



The Public Utilities
Commission of Ohio

A report by the
Public Utilities Commission of Ohio

The Ohio Retail Electric Choice Programs
Report of Market Activity
January 2003 – July 2005

August 2005





The Public Utilities Commission of Ohio

*Monitoring marketplaces and enforcing rules to
assure safe, adequate, and reliable utility services*

Bob Taft, Governor
Alan R. Schriber, Chairman

Commissioners
Ronda Hartman Fergus
Judy A. Jones
Donald L. Mason
Clarence D. Rogers, Jr.

August 4, 2005

To the Honorable Members of the Ohio General Assembly:

In compliance with the provisions of Senate Bill 3 and the establishment of electric choice in Ohio, I am pleased to provide you with the attached progress report. The report reviews the changes that occurred in the state's electric industry in 2003, 2004, and the first half of 2005, as well as the benefits that have been passed on to industrial, commercial, and residential customers.

Compared to other retail electric choice markets in the country, Ohio is second only to Texas when it comes to the level of residential customer participation. Since 2002, residential customer switching has increased by as much as 13 percent in parts of the state. While it is true that regional differences in switching still exist, this is largely attributable to the presence, or lack of, price barriers. Where there has been room for suppliers to enter the market with reasonable prospects of profitably attracting customers, they have done so. Where utility prices are already low, suppliers have little room to compete.

Government aggregation groups formed by localities across the state have been the greatest single success. Scores of these groups have contracted to purchase power for their residents at discounted rates. The Northeast Ohio Public Energy Council (NOPEC) alone represents more than 350,000 residential customers.

These successes aside, a fully competitive electric market has not developed as quickly as envisioned. In October 2003, the General Assembly issued a report encouraging the PUCO to "continue to take the necessary steps...to ensure that a healthy competitive market is in place before full electric competition begins." To address your concerns, and ensure that customers do not face "sticker shock" when the market development period ends later this year, we have worked with Ohio's investor-owned electric utilities to develop rate stabilization plans that guarantee the continuation of stable, competitive rates.

We continue to take other important steps to nurture the growth of competition. Our Policy and Market Analysis Division keeps a close eye on the wholesale energy market to detect trends that may impact the Ohio retail market. We have also investigated the financial integrity of Ohio's electric utilities to ensure that regulated operations are not undermined by unregulated enterprises that fall under the utilities' corporate umbrella.

My fellow commissioners and I continue to advocate before Congress and the Federal Energy Regulatory Commission on important issues that have a significant impact on the way energy markets evolve in Ohio. On a regional level, thousands of new megawatts have come online in the state over the past several years, and each of Ohio's investor-owned electric utilities has transferred control of their transmission facilities to regional transmission organizations to better coordinate the flow of electricity across the grid in a non-discriminatory manner.

Although a vital retail market has not yet formed in all parts of the state, we have made the decisions necessary to ensure that customers have access to reliable utility service at fair rates for years to come. Additional work remains to be done, and we look forward to continuing the excellent relationships we have formed with you and other public officials as we soon enter a new stage in fostering electric competition.

Sincerely,

Alan R. Schriber
Chairman

Executive Summary

Since choice began in 2001, the Public Utilities Commission of Ohio (PUCO) has been working to facilitate a competitive electric market in Ohio. Since the PUCO's last report in 2002, customer participation in choice has increased across the state:

- In the residential market, the megawatt hours (MWh) sold by alternative electric suppliers grew from 60 to 73 percent in the Cleveland Electric Illuminating Company territory, from 36 to 43 percent in the Toledo Edison Company territory, from 22 to 30 percent in the Ohio Edison company territory, and from 2 to 5 percent in the Cincinnati Gas and Electric Company territory.
- In the commercial market, the MWh sold by alternative electric suppliers grew from 50 to 61 percent in the Cleveland Electric Illuminating Company territory, from 38 to 42 percent in the Ohio Edison Company territory, from 32 to 38 percent in the Cincinnati Gas and Electric Company territory, and from 9 to 19 percent in the Dayton Power and Light Company. These numbers dropped slightly from 51 to 49 percent in the Toledo Edison Company territory and from 6 to 4 percent in the Columbus Southern Power Company territory.
- In the industrial market, the MWh sold by alternative electric suppliers grew from 28 to 64 percent in the Dayton Power and Light Company territory, from 18 to 20 percent in the Cleveland Electric Illuminating Company territory, from 9 to 18 percent in the Cincinnati Gas and Electric Company territory, and 4 to 5 percent in the Toledo Edison Company territory. This number dropped slightly from 32 to 29 percent in the Ohio Edison Company territory.

Nearly 170 cities, counties, and townships have formed government aggregations to purchase discounted power on behalf of their citizens. The Northeast Ohio Public Energy Council, the largest public aggregator in the United States, represents 112 communities in eight counties and more than 350,000 residential customers.

Of those customers who have switched in Ohio, aggregation programs account for:

- Nearly 95 percent of residential customers who have switched in Ohio.
- Nearly 88 percent of commercial customers who have switched in Ohio.
- Nearly 9 percent of industrial customers who have switched in Ohio.

To help prevent electric customers from facing electric rate "sticker shock" when the market development period ends on Dec. 31, 2005, the PUCO and four of Ohio's five investor-owned local electric utilities have developed rate stabilization plans to ensure the continuation of stable, competitive rates.

Other Key Points

- Senate Bill 3 required Ohio's local electric utilities to transfer control of their transmission facilities to regional transmission organizations. All of Ohio's local electric utilities have become members of either the Midwest Independent System Operator or PJM Regional Transmission Organization.
- The PUCO remains proactive in proceedings at the Federal Energy Regulatory Commission (FERC), advocating for the establishment of a well-functioning wholesale market. The PUCO has made more than 100 formal filings with FERC since the beginning of electric choice in 2001.
- The PUCO actively monitors the wholesale energy market using sophisticated technology that provides real-time information on the operating status of major electric generating stations. This work has enabled the PUCO to immediately identify any impacts that market fluctuations or conditions could have on the Ohio retail market. The PUCO has also kept a careful watch over the financial integrity of Ohio's local electric utilities to ensure that their regulated operations are not adversely impacted by the actions of the unregulated parent or affiliate companies.
- The Ohio Power Siting Board has helped to facilitate the construction of 17 new power plants in Ohio since 1998. These plants represent 8,454 megawatts (MW) of new generating capacity, 7,200 MW of which has already come on line. The remaining 1,254 MW is expected to come on line in 2006. This increase in generating capacity supply has been a key factor in stabilizing wholesale prices at affordable levels.

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Introduction

The passage of Senate Bill 3 (SB 3) in 1999 set in motion a period of intense preparatory activity by the Public Utilities Commission of Ohio (PUCO), Ohio's local electric utilities, alternative electric suppliers, and stakeholders. The years 2001-2002 saw the beginning of electric choice in Ohio, a time during which the PUCO learned many lessons and made adjustments to better foster competition. Since then, the PUCO has maintained a balanced approach and remained vigilant in the implementation of the mandate set forth by the Ohio General Assembly in SB 3.

SB 3 required the PUCO to report biennially to the standing committees of both houses of the Ohio General Assembly, which have primary jurisdiction over public utility legislation, "regarding the effectiveness of competition in the supply of competitive retail electric services in this state." The PUCO submits this report as the second report in fulfillment of that statutory obligation.

The primary purpose of this report is to provide the General Assembly with a description of market activity that has occurred during years three and four of electric choice in Ohio. The report includes data and information on relative market shares of competitive suppliers serving customers in Ohio, and the rate of customer switching from incumbent utilities to alternative electric suppliers.

As you will see in the customer switching statistics contained in this report, market entry has increased significantly over the last two years with government aggregation as the primary driving force. However, a fully competitive electric market has not yet emerged. As a result, the PUCO has taken the steps necessary to ensure that stable, competitive rates are in place when the market development period ends on Dec. 31, 2005.

Methodology

Rules in place for the implementation of SB 3 require every local electric utility, alternative electric supplier, and aggregator and governmental aggregator doing business in Ohio to provide the PUCO with relevant data for monitoring the development of the electric marketplace. The PUCO, the sole regulatory agency charged with monitoring and facilitating a competitive marketplace, is responsible for collecting and analyzing this data.

Data submitted to the PUCO by the entities is verified and validated. The data is then consolidated in a computer database and checked for historical consistency and logical validity before being considered the official statistics of electric choice.

Appendix A represents the megawatt hours (MWh) sold by the local utility and by alternative electric suppliers during the month of December 2004. Appendix B represents the number of customers who have switched from the local electric utility to alternative electric suppliers as of Dec. 31, 2004. Appendix C to this report describes aggregation activity in Ohio for 2004.

This report graphically presents the statistics contained in Appendix A, which are based upon electricity (MWh) sold, because SB 3 measures the development of competition on an energy (or MWh) basis.

Abbreviations

For the purposes of this report, specifically pertaining to the graphs and charts, the following abbreviations are used:

CEI	Cleveland Electric Illuminating Company (dba The Illuminating Company)
CGE	Cincinnati Gas and Electric Company
CSP	Columbus Southern Power Company (dba American Electric Power, Columbus Southern Power Division)
DPL	Dayton Power and Light Company
MON	Monongahela Power Company (dba Allegheny Power)
OE	Ohio Edison Company
OP	Ohio Power Company (dba American Electric Power, Ohio Power Division)
TE	Toledo Edison Company

Ohio and the Wholesale Electricity Market

Electric power, like many other commodities and manufactured products, is bought and sold in bulk in competitive wholesale markets. Alternative electric suppliers purchase electricity at wholesale in order to serve retail customers who have decided to participate in electric choice. A well-functioning wholesale market is critical to the continued development of a retail market in Ohio.

