and the Company with respect to each auction. The
9 Agreement expressly details the terms and conditions that will govern the
10 relationship between the Company and successful suppliers. The Master SSO
11 Supply Agreement must be executed by each successful supplier in the prescribed
12 period of time; otherwise, Duke Energy Ohio has the right to consider the
13 agreement void and to retain any pre-bid security provided by the successful
14 supplier.

15 **Q. WHAT IS THE CONTINGENCY PLAN IF ONE OR MORE OF THE**
16 **SUPPLIERS DEFAULT PRIOR TO OR DURING THE DELIVERY**
17 **PERIOD?**

18 A. The Master SSO Supply Agreement addresses default and the remedies available
19 to Duke Energy Ohio should a supplier default on its contractual obligations. To
20 summarize, should a supplier default and not cure that default in a timely basis,
21 Duke Energy Ohio may terminate the contract with no remaining contractual
22 obligations owing to that defaulting supplier and may also seek monetary
23 damages from the defaulting supplier. Monetary damages may include, but are

1 not limited to, withholding payment for prior supplier performances and/or
2 pursuing its rights under any credit support provided by a supplier such as a
3 guaranty of-letter of credit. Duke Energy Ohio will fill the tranches of the
4 defaulted supplier by purchasing the necessary supply through the PJM-
5 administered markets. Open tranches made available by defaulting suppliers will
6 be offered to current SSO suppliers as soon as practicable consistent with the
7 procedures set forth in Section 7.4 of the Master SSO Supply Agreement.

8 **Q. WHAT ARE CREDITWORTHINESS STANDARDS AND WHY ARE**
9 **THEY NEEDED?**

10 A. It is typical of commercial power transactions to include standards around
11 creditworthiness. This serves to ensure that the contracting entity that does
12 perform under the contract is not financially disadvantaged should the other
13 contracting party default. In other words, the creditworthiness requirements under
14 the Master SSO Supply Agreement are intended to allow the Company to recover
15 monetary damages from the supplier where that supplier is responsible for
16 causing damages to the Company. It is thus commercially reasonable for Duke
17 Energy Ohio to include these provisions in the Master SSO Supply Agreement, as
18 without these provisions, its customers would likely have a higher risk of
19 absorbing the costs associated with a supplier's default. Should the Company have
20 unreimbursed costs as a result of procuring power in the spot market due to a
21 supplier's default, it will seek to recover those costs through Rider SCR (Supplier
22 Cost Reconciliation Rider). But it will first enforce the Master SSO Supply

1 Agreement and exhaust all available remedies before seeking recovery through
2 the Rider SCR.

3 **Q. PLEASE PROVIDE AN OVERVIEW OF THE BIDDER APPLICATION**
4 **AND QUALIFICATION PROCESS.**

5 A. To participate in the CBP, prospective bidders will need to satisfy financial and
6 non-financial requirements through a two-part application process. The purpose
7 of the two-part application process is for prospective bidders to demonstrate their
8 ability and commitment to meet the requirements of participation in the CBP and
9 the requirements of being an SSO Supplier as set forth in the Master SSO Supply
10 Agreement (Attachment F to the Application). The Part 1 and Part 2 Applications
11 are included as Attachment D to the Company's Application. As much as
12 possible, the Part 1 and Part 2 Application process will be conducted
13 electronically via the CBP Information Website. The process is designed to be
14 secure and to make it easier and less time consuming for applicants to submit
15 applications, check on the status of their applications, and cure any deficiencies.
16 The process also facilitates the review and assessment of applications and allows
17 the Auction Manager team to provide feedback to the applicants. If an applicant
18 prefers to submit its applications manually, the Part 1 and Part 2 Application
19 forms will be available on the CBP Information Website for download.

20 **Q. PLEASE DESCRIBE THE PART 1 APPLICATION PROCESS.**

21 A. In its Part 1 Application, a prospective bidder must satisfy the following
22 requirements:

- 23
- Submit a completed application.

- 1 • Provide contact information for the applicant and for designated
2 representatives of the applicant.
- 3 • Agree to comply with the provisions of the Master SSO Supply
4 Agreement and all the rules of the CBP, including the Communications
5 Protocols.
- 6 • Demonstrate regional transmission organization participant status, or
7 certify that there are no impediments to establishing that status prior to the
8 start of the relevant SSO supply period.
- 9 • Provide financial and credit information to be used in determining
10 creditworthiness and credit requirements.
- 11 • Make certifications regarding confidentiality and other matters.
- 12 • Part 1 Applications are to be submitted by the Part 1 Application due date.

13 The Auction Manager team will process and evaluate all Part 1
14 Applications to determine whether each applicant has satisfied the requirements
15 of Part 1. Financial and credit information will be submitted to representatives of
16 Duke Energy Ohio in order to conduct a creditworthiness assessment. If an
17 applicant's Part 1 Application is incomplete or requires clarification, the Auction
18 Manager will send a deficiency notice to the applicant, and the applicant will have
19 until the end of the next business day or until the Part 1 Application due date,
20 whichever is later, to respond.

