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 Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan.	)))))))	Case No. 14-1297-EL-SSO

SUPPLEMENTAL TESTIMONY OF EDWARD W. HILL ON BEHALF OF THE OHIO MANUFACTURERS' ASSOCIATION ENERGY GROUP

May 11, 2015

<u>Introduction, Purpose and Summary of Conclusions</u>

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

A. My name is Edward W. Hill, Ph.D. I am the Dean of the Maxine Goodman Levin College of Urban Affairs at Cleveland State University and Professor of Economic Development. My business address is 2121 Euclid Avenue, UR 335, Cleveland, Ohio 44115.

Q. Have you provided written testimony before in this proceeding?

A. Yes, I provided written testimony on December 22, 2014. My testimony addressed the policy implications that I believe the Public UtilitiesCommission of Ohio (Commission) should consider regarding the request of Ohio Edison Company (Ohio Edison), The Cleveland Electric Illuminating Company (CEI), and The Toledo Edison Company (Toledo Edison) (collectively, the Companies) for approval of an Economic Stability Program (Program), which includes shifting the financial risk of operating generation plants onto their customers through a rider and the utilization of a power purchase agreement (PPA) to subsidize portions of the generation capacity owned by the Companies' affiliate, FirstEnergy Solutions. The Program would shift the risk of owning and operating generating capacity onto customers, including those who choose to shop and purchase their generation from alternative suppliers or generators other than the Companies' affiliate, FirstEnergy Solutions. Most importantly, if the PPA is granted, it will likely deter entry of merchant generators who may be able to produce power more reliably and more cheaply than the plants that are being protected from competition.

Q. What is the purpose of your supplemental testimony in this proceeding?

A. I am testifying in response to the Attorney Examiner's Entries dated March 23, 2015 and May 1, 2015 in which the Examiner amended the procedural schedule and requested that parties file supplemental testimony to address whether and how the Commission's findings in the recent AEP Ohio Order[1] regarding its electric security plan (ESP) should be considered in evaluating the Companies' Application in this proceeding.[2] In the AEP Ohio Order, the Commission listed several factors that AEP Ohio should, at a minimum, address in any future filing requesting future cost recovery associated with a PPA.[3] The Commission also stated that it will balance, but will not be bound by, the delineated factors in deciding whether to approve future cost recovery requests associated with PPAs. Those factors were listed as follows: financial need of the generating plant; necessity of the generating facility, in light of future reliability concerns, including supply diversity; description of how the generating plant is compliant with all pertinent environmental regulations and its plan for compliance with pending environmental regulations; and the impact that a closure of the generating plant would have on electric prices and the resulting effect on economic development within the state.[4] In addition, the Commission indicated that the rider proposal must address additional issues, including a

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[1] *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan*, Case No. 13-2385-EL-SSO, et al., Opinion and Order at 25 (February 25, 2015) (AEP Ohio Order).

[2] *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 Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Entry at 2 (March 23, 2015) and Entry at 10 (May 1, 2015) (citing AEP Ohio Order).

[3] AEP Ohio Order at 25.

[4] Id.

proposed process for a periodic review and audit of the rider and an alternative plan to allocate the rider's financial risk between both the utility and its ratepayers.[5]

Q. Do the Commission's factors established in the AEP Ohio Order apply in this case?

A. Yes, the Companies have requested recovery of costs associated with a PPA to be collected through a rider, the mechanism of which is comparable to AEP Ohio's rider and application. The Companies, however, propose to collect the costs associated with the PPA with their affiliate through a rider named the Retail Rate Stability Rider (Rider RRS) (instead of a PPA Rider) for fifteen years. The Companies term their PPA provision, and associated rider mechanism (Rider RRS), the "Economic Stability Program."

Q. With regard to the recovery of costs associated with a PPA, are there other differences between the AEP Ohio ESP proceeding and the Companies' ESP proceeding that the Commission needs to consider in its evaluation of a rider related to a PPA and the factors it will balance?

A. Yes. In the instant proceeding, the Companies and certain parties filed a Stipulation and Recommendation (Stipulation) that adopts the Companies' Application in its entirety unless specifically modified by the Stipulation, including the recovery of costs for a PPA through Rider RRS (i.e., the Economic Stability Program).[6] The Stipulation, however, goes beyond the Companies' Application and raises new issues, presenting a carefully

[5] Id.