Ohio Remains Active in Federal Proceedings

Due to the interstate nature of wholesale bulk power purchases, wholesale markets are expanding on a regional basis under the watchful eye of the Federal Energy Regulatory Commission (FERC). The development of Ohio's retail market depends, to a large degree, upon decisions made by FERC at the wholesale level. The PUCO philosophically supports a regional approach to the design of a well-functioning wholesale market. The PUCO regularly advocates its ideas and support of FERC's efforts on behalf of the wholesale market through comments filed in federal cases and rulemakings. The PUCO has made more than 100 formal filings with FERC since the start of electric choice in Ohio.

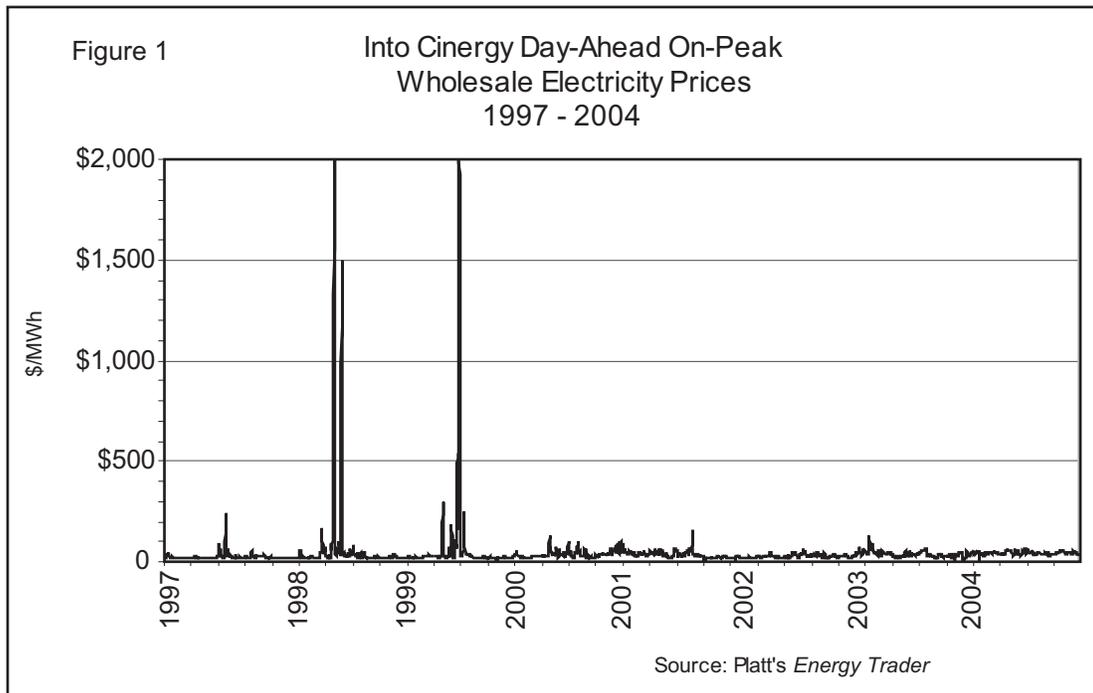
Regional Planning and Multi-State Coordination

The Ohio Revised Code enables the PUCO to address regional issues that may fall under jurisdictions beyond Ohio's borders. At the wholesale market level, the PUCO represents the state's interests in working groups with regional transmission organizations. In concert with regulatory authorities from neighboring states, the PUCO addresses concerns to the boards of these organizations, which pertain to the rules and regulations for the wholesale market.

Ohio is contributing its planning expertise to the coordination of multi-state infrastructure improvements. These activities are consistent with a recent report by the National Governors' Association on multi-state entities. Fuel diversity for electric generation, including coal, is among the issues advocated by the PUCO as a public interest with implications for national energy security.

Monitoring the Wholesale Electricity Market

The PUCO monitors wholesale bulk power prices at the Cinergy trading hub as well as other market conditions that might immediately impact the state's competitive retail electricity market. Figure 1 shows that the volatility of prices in 1998 and 1999 has dampened considerably over the last five years.



The price signals created by the spikes and volatility of 1998 and 1999 attracted new entrants into the wholesale generation market. The Ohio Power Siting Board (OPSB) has helped to facilitate the construction of 17 new power plants in Ohio since 1998. The 11-member OPSB reviews applications for construction of large electric and natural gas facilities in Ohio. As shown in Figure 2, these plants represent 8,454 megawatts (MW) of new generating capacity, 7,200 MW of which has already come on line. The remaining 1,254 MW is expected to come on line in 2006. This increase in generating capacity supply has been a key factor in stabilizing wholesale prices at affordable levels.

For market monitoring purposes, the PUCO subscribes to a proprietary electronic service that provides real-time information on the operating status of major electric generating stations supplying wholesale bulk power in the United States. Since electricity generation is deregulated in Ohio, utilities are not forthcoming with this information to regulators.

The status of generation availability, tied to current weather conditions and transmission constraints, is valuable in understanding day-to-day market events. Tracking historical trends may disclose possible instances of market manipulation, abuse of market power, or early warning signs of electric reliability issues, which could harm Ohio's competitive retail electricity market or the state's economy.

Figure 2

New Electric Generating Facilities On-Line or Under Construction in Ohio	
Facility In-Service Date	Generating Capacity (MW)
Jun-00	640
Aug-00	200
May-01	320
Jun-01	45
Jun-01	45
Jun-01	45
Jun-01	425
Feb-02	390
Apr-02	320
May-02	160
Jun-02	600
Jun-02	620
Jul-02	500
May-03	850
Jun-03	1240
Aug-03	800
Total On-line	7200
Jun-06	704
Jun-06	550
Total Under Construction	1254
Grand Total	8454

Source: PUCO, Division of Facilities, Siting and Environmental Analysis.

Developments in Competitive Retail Generation Service Markets

Compared to other residential retail choice markets in the country, Ohio is currently experiencing the second highest level of residential customer participation. Recent comparisons made in the trade press confirm that Ohio leads all states except Texas in terms of the percentage of residential customer load statewide that has switched to an alternative electric supplier. Figure 3 compares residential switching in Ohio to switching in other leading “choice” states, as measured by the percentage of load being served by alternative electric suppliers.

