

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)	Case No. 23-301-EL-SSO
A Standard Service Offer Pursuant to § R.C. 4928.143)	
in the Form of an Electric Security Plan.)	

**DIRECT TESTIMONY OF JIM POPROCKI ON
BEHALF OF INTERSTATE GAS SUPPLY, LLC.**

October 23, 2023

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1
2 **I. Introduction**

3
4 **Q. Please state your name and business address.**

5
6 A. My name is James Poprocki. My business address is 6100 Emerald Parkway,
7 Dublin, Ohio 43016.

8 **Q. On whose behalf are you testifying?**

9
10 A. I am testifying on behalf of Interstate Gas Supply, LLC. ("IGS Energy" or "IGS")

11
12 **Q. Please describe your work history and educational background.**

13
14 A. I began my employment with IGS Energy in May 2017, when I was hired as a
15 Senior Supply Analyst to develop and implement short term wholesale risk
16 management hedging strategies. I was promoted to Power Supply Manager
17 where I manage a team of analysts responsible for creating and implementing
18 long term risk management strategies and wholesale market operations. A
19 portion of this role includes IGS Energy's involvement in SSO auctions.

20 I graduated from Union College in 1993 with a B.S in Physics. I obtained a
21 Master of Business Administration with a concentration in Finance from The
22 Ohio State University in 2000. After graduation, I held various risk,
23 analytical, and market based roles with AEP, Dayton Power & Light, and AES
24 prior to joining IGS Energy.

1 **Q. Have you previously submitted testimony in any regulatory proceedings?**

2 A. No.

3 **Q. What is the purpose of your testimony?**

4 A. The purpose of my testimony is to address FirstEnergy's proposed changes to
5 the Standard Service Offer as well as FirstEnergy's proposed transmission
6 changes under Rider NMB. I recommend the Commission decline to adopt any
7 changes to the SSO including FirstEnergy's proposed Capacity Proxy and
8 Volumetric Risk Cap. Additionally, I recommend the Commission decline
9 FirstEnergy's Rider NMB Proposal and alternatively expand the NMB Pilot.

10 **Q. Have you reviewed the Application in this proceeding?**

11 A. Yes, I have reviewed the Application and certain testimony that I found relevant
12 to my Direct Testimony.

13 **Q. Please describe FirstEnergy's filing.**

14 A. In the instant proceeding, FirstEnergy filed an Application with the Commission
15 seeking approval, as part of its ESP 5, of a CBP to procure electric power and
16 energy for the provision of SSO electric generation service to eligible FirstEnergy
17 retail electric customers who do not choose to purchase electric generation
18 service from a CRES supplier or through aggregations beginning June 1, 2024

19 **Q. Are you familiar with the competitive retail electric market in Ohio?**

20 A. Yes. Ohio has a very strong competitive power market with multiple options for
21 customers to choose their suppliers. Ohio currently has 160 active CRES

1 suppliers. Having been a SSO supplier and an active participant via the default
2 service procurements, I have a good understanding of risks associated with
3 serving the default service load and the retail load, and the interplay between
4 them.

5 **Q. Please discuss the competitive retail electric market in Ohio.**

6 **A.** Ohio has a strong competitive power market as evidenced by the number of
7 CRES suppliers currently active in Ohio. Customers in Ohio have an array of
8 CRES suppliers to choose from, to fulfill their energy needs. Ohio also has robust
9 government aggregation activity, thus offering customers another avenue to
10 choose their CRES supplier by participating in local government aggregation
11 programs that are supplied at competitive rates.

12 **II. Competitive Bid Process Changes**

13 **Q. Does FirstEnergy currently have a Competitive Bid Process?**

14 **A.** Yes, this is well documented by First Energy¹.

15 **Q. What does the Application propose for FirstEnergy's Competitive Bid**
16 **Process?**

17 **A.** Regarding the SSO auction process, FirstEnergy has proposed many changes
18 and modifications. Some of the proposed changes include: the introduction of a
19 volumetric risk cap ("VRC") on the amount of load each supplier will be
20 responsible for; a reduction in the maximum contract term to 24-months; the

¹ Application, Testimony of Robert Lee Attachment RJL-4.

