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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Columbus)
Southern Power Company and Ohio Power)
Company for Authority to Recover Costs) Case No. 05-376-EL-UNC
Associated with the Construction and Ultimate)
Operation of an Integrated Gasification)
Combined Cycle Electric Generating Facility)

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PREPARED DIRECT TESTIMONY

OF

WILLIAM J. TAYLOR III

ON BEHALF OF

CALPINE CORPORATION

JULY 15, 2005

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1 playing field in which to promote our services. We seek, in short, an opportunity
2 to deliver good service at fair prices to wholesale customers.

3 **6. Q. What are the benefits of a competitive process as to IGCC technology in**
4 **Ohio?**

5 **A.** Calpine commends the Commission for its stated interest in IGCC technology,
6 and agrees that IGCC has the potential to play a key role in making electricity
7 generation cleaner and less expensive in the future. The question remains,
8 however, whether it is necessary to place the entirety of the cost risks of
9 developing this promising technology directly on ratepayers, as does AEP's
10 proposal. A competitive process could accomplish the same end, while protecting
11 ratepayers by ensuring that as IGCC takes its place as a baseload power generation
12 application, end-user electric rates stay as low as possible.

13 **7. Q. How should the Commission enhance the competitive marketplace and the**
14 **development of supply-side resources?**

15 **A.** It is critically important to the continuing evolution of the competitive wholesale
16 marketplace, and to the development of supply-side resources to serve the market,
17 including IGCC technology that fair, meaningful standards for utility resource
18 procurement are established and enforced and all interested developers are "let in
19 the door."

20 **8. Q. What should be the overriding concern of the Commission with respect to**
21 **resource procurement in this area?**

22 **A.** Generally speaking, in conducting competitive procurements, the overriding goal
23 of the solicitation process should be to get the best deal possible for consumers in

1 terms of price, risk, reliability, and environmental performance. This is even
2 more pronounced when considering an emerging technology such as IGCC,
3 because of the uncertainty of cost. When companies like Calpine build, facilities
4 are constructed without a single penny of utility ratepayer money being at risk.
5 Rather, Calpine's assets are developed at the risk of private debt and equity
6 investors as well as Calpine's shareholders.

7 **9. Q. Wouldn't a prudence review in a subsequent rate proceeding be sufficient to**
8 **protect Ohio ratepayers, as opposed to an up-front competitive process?**

9 **A. In the application at issue in this proceeding, AEP has asked the Commission to**
10 **forego the ability to do a prudence review after the fact. Ratepayers would be on**
11 **the hook for all costs, no matter how high. Also, even if there was an after-the-fact**
12 **cost review, without a competitive process at the beginning, potential wholesale**
13 **suppliers like Calpine are shut out. A rate proceeding years later is too late for the**
14 **competitive benefits that companies like Calpine bring to have any effect.**
15 **Shutting out companies who seek to be low-cost innovators in IGCC technology,**
16 **such as Calpine, will inhibit the development of the technology and lead to greater**
17 **ratepayer cost. It has become increasingly apparent that after-the-fact complaints**
18 **cannot adequately protect wholesale market competition. In such cases,**
19 **ratepayers are thereby denied the benefits of a vigorous competitive marketplace.**
20 **Calpine's experience both in the competitive marketplace and the regulatory**
21 **process have shown that detailed, before-the-fact guidance regarding acceptable**
22 **(and unacceptable) procurement practices is essential to protecting the integrity of**
23 **the wholesale marketplace.**

1 10. Q. **Would Calpine take the position that if a fair, transparent competitive**
2 **process is instituted, the resulting procurement should be considered prudent**
3 **by the Commission?**

4 A. Yes.

5 11. Q. **Are AEP's assumptions related to the cost of constructing its proposed IGCC**
6 **facility reasonable?**

7 A. It is hard to say, given the early stage of development of the project and the fact
8 that so few commercial IGCC facilities have been constructed in North America
9 to date. However, the fact that construction costs are uncertain is exactly why it is
10 *inadvisable for the Commission to allow a full, advance cost recovery in this case*
11 *such as AEP is requesting. The risk to ratepayers for cost overruns could*
12 *potentially be staggering. When Calpine builds a power plant that is over budget,*
13 *its shareholders bear that risk – not electric customers. In this case, AEP is*
14 *requesting that its customers bear an unknown, potentially very large risk, without*
15 *even the benefit of an after-the-fact prudence review.*

16 12. Q. **What IGCC development opportunities is Calpine involved with in Ohio?**

17 A. Calpine's Fremont Energy Center in Sandusky, Ohio is currently in the
18 construction phase. While the current project configuration is natural gas-fired
19 combined-cycle, potentially, the Fremont project could be reconfigured to operate
20 as an IGCC facility. If the Commission instituted a competitive process for an
21 IGCC facility in AEP's service territory, Calpine would certainly look at a
22 reconfiguration at Fremont as one way to possibly participate. Calpine is also
23 discussing some other potential opportunities with parties interested in IGCC

1 development in Ohio. However, if the application in this docket is granted,
2 Calpine would interpret that result as an affirmation by the Commission that new
3 IGCC technology would be built exclusively by utilities, and that competitive
4 generation developers and electric producers like Calpine would not have any
5 incentive to even consider the development of new competitive IGCC projects in
6 Ohio.

7 **13. Q. Is Calpine's position that utilities such as AEP should never build a new**
8 **IGCC facility?**

9 **A.** No. Our position is not that utilities should never build or own a power plant.
10 However, they should, at a minimum, be required to look diligently at potential
11 competitive options, if only to confirm that their self-build plans are in the best
12 interests of their ratepayers – especially in the area of IGCC, given the high capital
13 cost and early-stage implementation of the technology. A Commission sanctioned
14 competitive solicitation process is the best mechanism to ensure the ratepayers'
15 interest is protected.

16 **14. Q. Long-term, what message would approval of the application send to**
17 **companies like Calpine that seek to develop IGCC projects?**

18 **A.** An approval by the Commission of this application would send the clear message
19 to companies like Calpine that utilities will likely monopolize the deployment of
20 this exciting new technology, to the detriment of consumers. As I understand it,
21 beginning on the starting date of competitive retail electric service the
22 Commission is charged with ensuring that retail electric service consumers are
23 protected against unreasonable sales practices, market deficiencies, and market

1 power. A result in this proceeding that drives potential market participants away
2 cannot possibly be seen as beneficial to ratepayers. Utility rates are directly
3 related to utility costs. It logically follows that a lessening of competitive forces
4 harms consumers. There is simply no rational argument to be made against a
5 process that guarantees the best economic choices are made.

6 **15. Q. Does this conclude your pre-filed direct testimony?**

7 **A. Yes it does.**

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing testimony was served upon the parties of record indicated on the attached service list this 15th day of July 2005, via electronic mail and/or U.S. mail, postage prepaid.



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