

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of The)	
Dayton Power and Light Company D/B/A)	
AES Ohio for Approval of Its Electric)	Case No. 22-900-EL-SSO
Security Plan.)	

In the Matter of the Application of The)	
Dayton Power and Light Company D/B/A)	Case No. 22-901-EL-ATA
AES Ohio for Approval of Revised Tariffs.)	

In the Matter of the Application of The)	
Dayton Power and Light Company D/B/A)	
AES Ohio for Approval of Accounting)	Case No. 22-902-EL-AAM
Authority Pursuant to R.C. 4905.13.)	

**PREFILED TESTIMONY
OF
TIMOTHY W. BENEDICT**

Office of the Federal Energy Advocate
ON BEHALF OF THE STAFF OF THE
PUBLIC UTILITIES COMMISSION OF OHIO

STAFF EX. ____

April 26, 2023

1 1. Q. Please state your name and business address.

2 A. My name is Timothy W. Benedict. I am employed by the Public Utilities
3 Commission of Ohio (“PUCO” or “Commission”). My business address is
4 180 E. Broad St, Columbus, Ohio 43215.
5

6 2. Q. What is your current position at the Commission?

7 A. I am a Utility Specialist 3 in the Office of the Federal Energy
8 Advocate. My responsibilities include economic analysis of wholesale and
9 retail competitive markets, energy demand forecasting, and advocacy on
10 regional and federal issues as they pertain to the state of Ohio. I am the
11 Staff employee with primary responsibility for administering and
12 monitoring the competitive bid process (“CBP”) for default generation
13 service for each electric distribution utility (“EDU”), known as the
14 Standard Service Offer (“SSO”).
15

16 3. Q. Please summarize your educational background and work experience.

17 A. I received a Bachelor of Arts in Economics from the University of Vermont
18 and a Master of Arts in Economics from Cleveland State University. I had
19 been employed by TrustCo Bank in Glenville, New York and AmTrust
20 Bank in Cleveland, Ohio prior to joining the Staff of the Commission in
21 December 2009.
22

1 4. Q. Have you testified in prior proceedings before the Public Utilities
2 Commission of Ohio?

3 A. Yes.
4

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

6 A. My testimony presents Staff's position on the competitive bid process as
7 proposed by AES Ohio ("the Company") to establish the SSO rate for non-
8 shopping customers. I will also be addressing the potential implications of
9 certain possible modifications to the auction structure.
10

11 6. Q. What is Staff's position on the competitive bid process proposed by
12 Company witness Lee?

13 A. Staff is generally supportive of the continuation of the declining clock
14 auction structure and the laddering and staggering of auction dates and
15 terms that, when blended together, form the basis of the SSO rate. This
16 auction structure has been adopted by each of the Commission's regulated
17 EDUs and has proven over time to be an effective mechanism to leverage
18 competitive forces and allow wholesale market conditions to determine the
19 rate for default service. Establishing an SSO rate that is competitively
20 determined also serves to discipline the retail marketplace, by providing
21 customers with a rate for default generation service against which other
22 retail offerings may be compared.

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7. Q. Does Staff have any recommendations in response to the Company’s proposal?

A. Yes. Staff appreciates that the Company is proposing to hold auctions twice a year, which will hopefully serve to diminish the rate impacts of any trends in wholesale market conditions that occur during the term of the Electric Security Plan (“ESP”) and therefore protect non-shopping customers from abrupt changes in generation rates. This objective has been frustrated in recent years by repeated delays in the capacity auctions held by PJM Interconnection LLC (“PJM”). The results of PJM’s capacity auctions are a component of the full requirements product being provided by SSO suppliers. These delays have forced the Commission to truncate SSO auction terms and to generally rely on one-year procurements. PJM currently has a proposal pending before the Federal Energy Regulatory Commission (“FERC”) to further delay future capacity auctions.¹ Given this filing, Staff proposes that the Commission grant the Company explicit authority to modify its auction schedule for the term of the ESP for the limited purpose of accommodating any additional delays in PJM’s capacity auction schedule that are ultimately approved by FERC. Alternatively, the auction product itself could be modified to either remove the capacity

¹ *In re PJM Interconnection LLC*, FERC Docket No. ER23-1609, Application (April 11, 2023).

1 component or to price the capacity component at a proxy rate, to be trued-
2 up once the actual capacity value is known, prior to the start of delivery.
3

4 8. Q. Does Staff have any additional observations on how the existing
5 competitive bid process has been functioning?

6 A. Yes. Wholesale market conditions were thrown into turmoil in 2022 due to
7 geopolitical events related to the war in Ukraine and related disruptions in
8 global energy supplies and markets. Monitoring Analytics, LLC, the
9 Independent Market Monitor (“IMM”) for PJM, noted in its 2022 Annual
10 State of the Market Report for PJM that energy prices increased
11 significantly from 2021 to 2022, with the average PJM energy price
12 increasing from \$39.78 per MWh in 2021 to \$80.14 per MWh in 2022. The
13 IMM noted that this was the highest average PJM price (\$80.14 per MWh),
14 the highest price increase (\$40.36 per MWh) and the highest percent price
15 increase (101.4 percent) for any year since the creation of the PJM markets
16 in 1999.²
17

18 Ohio was not immune to these effects. These challenging wholesale market
19 conditions led to dramatic increases in SSO auction results. In recognition
20 of increased auction prices, the Commission initiated an investigation and

² See State of the Market for PJM – 2022, Vol. I, p.3 (March 9, 2023),
https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2022/2022-som-pjm-vol1.pdf.

1 solicited public comment into whether directing the EDUs to implement
2 certain SSO auction modifications would help significantly reduce prices
3 resulting from SSO auctions.³ Clearly, the question of whether the structure
4 of the existing CBP could be modified to benefit ratepayers is of interest to
5 the Commission. Staff shares this interest as well.