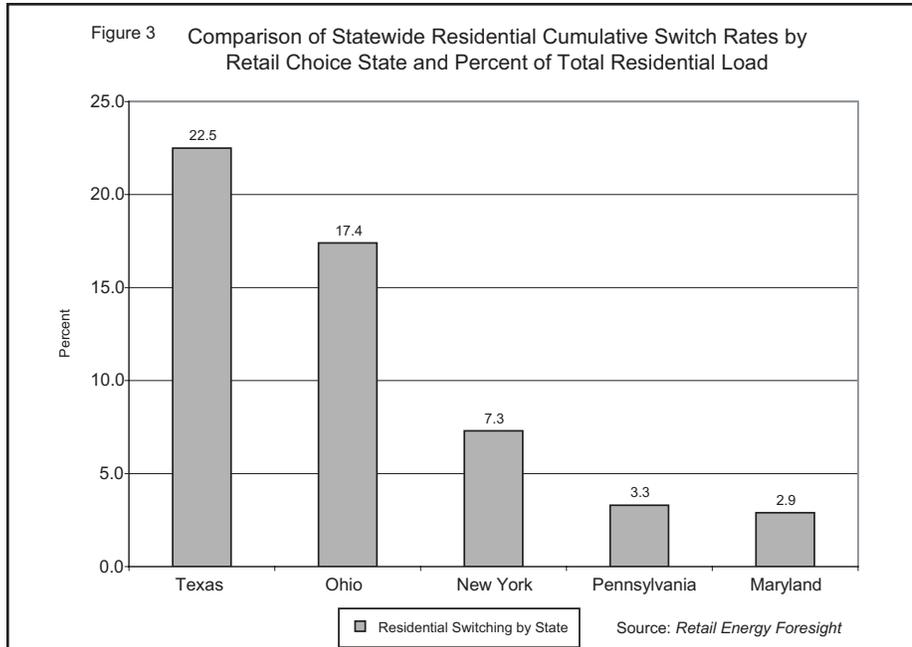
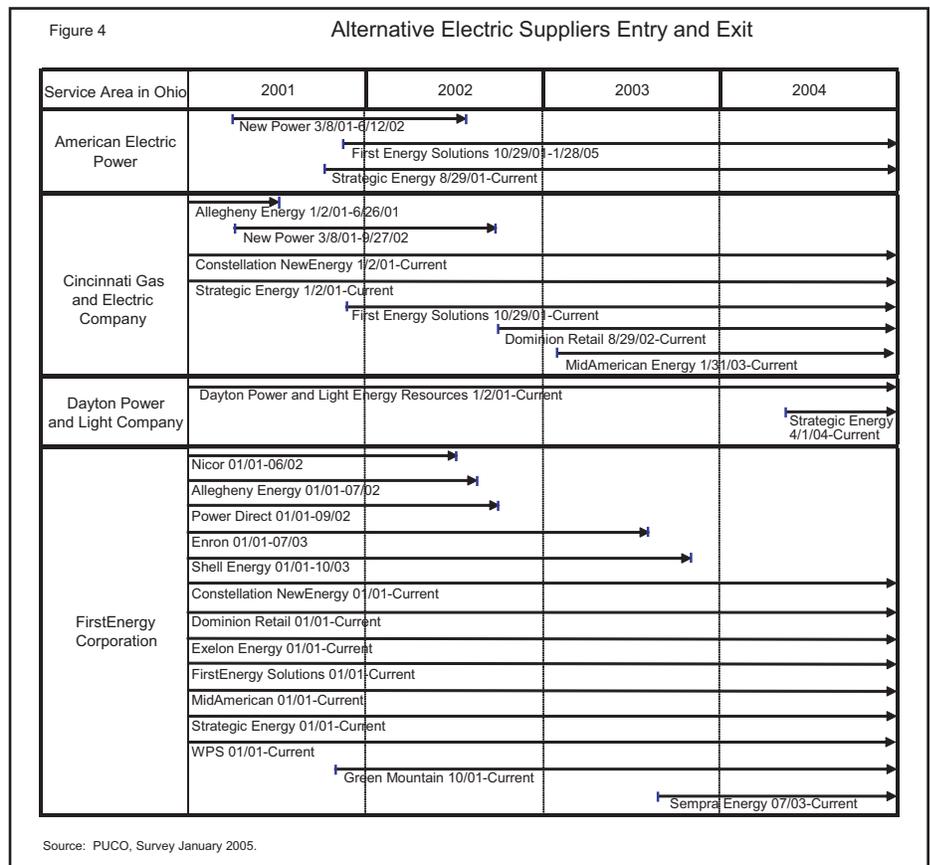
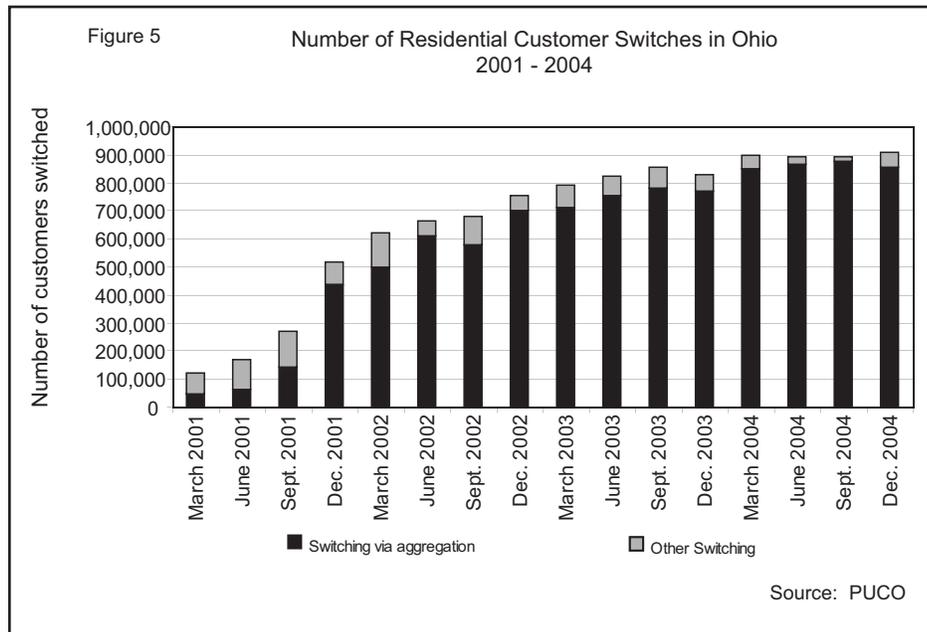


Figure 4 presents a summary of entry and exit by alternative electric suppliers to the major local electric utility service areas in Ohio since the beginning of competition. Because the mandated requirements for entry and exit are the same across all local electric utility service areas in Ohio, the variation in the intensity of competitive behavior in different service areas reflects the perceived opportunities for profitable operations by alternative electric suppliers. Clearly, such opportunities are more prevalent in those service areas where there exists a greater margin to compete.



Residential Sector Switch Rates

Residential sector customer switch rates increased from the beginning of 2001 through the end of 2003, stabilizing in 2004. Figure 5 presents the quarter-by-quarter increase in the total number of residential customers who switched to alternative electric suppliers between Jan. 31, 2001 and Dec. 31, 2004. It also presents a quarter-by-quarter breakdown of the total number of customers switched in terms of those who switched through aggregation versus those who switched through some other mechanism.



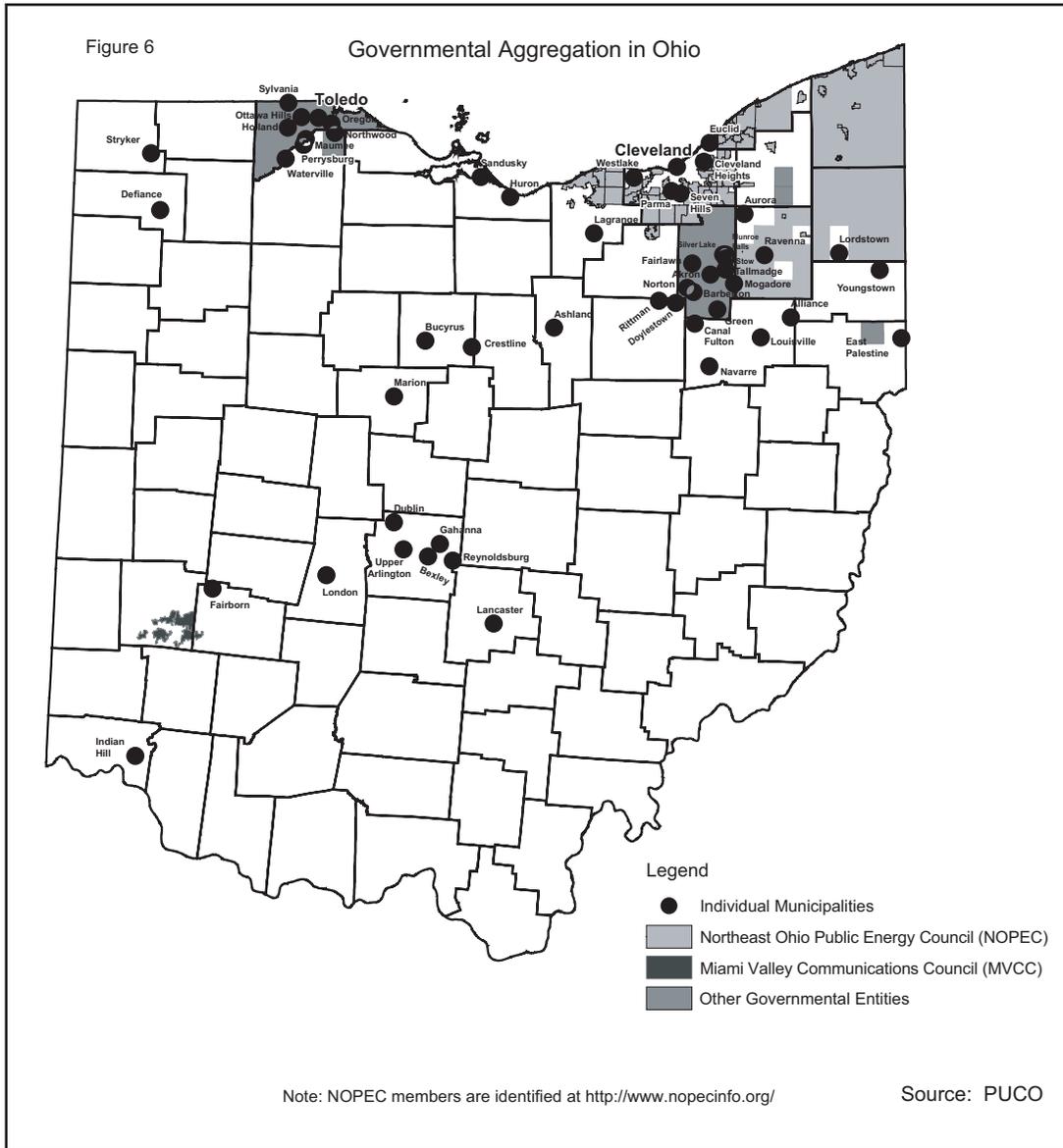
The high switching rates among residential customers can be attributed to Ohio's success in establishing governmental aggregation as authorized by SB 3. More than 170 counties, cities, villages, and townships passed ballot issues and were certified by the PUCO to allow local units of government to represent communities' interests in the competitive electricity market.¹ Figure 6 (next page) presents a map of the state indicating the geographic locations of the communities that have passed referendums and have received certification from the PUCO.

While not every governmental aggregator has become active by contracting with an alternative electric supplier to purchase competitively-priced bulk power on its behalf, more than one-third of the residential customers in FirstEnergy's service territories in Ohio (Cleveland Electric Illuminating Company, Ohio Edison Company, and Toledo Edison Company) have switched suppliers. The largest governmental aggregator in these service territories is the Northeast Ohio Public Energy Council (NOPEC). NOPEC represents more than 350,000 residential customers in eight counties and 112 communities in northeast Ohio. It is the largest public aggregator of electricity customers in the United States.²

1. The Public Utilities Commission of Ohio, "Certification Report" (February 16, 2005), "http://www.puco.ohio.gov/puco/forms/form.cfm?doc_id=116."
2. "<http://www.nopecinfo.org/>."

