BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio	)	
Edison Company, The Cleveland	)	Case No. 23-301-EL-SSO
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	)	

DIRECT 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. ___

October 30, 2023

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

A. My name is Timothy W. Benedict. I am employed by the Public Utilities Commission of Ohio ("Commission"). My business address is 180 E. Broad St., Columbus, Ohio 43215.

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

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

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

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

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

A. Yes.

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

A. My testimony presents Staff's position on the competitive bidding process as proposed by Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company ("FirstEnergy" or the "Companies") to establish the SSO rate for non-shopping customers. I will also be addressing certain proposed modifications to the auction structure and associated bidding rules.

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

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

7. Q. Has Staff reviewed the Companies' proposal to include a volumetric risk cap on load migration back to SSO service?

A. Yes. The Companies propose to limit SSO suppliers' volumetric exposure to a maximum of 20 MW above the benchmark for the tranche. The initial benchmark level would be set at the Peak Load Contribution ("PLC") per tranche as of the first day of the delivery period, with an annual scaling update based on PJM Interconnection, L.L.C.'s ("PJM") PLC target value for the zone at the start of the new planning year for two-year products. Should the load exceed the exposure limits, it would be supplied by the Companies at real-time market prices.

Staff offers the following perspective and recommendations for the Commission's consideration in determining whether the proposal is in the public interest. Staff recognizes that this proposal is intended to cap the migration risk exposure of SSO suppliers, which should theoretically translate into lower risk premiums in SSO auction bids and therefore lower SSO auction clearing prices. This would come at the expense, however, of transferring market and migration risk from suppliers to SSO ratepayers, who would now be exposed to market prices rather than a fixed auction price should the cap be exceeded. Of relevance here is the Commission's Opinion and Order in AES Ohio's most recent Electric Security Plan ("ESP"), in which the Commission was "not prepared, at this time, to adopt any mechanism that shifts migration risk from wholesale suppliers to consumers in this state."[1]

For context, each tranche in the Companies' most recent SSO auction was approximately 100 MW, before considering migration. Customer switching levels in the Companies' service territories have been steadily increasing. Assuming an 80 percent shopping rate, this brings the tranche size to approximately 20 MW. Applying the 20 MW load cap brings the supplier's maximum obligation to 40 MW. This leaves 60 percent of the Companies' load without a fixed default service price, which would be subject to being procured at market prices should the customer migration cap be exceeded.

Should the Commission conclude that the above tradeoff is in the public interest, Staff would make the following recommendations. The Companies should publish the daily PLC value for non-shopping load on their auction website as expeditiously as possible so interested parties can evaluate migration levels and determine whether the cap is likely to be exceeded

[1] *In re The Dayton Power and Light Company d/b/a AES Ohio,* Case No. 22-900-EL-SSO, et al., Opinion and Order at ¶ 247 (Aug. 9, 2023).

during a delivery year. Staff would also recommend that for two-year products, the cap be reset at the start of the second delivery year based upon the actual tranche PLC at that time. This would effectively reset the cap based upon the migration levels that were observed at the start of year two. Finally, Staff would recommend that, should the cap be exceeded, the Commission initiate a process to evaluate whether it is prudent to continue with real-time market purchases or to consider alternative procurement strategies. Staff does agree that, as proposed, it should be the Companies, at least initially, which would be responsible for procuring any load in excess of the cap.

8. Q. Has Staff reviewed the Companies' proposal to eliminate 36-month contracts?

A. Yes. Staff does not oppose this modification. The Companies' independent auction administrator has conducted anonymous surveys in which suppliers have indicated a preference for shorter-duration products. Shorter products present reduced term risk to potential suppliers and therefore may result in lower risk premiums being incorporated into bids. While this modification may cause SSO rates to become slightly more volatile, it may also cause them to be more closely in alignment with current market conditions.

9. Q. Has Staff reviewed the Companies' proposal to include a Capacity Proxy

Price mechanism (“CPP”) as an option to be used if needed for future procurement?

A. Yes. Staff supports the proposed CPP mechanism as a necessary response to the delays and uncertainty that continue to affect the PJM capacity market and to forestall the need to modify future SSO auction products and procurement schedules.

Staff has previously recommended to the Commission that capacity be priced at a proxy rate in Case No. 23-781-EL-UNC. Staff is also aware that, in Case No. 16-776-EL-UNC, the Commission initiated its own investigation and solicited public comment into whether directing the EDUs to implement certain SSO auction modifications would help significantly reduce prices resulting from SSO auctions. Staff recommends that the SSO auction structure adopted in this case be subject to change based on any Commission ruling in either of those dockets.

10. Q. Has Staff reviewed the Companies’ proposal to modify the credit-based tranche caps for potential SSO suppliers?

A. Yes. Staff does not support these changes. The Companies’ proposal would reduce the maximum initial bidding eligibilities for certain qualified bidders based upon their credit ratings. As proposed, the maximum initial bidding eligibility of a qualified bidder or guarantor with a BB- credit rating at S&P or Fitch (or a Ba3 rating at Moody's) would be reduced from 12 tranches to 4 tranches. If a bidder is not rated by any of the three agencies, their maximum initial bidding eligibility would be reduced from 6 tranches to 4 tranches. Staff does not believe this proposal has been adequately justified by the Companies and prefers that maximum initial bidding eligibilities be as accommodating as is reasonable to allow for robust participation in SSO auctions by a diverse range of qualified suppliers.

