BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION	**)**	
OF OHIO EDISON COMPANY,	**)**	
THE CLEVELAND ELECTRIC	**)**	
ILLUMINATING COMPANY AND THE	**)**	
TOLEDO EDISON COMPANY FOR	**)**	
AUTHORITY TO PROVIDE FOR A	**)**	**CASE NO. 14-1297-EL-SSO**
STANDARD SERVICE OFFER PURSUANT	**)**	
TO R.C. 4928.143 IN THE FORM OF AN	**)**	
ELECTRIC SECURITY PLAN	**)**	
	)	

TESTIMONY

OF

GARRETT COLE

ON BEHALF OF CITY OF CLEVELAND, OHIO

December 22, 2014

I. BACKGROUND AND INTRODUCTION

Q. Please state your name, business, title and business address.

A. My name is Garrett Cole. I am a Principal Consultant for GDS Associates, Inc. ("GDS"). My business address is 1850 Parkway Place, Suite 800, Marietta, Georgia 30067.

Q. Please state your qualifications.

A. I graduated from the Georgia Institute of Technology with a Bachelor of Science degree in Industrial Engineering in August 2002 and a Master of Science degree in Industrial Engineering in May 2003. I graduated from Kennesaw State University with a Master of Business Administration degree in May 2006 and became a licensed Professional Engineer in the state of Georgia in December 2006. I have over thirteen (13) years of experience in the power industry.

At GDS, I perform a wide variety of consulting services primarily for municipals, cooperatives and law firms with a focus on strategic power supply, resource procurement, and Independent System Operator ("ISO") and Regional Transmission Organization ("RTO") market planning and analysis. In addition to broad utility management advice, I have made significant contributions to clients in the following core responsibilities:

(i) Strategic planning: Development of power supply procurement plans, as well as market hedging strategy and implementation in structured and unstructured markets and Balancing Authorities, including ERCOT, MISO, PJM, SPP, New England ISO, Entergy Arkansas, Southern Company and Southwestern Power Administration.

(ii) Long-Term asset review: Performance of economic feasibility analyses, valuations and detailed dispatch modeling to advise clients on participation in long-term (10-40 years in term) purchased power contracts and/or ownership interests in biomass, coal, natural gas-fired combined cycle and combustion turbines, hydroelectric, nuclear, solar and wind generation units.

(iii) Regulatory planning: Participation in RTO stakeholder group representation, integration of generation and load into RTOs and review of statewide and Federal Energy Regulatory Commission ("FERC") issues.

(iv) Forecasting: Development of financial, wholesale power cost and annual operating budget forecasts.

(v) Risk Management: Risk modeling and development of risk management policies and procedures for Boards of Directors, City Councils or Utility Commissions and their staffs.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the City of Cleveland, Ohio.

Q. What is the purpose of your testimony?

A. My testimony will address the prudence of the proposed Electric Security Plan IV ("ESP IV") and corresponding Retail Rate Stability ("RRS") Rider offered by the Ohio Edison Company, Cleveland Electric Illuminating Company ("CEI") and Toledo Edison Company (applicants in combination referred to as "FirstEnergy" or "FE") in their referenced Application to the Public Utilities Commission of Ohio ("PUCO") with a specific focus on the process for reaching such a proposal.

II. <u>OVERVIEW OF THE PROPOSED ESP IV AND RRS RIDER</u>

Q. Please provide an overview of the basic facts of FirstEnergy's proposed ESP IV and RRS Rider.

A. FirstEnergy proposes to purchase all energy, capacity, ancillary services and environmental attributes of the Davis-Besse Nuclear Power Station ("Davis-Besse") and the coal-fired W.H. Sammis Power Plant ("Sammis") from the plant owner and FirstEnergy's affiliate, FirstEnergy Solutions Corporation ("FirstEnergy Solutions" or "FES"), in a 15-year Purchased Power Agreement ("PPA"), beginning June 1, 2016 through May 31, 2031. In addition, FirstEnergy proposes to purchase the output of FirstEnergy Solutions' generation entitlement and shared interest in the Ohio Valley Electric Corporation ("OVEC") resources. Following the proposed purchase, FirstEnergy proposes to offer the generation for sale into the respective PJM markets (capacity, energy, and ancillary services), and, under a separate RRS Rider, the revenues from such sales will offset the costs of the generating units with the resulting balance, whether charge or credit, assigned to FirstEnergy retail customers, which includes CEI retail customers located in the City of Cleveland, Ohio.

Q. What are typical wholesale procurement and planning practices for securing long-term resource supply in a prudent manner?

A. In my experience, long-term asset investments, whether ownership or via a PPA, of ten years or more of any significant capacity size typically merit a review of other supply alternatives. This holds especially true for entities with the responsibility to provide regulatory bodies with adequate information in order to review the prudence of decision-making. More times than not, these entities have utilized one of two processes to provide reasonable assurance of due diligence: Requests for Proposals ("RFPs") and/or Integrated Resource Plans ("IRPs"). Depending upon various factors including the size of the utility, one or both of these processes could be advantageous. Typically, RFPs will identify any other available supply alternatives in the market, and quite often, the known availability of certain resources might be the impetus to issue a public RFP and be reasonably assured that other comparable resources are not more favorable in terms of economics and other risk factors. In addition to RFPs, IRPs are used to proactively identify a variety of known existing or new-build resource supply alternatives of varying fuel types (depending upon the desired resources) and compare the various attributes of those projects, including economics, risks, credit requirements, and other needs. An IRP can also be used to identify areas of capacity and energy deficiency, whether baseload, intermediate or peaking, in order to determine appropriate resource sizing and prevent over-hedging or mismatching of resources to load. It is a very common practice for sizable regulated utilities, like FirstEnergy, to demonstrate the prudence of their resource decisions with the use of an RFP, IRP or both.