[6] Id., Stipulation and Recommendation at 6-7 (December 22, 2014) ("Set forth below are the specific terms and conditions agreed to by the Signatory Parties that are different from or in addition to the terms and conditions contained in the Companies' ESP IV Application. If not changed by the terms and conditions expressly set out below, the Signatory Parties expressly agree and recommend that the Commission approve and adopt the ESP IV filing in its entirety as filed by the Companies with the Commission on August 4, 2014 in this proceeding."); also see a discussion of the ESP IV's Economic Stability Program in the Stipulation at 4.

crafted coalition of supporters in an attempt to influence the public policy process in ways that are deleterious to economic development and businesses in the state of Ohio.

Q. Why should the Commission consider the Stipulation in addition to the factors set forth in the AEP Ohio Order?

A. If the Commission is going to review the economic development effects that the presence or absence of a generating plant is going to have on the communities in the Companies' service territories, the Commission should also consider the broader, and what are likely to be much larger, economic development effects that the Stipulation and approval of a PPA will have on Ohio businesses.

Q. What have you reviewed in preparation for filing this Supplemental Testimony?

A. I have reviewed relevant portions of the Companies' Plan termed, at different times, *Powering Ohio's Progress*, Electric Security Plan IV, and ESP IV, the Plan's Economic Stability Program, and the Stipulation. I have also reviewed the Supplemental Testimony of Eileen Mikkelsen, Donald Moul, and Sarah Murley, and Dr. Lawrence Makovich, and the Second Supplemental Testimony of Eileen Mikkelsen filed on behalf of the Companies.[7] Further, I have reviewed the minimum factors, as noted in the AEP Ohio Order, to be addressed by the Companies in their request for recovery of certain costs through Rider RRS.

[7]*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 Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Supplemental Testimony of Eileen M. Mikkelsen (December 22, 2014), Second Supplemental Testimony of Eileen M. Mikkelsen (May 4, 2015), Supplemental Testimony of Donald Moul (May 4, 2015), Supplemental Testimony of Sarah Murley (May 4, 2015), and Supplemental Testimony of Dr. Lawrence Makovich (May 4, 2015).

Q. Does the Economic Stability Program satisfy the AEP Ohio factors set forth by the Commission?

A. No. The proposed PPA that requires the Companies to purchase all of the power from uncompetitive generating plants owned by their affiliate, FirstEnergy Solutions, is not in the public interest because the plants are not necessary to further economic development in the region and will negatively affect manufacturers and businesses that are important to the vitality of the region. Additionally, the enactment of the PPA will most likely deter market entry by new and more cost-efficient generators. The lack of entry is a much larger long-term economic threat to power reliability and competitive pricing than is posed by denying the proposed PPA.

The price paid to FirstEnergy Solutions will include the cost of fuel and any plant upgrades. It appears that the Companies will also earn a return on the capital invested as was true under the old regulatory regime. However, the output from the generating units will be sold into the regional wholesale market. If it is sold at a loss, the loss will be passed on to all customers in the Companies' service territories through Rider RRS. If it is sold at a profit, that profit will be distributed to customers through Rider RRS. The Companies have projected that there will be no profit in the first three years covered by ESP IV and the Stipulation.

The Companies assert that their proposal preserves the competitive market because customers are allowed to shop for their generation supply from alternative suppliers (or other generators).[8] This assertion is incorrect and it is where the Companies' regulatory protection appears. The PPA prevents a completely free market from evolving.

[8] Stipulation at 2.