21 Following the evaluation of Part 1 Applications, the Auction Manager will
22 notify each Part 1 applicant whether or not they have successfully completed the
23 Part 1 Application process to become a Qualified Bidder. The Auction Manager

1 will send a Notification of Qualification to each Qualified Bidder that will include
2 details about the pre-bid security the Qualified Bidder will be required to post as
3 part of its Part 2 Application. The Auction Manager will send a list of the
4 Qualified Bidders to each Qualified Bidder, including representatives from Duke
5 Energy Ohio, Commission Staff, and any advisor who Commission Staff may
6 have retained for this purpose, as well as to other parties as necessary to oversee
7 the proper conduct of the CBP. All parties, including Qualified Bidders, will have
8 undertaken to maintain the confidentiality of the list of Qualified Bidders, as
9 further explained in the Communications Protocols. The terms relevant to the
10 Communications Protocols as well as other auction documents are contained in
11 the Glossary (Attachment G) to the Application.

12 **Q. PLEASE DESCRIBE THE PART 2 APPLICATION PROCESS.**

13 A. To continue participation in the CBP, Qualified Bidders must submit a Part 2
14 Application. In the Part 2 Application, the Qualified Bidder makes a number of
15 certifications regarding its associations with other Qualified Bidders in order to
16 ensure that each Qualified Bidder participates independently of other Qualified
17 Bidders and to ensure the confidentiality of information regarding the CBP. Also
18 with the Part 2 Application, each Qualified Bidder must submit an indicative offer
19 that specifies the number of tranches that it would be willing to serve at the
20 minimum starting price and at the maximum starting price.

21 Part 2 applicants also must post pre-bid security in the form of a letter of
22 credit or electronic wire transfer sufficient to support its indicative offer. A Part 2
23 applicant also may be required to submit additional security in the form of a letter

1 of intent to provide a guaranty and/or a letter of reference; such a requirement
2 would be determined during the assessment of the Part 1 Applications. Any pre-
3 bid security submitted to support the indicative offer must be in a form acceptable
4 to the Duke Energy Ohio. Sample pre-bid security documents will be posted to
5 the CBP Information Website and are attached as appendices to the Part 1 and
6 Part 2 Application forms, which are provided in Attachment C to the Company's
7 Application.

8 Part 2 Applications are to be submitted by the Part 2 Application due date.
9 The Auction Manager team will process and evaluate all Part 2 Applications to
10 determine whether each applicant has satisfied the requirements of Part 2. A Part
11 2 Application will be acceptable if it satisfies the following:

- 12 • Must be complete;
- 13 • Must include an indicative offer in the appropriate form;
- 14 • Must meet the requirements provided to the Part 2 applicant resulting from
15 the Part 1 Application process; and
- 16 • Must include the pre-bid security in a form acceptable to Duke Energy
17 Ohio that is sufficient to cover the indicative offer submitted by the Part 2
18 applicant at the maximum starting prices.

19 If an applicant's Part 2 Application is incomplete or requires clarification,
20 the Auction Manager will send a deficiency notice to the applicant, and the
21 applicant will have until the end of the next business day or until the Part 2
22 application due date, whichever is later, to respond.

1 Following the evaluation of Part 2 Applications, the Auction Manager will
2 notify each Part 2 applicant whether or not they have successfully completed the
3 Part 2 Application process to become a Registered Bidder. The Registered
4 Bidder's pre-bid security establishes the Registered Bidder's initial eligibility,
5 which is the maximum number of tranches the bidder will be allowed to bid in the
6 wholesale energy auction. The Auction Manager will send a Notification of
7 Registration to each Registered Bidder that will include the Registered Bidder's
8 initial eligibility. The Auction Manager will send to each Registered Bidder, as
9 well as to other parties as necessary to oversee the proper conduct of the CBP, a
10 list of the Registered Bidders and the total initial eligibility across all Registered
11 Bidders. All parties, including Registered Bidders, will have undertaken to
12 maintain the confidentiality of this information provided to them.

13 **Q. WHAT PROCEDURES WILL BE FOLLOWED IF THERE ARE**
14 **APPARENT AFFILIATE RELATIONSHIPS OR OTHER**
15 **ASSOCIATIONS AMONG PART 1 APPLICANTS?**

16 A. As outlined in Section 4.2.2 of the Bidding Rules for Duke Energy Ohio's
17 Competitive Bidding Process (CBP) Auctions, the competitiveness of an auction
18 may be compromised by the coordinated or collusive behavior that bidding
19 associations may facilitate. As a result, in association with Commission Staff,
20 Duke Energy Ohio and the Auction Monitor, we developed a set of rules and
21 protocols that govern our actions in such cases. These rules, included as an
22 Appendix to the Bidding Rules, are standards that apply when associated parties
23 apply to participate in a CBP auction.

1 Restrictions on participation may include, but may not be limited to, the
2 following:

- 3 • Indicative offers may be restricted such that any applicable load cap or
4 credit based tranche cap may apply across the associated bidders;
- 5 • Pre-bid security or collateral requirements may be altered for the
6 associated bidders to ensure that associates do not gain a competitive
7 advantage over other bidders; and,
- 8 • In some cases, one or more associated bidders may not be allowed to
9 participate in the CBP auction.

10 **Q. WHAT BIDDING DESIGN WILL BE USED?**

11 A. A version of the simultaneous, multiple-round, descending-price clock auction
12 format will be used. A version of this format has been used in numerous
13 electricity procurements including in Massachusetts in 1997 and used later in
14 New Jersey, Ohio, Illinois, and elsewhere. It was used in the CBP for Duke
15 Energy Ohio to procure SSO supply for the period January 1, 2012, through May
16 31, 2015, and is currently being used in CBP plans for both the FirstEnergy
17 Companies and DP&L. This bidding design also has been used for buying and
18 selling other energy products and has been used in other industries.