11. Q. Has Staff considered the recommendation to hold separate auctions by customer class?

A. Yes. Staff recognizes that mass-market residential or small commercial loads and larger commercial or 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 governmental aggregator, transitioned nearly 550,000 electricity customers back to default service, primarily in the Companies' service territories.[2]

Currently, all customer classes in the Companies' service territories have very high migration rates, particularly amongst industrial customers. According to the Commission's switch statistics, over 97% of industrial load in the Companies' service territories was shopping as of August 2023. This makes a separate procurement for these customers problematic, as the product will be comprised of a small amount of load paired with a large risk of potential migration. Staff would expect to see limited interest from suppliers in serving this load, and any bids will likely reflect a large risk

[2] https://www.nopec.org/newsroom/post/nopec-electric-customer-transition

premium commensurate with the nature of the product. It may be the case that there is insufficient interest in the product at auction. Given the likelihood of a situation with limited competitive dynamics, it may be advantageous to source large commercial and industrial load via a sealed bid rather than a declining clock auction if it is to be procured separately.

The load associated with each customer class presents its own characteristics and risks that suppliers must consider when bidding to serve. As each supplier may value these risks differently, there is no guarantee that separating out products by customer class will produce a lower auction price. It may be the case that the status quo of combining these loads into a single product that is as broadly defined as possible actually serves to mitigate the idiosyncrasies of serving any customer class in isolation, to the benefit of all customers. Notably, the Commission found in AES Ohio's recent ESP that "we are not persuaded that separating the auctions into auctions for residential customers and non-residential customers will result in aggregate savings to consumers in this state."[3]

[3] *In re The Dayton Power and Light Company d/b/a AES Ohio,* Case No. 22-900-EL-SSO, et al., Opinion and Order at ¶ 247 (Aug. 9, 2023).

12. Q. Does this conclude your testimony?

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

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Direct 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 following parties of record, this 30th day of October, 2023.

/s/ Thomas G. Lindgren
Thomas G. Lindgren
Assistant Attorney General

Parties of Record:

mkurtz@BKLlawfirm.com;
jkylercohn@BKLlawfirm.com;
trhayslaw@gmail.com;
Leslie.kovackik@toledo.oh.gov;
cgrundmann@spilmanlaw.com;
dwilliamson@spilmanlaw.com;
slee@spilmanlaw.com;
bojko@carpenterlipps.com;
easley@carpenterlipps.com;
dstinson@brickergraydon.com;
gkrassen@nopec.org;
dparram@brickergraydon.com;
rmains@brickergraydon.com;
dborchers@brickergraydon.com;
kherrnstein@brickergraydon.com;
glpetrucci@vorys.com;
mjsettineri@vorys.com;
aasanyal@vorys.com;
Stacie.Cathcart@igs.com;
Michael.nugent@igs.com;
Evan.betterton@igs.com;
ahaque@bakerlaw.com;
eprouty@bakerlaw.com;
pwillison@bakerlaw.com;
todd.schafer@outlook.com;
jpetroff@lawforlabor.com;
jrb@smxblaw.com;
mkl@smxblaw.com;
jrb@sxblaw.com;
MKeaney@beneschlaw.com;
KHehmeyer@beneschlaw.com;
bknipe@firstenergycorp.com;
cwatchorn@firstenergycorp.com;
TAlexander@beneschlaw.com;
Paul@carpenterlipps.com;
Brian.gibbs@nationwideenergypartners.com;
dromig@nationwideenergypartners.com;
emcconnell@elpc.org;
trent@hubaydougherty.com;
mpritchard@mcneeslaw.com;
awalke@mcneeslaw.com;
cpirik@dickinsonwright.com;
todonnell@dickinsonwright.com;
kshimp@dickinsonwright.com;
knordstrom@theOEC.org;
ctavenor@theOEC.org;
eowoyt@vorys.com;
jdunn@oneenergyllc.com;

john.finnigan@occ.ohio.gov;
keith.layton@occ.ohio.gov;
connor.semple@occ.ohio.gov;
rdove@keglerbrown.com;
nbobb@keglerbrown.com;
meissnerjoseph@yahoo.com;
little@litohio.com;
hogan@litohio.com;
ktreadway@oneenergyllc.com;
whitt@whitt-sturtevant.com;
jlang@calfee.com;
mbarbara@calfee.com;
dproano@bakerlaw.com;
ahaque@bakerlaw.com;
eprouty@bakerlaw.com;
pwillison@bakerlaw.com

Attorney Examiners:

megan.addison@puco.ohio.gov;
gregory.price@puco.ohio.gov;
jacqueline.St.John@puco.ohio.gov