

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

<b>In the Matter of the Application of the Ohio</b>	)	
<b>Edison Company, the Cleveland Electric</b>	)	
<b>Illuminating Company and the Toledo Edison</b>	)	<b>Case No. 14-1297-EL-SSO</b>
<b>Company for Authority to Provide for a Standard</b>	)	
<b>Service Offer Pursuant to R.C. 4928.143</b>	)	
<b>In the Form of an Electric Security Plan</b>	)	

**Third Supplemental Testimony of  
Tyler Comings**

*Redacted Version*

**On Behalf of  
Sierra Club**

**December 30, 2015**

**Table of Contents**

I. INTRODUCTION AND PURPOSE OF TESTIMONY..... 1

II. SUMMARY OF TESTIMONY ..... 1

II. [REDACTED] THE COMPANIES [REDACTED] SHOW THAT RATEPAYERS WOULD PAY HUNDREDS OF MILLIONS IN THE FIRST 31 MONTHS OF THE PROPOSED TRANSACTION..... 3

III. THE TRANSACTION IS MORE COSTLY FOR RATEPAYERS THAN IT APPEARS BECAUSE THE COMPANIES HAVE NOT UPDATED KEY INFORMATION..... 7

A. THE COMPANIES’ NATURAL GAS AND ENERGY PRICE FORECASTS ARE [REDACTED] AND OUTDATED ..... 8

B. THE COMPANIES’ CAPACITY PRICE FORECASTS ARE [REDACTED] AND OUTDATED..... 15

IV. FINDINGS AND RECOMMENDATIONS ..... 19

## List of Figures and Tables

COMPETITIVELY SENSITIVE CONFIDENTIAL Figure 1: Valuation of the Proposed Transaction by the Companies and FES (Cumulative NPV, \$2015 mil) .....	4
CONFIDENTIAL Table 1: ICF Forecast Compared to 2015 Actual Prices and 2016 and 2017 NYMEX Futures .....	9
CONFIDENTIAL Figure 2: Comparison of Natural Gas Price Forecasts (\$/MMBtu)....	10
Table 2: New Natural Gas Generation in Ohio.....	11
CONFIDENTIAL Table 3: ICF Forecast Compared to 2015 Actual Prices .....	12
CONFIDENTIAL Figure 3: Sammis Historical and Projected Capacity Factor (%).....	13
CONFIDENTIAL Figure 4: Past PJM Auction Results through 2018/2019, and Companies' Projected Capacity Price (\$/MW-day) .....	16
Figure 5: PJM's 2014-2016 Gross Peak Load Forecasts ("LF") .....	18

## **List of Exhibits:**

**Exhibit TFC-43:** NYMEX futures, December 29, 2015 (downloaded from:  
[http://www.cmegroup.com/trading/energy/natural-gas/natural-gas\\_quotes\\_settlements\\_futures.html](http://www.cmegroup.com/trading/energy/natural-gas/natural-gas_quotes_settlements_futures.html)).

**Exhibit TFC-44:** Exhibit A-25, Before the Michigan PSC, Case No.: U-17920 (available at: <https://efile.mpsc.state.mi.us/efile/docs/17920/0024.pdf>)

**Exhibit TFC-45:** PJM 2016 Load Forecast (available at:  
<http://www.pjm.com/~media/documents/reports/2016-load-report.ashx>).

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q Please state your name, business address, and position.**

3 **A** My name is Tyler Comings. I am a Senior Associate with Synapse Energy  
4 Economics, Inc. (Synapse), which is located at 485 Massachusetts Avenue, Suite  
5 2, Cambridge, Massachusetts.

6 **Q Are you the same Tyler Comings who filed direct testimony in this matter on**  
7 **December 22, 2014, supplemental testimony on May 11, 2015, and second**  
8 **supplemental testimony on October 13, 2015?**

9 **A** Yes.

10 **Q What is the purpose of your third supplemental testimony?**

11 **A** My third supplemental testimony addresses the Third Supplemental Stipulation  
12 and Recommendation, which was filed on December 1, 2015. My testimony  
13 focuses on the proposed transaction in the Rider RRS. I discuss the  
14 reasonableness and currentness of the assumptions and forecasts being used by  
15 the Companies to project the potential cost or benefit to customers of the revised  
16 proposal.