19 The bidding format is simultaneous in that multiple products and/or
20 multiple tranches are bid on simultaneously. Bidding takes place typically online
21 using Web-based software in a series of bidding rounds, with pre-specified
22 starting and ending times for each round. Prior to the start of each round, the
23 announced price for each product is disclosed to bidders. The announced price is

1 the same for each tranche for a product, but may differ across products. The
2 starting announced price for each product (*i.e.*, the announced price in effect
3 during round 1) is set artificially high so as to encourage bidding participation. At
4 the end of each round, the bidding software, as overseen by the Auction Manager
5 team, determines which products are over-subscribed and which products are
6 under-subscribed. A product is over-subscribed if more supply tranches were bid
7 on it across all bidders than the number of tranches needed to procure for the
8 product. Likewise, a product is under-subscribed if fewer tranches were bid on it
9 than needed. If a product is over-subscribed, the announced price for that product
10 will be reduced by a decrement for the next round. If a product is not over-
11 subscribed, its announced price will not change for the next round. The bidding
12 process continues in this manner, with prices tending to tick down like hands on a
13 clock. As prices change across the products, bidders are allowed to change the
14 number of tranches they bid subject to certain restrictions. Subject to these
15 restrictions, in each round, a bidder simply specifies the number of tranches that it
16 is willing and able to supply for each product given the announced price for each
17 product. There is no pre-determined number of rounds before the auction closes.
18 The auction closes when the closing criteria have been met. For the auction to
19 close, the number of tranches bid for each product at the announced price must be
20 less than or equal to the supply for that product. The closing criteria are outlined
21 in detail in the Bidding Rules. Winning bidders are those bidders who bid the
22 tranches that are winning tranches as of the close of the auction. The Bidding

1 Rules provide a more detailed description of the bidding process and are included
2 as Attachment C to the Company's Application.

3 **Q. PLEASE DESCRIBE THE PROCESS FOLLOWING THE CLOSE OF**
4 **EACH SSO AUCTION.**

5 A. At the close of each auction, the Auction Manager will provide a report to the
6 Commission. The post-bidding report will summarize the bidding process and
7 results, and will provide a list of the least-cost bidder(s) and the number of the
8 least-cost tranches for each product for each such bidder. Duke Energy Ohio
9 proposes that the bids of the least-cost bidders be approved by the Commission
10 within forty-eight hours of the submission of the post-bidding report, with these
11 bids serving to determine the retail rates for SSO supply for the relevant periods
12 of the ESP.

13 After the last round of the auction, bidders that remained active in the
14 auction will see preliminary auction results through the Bidding Website. These
15 bidders will see the clearing prices for each product and the number of tranches
16 the bidder tentatively has won for each product. The Auction Manager also will
17 provide Duke Energy Ohio the identities of the winning bidders, the number of
18 tranches each winning bidder has won for each product, and the associated
19 clearing prices. These preliminary results remain subject to the Commission's
20 confirmation.

21 Once the Commission selects the winning bidder(s), each winning bidder
22 and Duke Energy Ohio will execute a Master SSO Supply Agreement. Pre-bid
23 security will be returned to winning bidders upon execution of the Master SSO

1 Supply Agreements. Pre-bid security will be returned to non-winning bidders on
2 or before the fifth calendar day after the close of the auction. Pre-bid security
3 may be held back for any bidder that violated any of the rules or certifications of
4 the CBP.

5 At its discretion, the Commission may release certain non-confidential
6 information about the CBP results including winning bidders, winning tranches,
7 and clearing prices.

8 **Q. WHAT IS THE SCHEDULE FOR BIDDING AND THE TIMELINE**
9 **PROPOSED BY THE COMPANY?**

10 A. The proposed schedule that shows number of tranches and a timeline for the
11 competitive bid process for each tranche is Attachment B to the Application. The
12 schedule calls for two auctions prior to the delivery period commencing on June
13 1st 2015, an additional two auctions prior to the delivery period commencing in
14 2016, and two auctions in association with the June 2017 through May 2018
15 delivery period.

16 **Q. WHAT IS THE CONTINGENCY PLAN IF NOT ENOUGH TRANCHES**
17 **ARE SECURED THROUGH A CBP AUCTION?**

18 A. In the event that fewer tranches than a product's tranche target are purchased in
19 the auction, Duke Energy Ohio will implement a Contingency Plan for the
20 unfilled tranches. Under that plan, if all tranches are not fully subscribed through
21 the auctions in any given year, any remaining tranches will be offered to current
22 Duke Energy Ohio SSO Suppliers as set forth in Section 7.4 of the Master SSO
23 Supply Agreement. These suppliers will have won tranches in the current or a

1 prior Duke Energy Ohio CBP auction. The tranches will be offered to current
2 suppliers at the clearing price, starting price, or reservation price, whichever is
3 lowest. If there still are unfilled tranches, then the necessary SSO supply
4 requirements will be met through PJM-administered markets at prevailing Day-
5 ahead, Real-time zonal spot prices. Any incremental costs would be recovered
6 through the Company's Rider SCR. More details on the Contingency Plan are
7 included in the Bidding Rules.