Under the proposed Economic Stability Program, if the plants covered by the PPA are operating at a loss (i.e., revenues received in the market are lower than the costs to operate the plants), the loss or net costs to operate the plants will be allocated to all of the Companies' customers, including those who chose to shop, thereby removing part, or all, of the differential between FirstEnergy Solutions' price and that of its competitors. This dynamic will have two negative outcomes. First, it will deter new entrants to the power generation market because the PPA will narrow their cost advantage. Second, competitors will look at the PPA and consider it to be a precedent, and as increasing portions of FirstEnergy Solutions' generating capacity become uncompetitive, competitors will expect continued efforts to place the uncompetitive generating assets under the protection of the regulatory umbrella, which will turn the pricing disadvantage into a negative feedback loop: the more uncompetitive the Companies' affiliated generating capacity, the larger the fraction that falls under additional PPAs, the more significant the assessment that is passed on to customers, and the narrower the pricing advantage new competitors will have. This set of expected events will increase the perceived risk of investing in competitive generating assets, will deter competing investment, and will lead to higher electricity costs for consumers than would have occurred under a free market with no regulatory barriers to entry. These are the impacts anticipated in the event that the Economic Stability Program is approved.

Q. Have the Companies demonstrated the financial need of the Sammis, Davis Besse, and OVEC generating plants?

A. No. In his Supplemental Testimony, witness Moul presents the comparative annual costs and revenues of Sammis, Davis Besse, and FirstEnergy Solutions' 4.85% interest in OVEC for the years 2009 through 2014. However, absent market failure, when properly assessing a generation unit's financial viability, the only costs that should be considered are avoidable costs. The Companies have not argued that there has been any market failure; instead, the Companies merely assert that these plants need subsidies over a three-year period in order to remain competitive pending an anticipated rise in energy costs.

The assertion of price recovery in three years is puzzling for a number of reasons. First, the price of fuel stocks has shifted greatly since the PPA was first proposed—in ways that further disadvantage the power plants in question. Second, the proven reserves of natural gas in the state of Ohio, in neighboring Pennsylvania, and in West Virginia has grown over this time period, and the infrastructure to deliver local sources of natural gas to markets has grown. Finally, not only has the price of natural gas dropped over the intervening time period nationwide, but prices reported out of the Dominion South Hub in West Virginia are below that in the Texas and Louisiana Hubs, including the Henry Hub.[9]

Q. From an economic standpoint, does it make sense to continue operating the Sammis and Davis Besse generation plants?

A. As witness Moul notes, "a business owner will not continue investing cash into a business that is losing money."[10] By extension, therefore, ratepayers, who have no ownership interest in an electric generating company, should not be expected or required to invest cash in a business that is losing money, whether or not the business may be profitable in the future. In Ohio, generation has been deregulated. It must compete with other generation in the marketplace. The Companies are asking the Commission to

[9] See Natural Gas Intelligence, http://www.naturalgasintel.com/data/data_products/daily?region_id=south-louisiana&location_id=SLAHH.

[10] See Supplemental Testimony of Donald Moul at 4.

award their affiliate a subsidy to support its generation when this would be contrary to the express intent of the Ohio General Assembly.[11]

Q. Does promoting supply diversity necessitate that the Sammis, Davis Besse, and the OVEC generating units remain in service?

A. The promotion of supply diversity does not require that the Sammis, Davis Besse, and the OVEC units remain in service. To be diverse means to be "of or relating to different types."[12] Contrary to witness Makovich's testimony, Ohio's power supply mix will not be less diverse if the plants are retired. Ohio and, in fact, the Companies' service territories will still be able to be served by coal, nuclear, natural gas, renewable, and other generation sources in the event that the plants do not remain in service.

Q. At this point, do you believe that the Sammis, Davis Besse, and the OVEC generating units are at risk of being retired *before it is economic to do so*?

A. No. The data presented by witness Moul indicate that continued operation of the plants is not economic. If the Companies believe, as they have argued, that these plants will, in the long run, be able to produce power at a cost that is below market, the Companies will not shut the plants down in the near term. The Companies should have no interest in prematurely shutting down assets that are likely to prove valuable. If, on the other hand, the Companies believe that the plants will never be competitive, they will shut them down, as they should.

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[11]See generally, Chapter 4928, Revised Code; see also, Section 4928.02(H), Revised Code ("It is the policy of the state to [e]nsure effective competition in the provision of retail electric service by avoiding anticompetitive subsidies flowing from a noncompetitive retail electric service to a competitive retail electric service or to a product or service other than retail electric service, and vice versa, including by prohibiting the recovery of any generation-related costs through distribution or transmission rates").