1 adoption of a capacity proxy price (“CPP”) mechanism for situations where there
2 is no Base Residual Auction (“BRA”) price available; and administrative changes
3 to the SSO auction process

4
5 **Q. Has the Commission solicited comments regarding the structure of the**
6 **SSO ?**

7 **A.** Yes. In an Entry issued on January 3, 2023, in Case Nos. 17-2391-EL-UNC et
8 al., the Commission asked for comments on the effectiveness of two
9 modifications to the Ohio electric distribution utilities’ CBPs, including AEP Ohio’s
10 CBP, in order to potentially reduce SSO rates resulting from recent increases in
11 the SSO auction prices. Those proposed modifications included six-month
12 products in the mix of products for each auction and to revise credit requirements
13 for companies seeking to bid at the auctions.

14 In an Entry issued on July 26, 2023, in Case Nos. 23-781-EL-UNC, the
15 Commission found it necessary to revisit possible modifications to the electric
16 distribution utilities’ CBPs, including AEP Ohio’s CBP, in order to mitigate
17 uncertainty surrounding PJM’s capacity market. The Commission sought
18 comments on a proposed capacity proxy price mechanism.

19 **Q. Do SSO suppliers take on risk in serving the default service load?**

20 **A.** Yes

21 **Q. What are the risks in serving the default service load?**

1 **A.** Acting as an SSO supplier necessarily means assuming the price and volume
2 risk that customers would face in the power market without a supplier. SSO
3 suppliers are sophisticated portfolio managers, and have tools to mitigate certain
4 risks, such as buying hedges in forward electricity markets. Put simply, the SSO
5 supplier creates a forecast of the expected load that it will be obligated to serve
6 based in large measure on information provided during the bidding process, and
7 the SSO supplier then procures energy in the forward market to meet that
8 expected load consistent with the SSO supplier's hedging strategy. To the extent
9 that SSO suppliers are able to effectively manage those risks, SSO auction
10 prices will be lower, which benefits default service customers. In previous years,
11 although there were movements on and off the SSO, and there were changes in
12 usage during different seasons, load was sufficiently predictable such that SSO
13 suppliers were willing to and capable of effectively managing risks.

14 **Q. Should these risks remain with the SSO supplier?**

15 **A.** Yes, the SSO suppliers that have the knowledge and tools to manage price and
16 volume risk in the energy marketplace should bear the risk. These suppliers have
17 years of employee experience, weather forecasting services, methods to predict
18 customer usage, and the ability to use power market contracts, and the output of
19 power generating units to hedge risk. Even when their best efforts fail, the
20 suppliers that qualify to supply SSO service will have the necessary financial
21 standing to weather the storm. Customers who do not have the knowledge or
22 tools should not be placed in a position to face that uncertainty. They are busy
23 doing the things they are experts at and should not be surprised by sudden

1 fluctuations in their bills unless they actively make that choice by contracting a
2 product that meets their needs with a third party supplier. If the power market
3 experiences high costs, the customer may not have the financial ability to handle
4 the surprise cost increase.

5 **Q. Is there an increased risk associated with governmental aggregation in**
6 **FirstEnergy's service territory?**

7 **A.** Governmental aggregations create a distinct risk for SSO suppliers. Outside of
8 aggregations, customers are coming and going from SSO supply on a daily
9 basis. The change of a small number of customers is within the variance caused
10 by changes in weather in the short term. Suppliers are able to get feedback from
11 PJM on a few days lag on the pace of that change. This is similar to having a
12 broadly diversified portfolio of stocks and bonds, where a single stock would be
13 unlikely to have a significant impact to the overall portfolio.

14 Governmental aggregation is a well established risk of SSO supply, that after
15 years of stable markets, other suppliers may have mispriced. It requires
16 monitoring of when and where these aggregations may be occurring for the
17 supplier to stay informed and nimble to manage their risks.

18 **Q. Please summarize IGS's position regarding FirstEnergy's auction**
19 **proposals.**

20 **A.** IGS is opposed to FirstEnergy's proposals.