8 **Q. HOW IS THE CBP DESIGNED TO ENCOURAGE PARTICIPATION IN**
9 **EACH WHOLESALE ENERGY AUCTION AND TO ENSURE THAT NO**
10 **ONE BIDDER IS ADVANTAGED?**

11 A. Physical generation assets are not required to participate in the CBP or to bid on
12 and win tranches. In fact, any bidder that can purchase power for delivery to the
13 Company's service territory can participate in the CBP. Nothing in the CBP
14 requires bidders to own generation and nothing in the CBP provides preferential
15 treatment to those that do own generation. The descending-price clock auction
16 format is nondiscriminatory because anyone can participate as long as they satisfy
17 the criteria used in the application process. Moreover, the CBP is a structured
18 process that levels the playing field for participants and makes information
19 available so no bidders are advantaged. All bidders are bidding on standardized
20 supply contracts and are subject to identical financial and credit requirements and
21 criteria. All bidders have equal access to information before bidding and during
22 the event itself. Prior to the auction, the process to educate and train bidders on

1 the details of the CBP and the products is the same for all bidders. During the
2 auction, all bidders receive the same information about the status of the auction.

3 **Q. ARE THERE SPECIFIC DESIGN CONSIDERATIONS CHOSEN TO**
4 **PROMOTE COMPETITION IN THE AUCTION?**

5 A. There are several rules in place designed to promote competitive bidding. These
6 include the follow:

- 7 • All bidders adhere to identical credit qualification procedures. Each
8 bidder's credit-based tranche cap is a function of clearly defined, objective
9 criteria. The criteria prevent any potential subjectivity or favoritism in the
10 process.
- 11 • All bidders are bidding on standardized supply contracts. Contracts are
12 not tailored to accommodate the needs or demands of any individual
13 bidder.
- 14 • The bidder education and training process is designed to provide all
15 bidders equal access to information. The process includes bidder
16 information sessions to educate all bidders on the CBP, the auction rules,
17 and the products being offered. The Q&A process is designed to provide
18 all bidders equal access to information related to the CBP.
- 19 • During the auction, all bidders receive the same information about the
20 status of the auction, including prices and the supply and demand
21 conditions.
- 22 • The closing criteria are applied equally to all bidders. Bids are evaluated
23 and winning bidders are determined based on price alone. Any bidder

1 willing to supply at the announced price remains active in the auction.
2 Any bidder active on a product when the auction closes is guaranteed to
3 win the rights to supply SSO load.

4 **Q. DOES THE PROPOSED CBP PROTECT AGAINST THE EXERCISE OF**
5 **MARKET POWER AND, IF SO, HOW?**

6 A. I understand that the statutes and rules only require that the electric distribution
7 utility belong to a regional transmission organization that is overseen by an
8 independent market monitor that is responsible for protecting against market
9 abuses and the improper exercise of market power. Additionally, the CBP plan
10 proposed here also provides protection against market power abuses. I would
11 further offer that the CBP plan proposed here provides protection against market
12 power abuses. As reflected in the Communications Protocols, Attachment E to
13 the Application, affiliates of Duke Energy Ohio cannot be provided with any
14 information regarding the CBP plan that would provide them an unfair
15 competitive advantage. Affiliates, as used in the Communications Protocols,
16 include that part of its business that engages in merchant activity. As I have
17 discussed previously, all auction participants are afforded the same amount of
18 information, thus preventing any perceived abuse of market power.

19 **Q. ARE CHANGES TO THE CBP POSSIBLE?**

20 A. Although the proposed CBP contains the necessary elements that result in a
21 competitive process, changes may be considered if such changes further promote
22 successful CBP solicitations.

1 Q. WERE ALTERNATIVES TO THE PROPOSED CBP PLAN
2 CONSIDERED?

3 A. A request for proposal was considered but ultimately not pursued due to an
4 interest in designing a system that provides a more effective price discovery
5 process for bidders. Bidders are familiar with the clock auction format and it is a
6 design that has a proven record of success in Ohio.

7 For procurements with multiple products, we have selected a descending-
8 price clock format. For single product procurements, we have selected a
9 descending-price clock format with a possible sealed-bid round. Both formats
10 have been used for a number of years to procure electricity and for other
11 competitive bids in electricity and in other industries. A one-shot sealed-bid
12 format is appropriate in some instances. However, for the types of products being
13 procured here, there is little if any advantage of a one-shot sealed-bid format, and
14 a descending-price clock auction format offers several advantages.

15 First, with multiple products, it is more difficult in a one-shot sealed-bid
16 format for bidders to specify their bids. The number of tranches they would be
17 willing and able to supply depends on price levels and relative prices for the
18 different products. In principle, they could submit contingent bids, specifying
19 how many tranches for each product they would bid for different combinations of
20 prices, but specifying all the possible combinations of prices would be
21 challenging.

22 Second, there is a common value element to the CBP products. This
23 means there is some uncertainty in valuing the tranches and the uncertainty is

1 shared among bidders (*e.g.*, forecasts of market prices in the future). This can
2 give rise to the winner's curse problem in which the winning bidder wins because
3 it has the lowest estimate of the cost of supplying the tranches — thus, a bidder
4 faces the risk that its bid is an outlier compared to the bids of other market
5 participants and wins at a price that is below competitive market levels. Unless
6 the winner's curse risk is addressed through the appropriate auction design,
7 bidders will compensate for the risk by bidding conservatively, leading to
8 potentially higher clearing prices for the procurement. In a one-shot sealed-bid
9 format, the winner's curse can be addressed somewhat by using uniform pricing
10 (all winning bidders for a product get paid the same price for the product) rather
11 than first-price discriminatory bidding (each winning bidder gets paid the price it
12 bid). However, the one-shot sealed-bid format lacks an effective price discovery
13 mechanism that also mitigates the winner's curse — a price discovery mechanism
14 in which bidders gain confidence from price signals reflecting other bidders' bids,
15 thereby encouraging bidders to bid more aggressively.