[12] Black's Law Dictionary (Bryan A. Garner ed., 8th ed., West 1999).

Market logic dictates that if the price earned from the plants in question has a high probability of recovering over a three-year period, the Companies should be able to sell bonds or other long-term financial instruments to underwrite the short-term losses in return for longer-term gains to investors. Avoiding a test of this proposition by sophisticated investors and instead looking for relief by consumers to assume the risk makes the argument presented suspect on its face.

Q. Have the Companies soundly estimated the economic impact to electric rates if the OVEC, Davis Besse, and/or Sammis generation plants are closed?

A. No. As I explained in my Direct Testimony, there is a direct correlation between higher electric prices and manufacturer productivity.[13] If the cost of electricity is increased in order to fund Rider RRS, manufacturing in Ohio will suffer.

Q. Have the Companies reasonably demonstrated the effect on economic development in Ohio if the Sammis and Davis Besse generation plants are closed?

A. No. Although witness Murley updated her calculations to reflect more recent inputs, the results yielded still suffer from the same shortcomings as did the Economic and Revenue Impacts Reports on Sammis and Davis Besse attached to her Direct Testimony. Witness Murley's results do not properly capture the economic impact of closing the plants in question, because she offers only a partial view of the economic impacts. This is true for each plant threatened to be closed. There are four significant problems with relying on this type of input-output model to estimate economic impacts.

(1) Geography. The impact analysis is restricted to the geographic region incorporated in the model. If the interest is just in these limited geographic areas, the results are best depicted as community development impacts, not economic development

[13] See Direct Testimony of Edward W. Hill at 13-14 (December 22, 2015).

impacts. The Commission should consider the impact of the suggested policy change on the economy of Ohio. This impact should include not only the effect on those businesses and people who supply the power plant with goods and services, but on those entities who ultimately purchase power from the plant or who subsidize its operations. The impact on the state of Ohio should use either the state's geography or the geography of the region affected by changes in the price of power.

(2) Effects are Limited to the Supply Chain. The IMPLAN model, as is true of other commercially available input-output models, is "column standardized." This means that it only captures the impacts of expenditures on the supply chain of the industry in question and on the supply chains of the supplier industries, including households. The alternative would be to construct a row-standardized model of the economy. A row-standardized model would be one that demonstrates the impact of changes in the operation in question on the industries that use the product or the material produced. These are the plant's customers. The impact on the supply chain is one thing; the impact on the customers, however, is very different. With a commodity such as electricity, the dominant economic impact will be on energy users. Accordingly, you cannot know the true economic impact of closing the plants in question until you understand the impact of price changes on power users.

(3) Substitution Effects. When prices increase or decrease, customers will shift their patterns of purchasing. The IMPLAN model is a fixed coefficient model—that is, the technical coefficients that underlie the model do not change. Think of a fixed coefficient model as a cake recipe. If you want two cakes, you double the recipe; if you want three cakes, you triple the recipe, etc. But power usage is not like a recipe from Betty

Crocker's cookbook. Operators will change the mix of ingredients based on their prices and, in the case of power, they shift regularly based on the relative cost of the fuel. The IMPLAN model does not capture substitution effects or the price sensitivity of the customers on the plants in question.

(4) Induced Spending. There are three types of spending patterns captured in the IMPLAN model, as is true in all input-output models: direct, indirect, and induced. Direct spending is the value of the purchased product. Indirect spending is spending that is triggered down the supply chain, and the supply chain's supply chains. Induced spending is spending triggered by wages paid to all workers involved. These rounds of spending are restricted to the geography included in the model—any spending that goes outside of the region is thought of as money that has "leaked" outside the region. The assumption made when the lost induced spending is added to the economic impact of a plant closing is that the workforce will find no other employment and that unemployment compensation, retirement benefits, or other transfer payments will not flow into the region in question. The result is an overestimate of the actual negative impact. This assumption is particularly problematic when trade, craft, and itinerant workers are included as part of local spending.

In summary, witness Murley's analysis is flawed. The geography is too narrowly drawn to understand the economic impact on the state of Ohio. The model does not include economic impacts on those who purchase the power or subsidize the plants' operations. The model does not consider substitution effects. The model also overestimates the impact of cutbacks in localized, or induced, spending. These flaws are part and parcel of any input-output model. At best, the model captures a partial view of the economic impact of the closing of the power plants in question. I do not find the results to be definitive.