21 **A. Capacity Proxy Proposal**

22
23 **Q. Please describe FirstEnergy's Capacity Proxy Proposal**

1 **A.** The CPP is a proxy price for capacity that bidders are instructed to use for the
2 purposes of the product valuation. The CPP would allow for SSO auctions to
3 proceed and FirstEnergy to procure products that include PJM capacity years for
4 which BRA is unavailable. If there is a delivery period covered by a CPP a true-
5 up mechanism would be used to cover the difference between the proxy price
6 and the actual BRA.

7
8 **Q. How does the proposal differ from the current practice within FirstEnergy's**
9 **Ohio service territory?**

10 **A.** Currently, auctions are only held power delivery in time periods where the
11 capacity auctions have occurred and the prices are known with a high degree of
12 certainty.

13 **Q. Would this shift risk to customers?**

14 **A.** Yes, customers would be exposed to the resettlement risk associated with the
15 new capacity prices once PJM has capacity auctions again.

16 **Q. Do CRES providers, like IGS, face this risk?**

17 **A.** CRES providers face this same risk if they contract with end use customers in
18 time periods where the capacity price is unknown due to the lack of PJM
19 auctions. A CRES provider can take the risk by setting their price at the amount
20 where they believe the auctions will clear or base their price off of the costs to
21 maintain their generation units. Another option is to utilize financial instruments in
22 the marketplace to hedge their risk, using that market price as the capacity price
23 within the price they offer to the customer. In other words, a CRES supplier can

1 contract with an owner of physical generation resources that will ultimately bid in
2 a future auction and obtain a financial instrument to establish a capacity price
3 hedge outside of the auction process. In either case, the customer does not care
4 about the capacity auction in the future since they do not face financial risk in
5 their contract. The CRES provider, as a sophisticated market participant, has the
6 ability to either wear the price risk or manage the risk using financial instruments
7 that are not available to end use customers.

8 **Q. What do you recommend?**

9 **A.** I recommend maintaining the status quo and keeping the capacity price risk with
10 SSO suppliers. If CRES providers can offer customers long-term contracts
11 without known capacity prices, the Commission should not take this risk off of
12 auction bidders and place it on customers.

13 **B. Volumetric Rate Cap Proposal**

14 **Q. Please describe FirstEnergy's Volumetric Rate Cap Proposal**

15 **A.** The VRC would be calculated using the Peak Load Contribution ("PLC") per
16 tranche of the first day of the delivery period. The SSO suppliers' volumetric
17 exposure would be limited to a maximum of 20 MW above the VRC. Load in
18 excess of the limits will be supplied by FirstEnergy at real-time market prices.

19 **Q. Do any utilities on Ohio current use volumetric rate caps as part of the SSO**
20 **procurement strategy?**

22 **A.** No Ohio utility uses volumetric rate caps as part of the SSO procurement
23 process.

1 **Q. Would this shift risk to customers?**

2 **A.** Yes, this would place undue risk on customers that they do not face while being
3 served by the current SSO procurement process. If the Peak Load Contribution
4 were to increase beyond the amount served by suppliers on the first day of the
5 delivery period, the balance of their price would be driven by real time market
6 energy prices. These short term prices can be extremely volatile and have
7 climbed to levels almost 100 times higher than the current forward market prices.
8 A worse dynamic is created by the volumetric caps. While the proposal provides
9 stability to the auction bidders, it injects instability and variability into the SSO
10 price, with the risk being shifted to customers. A customer may be content with
11 PTC price and have the expectation from their experience that the price will
12 remain stable for the current period. If a large number of other customers return
13 to or leave the SSO product or if usage significantly increases—which is usually
14 the case when PJM locational market prices spike— the customers on the SSO
15 product are suddenly exposed to a variable price without warning or notification.

16 **Q. Can the risk of volumetric fluctuation be hedged by those that bid into the**
17 **SSO auctions?**

18 **A.** Yes.

19 **Q. What are some ways in which SSO auction participants can hedge against**
20 **the risk of volumetric fluctuations?**

1 **A.** As discussed earlier, SSO suppliers have the information, expertise, and tools to
2 manage volumetric risk. Here had been a long period of stable low prices, which
3 may have caused some suppliers to underprice the risks they were assuming.