16 Third, with multiple products, the more that the products are related in
17 value (*e.g.*, they are substitutes and/or complements), the more important it is that
18 meaningful price signals be provided so that bidders gain information about the
19 value of the tranches, reducing risks for bidders and encouraging them to bid
20 lower prices. A one-shot sealed-bid auction does not provide these price signals,
21 thereby increasing risks faced by bidders and discouraging them from bidding
22 lower prices.

1 In contrast to the one-shot sealed-bid format, the descending-price clock
2 format allows bidders to revise their bids in response to prices that reflect
3 aggregate bidder interest in the products. Because the auction proceeds in a series
4 of rounds with announced prices reflecting competitive bids, bidders do not need
5 to be concerned with specifying combinations of hypothetical prices. There is an
6 effective price discovery mechanism: prices decline in response to supply being
7 bid, and bidders can adjust their bids accordingly. The descending-price clock
8 format provides the price transparency that facilitates effective and efficient
9 bidding among all bidders. The price signals provided through the process enable
10 bidders to bid confidently and aggressively (*i.e.*, at lower prices) without risking
11 “under-bidding the market”. The descending-price clock format also imposes
12 uniform pricing which also reduces bidders’ risks. The bidding mechanics for the
13 descending-price clock format are straightforward. It has been my experience that
14 even bidders participating in this bidding format for the first time find the logic,
15 interface, and experience both intuitive and efficient.

16 Fourth, in a simultaneous, multiple-round, descending-price clock
17 procurement, bidders can switch from one of the utility’s products to another
18 product in response to price differences that they believe are not reflective of
19 underlying supply cost differences. This behavior leads to a potentially more
20 efficient outcome and contributes to pricing that is more consistent among the
21 products. Similar products will have similar prices through this process. This
22 further simplifies administration and regulatory oversight.

1 Finally, the descending-price clock format has been used successfully in
2 Ohio in the past. The format performed has well and has resulted in strong
3 participation from suppliers reflecting the competitive nature of the process. It is
4 a format that participants are used to and are comfortable with.

5 **Q. WHAT OBSTACLES MIGHT CREATE DIFFICULTIES OR BARRIERS**
6 **FOR THE ADOPTION OF THE PROPOSED CBP?**

7 A. There should be no barriers or difficulties for bidders with respect to the proposed
8 CBP. As with any competitive procurement, a critical success factor is whether
9 the products are attractive to bidders and whether bidders have been provided
10 sufficient time and information to evaluate the opportunity to participate. As part
11 of that, any uncertainties in the process that bidders face should be addressed to
12 the extent possible. The proposed CBP products are clearly defined and are
13 designed to be attractive to prospective bidders. The proposed CBP plan is
14 designed to provide sufficient time and readily available information for
15 prospective bidders to participate confidently in the CBP. Thus, as noted, there
16 should be no barriers or difficulties.

III. THE PROPOSED CBP IS CONSISTENT WITH OHIO LAW

17 **Q. IS THE PROPOSED CBP CONSISTENT WITH OHIO LAW?**

18 A. I believe it is. As I have previously discussed, the CBP plan incorporated into
19 Duke Energy Ohio's proposed ESP has been developed with reference to the
20 statutory criteria applicable to a CBP plan under an MRO. Consistent with those
21 criteria, the CBP plan here provides for all of the following:

- 22 • Open, fair, and transparent competitive solicitation;

- 1 • Clear product definition;
- 2 • Standardized bid evaluation criteria;
- 3 • Oversight by an independent third party that shall design the solicitation,
- 4 administer the bidding, and ensure that the criteria specified above are
- 5 met; and,
- 6 • Evaluation of the submitted bids prior to the selection of the least-cost bid
- 7 winner or winners.

8 **Q. WILL THERE BE LOAD CAPS FOR THE AUCTIONS?**

9 A. Yes. Although load caps may place upward pressure on the auctions' clearing
10 prices, supplier diversity provides some risk mitigation benefits to the Company
11 and customers. As a result, Duke Energy Ohio is proposing to adopt a load cap
12 for the SSO auctions. The proposed load cap will be 80 percent on an aggregated
13 load basis across all auction products for each auction date such that no bidder
14 may bid on and win more tranches than the load cap. The load cap will be
15 implemented by ensuring that each bidder's initial eligibility does not exceed the
16 load cap in an auction.

17 **Q. IS THE CBP PLAN AN OPEN, FAIR, AND TRANSPARENT**
18 **COMPETITIVE SOLICITATION?**

19 A. The CBP provides for open, fair, and transparent competitive solicitation through
20 the product definition, the information channels, the bidder qualification process,
21 the bidding design, and the rules for participation. The products are familiar to
22 market participants and well-defined and are the same for all bidders.
23 Information about the solicitations will be timely and readily available on an

1 equal basis to interested parties. The bidder qualification process is the same for
2 all participants, familiar to market participants, and fully documented. The
3 version of the descending-price clock auction in the solicitations applies the same
4 bidding rules and procedures to all bidders and is familiar to participants. Finally,
5 all the rules for participating in the solicitation are known to all participants ahead
6 of time and applied equally to all participants. All the above encourages
7 participation, and promotes the openness, fairness, and transparency of the
8 solicitations.