Q. Have the Companies reasonably demonstrated the effect on economic development in Ohio if one or more OVEC generating units are closed?

A. No. Given the Companies' affiliate's small ownership interest in the OVEC generating units, it is highly unlikely that the Companies or their affiliate will be able to cause the OVEC generating units to close. Additionally, one of the OVEC units is not even located in Ohio. The Commission has also held in the AEP Ohio case that sufficient evidence did not exist with regard to the OVEC units and providing a PPA to AEP Ohio to subsidize such plants. [14]

Furthermore, witness Murley's analysis is similarly flawed with regard to the OVEC generating units, as explained above.

Q. Have the Companies advanced an alternative plan to allocate Rider RRS's financial risk between the Companies and its ratepayers?

A. No, the Companies did not include an alternative plan to better allocate the risk between the Companies and ratepayers. In fact, the alternative plan that the Companies did file, the Stipulation, shifts more risk to customers, increasing costs to customers. The 12 entities that seemingly support the Companiesin their request for approval of the Companies' ESP IV Application, including the Economic Stability Program and Rider RRS, extracted payments from the Companies through several new provisions, the costs of which are, at least in part, passed through to the ratepayers. Many of these provisions are on topics that did not appear in the Companies' original ESP IV Application and were not discussed in pre-filed testimony. After successfully extracting benefits from the

[14] See AEP Ohio Order at 23, 25.

Companies through these negotiations, the Signatory Parties appear to have all agreed to "recommend to the Commission that it approve and adopt" the Companies' proposed ESP IV Plan per the Stipulation.[15] Several benefits, however, only pertain to the interests of a specific Signatory Party or are only available to members of specific Signatory Parties and do not alleviate the financial risk to customers with regard to the speculative PPA arrangement.

Q. Could you provide an example of the benefits that only pertain to the interests of specific Signatory Parties, but affect the remaining ratepayers?

A. Yes, various payments are made by the Companies to a number of Signatory Parties, including the City of Akron, Council of Smaller Enterprises (COSE), Association of Independent Colleges and Universities of Ohio (AICUO), Cleveland Housing Network (CHN), the Consumer Protection Association (CPA), the Council for Economic Opportunities in Greater Cleveland (CEOGC), and the Citizens Coalition.[16] The addition of the Signatory Parties is merely the use of what Economist Mancur Olson calls a "redistributive coalition," pursuant to which the Companies assembled a small group to promote policies for their mutual financial benefit. The purpose of a redistributive coalition is to use political or regulatory processes to generate financial benefits that cannot be earned through the marketplace.[17]

[15] Stipulation at 6.

[16] Stipulation at 10-15.

[17] Olson, Mancur. The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities. New Haven and London: Yale University Press, 1982.

Q. Have you been able to quantify the costs of the payments provided to the above-mentioned Signatory Parties?

A. Yes, the Stipulation and supporting testimony show that those Signatory Parties identified above will receive approximately $15.31 million in payments.[18] Some of the costs associated with providing these benefits appear to be recoverable from ratepayers through the Demand Side Management/Energy Efficiency Rider (Rider DSE).

Q. How will approval of this part of the Stipulation, in addition to the Application and Rider RRS, affect economic development within the state?

A. In addition to potentially costing customers $3 billion over the term of the PPA, customers could be responsible for additional costs associated with the provisions listed in the Stipulation that benefit certain Signatory Parties, but not others. This will have an additional impact on Ohio businesses. Ohio businesses will be confronted with higher operating costs. This will be particularly true for those businesses that are not directly benefiting from the special provisions contained in the full proposal before the Commission. This will have two negative effects. First, businesses' costs will be higher than their competitors' and their profits will be lower, thereby reducing such businesses' investments in plant and equipment, and increasing their chances of business failure. Second, Ohio businesses looking for new locations will find it harder to justify investing in the geographic footprint where the PPA charges are assessed. Additionally, the special benefits negotiated to benefit certain entities in the Stipulation are narrowly crafted and further increase the costs to those parties that have been excluded from the agreement.