6
7 9. Q. Does Staff have a proposal on how SSO auctions ought to be restructured?

8 A. No. Staff is not sponsoring or endorsing any specific proposal.

9
10 10. Q. Does Staff have any observations on auction restructuring options?

11 A. Yes. Staff would like to offer some perspective on two concepts that are
12 employed in default service procurements in other jurisdictions: the
13 separation of products by customer class and the use of an auction risk
14 mitigation mechanism to limit the volumetric risk to bidders. Staff does
15 acknowledge that the Company has already procured 40 tranches of load in
16 its April 2023 CBP auction for a delivery period that terminates on May
17 31st, 2025, and stresses that these contracts must be respected.

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³ See *In the Matter of the Procurement of Standard Service Offer Generation for Customers of Dayton Power & Light Company*, Case No. 17-0957-EL-UNC, et al., Entry (January 3, 2023).

Auctions by Customer Class

Staff recognizes that mass-market residential and small commercial customer loads and larger commercial industrial loads have differing characteristics and present different risks to suppliers. Residential customers tend to be smaller and more homogenous in nature. However, they will likely also have a lower load factor, meaning their load is “peakier” and therefore can be more expensive to serve than a customer with a flatter load profile. These peaks generally correspond to hot summer afternoons when air-conditioning load is high and wholesale energy prices are elevated.

Larger commercial and industrial customers tend to be more diverse in their electricity needs, depending on their specific business operations and uses of energy, but generally exhibit a flatter load profile. Their size presents a migration risk to SSO suppliers: even a small number of large customers leaving or returning to SSO service can significantly increase the auction tranche size, a risk that must be absorbed by winning bidders through their provider of last resort obligation. But mass-market customers are themselves not without migration risk, as evidenced by the events of August 2022, when The Northeast Ohio Public Energy Council, a large

1 governmental aggregator, transitioned nearly 550,000 electricity customers
2 back to default service, primarily in the FirstEnergy service territory.⁴

3
4 Larger commercial and industrial customers have migrated away from the
5 SSO at a very high rate. According to the PUCO's switch stats, almost 93%
6 of industrial load in AES Ohio's service territory was shopping at the end
7 of 2022. This makes a separate procurement for these customers
8 problematic, as the product will be comprised of a small amount of load
9 paired with a large risk of potential migration. Staff would expect to see
10 limited interest from suppliers in serving this load, and any bids will likely
11 reflect a large risk premium commensurate with the nature of the product. It
12 may be the case that there is insufficient interest in the product at auction.
13 Given the likelihood of a situation with limited competitive dynamics, it
14 may be advantageous to source large commercial and industrial load via a
15 sealed bid rather than a declining clock auction if it is to be procured
16 separately.

17
18 The load associated with each customer class presents its own
19 characteristics and risks that suppliers must consider when bidding to serve.
20 As each supplier may value these risks differently, there is no guarantee

⁴ "NOPEC Opts to Transition Customers to Utility Default Service – Residential and Small Business Customers To Get Lower Prices" NOPEC.org (August 24, 2022), <https://www.nopec.org/newsroom/post/nopec-electric-customer-transition>.

1 that separating products out by customer class will produce a lower auction
2 price. It may be the case that the status quo of combining these loads into a
3 single product that is as broadly defined as possible actually serves to
4 mitigate the idiosyncrasies of serving any customer class in isolation, to the
5 benefit of all customers.

6 7 Auction Risk Mitigation Mechanism (Load Cap)

8 By bidding on a load-following tranche in the existing CBP structure,
9 suppliers are taking on the volumetric risk that their load obligation will
10 vary during the product term. A volume risk mitigation mechanism could
11 be employed to cap the tranche size and therefore limit the supplier's
12 obligation in the event the load surpassed a predetermined threshold. The
13 difference would generally be made up through open market purchases in
14 the PJM wholesale marketplace.

15
16 It is important to note that such a cap would apply to all volumetric risks
17 encountered by a supplier. This would include not only migration risk from
18 customers shopping or returning to SSO service, but also risk of load
19 growth and weather-related risk. A load cap would not act to diminish these
20 risks; it would only serve to reallocate them from suppliers to SSO
21 customers if they exceed a certain threshold. Staff would expect that this
22 threshold would be exceeded during periods of market stress, when both

1 loads and wholesale prices are elevated. One such recent example is winter
2 storm Elliott, which affected the PJM footprint from December 23-25,
3 2022. Had a load cap been in place on December 24th, 2022, any load
4 exceeding the cap would have been procured at real-time prices at the AEP-
5 Dayton Hub that at times exceeded \$3,600/MWh. As mentioned previously,
6 PJM's markets are in constant flux. A load cap, backstopped by wholesale
7 energy markets, depends on PJM administered wholesale markets to
8 produce results that can be directly assigned to retail customers. The PUCO
9 has limited jurisdiction to influence these outcomes.

10
11 In Staff's opinion, should any tranche cap be considered, it should be set at
12 a level where the supplier is still responsible for the regular churn of
13 customers shopping and returning to SSO service, while providing
14 insurance against the unforeseeable "tail-risk" of any low probability but
15 potentially high magnitude market disruption against which hedging is not
16 feasible.

17
18 11. Q. Does this conclude your testimony?

19 A. Yes, it does. However, I reserve the right to submit supplemental testimony
20 as described herein, as new information subsequently becomes available or
21 in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Prefiled Testimony of Timothy W. Benedict**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the below parties, this 26th day of April, 2023.

/s/ Shaun P. Lyons

Shaun P. Lyons

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Summary: Testimony Prefiled Testimony of Timothy W. Benedict, Office of the
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