9 **Q. PLEASE EXPLAIN HOW THE PROPOSED CBP PROMOTES A CLEAR**
10 **PRODUCT DEFINITION.**

11 A. The products are standardized and familiar to market participants. The products
12 are load-following, full requirements service including energy, capacity, ancillary
13 services and other transmission services. The products are well-known and
14 understood in the marketplace, and can be readily evaluated and priced by
15 bidders. All bidders know they are bidding on the same products.

16 **Q. PLEASE EXPLAIN HOW THE PROPOSED CBP PROVIDES FOR**
17 **STANDARDIZED BID EVALUATION CRITERIA.**

18 A. Bidders that submit bids are allowed to submit bids only by first successfully
19 completing the Part 1 and Part 2 Application process. That process uses
20 standardized evaluation criteria applied equally to all applicants, and ensures that
21 bidders allowed to submit bids are willing, able, and committed to satisfying the
22 obligations of an SSO supplier should they win tranches in the bidding. The two-
23 part application process ensures that non-price criteria are satisfied in evaluating

1 the qualifications of bidders to become SSO suppliers. This pre-qualification
2 process further ensures: (i) a level playing field for all bidders; (ii) a clear
3 evaluation of bids such that no bidder can gain an unfair advantage in the process;
4 (iii) that all bidders are judged on the same, standardized basis; and (iv) that the
5 only necessary evaluation by the Commission is on price. This means that bids
6 subsequently can be evaluated on an objective, price-only basis. The bidding
7 design encourages bidders to bid supply at the lowest possible price. There is no
8 ambiguity as to the winning bids, the winning bidders, and the non-winning
9 bidders. Winning bidders win simply because non-winning bidders are not
10 willing and able to supply tranches at prices as low as the prices at which winning
11 bidders are willing and able to supply the tranches. The Commission's statutory
12 oversight in selecting the least-cost bids also ensures standardized bid evaluation
13 criteria are used.

14 **Q. PLEASE EXPLAIN HOW THE PROPOSED CBP ALLOWS FOR**
15 **OVERSIGHT BY AN INDEPENDENT THIRD PARTY.**

16 A. The Auction Manager, CRA International, has provided independent management
17 and oversight of competitive bids for numerous clients in electricity since the mid
18 1990s and CRA's remuneration as Duke Energy Ohio's Auction Manager does
19 not depend on the outcome of the CBP solicitations or which bidders win what
20 tranches at what prices.

21 **Q. PLEASE EXPLAIN HOW THE PROPOSED CBP PROVIDES FOR**
22 **EVALUATION OF THE SUBMITTED BIDS PRIOR TO THE**
23 **SELECTION OF THE LEAST-COST BID WINNER OR WINNERS.**

1 A. After the close of bidding, the Auction Manager will provide the Commission
2 with the post-bidding report that contains the information the Commission needs
3 to evaluate the solicitation and to select the least-cost bid winner(s). Consistent
4 with O.A.C. 4901:1-35-08(B), Duke Energy Ohio proposes that the Auction
5 Manager provide the report within twenty-four hours of the completion of the
6 bidding process. The report will include a summary of the results of the CBP and
7 all of the elements set forth in O.A.C. 4901:1-35-08(B)(1)-(7). Likewise,
8 although there is no express requirement to do so, Duke Energy Ohio will provide
9 access to its employees and CRA to assist the Commission in its review of the
10 CBP, as well as data, information and communications pertaining to the bidding
11 process, on a real time basis and regardless of the confidential nature of such data
12 and information.

IV. DUKE ENERGY OHIO AUCTIONS CONDUCTED TO DATE

13 **Q. WERE ALL THE AUCTIONS CONDUCTED UNDER THE PREVIOUS**
14 **ESP COMPETITIVE?**

15 A. Yes. The results for each of the five auctions conducted as part of Duke Energy
16 Ohio's current ESP (filed under Case Number 11-3549-EL-SSO, *et al.*) were
17 accepted by the Commission. Participation was broad, with approximately
18 thirteen companies – suppliers and energy traders – participating in each auction
19 process and new companies applying for all but one auction.

20 **Q. HAVE YOU IDENTIFIED ANY ENHANCEMENTS TO THE SSO**
21 **AUCTION PROCESS THAT DUKE ENERGY OHIO IS PROPOSING IN**
22 **CONNECTION WITH THESE PROCEEDINGS?**

1 A. Yes, I have. Duke Energy Ohio provides more customer and load data on its
2 public CBP information website than either the FirstEnergy Companies or DP&L,
3 and some of this data is difficult to compile. We propose maintaining the
4 following data files, all of which are already included on the Duke Energy Ohio
5 information website: “Historical Hourly Loads by Class”, “PIPP Load (at the
6 customer meter level)”, “Historic PLC – NSPL Data”, and “Monthly Switching
7 Statistics (at the customer meter level)”.