Figure 6

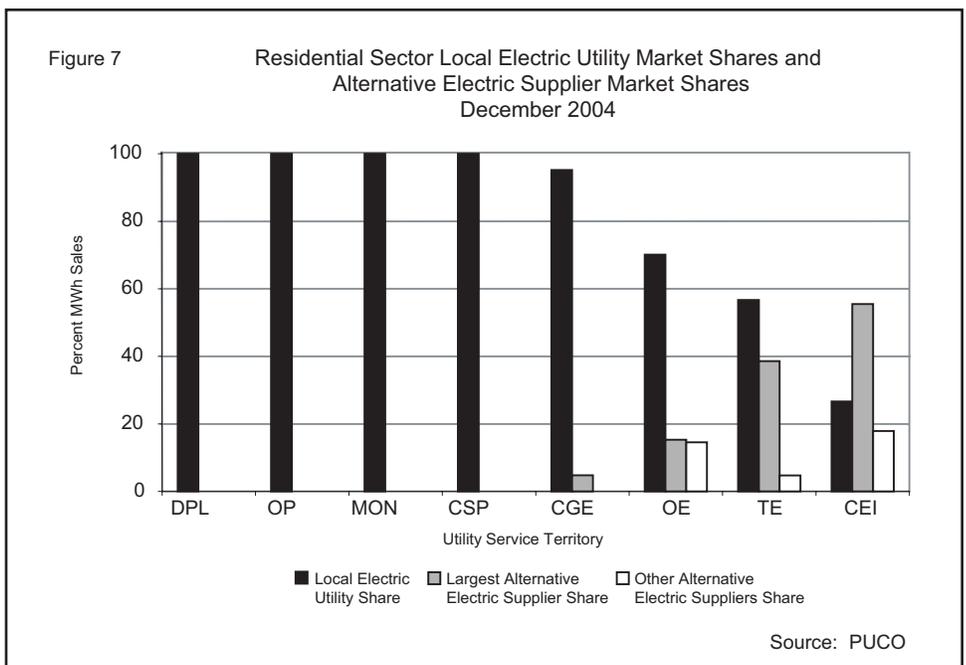
Governmental Aggregation in Ohio



The relative amount of electricity sold by alternative electric suppliers within an economic sector, or to a major customer category, is an important measure of switching. Figure 7 presents the residential sector market shares of the investor-owned local electric utilities and of the corresponding alternative electric suppliers in terms of MWh sales within each utility service area in Ohio for the month of December 2004. Alternative electric suppliers include companies owned by Ohio utility holding companies like FirstEnergy and DPL, Inc. These suppliers are generally described as affiliates in this report.

Figure 7

Residential Sector Local Electric Utility Market Shares and Alternative Electric Supplier Market Shares December 2004



In the Cleveland Electric Illuminating Company service territory, 73 percent of the MWh consumed by residential customers were supplied by alternative electric suppliers in December 2004. In the Toledo Edison Company service territory, 43 percent were supplied by alternative electric suppliers, and in the Ohio Edison Company service territory, 30 percent were supplied by alternative electric suppliers. The amount in the Cincinnati Gas and Electric Company service territory was 5 percent, and zero in the remaining service territories of the Dayton Power & Light Company, the Ohio Power Company, the Columbus Southern Power Company, and the Monongahela Power Company.

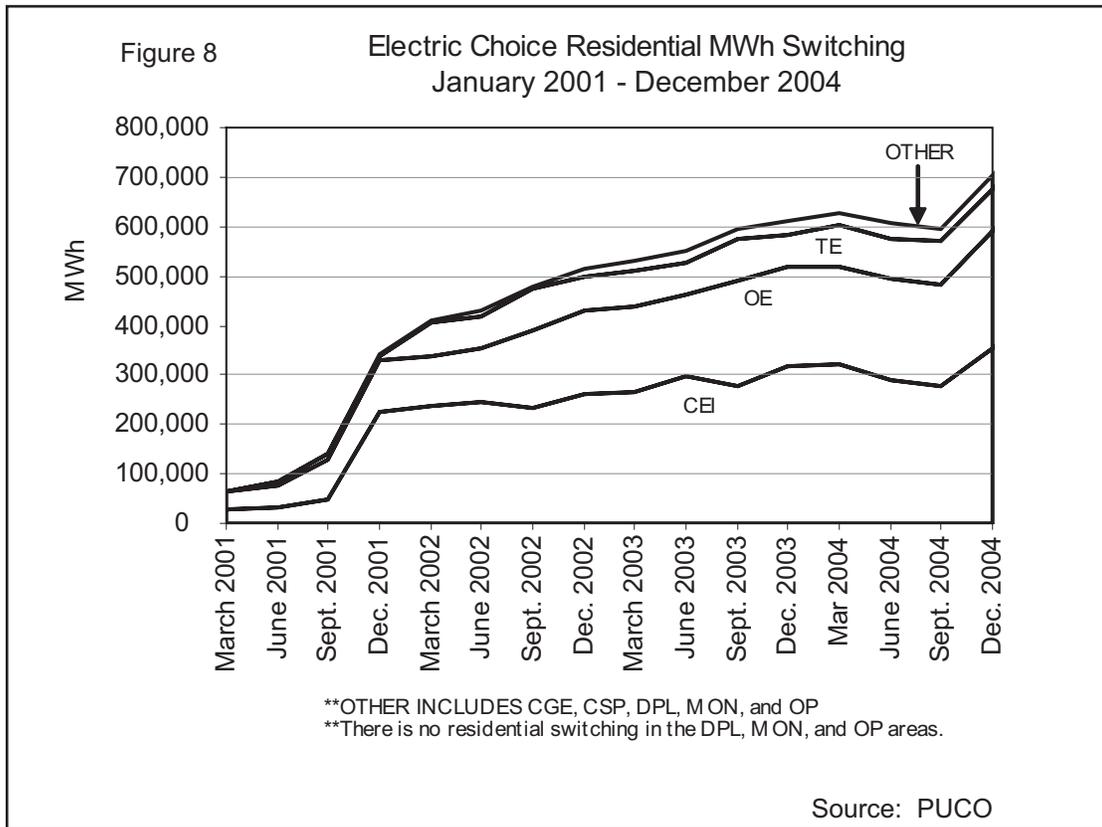
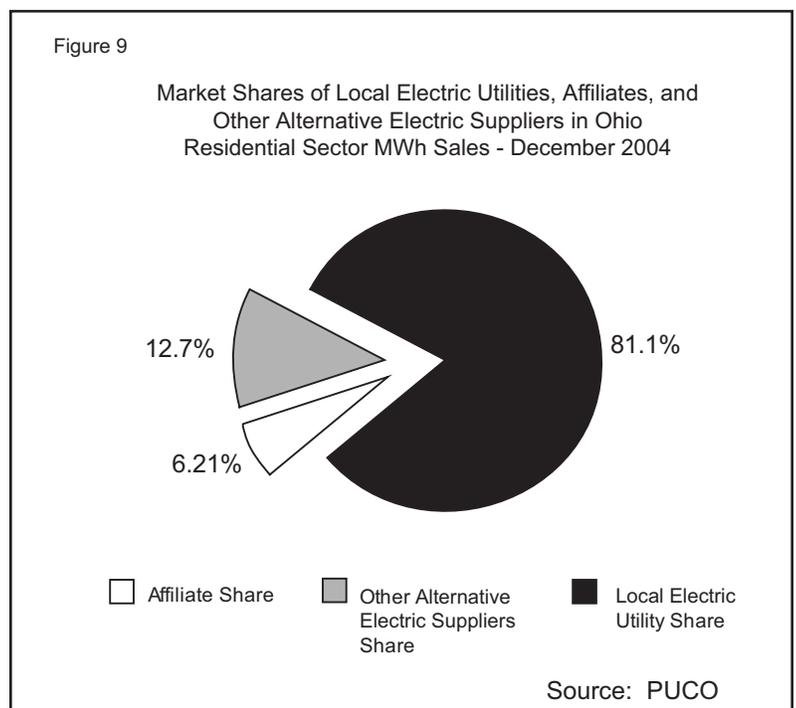


Figure 8 presents the quarter-by-quarter development of the residential sector MWh sales volumes that have switched from local electric utilities to alternative electric suppliers between Jan. 31, 2001 and Dec. 31, 2004, within each investor-owned electric utility service area in Ohio.

Figure 9 presents the residential sector MWh market shares of local electric utilities, alternative electric suppliers that are local electric utility affiliates, and other non-affiliated alternative electric suppliers from a statewide perspective. In December 2004, 81 percent of the residential usage within the combined service areas of the investor-owned electric utilities operating in Ohio was supplied by the utilities themselves. An additional 6 percent was supplied by alternative electric suppliers affiliated with an Ohio electric utility. These sales may occur either within an affiliated utility's service territory, or in a non-affiliated utility's service territory. The remaining 13 percent was provided by alternative electric suppliers that were not affiliated with any electric utility operating in Ohio.