Q. What is your impression of FirstEnergy's prudence in developing the proposal to purchase Davis-Besse, Sammis and the FirstEnergy Solutions' share of OVEC resources under a 15-year PPA for supply to Ohio ratepayers in light of the absence of a structured procurement or planning process?

A. As a foundational starting point, it is important to contrast the current method of supplying power to FirstEnergy's customers with the method proposed under ESP IV. FirstEnergy recognizes the importance of a competitive bidding process, as evidenced in their ESP IV filing where, consistent with previous plans, they propose to conduct six auctions to supply non-shopping customers during the 3-year period from June 1, 2016 through May 31, 2019. These auctions would secure products from one to three years in duration, if approved. Many power supply clients of GDS also secure future supply under competitive bid processes with similar structured procurement or hedging plans in order to ensure the receipt of the most economic alternatives in the market. Such a bid process provides a structure for FirstEnergy to also diversify its market timing and product procurement type as may be advantageous in stabilizing supply costs over time. ESP IV, however, undermines this structure by introducing significant price risk for the customers that could undercut the safeguards of the auction process. Although the customer's energy prices will nominally still be determined through an auction process, the RRS rider will inevitably inject uncertainty and potential volatility in the cost for the duration of the 15-year plan.

If the auction process is prudent and necessary under ESP IV for the procurement of near-term supply resources with maximum duration of three years where market price visibility is fairly transparent, it is that much more appropriate for FirstEnergy to establish a process under the RRS Rider for identifying potential supply resources possibly commensurate to the 15-year commitment to Davis-Besse, Sammis and the OVEC resources where market price visibility does not exist. FirstEnergy's inclusion of these resources would represent a very significant portion of its annual energy requirements, and their transfer of these costs to the retail ratepayers appears to be unilateral having no prudent procurement process or resource plan to support the decision in comparison to other potential supply alternatives.

Q. What other resources would be reviewed as part of a thorough diligence process?

A. Clearly, FirstEnergy's proposal to secure more than 3,000 MW of base load supply in Davis-Besse and Sammis from FirstEnergy Solutions is a significant amount of capacity and energy. While comparable resources may not be readily available in the market, a diligent procurement or resource planning process could rule out that possibility. Additionally, FirstEnergy hasn't provided any diligent comparison of the long-term costs and risks of Davis-Besse and Sammis to natural gas-fired alternatives, such as new-build combined cycle resources. While forward markets still point to a higher natural gas price in future years as traded today, it seems that relatively low natural gas prices in the near-term markets constitute a potentially viable alternative supply to the proposed resources, and, at a minimum, the costs and risks of a natural gas-fired alternative supply should be evaluated as part of a prudent diligence process.

Q. What risks do FirstEnergy ratepayers accept as part of the proposed PPA and RRS Rider?

A. A potential FirstEnergy cost plus purchase of Sammis generation output includes a significant shift of environmental risk to retail ratepayers that would carry a very different risk profile in terms of environmental upgrades and retrofits that may be required during the 15-year PPA, especially in light of the direction of the Environmental Protection Agency's proposed Clean Power Plan. In the case of Sammis, FirstEnergy Solutions essentially secures the ability, under their complete control, to recover all plant costs, including upgrades and/or retrofits for environmental compliance. The result is a free option (with significant value) to consider necessary environmental upgrades during the term of the PPA, and such an option is paid for by FirstEnergy's retail customers while FirstEnergy Solutions continues to own the plant. Without input from retail customers into possible upgrades, FirstEnergy Solutions has no incentive to avoid capital investments, and retail customers carry all the risk under such a scenario. This reaffirms the earlier distinction between coal-fired resources and natural gas-fired alternatives. In a scenario where emissions restrictions and retrofit requirements on coal-fired resources continue increasing and, in some cases, result in additional generating unit retirements, new natural gas-fired combined cycle resources could perform very well and at higher capacity factors than typical in the current market. In that light, natural gas-fired combined cycle resources could have an appealing cost and risk profile in comparison to the proposed resources and Sammis in particular.

Additionally, with a guaranteed 11.15% Return On Equity regardless of plant operation and performance, FirstEnergy has no incentive to ensure these generating units' output levels are maximized thus providing retail customers the largest value for their investment. It should also be noted that since the deregulation of FirstEnergy's generation functions, FirstEnergy has no guaranteed rate of return on plant investments and FirstEnergy customers face no energy price risk relating to generation plant performance.

Finally, as a cascading impact of the sale of these resources from FirstEnergy Solutions to FirstEnergy, the removal of significant retail supply from the market likely places upward price pressure on the supply cost for retail marketers to continue providing retail service in the market. The retail marketers provide a significant portion of FirstEnergy's requirements via the auctions, and these costs could be pressed higher as a result of the sale.

III. CONCLUSIONS

Q. Please provide any conclusions that you have regarding the FirstEnergy proposal and subsequent recommendations or mitigation proposals.

A. A significant portion of electric customers in the City of Cleveland receive electric service from CEI, a FirstEnergy distribution company. Absent a due diligence process that is inclusive of resource procurement results or a formal resource plan, FirstEnergy is not demonstrating that sufficient prudence was utilized in developing the proposed 15-year PPA acquisition of Davis-Besse, Sammis and the FirstEnergy Solutions share of the OVEC resources as the best alternative for all Ohio retail customers.

Q. Does this conclude your testimony?

A. Yes it does. Thank you.