8 Another change we are looking to implement pertains to the timing of
9 auctions in a given year. In the prior CBP, one auction was held in 2011 and two
10 auctions were held in both 2012 and 2013, with the 2012 and 2013 auctions
11 occurring in May and November of their respective years. Based on our own
12 assessment and feedback received from participants in the Duke Energy Ohio
13 auctions, and comments from the Commission’s consultant, we have concluded
14 that it would be preferable to adopt a new schedule with auctions taking place in
15 the fall and winter of a given year rather than the spring and fall. Doing this
16 would move the auctions closer to the standard PJM calendar, which we believe
17 will be favorably received by prospective auction participants. Consistent with
18 recommendations from the Auction Monitor, the Company is also proposing to
19 conduct two auctions prior to the first delivery year under this new ESP. Two
20 auctions will allow for a blended price for the period beginning June 1, 2015, the
21 first delivery year of the new ESP. The ability to accomplish this task will depend
22 largely upon the timing of the approval of this filing by the Commission.

1 As I noted earlier, conducting multiple solicitations for auctions covering
2 the same delivery period was favored by auction participants. In addition, the
3 Commission's consultant recommended splitting the initial procurement into two
4 separate bid days due to the risk mitigation benefits. In Duke Energy Ohio's most
5 recent ESP, after the December 2011 procurement, all solicitations were
6 conducted across two bid days. Due to calendar constraints, Duke Energy Ohio
7 conducted a single December 2011 procurement for 100% of the SSO supply.
8 Once again, the risk mitigation benefits of conducting multiple procurements is
9 particularly acute for the initial bid in this proposed ESP as Duke Energy Ohio
10 will once again be securing 100% of its SSO load. Under a single procurement
11 model, Duke Energy Ohio's SSO customers may be adversely impacted by short-
12 term market conditions or the absence of one or more bidders unable to
13 participate on a given day.

V. CONCLUSION

14 **Q. WAS ATTACHMENT RJL-1 PREPARED BY YOU OR UNDER YOUR**
15 **SUPERVISION?**

16 A. Yes.

17 **Q. IS THE INFORMATION CONTAINED IN ATTACHMENTS RJL-1 TRUE**
18 **AND ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND**
19 **BELIEF?**

20 A. Yes.

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

22 A. Yes.

ROBERT J. LEE
Vice President

M.S. Industrial Administration,
Carnegie Mellon University,

B.A. Mathematics,
Boston College

Mr. Lee is a Vice President in CRA's Auctions & Competitive Bidding Practice. During his consulting career, Mr. Lee has assisted numerous clients to develop structured sales and procurement channels in an array of industries and markets. He has managed structured transactions, acquisitions and divestitures in both traditional and competitive bidding environments. In addition, Mr. Lee has helped clients on a range of valuations and market analyses related to changes in market dynamics and market structure. Prior to joining CRA, Mr. Lee was a Principal with the PA Consulting Group and at Putnam, Hayes and Bartlett, Inc.

AUCTIONS AND COMPETITIVE BIDDING

Electricity

Duke Energy Ohio, Inc.

- Designed a competitive bidding process (CBP) to procure wholesale generation for retail Standard Service Offer (SSO) load for Duke Energy Ohio, Inc. covering the period from January 1, 2012 through May 31, 2015. The CBP used a clock auction format. The auction process and outcome were subject to approval by the Public Utilities Commission of Ohio (PUCO).

FirstEnergy Ohio Utilities

- Assisted in the design and ongoing execution of a competitive bidding processes to procure wholesale generation and capacity for retail Standard Service Offer (SSO) load of customers of FirstEnergy's Ohio Utilities — Cleveland Electric Illuminating Company, The Toledo Edison Company, and Ohio Edison Company. The auction process and outcome are subject to approval by the Public Utilities Commission of Ohio (PUCO).

-
- For FirstEnergy Service Company, assisted in designing and conducting a competitive bidding process using a hybrid clock auction and sealed-bid format to procure wholesale generation and capacity for retail Standard Service Offer (SSO) load to be delivered June 2009 through May 2011 to customers of FirstEnergy Ohio Utilities — Cleveland Electric Illuminating Company, The Toledo Edison Company, and Ohio Edison Company. Played a key role on the Auction Manager team including managing the mock auction and the live event. The successful auction procured more than \$6 billion in supplies. The auction process and outcome were subject to approval by the Public Utilities Commission of Ohio (PUCO).

RWE

- Auction Manager for RWE's ongoing power supply auction serving major commercial and industrial customers in Europe. Currently working with RWE and the broader CRA auction team on the auction design framework, including all bidding rules, auction parameters, and bidder support documentation and tools. In addition, Mr. Lee helped to develop and test the customized auction software working with software engineering through the design and testing process. The auction process and outcome are subject to approval by the German cartel office (BKartA).

Trans Elect

- Part of CRA's Auction Manager team on an open season auction process for Trans Elect. The open season auction process used CRA's Auction Management System to successfully sell transmission capacity rights through an open and transparent bidding process. The auction process and outcome were subject to approval by the U.S. Federal Energy Regulatory Commission (FERC).

GE EFS

- Auction Manager for the Linden VFT open season auction process. With CRA's assistance, GE successfully auctioned incremental transmission capacity from PJM into New York's Zone J. Mr. Lee worked closely with GE and the broader CRA team to design and test the customized AMS auction software and to educate bidders on the auction design parameters as well as the VFT technology. The auction process and outcome were subject to approval by the U.S. Federal Energy Regulatory Commission (FERC).

Agriculture

Ocean Spray Cranberries

- Project Manager and Auction Manager for the development of an Internet-based trading platform for Ocean Spray Cranberries. The system, launched in the summer of 2009, represented a major innovation in an industry that lacked price transparency and adequate market signals for investment. Through the online system, Ocean Spray successfully is offering cranberry concentrate to major beverage producers worldwide.