17 **Q Are there any exhibits that accompany your testimony?**

18 **A** Yes. I am attaching Exhibits TFC-43 to TFC-45.

19 **II. SUMMARY OF TESTIMONY**

20 **Q Please summarize your third supplemental testimony.**

21 **A** My testimony shows the following key points:

- 22 1. In the first 31 months of the transaction, the Companies project a net loss  
23 of \$364 million to ratepayers while using FES's forecasts leads to a  
24 projected [REDACTED] over that same time period.

25

- 1           2. While the Companies project a total benefit to customers of \$260 million  
2           over the eight years of the proposed transaction, that projection is based on  
3           outdated and unreasonable forecasts of energy, natural gas, and capacity  
4           prices.
- 5
- 6           3. Using FES's assumptions shows that ratepayers [REDACTED]  
7           [REDACTED] projected for the first 31 months and, [REDACTED], would experience a  
8           [REDACTED] over the eight year term. (see COMPETITIVELY  
9           SENSITIVE CONFIDENTIAL Figure 1). This is not surprising given that  
10          if FES (a profit-maximizing entity) believed the plants to be [REDACTED],  
11          then it would not offer this transaction in the first place.
- 12
- 13          4. The Companies' valuation relies on natural gas prices that are [REDACTED] and  
14          outdated. Natural gas prices have averaged \$2.69 per MMBtu in 2015. Yet  
15          the ICF natural gas forecast used by the Companies in this proceeding  
16          predicted a price of \$4.34 per MMBtu in 2015, which is an overestimate  
17          of 61% (see CONFIDENTIAL Figure 2). ICF has developed a much [REDACTED]  
18          natural gas price forecast more recently but the Companies have not  
19          incorporated that or any other up-to-date natural gas price forecast in this  
20          case. The inclusion of such a forecast would make the coal generation  
21          involved in the proposed transaction [REDACTED] competitive.
- 22
- 23          5. The Companies' valuation relies on energy prices that are [REDACTED] and  
24          outdated. The Companies have relied on ICF projections that  
25          [REDACTED] ATSI and AEP-Dayton Hub 2015 energy prices by [REDACTED]  
26          [REDACTED] (see CONFIDENTIAL Table 3). Use of [REDACTED] energy prices has  
27          led the Companies to [REDACTED] both the capacity factor and potential  
28          energy revenue from the Sammis plant.<sup>1</sup> In contrast to the Companies'

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<sup>1</sup> Net plant generation from EIA's Electricity Data Browser, Plant level data report (available at:

1 assumptions, FES assumed [REDACTED] energy prices through 2020, which lead  
2 it to value the transaction much [REDACTED] and conclude that ratepayers would  
3 [REDACTED] over the eight year term of the proposed transaction.

4  
5 6. The Companies' valuation relies on capacity prices that are [REDACTED] and  
6 outdated. The Companies [REDACTED] the 2018/2019 capacity  
7 price (see CONFIDENTIAL Figure 4). In addition, PJM has lowered its  
8 load forecast in 2015, and is proposing to do so again in 2016 (see Figure  
9 5), while the Companies continue to rely on a load forecast from 2014 in  
10 this case. Further reductions in load forecasts put further downward  
11 pressure on capacity prices that have not been accounted for in the  
12 Companies' valuation.

13 **II. [REDACTED] THE COMPANIES [REDACTED] SHOW THAT RATEPAYERS**  
14 **WOULD PAY HUNDREDS OF MILLIONS IN THE FIRST 31 MONTHS OF THE**  
15 **PROPOSED TRANSACTION**

16 **Q Has the Third Supplemental Stipulation and Settlement changed the terms of**  
17 **the proposed transaction?**

18 **A** Yes, in two ways. First, the length of the proposed transaction has been shortened  
19 from 15 years to eight years. Second, the return on equity that the Companies  
20 would pay to FES has been reduced from 11.15% to 10.38%.<sup>2</sup>