[18] List of benefits compiled based upon Stipulation at 10-15 and Mikkelsen Supplemental Testimony at 4-5.

Q. Are there other beneficiaries of Rider RRS approval?

A. Yes, Rider RRS provides the regulated utility, and its parent company, FirstEnergy Corp., with a guaranteed return on its generation assets. The beneficiaries include the Companies, Ohio Power, and their affiliates.[19]

Q. Have you been able to quantify the likely costs to customers for Rider RRS?

A. No. Witness Mikkelsen values Rider RRS as providing a $2.0 billion credit in favor of customers during the term of ESP IV.[20] However, there is no guarantee that Rider RRS will actually result in a credit or cost savings accruing to customers. Even if the Companies' submittal is correct, any projected benefit to customers is not expected to occur during the term of the ESP IV, which appears to be inconsistent with the chart provided in Ms. Mikkelsen's Supplemental Testimony.

Over the proposed fifteen-year term of Rider RRS, one could surmise that Rider RRS may, in fact, result in customers paying $2.0 billion, which will negatively impact those Ohio businesses located in the Companies' territories, as well as economic development activities for the area.[21] A witness for the Office of the Ohio Consumers' Counsel (OCC) projected that Rider RRS will cost consumers $3 billion over the term of the PPA.[22] The assertions made by the Companies that their customers will ultimately experience cost

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[19] Stipulation at 25 (Ohio Power Signature Page).

[20] Mikkelsen Supplemental Testimony at 11.

[21] See *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 Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Application at 2 (August 4, 2014) (whereas the Companies project that Rider RRS could save customers $2 billion, it could also actually cost customers $2 billion).

[22] See *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 Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Direct Testimony of James F. Wilson (Public) at 12 (December 22, 2014) (Wilson Direct).

savings under the proposal and associated PPA are uncertain and improbable due to the following factors:

(1) As has been projected by the Commission, future costs of complying with environmental regulations and their associated capital costs on generating plants are unknown.[23] Nonetheless, it cannot be ignored that future environmental costs are likely to increase due to rules that are currently under review.

(2) Global demand for energy will affect all fuel sources—coal, natural gas, and oil. More important than the absolute cost of a specific fuel is its price relative to other fuel sources and the relative cost of providing electricity to customers. The cost of energy produced from coal will decrease relative to that of natural gas *only* if the supply of coal increases relative to that of natural gas *or* if global demand for coal decreases relative to that of natural gas. Let's take each in turn.

- Estimates of supplies of natural gas are increasing as horizontal fracturing technology grows in acceptance globally. This is especially true within PJM's footprint given the size of the proven reserve of methane in the Marcellus and Utica shale formations and exploratory drilling taking place within the Clinton shale formation. There is no growth in the estimates of proven coal reserves—especially of lower sulfur anthracite that is required by coal fired power plants in the United States.

- Global demand for the use of coal as an electricity fuel source can only drop as its use increases in Ohio under one assumption: if the rest of the world decreases its use of coal for environmental reasons and shifts to other fuels and Ohio does not. While this scenario may be politically appealing to some in the state of Ohio, it is not credible and should not be the basis of a multi-billion dollar regulatory decision.

[23] See AEP Ohio Order at 24.

(3) Technologies currently exist that provide lower cost generating capacity than that produced by the plants covered by the PPA. The Companies' proposal adopted by the Stipulation implies that its current generating technologies at the Sammis coal plant and the Davis Besse nuclear plant are not cost competitive with alternative generating technologies. Since the filing of the Application and the Stipulation adopting the proposal associated with the PPA, competing fuel prices have dropped drastically. There will be some price recovery when the global economy strengthens, but new supplies of natural gas will also come online with the market recovery. It is difficult to envision a future where the operating costs of the plants covered by the PPA will improve relative to other power sources. Further, as explained earlier in my testimony, retirement of the plants at issue will not decrease the state's or the Companies' fuel diversity.