Fonterra - GlobalDairyTrade

- Project Manager and Auction Manager for the development and administration of *globalDairyTrade*, the Internet-based auction sales channel for a major international dairy cooperative. The auction-based system represents a major departure from the industry status quo and served as a mechanism for cost reduction, efficiency improvement, and increased market transparency for the supplier and its customers. Key responsibilities include contributions on the auction design, software development, customer training processes, and client communications.

ASSET VALUATION AND MARKET STRATEGY

Confidential Client

- Advised the successful bidder in the acquisition of a gas-fired combined cycle power plant located in a remote region of Pakistan. As part of El Paso's divestiture of its Asian power generating assets, Mr. Lee worked closely with a the buyer to value the portfolio of power sales, fuel supply and O&M contracts supporting the facility. Critical considerations included fuel supply risk, FX risk and the proper assessment of the threat of terrorism associated with the facility.

Confidential Client

- Worked closely with the management of a processed coal producer to identify the product's value versus alternative coal options. Established the breakeven value for the fuel under a range of alternative environmental, coal price and transportation cost scenarios. Helped establish the relevant geographic range under which the fuel could potentially compete and identified attractive utilities for targeted marketing activities. Identified alternative distribution strategies that would help mitigate transportation cost concerns.

Hoosier Energy

- Reviewed the NO_x SIP Call compliance plan for Hoosier Energy, a Midwestern G&T Cooperative. Worked closely with management to develop a new framework for evaluating environmental compliance options at Hoosier's principal coal-fired power stations. Identified key risk factors impacting the value of the cooperative's planned environmental expenditures, including the risk of domestic CO₂ restrictions. Identified potential cost saving and risk mitigation strategies in association with pending changes in environmental policies. Proposed alternative allowance banking strategies that would reduce financial exposure associated with SIP investments.

PSEG

- Worked with management to evaluate the impact of a range of environmental scenarios on PSEG asset values. Mr. Lee modeled an array of 3P and 4P proposals and evaluated the likely response of market participants. The modeling exercise examined the impact of incremental environmental restrictions on regional and national new capacity builds, PCE retrofits and fuel selection. In addition, the CRA team quantified the impact of proposed or pending regulations on regional power market prices and on the prices for tradable emissions credits.

Triton Coal

- Advised the management of Triton Coal on antitrust issues associated with their divestiture of the Buckskin and North Rochelle coal mines located in the Wyoming portion of the Powder River Basin. Identified substitute products including coal from alternative producing basins and power generation from alternative fuels. Identified the market for Powder River Basin coal based on transportation access and costs as well as coal quality considerations. Evaluated bidders based on the potential impact of the acquisition on market concentrations. Balanced the bid price for resources versus the likelihood that a potential sale would withstand DOJ scrutiny.

Foster Wheeler

- Performed a strategic assessment of the international coal boiler market for Foster Wheeler. Identified key markets for growth in coal-fired power generation over the near, mid and long-term. Considered key issues such as resource availability, environmental policy uncertainties and power demand growth. Worked closely with Foster Wheeler Oy to identify attractive markets for their CFB coal-boiler marketing activities.

British Petroleum

- Examined the potential strategic impacts of btu convergence on coal and oil markets. The analysis evaluated the economics of coal-to-liquids, coal-to-gas and underground coal gasification. Identified regional discontinuities on project economics and participated in workshops designed to assess opportunities in the coal space and their impact on markets for oil, coal and power.

TESTIMONY AND ADMINISTRATIVE PROCEEDINGS

PUCO Case No. 12-426-EL-SSO. Testimony on behalf of the Dayton Power & Light Company (DP&L) related to DP&L's application for authority to establish a Standard Service Offer pursuant to Section 4928.143, Revised Code, in the form of an Electric Security Plan.

PUCO Case No. 11-3549-EL-SSO. Testimony on behalf of the Duke Energy Ohio, Inc. (Duke) related to Duke's application for authority to establish a Standard Service Offer pursuant to Section 4928.143, Revised Code, in the form of an Electric Security Plan.

PUCO Case No. 10-2586-EL-SSO. Testimony on behalf of the Duke Energy Ohio, Inc. (Duke) related to Duke's application for approval of a Market Rate Offer to conduct a competitive bidding process for Standard Service Offer electric generation supply.

Developed and presented PSEG and Exelon's joint claim for relief to the Oil Spill Liability Trust Fund, US Department of Homeland Security. Prepared the claim for damages associated with the temporary shut down of the Salem nuclear facility as a result of the November, 2004 Athos I oil spill.

PRESENTATIONS AND PUBLICATIONS

Brandeis University, Graduate School of International Business, lecturer on coal and environmental markets and energy market dynamics

National Public Radio (NPR), Marketplace, recurrent on air guest discussing coal, environmental markets and environmental policy

"Creating Markets and Structured Sales Channels", presented at the U.S. Apple Association Outlook 2010, Chicago, IL, August 19, 2010

"Not Your Father's Auction", Industry Week, April 2010

"A Better Way to Transact", Beverage Industry: Market Insights, May 2010

"NO_x Trading: Strategies for Electric Cooperatives"; with Anne Smith; Cooperative Research Network, National Rural Electric Cooperative Association; April 2003

EDUCATION

CARNEGIE MELLON UNIVERSITY,
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