Commercial Sector Switch Rates

Figure 10 presents the commercial sector market shares of the investor-owned local electric utilities and corresponding alternative electric suppliers in terms of MWh sales within each utility service area in Ohio for the month of December 2004. The commercial sector switch rates for the month of December 2004 were 61 percent in the Cleveland Electric Illuminating Company service territory, 49 percent in the Toledo Edison Company service territory, 42 percent in the Ohio Edison Company service territory, 38 percent in the Cincinnati Gas and Electric Company service territory, and 19 percent in the Dayton Power and Light Company service territory. The switch rate was 4 percent in the Columbus Southern Power Company service territory, and zero in the Monongahela Power Company and the Ohio Power Company service territories.

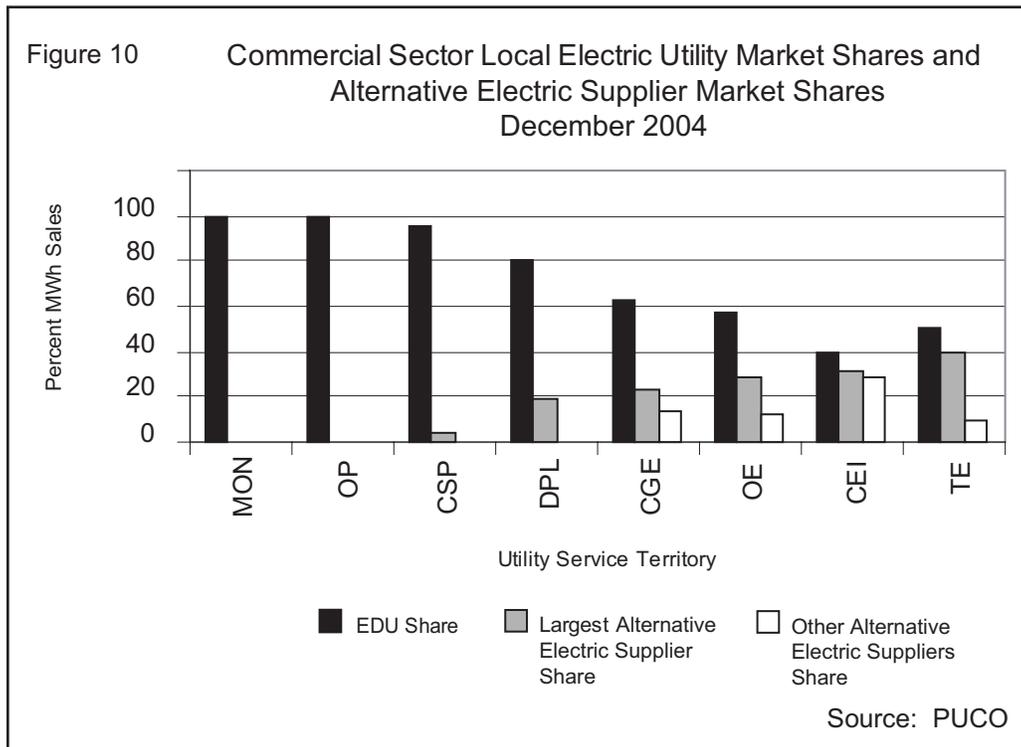


Figure 11 presents the quarter-by-quarter development of commercial sector MWh sales volumes that have switched from local electric utilities to alternative electric suppliers, between Jan. 31, 2001 and Dec. 31, 2004, within each investor-owned electric utility service area in Ohio.

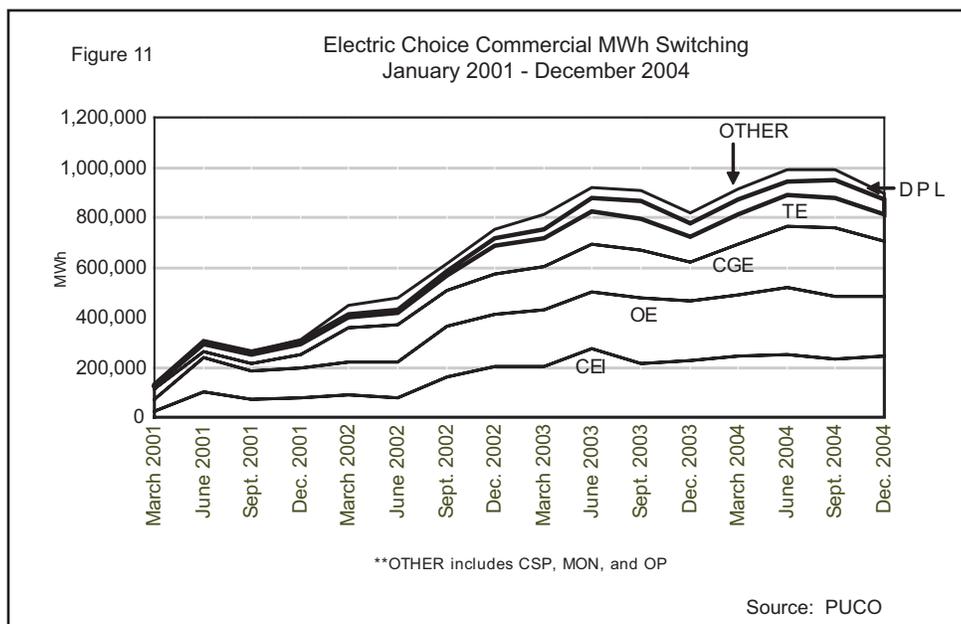
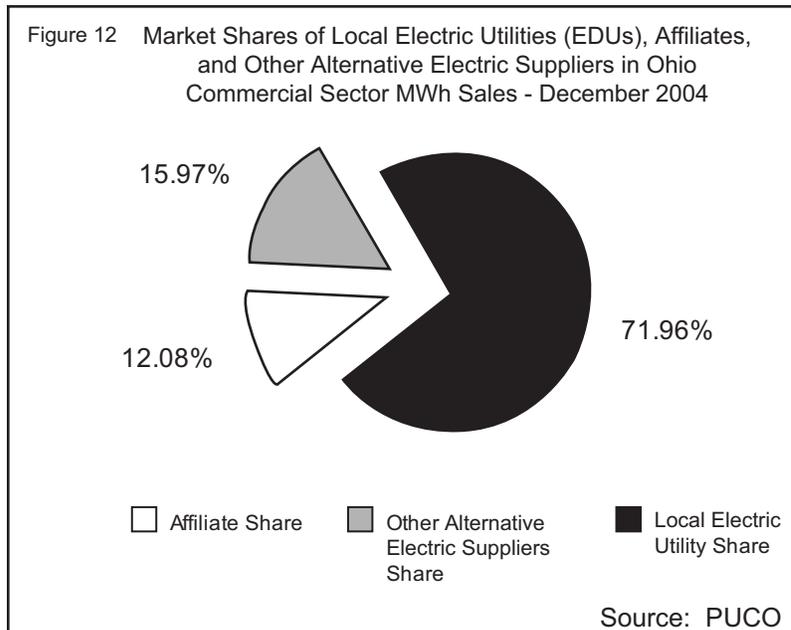


Figure 12 presents the commercial sector MWh market shares of local electric utilities, alternative electric suppliers that are local electric utility affiliates, and other non-affiliated alternative electric suppliers from a statewide perspective. In December 2004, 72 percent of the commercial demand within the combined service territories of the investor-owned electric utilities operating in Ohio was supplied by the utilities themselves. An additional 12 percent was supplied by alternative electric suppliers affiliated with a local electric utility operating in Ohio. The remaining 16 percent was provided by alternative electric suppliers that were not affiliated with any electric utility operating in Ohio.



Industrial Sector Switch Rates

Figure 13 presents the industrial sector market shares of the investor-owned local electric utilities and of the corresponding alternative electric suppliers in terms of MWh sales within each local electric utility service area in Ohio for the month of December 2004. The industrial sector switch rates attained by the end of December 2004 were 64 percent in the Dayton Power and Light Company service territory, 29 percent in the Ohio Edison Company service territory, 18 percent in the Cleveland Electric Illuminating Company service territory, 9 percent in the Cincinnati Gas and Electric Company service territory, and 4 percent in the Toledo Edison Company service territory. The switch rate was zero in the Columbus Southern Power Company, the Monongahela Power Company, and the Ohio Power Company service territories.