4 **Q. Who should bear the risk of fluctuating SSO volumes?**

5 **A.** Market participants and not customer should bear the risk of any volumetric
6 fluctuations. Volumetric caps, as proposed, would merely shift risk to all SSO
7 customers and not squarely on those that choose to participate in the SSO
8 procurement process. Customer should not be harmed in the form of high rates
9 simply because a market participant is not sophisticated enough to appropriately
10 manage the inherent volumetric fluctuations in serving the SSO.

11 **Q. What do you recommend?**

12 **A.** IGS Energy recommends that the SSO product remain as it is currently
13 constructed.

14 **Q. Do you recommend that the Commission adopt the CBP, including**
15 **revisions, as proposed by FirstEnergy in its Application without**
16 **modifications?**

17 **A.** No, IGS Energy does not support the revisions.
18

19 **Q. Do you believe these changes to the SSO are necessary?**

20 **A.** No, the current SSO product works. It removes undue risk from the consumers
21 being supplied on the SSO product, placing that risk in the hands of willing and
22 sophisticated wholesale suppliers that should have the understanding of the
23 product they are supplying. The revisions shed risk from suppliers and place it on
24 unsuspecting customers who do not have the capability, tools, and potentially the
25 financial standing to face these risks.

1 **III. Rider NMB**

2 **Q. How does PJM assess the costs of transmission service?**

3 **A.** The largest portion of transmission service cost is the Network Integration
4 Transmission Service (“NITS”), which is assessed through a demand charge.
5 The charge is based on the hourly load of the customer during the annual zonal
6 coincidental peak (“1 CP”). By basing it on the zonal peak, PJM can assure the
7 reliability of the transmission grid during times of high use

8 **Q. How does FirstEnergy collect transmission costs from its customers?**

9 **A.** For a majority of customers, FirstEnergy uses the non-bypassable NMB. A
10 majority of demand metered customers will see their demand charge billing
11 determinate change monthly based on their peak the previous month rather than
12 the 1 CP. There is also a monthly usage component. Residential customers are
13 billed based on their monthly usage. However, some non-residential customers
14 are able to participate in the NMB Pilot.

15 **Q. What is the NMB Pilot?**

16 **A.** In ESP IV, the Commission approved a small-scale pilot program to expand
17 Rider NMB to certain large customers (“Pilot Program”) that signed the ESP IV
18 settlement. Under the pilot program, the participating customers are exempt from
19 securing and paying for transmission service through Rider NMB and instead
20 have their transmission secured by their CRES provider and pay for transmission
21 service through their CRES contracts. Under this construct, the CRES provider is
22 assigned transmission costs by PJM based on the customer’s Network Service
23 Peak Load (“NSPL”), and this structure allows the customer to in-turn be billed

1 for transmission service based on their NSPL demand. A goal of the Pilot
2 Program was for FirstEnergy to determine if the administrative burdens, costs,
3 and risks of allowing opting out of Rider NMB were a benefit or detriment to
4 customers. The Pilot Program became effective on June 1, 2016.²

5 **Q. Does FirstEnergy's Application address the NMB Pilot?**

6 **A.** Yes, the Application proposes to discontinue the pilot.
7

8 **Q. Do customers have any alternative to the NMB Pilot?**

9 **A.** No. Aside from the exclusive Pilot, retail customers are functionally barred by
10 FirstEnergy from securing transmission services directly from PJM or indirectly
11 through a competitive retail electric service ("CRES") provider

12 **Q. Do FirstEnergy customers excluded from the Pilot have the ability to**
13 **proactively manage their usage to reduce transmission costs?**

14 **A.** A customer's monthly peak demand will have little, if any, relationship to the
15 single zonal coincident peak within the PJM zone and thereby eliminate the
16 demand response opportunity that is signaled to customers obtaining
17 transmission service, directly or indirectly, through PJM. A true pass through of
18 transmission service sends a very transparent pricing signal to each customer to
19 reduce demand during peak load conditions and thereby reduce the need for
20 increased transmission investment.

