

**The Ohio Retail Electric Choice Programs  
Report on Market Activity  
2003-2005**  
*Before the House Public Utilities and Energy Committee*

**Public Utilities Commission of Ohio  
Alan R. Schriber, Chairman**

**January 11, 2006**

**PUCO MISSION:**

*To ensure all residential and business consumers access to adequate, safe,  
and reliable utility services at fair prices, while facilitating an environment  
that provides competitive choices.*



Chairman Hagan, members of the House Public Utilities and Energy Committee, I am here today to testify on the status of electric choice in Ohio.

In August 2005, and in compliance with the provisions of Senate Bill 3 (SB 3), I presented to you a progress report on the changes that have taken place in the state's electric industry as well as the benefits that have accrued to industrial, commercial, and residential customers. You will find in the attached report an update on the status of Ohio's competitive electric market using up-to-date official switching statistics and a summary of the key market development issues currently before the PUCO.

As you know, Governor Bob Taft signed SB 3 on July 6, 1999, which ushered into Ohio a sweeping restructuring of the electric industry. The legislation changed the way consumers shop for electricity effective January 1, 2001. As a result, where suppliers are active, customers can choose the company that supplies their electric power.

When SB 3 was adopted in 1999, the nation had not yet experienced the economic and psychological ramifications of the California experience. Nor had we experienced the fallout that accompanied the fall of Enron. Both of these events dealt competition a pretty severe blow and, the success of government aggregation aside, a fully competitive electric market had not developed as quickly as envisioned.

Senate Bill 3 provided for a five year market development period lasting from Jan. 1, 2001 to Dec. 31, 2005. During this period, rates were frozen in order to allow a competitive wholesale market to take shape. As the end of the market development period neared, the PUCO grew concerned that the limited number of competitive electric suppliers and low degree of market activity were an indication that an immediate shift to market based rates in 2006 would not be in the best interest of customers. To minimize the effects of rate "sticker shock" and gradually transition customers to market based rates, the PUCO worked with Ohio's electric utilities to develop rate stabilization plans

(RSPs). These RSPs provide rate stability for customers, financial stability for electric utilities to ensure reliable service for customers, and provide for further development of competitive markets.

The establishment of RSPs is supported by the Ohio legislature, through the Select Committee to Study Ohio's Energy Policy which issued its report to the Ohio House of Representatives in October 2003. In the report the committee encouraged the PUCO to "continue to take the necessary steps ... to ensure that a healthy competitive market is in place before full electric competition begins." RSPs are in place for American Electric Power (AEP), Cincinnati Gas and Electric (CG&E), Dayton Power and Light (DP&L), and FirstEnergy. I have attached a summary of these RSP's to my testimony.

In the FirstEnergy service territory the PUCO called for a Competitive Bid Process as a market test of the FirstEnergy RSP price. In December 2004, the PUCO held an auction to see if an alternative supplier could provide cheaper generation service to FirstEnergy's customers. After reviewing the bids, the PUCO decided that the best course of action was to reject the offers because the RSP filed by FirstEnergy offered lower rates. The PUCO retained the option to hold future bids, and the next auction is scheduled for March of this year. If subsequent offers provide generation service at lower rates, customers will benefit; if no offers present customer savings, rates established through the RSP will continue through 2008.

The FirstEnergy territory is also home of the largest aggregation group in the country, the Northeast Ohio Public Energy Council (NOPEC). Last year, the competitive retail electric supplier to NOPEC, Green Mountain Energy, pulled out of Ohio one year before their contract was set to expire. We were disappointed that Green Mountain Energy decided to leave the state, but we recognize this was a business decision by the company. We were encouraged that FirstEnergy Solutions worked out an arrangement with NOPEC to continue providing savings to these aggregation customers.

In Southeast Ohio, Monongahela Power chose not to file a RSP. Due to concerns raised by the PUCO and the Ohio General Assembly regarding the current market conditions, 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 and the PUCO approved the transaction in order to ensure rate stability for customers in the service territory. Since January 1, 2006, former Monongahela Power customers have been served by AEP at a much lower rate than the proposed MonPower market rate.

As I mentioned earlier, the effects of the California experience a little over a year into our Market Development Period, and the fall of Enron shortly thereafter had dealt competition a pretty severe blow. The psychological effects had a tremendous impact on the wholesale electricity market, stalling any progress at the federal level.

The PUCO has several concerns that we are currently working to address at the federal level to allow for the development of a wholesale electricity market that will benefit retail competition. One of the biggest hurdles we are trying to overcome is the duplicate Regional Transmission Organization (RTO) structures within Ohio. Of Ohio's four investor owned utilities, two belong to the Midwest Independent System Operator (MISO) and two belong to the PJM Interconnection L.L.C. (PJM). This lack of a single statewide footprint has produced artificial barriers to commerce with neighboring utilities.

The separate operational rules and business practices of the PJM and MISO, established to meet only the circumstances within each RTO, actually work to prohibit or stifle cross-RTO border trading. As a member of the congressionally created Federal-State Joint Board organized to address this matter, I will recommend to Congress that each RTO's operational rules and practices be reviewed and amended to recognize and accommodate cross-RTO trading in order for the development of an open and common wholesale market in the combined PJM/MISO regions. We have also worked as members of regional groups to address these concerns; as I am a member of the Organization of PJM

States Inc. (OPSI) and Commissioner Judy Jones is a member of the Organization of MISO States (OMS).

On August 8, 2005, President Bush signed the Energy Policy Act (EPAct 2005) into law, and as a result there are many initiatives underway at the Federal Energy Regulatory Commission (FERC) that will have a significant impact on the way energy markets evolve in Ohio. As a strong wholesale market is conducive to a healthy retail market in Ohio, the PUCO regularly advocates ideas and support for FERC efforts on behalf of the wholesale market through comments filed in federal cases and rulemaking dockets.

EPAct 2005 also created an opportunity to evaluate our existing regulatory structure with respect to one aspect of alternative energy usage: decentralized or “distributed” generation. Distributed generation is small-scale power generation equipment that is often owned by electric customers and is located close to or on the customer’s premises. Late last year, Governor Bob Taft directed the PUCO to work with stakeholders and the governor’s Jobs Cabinet to address potential obstacles to the expansion of distributed generation of power from these local resources. As a result of the governor’s directive, the PUCO staff will host a series of technical conferences for all interested persons to learn more about the topics that will be a focus of the Commission’s review.

The makings of a vital retail market are in place: a commitment to nurture the development of retail electric choice; statutes that provide the PUCO with administrative powers to correct the course if necessary; and lastly, a vote of confidence from you, Ohio’s lawmakers.

We still have a way to go. We have managed our way through the past five years and have in place a blueprint for the next few years that 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.

The PUCO looks forward to a continued relationship with public officials at all levels of government, especially at the Statehouse, as we work to make electric choice a success.

Thank you for this opportunity to testify. I would be happy to answer any questions you may have at this time.