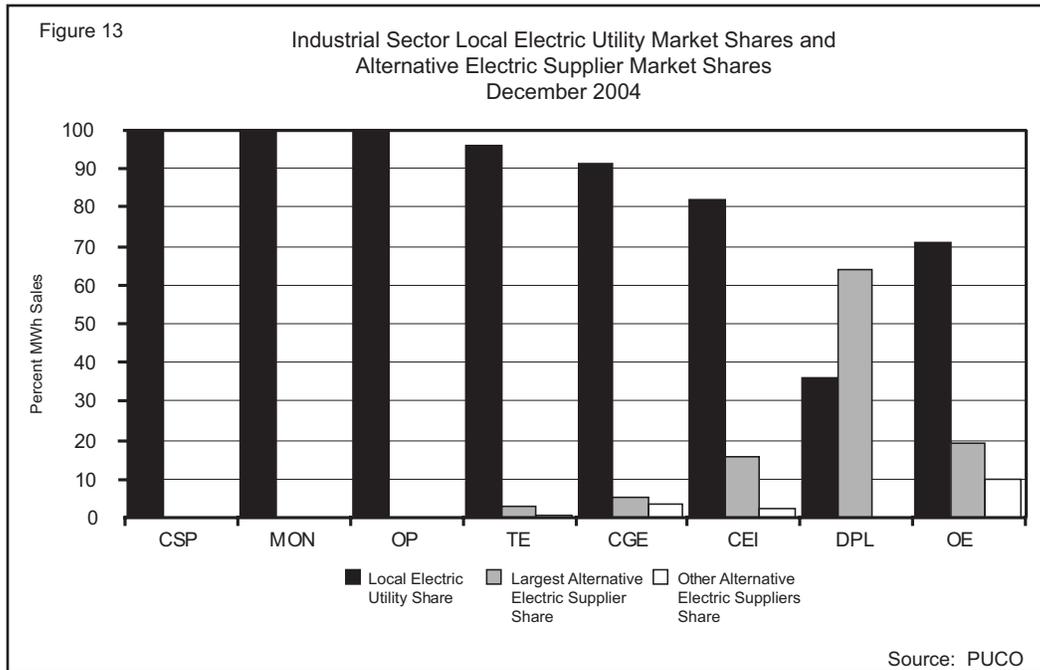


Figure 14 presents the quarter-by-quarter development of industrial sector MWh sales volumes that have switched from local electric utilities to alternative electric suppliers between Jan. 31, 2001 and Dec. 31, 2004, within each investor-owned electric utility service area in Ohio.

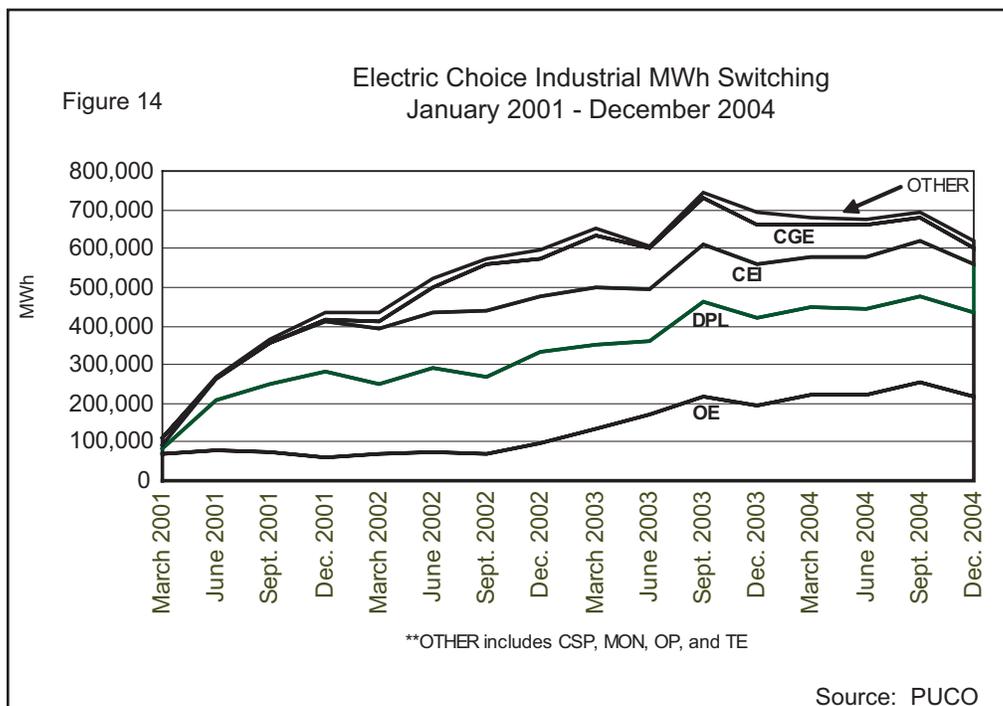
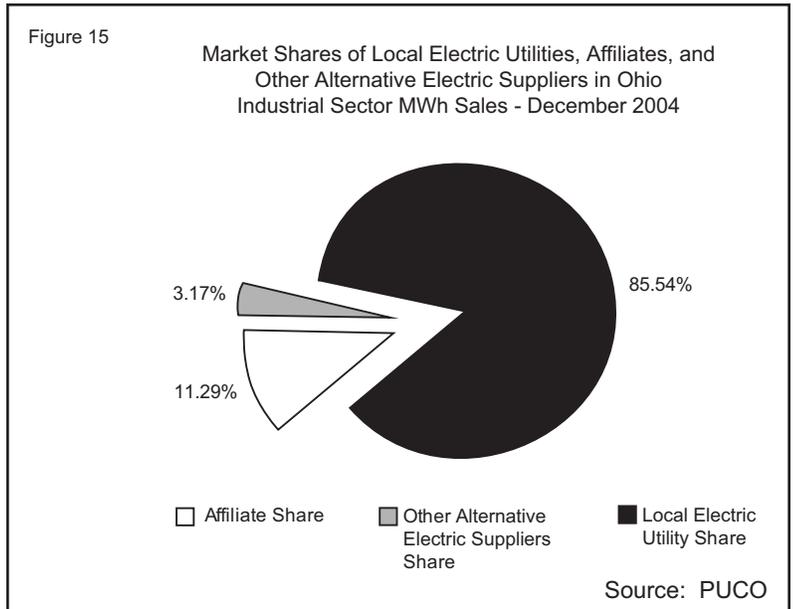


Figure 15 presents the industrial sector MWh market shares of local electric utilities, alternative electric suppliers that are local electric utility affiliates, and other alternative electric suppliers from a statewide perspective. In December 2004, 86 percent of the industrial demand within the combined service territories of the investor-owned local electric utilities operating in Ohio was supplied by the utilities themselves. An additional 11 percent was supplied by alternative electric suppliers affiliated with a local electric utility operating in Ohio. The remaining 3 percent was provided by alternative electric suppliers that were not affiliated with any electric utility operating in Ohio.



Current Issues

Market-based Standard Service Offer and the Competitive Bidding Process

SB 3 requires that each Ohio local electric utility provide customers within their certified territory with a market-based standard service offer to maintain essential electric service, as well as options to purchase competitive electric retail service through a competitive bidding process after the market development period ends. The PUCO initiated a rule-making proceeding to establish these requirements in August 2001 and issued final rules in December 2003.

The rules require local electric utilities to offer both a market-based fixed rate service option and a market-based variable rate service option for customers who do not choose an alternative electric supplier. A variable rate service is one in which the price of electric supply service is not specified in advance and may vary with changes in wholesale market prices and conditions. A fixed rate option is one in which the price of electric supply service is specified in advance for a definite period of time.

FirstEnergy conducted a competitive bid process as a market test of its rate stabilization plan (RSP) price. The completion of this auction, and the resulting adoption of the RSP, resulted in compliance with the rule. Ohio's other electric distribution utilities, in light of their RSP filings, sought and were granted waivers from the rules. These RSPs are discussed in detail in the following section.

On April 6, 2005, the PUCO approved a modified version of an application made by Monongahela Power Company which includes both a market-based fixed rate and variable rate standard service offer. The company chose not to file a RSP like the other local electric utilities. Because of concerns raised by the PUCO and the General Assembly regarding Monongahela Power's application and the current market conditions, on June 14, 2005 the PUCO directed Monongahela Power and AEP to pursue potential terms and conditions for transferring Monongahela Power's Ohio territory to AEP. The companies reached an agreement regarding the transfer on Aug. 2, 2005 and will file an application for PUCO review and approval. The transaction is also subject to review by the Securities and Exchange Commission and the FERC. The companies plan to have the transfer complete by the end of 2005, in order to ensure rate stability for customers in the service territory.

Rate Stabilization Plans

To help prevent electric customers from facing "sticker shock" from electric rates when the market development period ends, on Dec. 31, 2005, the PUCO and several of Ohio's local electric utilities have developed RSPs to ensure the continuation of stable, competitive rates. The establishment of these plans is supported by the Ohio legislature which issued a report in October 2003 encouraging the PUCO to "continue to take the necessary steps...to ensure that a healthy competitive market is in place before full electric competition begins."

The PUCO has approved RSPs for American Electric Power (comprised of Columbus Southern Power Company and Ohio Power Company), Cincinnati Gas and Electric Company, Dayton Power and Light Company, and FirstEnergy (comprised of Cleveland Electric Illuminating Company, Ohio Edison Company, and Toledo Edison Company). These RSPs will provide rate stability for customers, financial stability for electric utilities to ensure reliable service for customers, and provide for further development of competitive markets.

American Electric Power

- Three year RSP begins Jan. 1, 2006.
- Generation rates for all customer classes will increase by 3 percent each year (2006, 2007, and 2008) for Columbus Southern Power Company customers and by 7 percent for Ohio Power Company customers. If customers choose a competitive electric supplier during the RSP, they can avoid these increases.
- The 5 percent residential discount on generation rates will end on Dec. 31, 2005, consistent with Senate Bill 3 and other electric service territories in Ohio.
- Current distribution rates and charges will remain in effect through 2008.
- American Electric Power will provide \$14 million to assist low-income customers and economic development.