(4) If the PPA is accepted by the Commission, it will introduce a *barrier to entry* to competing generating sources due to the design of the PPA that will ripple long into the future. It will continue to increase electricity costs to businesses and homeowners and it will not benefit consumers. The Economic Stability Program adopted by the Stipulation is not in the public interest and will not provide net economic development benefits as described herein.[24]

Q. Is FirstEnergy Solutions a third-party beneficiary of the Application and Economic Stability Program?

A. Absolutely. FirstEnergy Solutions, a certified retail electric supplier in Ohio, will benefit from approval of the Economic Stability Program and the associated PPA described above, as its uneconomic generating plants will be subsidized by Ohio's ratepayers.

[24] Stipulation at 2, 4-7.

Q. Why should one certified retail electric supplier, FirstEnergy Solutions, be provided a competitive advantage in the Ohio market?

A. It should not. If customers move to alternative generation providers to take advantage of lower prices than those offered by the Companies' affiliate, which owns the generating facilities covered by the PPA, the cost of power provided by FirstEnergy Solutions' plants is likely higher than its competition (assuming there are no service issues or other reasons for not taking service from FirstEnergy Solutions). If this scenario occurs in the competitive market, market participants have to find ways to lower costs or distinguish their product in order to successfully compete in a competitive market. If they cannot, their businesses will fail. This was the intent of deregulation of the wholesale power market.

Q. Are there any other negative implications that the Economic Stability Program will have on the public interest?

A. Yes. An issue related to the structure of Rider RRS and the associated PPA is that economic activity will be diverted from the region covered by the PPA as the difference in the price of electricity grows between the Companies' service territories and competing locations. Thus, despite the Companies' claim that retirement of the units at issue will have a negative impact on economic development within the state, the approval of the Economic Stability Program will likely have a negative impact on economic development and growth which is attributable to high electricity prices.

In sum, Rider RRS and the Companies' Economic Stability Program shift the uncertainty of the costs of the generating units onto the Companies' customers, including other Ohio businesses. Customers will be responsible for the cost risk forced upon them by the Companies and Signatory Parties to the Stipulation. However, the only entities guaranteed to benefit from the Program are the regulated utilities and their affiliated companies that are receiving the benefits of the PPA and those who are members of the narrowly crafted redistributive coalition assembled by the Companies to provide, through regulatory politics, what they could not gain the marketplace. The cost imposed upon other customers if Rider RRS is approved will likely stunt economic development in the Companies' service territories due to high electric prices and, in turn, throughout the state.

Q. What is your opinion of what the Companies have asked the Commission to approve?

A. I believe the Companies' request is misguided. Under the Application, as modified and expanded by the Stipulation, the Commission is not being asked to behave as a regulator to improve the economic performance or efficiency of a regulated monopoly. Instead, it is being asked to act as a taxing authority to offset FirstEnergy Solutions' market losses from its underperforming power plants by distributing those costs among the Companies' ratepayers, with modest offsets being provided to members of an intentionally selected redistributive coalition when compared to the expected benefit that will flow to the organizer of the coalition. What the Companies are asking the Commission to do in this instance is to provide a multi-billion dollar bailout of their affiliated company.

Q. Do you have any alternative recommendations to approval of the ESP IV Application, as modified by the Stipulation?

A. Yes, if the Commission deems that the social benefits that are being selectively promoted by ESP IV and the Stipulation outweigh the negative consequences likely to result from approval of ESP IV and Rider RRS, then those benefits should become generally available to all customers, and should be paid for by other mechanisms, such as a tax levied on electricity and natural gas usage. Such a tax could be used to fund vouchers to help pay for electricity and natural gas for low-income customers or at-risk populations. In order to make this option available, the Commission will need to work closely with the General Assembly.

These recommendations are all consistent with my previous testimony.

Conclusion

Q. Have your prior recommendations for the Commission with regard to the Companies' "Powering Ohio's Progress" strategy, set forth in its Fourth Electric Security Plan, changed in any way as a result of the AEP Ohio Order?

A. No. I continue to recommend that the Commission reject the Companies' request for the establishment of a rider and the utilization of a power purchase agreement to subsidize portions of the aging, inefficient power plants owned by their affiliate, FirstEnergy Solutions.

Q. Does this conclude your supplemental testimony?

A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing document was served on May 11, 2015 by electronic mail upon the persons listed below.

/s/ Rebecca L. Hussey________________
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