² *In Re the Application of The Ohio Edison Co., The Cleveland Elec. Illuminating Co., and The Toledo Edison Co. for the Auth. to Provide for a Standard Serv. Offer Pursuant to R.C. 4928.142 in the Form of an Elec. Sec. Plan*, Case No. 14-1297-EL-SSO, Application (Aug. 4, 2014)

1 **Q. Why is the ability of a customer to have control over transmission costs**
2 **become increasingly important?**

3 **A.** Transmission costs have continued to increase.³ Without customers being able
4 to have control over these costs, and therefore the need for more transmission
5 investment, there will continue to be large investments that increase costs for
6 Ohioans.

7 **Q. Please describe FirstEnergy's Non-Market-Based Transmission Services**
8 **Proposal (Rider NMB) in its Application?**

9 FirstEnergy proposes modify the Non-Market-Based Services Rider ("Rider
10 NMB") and eliminate the Rider NMB Pilot. FirstEnergy will update the Rider NMB
11 calculation to include current nonmarket- based services billing line items,
12 including unaccounted-for energy. FirstEnergy is also proposing to add a second
13 rate ("NMB 2") for commercial and industrial customers who have interval or
14 advanced meters. FirstEnergy is proposing to keep the Rider NMB allocation and
15 rate design in place for all schedules, but the calculation will now include all
16 customers. The new Rider NMB 1 and NMB 2 rates are proposed to be effective
17 as of April 1, 2025.

18
19 **Q. What is your recommendation regarding Rider NMB?**

20
21 **A.** I recommend FirstEnergy maintain their Rider NMB Pilot and expand it to allow
22 all non-residential customers to participate. Based on our experience with IGS
23 customers participating the Pilot, initial steps could include eliminating the

³ <https://www.pjm.com/planning/project-construction>; "Utilities continue to increase spending on the electric transmission system" EIA Today In Energy (March 26, 2021).
<https://www.eia.gov/todayinenergy/detail.php?id=47316#>

1 participation allotments and MW caps on the NMB Pilot. . By expanding the Pilot
2 and making it available to all customers, customers can have the benefit of
3 enhanced transmission rates without disrupting the competitive market.

4 **Q. Why do you suggest the Pilot be expanded instead of the proposal in the**
5 **application?**

6 Q. There are different options to provide greater transparency and optionality to
7 transmission rates. First, there is FirstEnergy's proposal in the application, which
8 would assess transmission through a non-bypassable rider based upon the 1 CP.
9 This process would be an enhancement from the status quo, but take away the
10 optionality of a customer and CRES provider to establish transmission rates that
11 fit a customer's individual needs and risk tolerances. A second way would be to
12 simply make transmission bypassable and to assess transmission rates to CRES
13 providers based upon the 1 CP. Although this would allow customers to
14 negotiate their transmission rate with a CRES provider, it would cause chaos in
15 the retail market as existing contracts do include transmission rates. Thus, it
16 would likely cause legal disputes between CRES providers and their customers.
17 Third, I propose a middle ground that threads the needle between option 1 and 2
18 above.

19 **Q. Can you explain why your proposal is the most reasonable?**

20 A. Yes, my proposal gives customers the opportunity but not the requirement to
21 take transmission on a bypassable basis. By expanding the pilot, it ensures that
22 customers must opt and negotiate the terms of their transmission rates with a

1 CRES supplier. This provides customers with the opportunity to negotiate
2 transmission rates that fit their needs without requiring CRES providers to accept
3 additional costs that may not be included in existing contracts. This approach
4 provides balances the interests of customers and CRES providers.

5 **Q. Does this include your testimony?**

6 **A.** Yes, however I reserve the right to supplement.
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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Jim Poprocki on Behalf of Interstate Gas Supply, LLC* was filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on October 23, 2023. The Commission's e- filing system will electronically serve notice of the filing of this document upon the following parties listed below.

/s/ Stacie Cathcart

Stacie Cathcart

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Case No(s). 23-0301-EL-SSO

Summary: Testimony Testimony of Jim Poprocki electronically filed by Mrs. Stacie E. Cathcart on behalf of Interstate Gas Supply.