Cincinnati Gas and Electric Company

- The PUCO ended Cincinnati Gas and Electric Company's market development period for nonresidential customers one year early and approved a RSP that allows the company to gradually increase generation rates for these customers beginning on Jan. 1, 2005. These increases can be avoided by the first 50 percent of nonresidential customers who shop for a competitive electric supplier.
- Residential customers will notice similar generation rate increases beginning in 2006. These increases can be avoided by the first 25 percent of residential customers who shop for a competitive supplier.
- The increases to the generation rates for both nonresidential and residential customers will be audited by PUCO staff.

Dayton Power and Light Company

- Three year RSP begins Jan. 1, 2006.
- The RSP freezes transmission and distribution rates and caps the price of generation.
- If market prices fall during the RSP, it can be terminated in order to provide market-based prices to customers through competitive methods.

FirstEnergy

- The RSP provides for a competitive bidding process, or auction, to be conducted periodically on FirstEnergy's electric load to see if lower rates could be obtained.
- The first auction was conducted in December 2004. The PUCO rejected the results of the auction, finding that the RSP provided lower electricity rates. The PUCO will hold additional auctions in the future to continue to test the market for lower generation rates.
- Business and residential customers are guaranteed that electric rates will not increase through 2008 except for fuel changes and material tax changes.
- FirstEnergy will provide \$8.75 million in funding for energy efficiency programs and \$10 million for economic development programs.

Investigating Ohio Utilities' Finances

Financial integrity is an important aspect of any company's success. The PUCO is committed to ensuring that Ohio's utility companies remain viable businesses that provide quality service to their customers. In the *2001-2002 Ohio Retail Electric Choice Programs Report of Market Activity*, the PUCO expressed its concern over the questionable financial activities of certain public utilities, their parent companies, and affiliate companies and emphasized the need to review the financial condition of Ohio's major public utilities.

The PUCO ordered an investigation into the matter to identify measures available to ensure that the regulated operations of Ohio's public utilities are not impacted by the adverse financial consequences of unregulated parent or affiliate company operations. Ohio's public utility industry, interested stakeholders, and the PUCO staff filed comments expressing their respective positions regarding the PUCO's jurisdiction, existing regulatory tools, and suggested actions the PUCO should consider to accomplish its goals.

As a result of this investigation, the PUCO has decided to initiate utility-specific investigations on a case-by-case basis as warranted. In April 2004, responding to actions taken by credit rating agencies, the PUCO opened the first investigation of this kind in Ohio history to thoroughly examine the financial condition of Dayton Power and Light Company's parent DPL, Inc. The purpose of the investigation was to ensure that Dayton Power and Light Company's financial condition and the quality and reliability of its service were not harmed by any non-utility activities of its parent or its affiliates. As part of the investigation, the PUCO directed Dayton Power and Light Company to submit a plan describing how its organization, policies, practices, and procedures protect ratepayers from any detrimental impacts of parent company and affiliate activities. The plan was filed with the PUCO in February 2005, and will be used as a tool by which to measure Dayton Power and Light Company's financial integrity and reliability of its regulated utility service on an ongoing basis.

Regional Transmission Organizations (RTO)

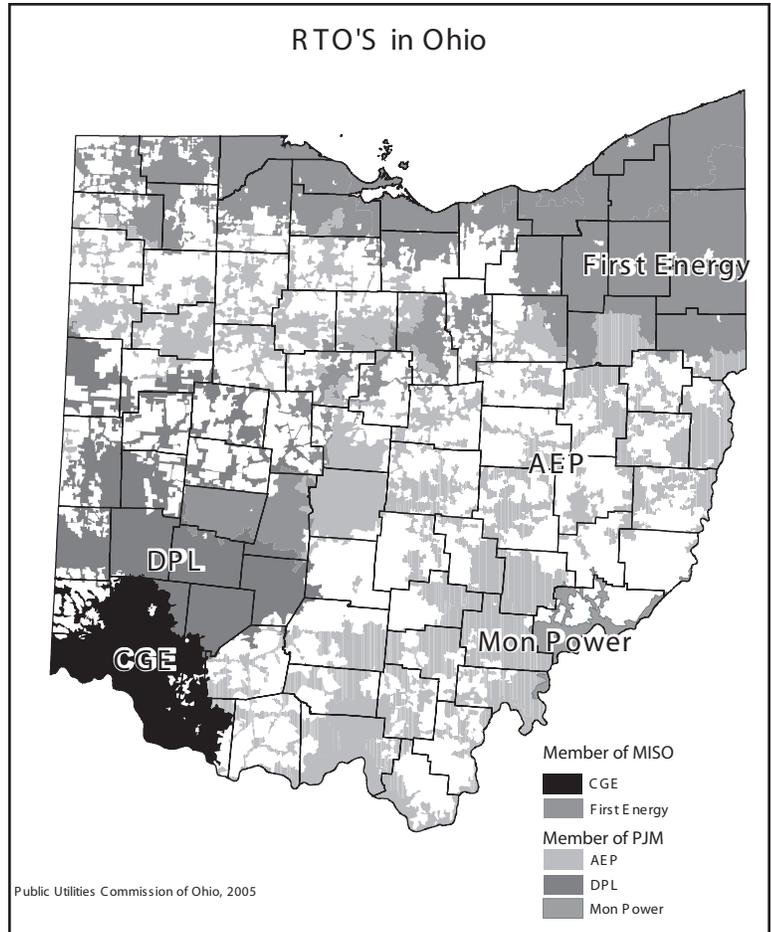
Under SB 3, Ohio's local electric utilities are required to transfer control of their transmission facilities to regional transmission entities. Currently, Ohio local electric utilities are split between two such organizations – the Midwest Independent System Operator (MISO) and PJM Regional Transmission Organization.

Midwest Independent System Operator (MISO)

FERC approved the MISO as the nation's first regional transmission organization (RTO) in December 2001, and MISO began selling regional transmission service in February 2002. MISO monitors electric reliability throughout much of the Midwest – an area that encompasses more than 7,000 miles of interconnected, high voltage transmission lines in 15 states and one Canadian province. MISO is responsible for coordinating the operation of the wholesale electric transmission system and ensuring fair access to more than 107,000 MW of peak load and 132,000 MW of generation.

Currently, Cincinnati Gas and Electric and FirstEnergy companies are in the MISO. Cincinnati Gas and Electric is the only local electric utility that has been part of the MISO since it began selling regional transmission service under its tariff on Feb. 1, 2001. FirstEnergy joined MISO in October 2003.

The MISO state commissions have formed a regional organization, the Organization of MISO States (OMS) to more effectively participate and communicate with the MISO and the FERC. The PUCO is actively involved in OMS as a leader in the MISO policy development. PUCO Commissioner Judy Jones serves on the MISO Advisory Committee for the state commissions.



PJM Regional Transmission Organization

PJM was established in 1927 as an integrated power pool between three utilities in Pennsylvania, New Jersey and Maryland. Since then, PJM has become the nation's first fully functioning regional transmission organization, operating the world's largest competitive wholesale electricity market and one of North America's largest power grids. PJM coordinates and directs the operation of the region's transmission grid; and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion.

In April 2002, Monongahela Power integrated its transmission system with PJM. The American Electric Power companies and Dayton Power and Light integrated in October 2004. With these integrations, PJM, now has a peak demand of almost 110,700 MW and includes nearly 1,000 generating units with a combined capability of more than 137,490 MW. PJM now serves 45.3 million people in a 138,510 square mile territory in all or parts of Delaware, Indiana, Illinois, Kentucky, Maryland, Michigan, New Jersey, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and the District of Columbia.

A PJM organization for states, similar to OMS, was recently formed to handle the future interaction between PJM and state commissions. PUCO Chairman Alan Schriber serves on the PJM states organization board.

Revisions to Restructuring Rules

In accordance with Ohio statute, the PUCO is required by the Joint Committee on Agency Rule (JCARR) to review each of its Ohio Administrative Code rules at least once every five years.

In 2004, after successful completion of JCARR review, the PUCO enacted minimum service quality, safety, and reliability requirements for local electric utilities operating in Ohio. These rules include service and safety standards applicable to electric utility companies as well as standards for competitive retail electric service providers.

Appendix A

Switch Rates from Local Electric Utility Companies to Alternative Electric Suppliers in Terms of Megawatt-Hour Sales for the Month of December 31, 2004

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Cleveland Electric Illuminating Company	CEI	31-Dec	2004	129057	155405	558641	860641
CRES Providers	CEI	31-Dec	2004	355357	242469	123263	721089
Total Sales	CEI	31-Dec	2004	484414	397874	681904	1581730
EDU Share	CEI	31-Dec	2004	26.64%	39.06%	81.92%	54.41%
Electric Choice Sales Switch Rates	CEI	31-Dec	2004	73.36%	60.94%	18.08%	45.59%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
The Cincinnati Gas and Electric Company	CGE	31-Dec	2004	557529	359861	417785	1449292
CRES Providers	CGE	31-Dec	2004	28017	216815	41116	287016
Total Sales	CGE	31-Dec	2004	585546	576676	458901	1736308
EDU Share	CGE	31-Dec	2004	95.22%	62.40%	91.04%	83.47%
Electric Choice Sales Switch Rates	CGE	31-Dec	2004	4.78%	37.60%	8.96%	16.53%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Columbus Southern Power Company	CSP	31-Dec	2004	573318	617362	221998	1416847
CRES Providers	CSP	31-Dec	2004	0	28611	0	28611
Total Sales	CSP	31-Dec	2004	573318	645973	221998	1445458
EDU Share	CSP	31-Dec	2004	100.000%	95.571%	100.000%	98.021%
Electric Choice Sales Switch Rates	CSP	31-Dec	2004	0.000%	4.429%	0.000%	1.979%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
The Dayton Power and Light Company	DPL	31-Dec	2004	446044	235121	121159	937898
CRES Providers	DPL	31-Dec	2004	0	56686	216571	277371
Total Sales	DPL	31-Dec	2004	446044	291807	337730	1215269
EDU Share	DPL	31-Dec	2004	100.00%	80.57%	35.87%	77.18%
Electric Choice Sales Switch Rates	DPL	31-Dec	2004	0.00%	19.43%	64.13%	22.82%

Source: PUCO, Division of Policy & Market Analysis, Forms MM1-2 and MM1-3.

Note1: Total sales includes residential, commercial, industrial and other sales.

Note2: The switch rate calculation is intended to present the broadest possible picture of the state of retail electric competition in Ohio.

Appropriate calculations made for other purposes may be based on different data, and may yield different results.

**Switch Rates from Local Electric Utility Companies to Alternative Electric Suppliers in
Terms of Megawatt-Hour Sales for the Month of December 31, 2004**

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Monongahela Power Company	MON	31-Dec	2004	20448	15028	102357	138005
CRES Providers	MON	31-Dec	2004	0	0	0	0
Total Sales	MON	31-Dec	2004	20448	15028	102357	138005
EDU Share	MON	31-Dec	2004	100.00%	100.00%	100.00%	100.00%
Electric Choice Sales Switch Rates	MON	31-Dec	2004	0.00%	0.00%	0.00%	0.00%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Ohio Edison Company	OEC	31-Dec	2004	549723	334276	532977	1432575
CRES Providers	OEC	31-Dec	2004	234115	243717	220147	697980
Total Sales	OEC	31-Dec	2004	783838	577993	753124	2130555
EDU Share	OEC	31-Dec	2004	70.13%	57.83%	70.77%	67.24%
Electric Choice Sales Switch Rates	OEC	31-Dec	2004	29.87%	42.17%	29.23%	32.76%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Ohio Power Company	OP	31-Dec	2004	627735	475301	1296074	2407931
CRES Providers	OP	31-Dec	2004	0	0	0	0
Total Sales	OP	31-Dec	2004	627735	475301	1296074	2407931
EDU Share	OP	31-Dec	2004	100.00%	100.00%	100.00%	100.00%
Electric Choice Sales Switch Rates	OP	31-Dec	2004	0.00%	0.00%	0.00%	0.00%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Sales	Commercial Sales	Industrial Sales	Total Sales
Toledo Edison Company	TE	31-Dec	2004	111756	113135	403717	632737
CRES Providers	TE	31-Dec	2004	85347	110183	16516	212046
Total Sales	TE	31-Dec	2004	197103	223318	420233	844783
EDU Share	TE	31-Dec	2004	56.70%	50.66%	96.07%	74.90%
Electric Choice Sales Switch Rates	TE	31-Dec	2004	43.30%	49.34%	3.93%	25.10%

Source: PUCO, Division of Policy & Market Analysis, Forms MM1-2 and MM1-3.

Note1: Total sales includes residential, commercial, industrial and other sales.

Note2: The switch rate calculation is intended to present the broadest possible picture of the state of retail electric competition in Ohio.

Appropriate calculations made for other purposes may be based on different data, and may yield different results.

Appendix B

Switch Rates from Local Electric Utility Companies to Alternative Electric Suppliers in Terms of Numbers of Customers for the Month of December 31, 2004

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
Cleveland Electric Illuminating Company	CEI	31-Dec	2004	202753	19005	1664	230134
CRES Providers	CEI	31-Dec	2004	454237	58252	540	513029
Total Customers	CEI	31-Dec	2004	656990	77257	2204	743163
EDU Share	CEI	31-Dec	2004	30.86%	24.60%	75.50%	30.97%
Electric Choice Customer Switch Rates	CEI	31-Dec	2004	69.14%	75.40%	24.50%	69.03%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
The Cincinnati Gas and Electric Company	CGE	31-Dec	2004	564719	64655	2230	636084
CRES Providers	CGE	31-Dec	2004	20180	2508	115	22808
Total Customers	CGE	31-Dec	2004	584899	67163	2345	658892
EDU Share	CGE	31-Dec	2004	96.55%	96.27%	95.10%	96.54%
Electric Choice Customer Switch Rates	CGE	31-Dec	2004	3.45%	3.73%	4.90%	3.46%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
Columbus Southern Power Company	CSP	31-Dec	2004	617434	80840	3059	701627
CRES Providers	CSP	31-Dec	2004	0	1296	0	1296
Total Customers	CSP	31-Dec	2004	617434	82136	3059	702923
EDU Share	CSP	31-Dec	2004	100.00%	98.42%	100.00%	99.82%
Electric Choice Customer Switch Rates	CSP	31-Dec	2004	0.00%	1.58%	0.00%	0.18%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
The Dayton Power and Light Company	DPL	31-Dec	2004	453653	47360	1557	508788
CRES Providers	DPL	31-Dec	2004	0	899	283	1267
Total Customers	DPL	31-Dec	2004	453653	48259	1840	510055
EDU Share	DPL	31-Dec	2004	100.00%	98.14%	84.62%	99.75%
Electric Choice Customer Switch Rates	DPL	31-Dec	2004	0.00%	1.86%	15.38%	0.25%

Source: PUCO, Division of Policy & Market Analysis, Forms MM1-2 and MM1-3.

Note1: Total customers includes residential, commercial, industrial and other customers.

Note2: The switch rate calculation is intended to present the broadest possible picture of the state of retail electric competition in Ohio.

Appropriate calculations made for other purposes may be based on different data, and may yield different results.

**Switch Rates from Local Electric Utility Companies to Alternative Electric Suppliers in
Terms of Numbers of Customers for the Month of December 31, 2004**

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
Monongahela Power Company	MON	31-Dec	2004	23903	3387	891	28208
CRES Providers	MON	31-Dec	2004	0	0	0	0
Total Customers	MON	31-Dec	2004	23903	3387	891	28208
EDU Share	MON	31-Dec	2004	100.00%	100.00%	100.00%	100.00%
Electric Choice Customer Switch Rates	MON	31-Dec	2004	0.00%	0.00%	0.00%	0.00%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
Ohio Edison Company	OEC	31-Dec	2004	612749	66679	614	683907
CRES Providers	OEC	31-Dec	2004	306626	39622	346	346595
Total Customers	OEC	31-Dec	2004	919375	106301	960	1030502
EDU Share	OEC	31-Dec	2004	66.65%	62.73%	63.96%	66.37%
Electric Choice Customer Switch Rates	OEC	31-Dec	2004	33.35%	37.27%	36.04%	33.63%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
Ohio Power Company	OP	31-Dec	2004	600498	104031	8763	716026
CRES Providers	OP	31-Dec	2004	0	0	0	0
Total Customers	OP	31-Dec	2004	600498	104031	8763	716026
EDU Share	OP	31-Dec	2004	100.00%	100.00%	100.00%	100.00%
Electric Choice Customer Switch Rates	OP	31-Dec	2004	0.00%	0.00%	0.00%	0.00%

Provider Name	EDU Service Area	Quarter Ending	Year	Residential Customers	Commercial Customers	Industrial Customers	Total Customers
Toledo Edison Company	TE	31-Dec	2004	135092	16830	198	152650
CRES Providers	TE	31-Dec	2004	126746	18395	60	145201
Total Customers	TE	31-Dec	2004	261838	35225	258	297851
EDU Share	TE	31-Dec	2004	51.59%	47.78%	76.74%	51.25%
Electric Choice Customer Switch Rates	TE	31-Dec	2004	48.41%	52.22%	23.26%	48.75%

Source: PUCO, Division of Policy & Market Analysis, Forms MM1-2 and MM1-3.

Note1: Total customers includes residential, commercial, industrial and other customers.

Note2: The switch rate calculation is intended to present the broadest possible picture of the state of retail electric competition in Ohio.

Appropriate calculations made for other purposes may be based on different data, and may yield different results.

Appendix C

Summary of Aggregation Activity for the Year 2004

		Residential Customers		
Year	Month	Customer Switching thru Aggregation	Total Customer Switching	Percent Switching thru Aggregation
2004	Mar	853229	899527	94.85%
2004	Jun	864756	891171	97.04%
2004	Sep	878225	895496	98.07%
2004	Dec	858549	907789	94.58%
		Commercial Customers		
Year	Month	Customer Switching thru Aggregation	Total Customer Switching	Percent Switching thru Aggregation
2004	Mar	104737	119523	87.63%
2004	Jun	104674	118367	88.43%
2004	Sep	108143	118372	91.36%
2004	Dec	106697	120964	88.21%
		Industrial Customers		
Year	Month	Customer Switching thru Aggregation	Total Customer Switching	Percent Switching thru Aggregation
2004	Mar	119	1731	6.87%
2004	Jun	123	1429	8.61%
2004	Sep	120	1401	8.57%
2004	Dec	118	1344	8.78%

Source: PUCO, Division of Policy & Market Analysis, Forms MM1-3 and MM1-4.