21 **Q What will the proposed transaction cost ratepayers in the first 31 months?**

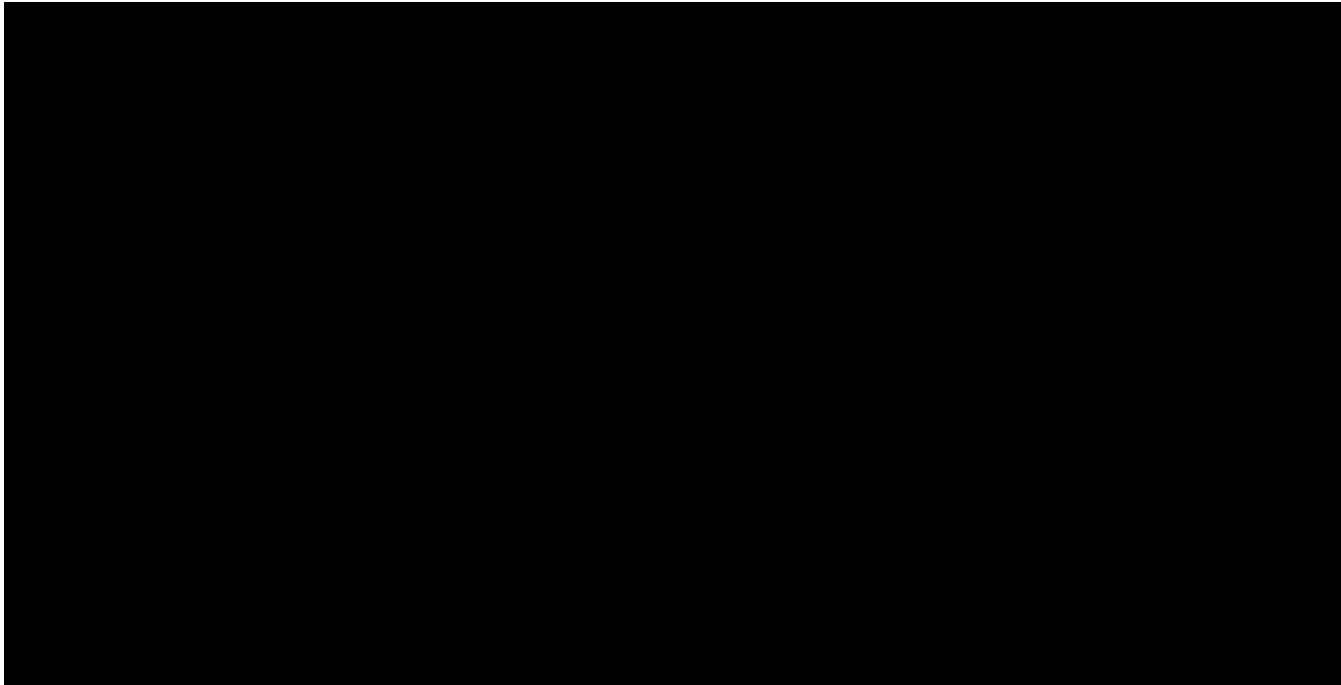
22 **A** Under the Companies' analysis of the settlement proposal, the proposed  
23 transaction results in a \$364 million loss for ratepayers from June 1, 2016 through  
24 December 31, 2018 (31 months). COMPETITIVELY SENSITIVE  
25 CONFIDENTIAL Figure 1 shows the cumulative net present value of the

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[http://www.eia.gov/electricity/data/browser/.](http://www.eia.gov/electricity/data/browser/) Companies' projection is from workpapers of Jason Lisowski.

<sup>2</sup> Fifth Supplemental Testimony of Eileen M. Mikkelsen, p.7, lines 1-10.

1 proposed transaction for the shortened term (June 2016 through May 2024) and  
2 with the lower return on equity.<sup>3</sup>



3  
4 **COMPETITIVELY SENSITIVE CONFIDENTIAL Figure 1: Valuation of the**  
5 **Proposed Transaction by the Companies and FES (Cumulative NPV, \$2015 mil)<sup>4</sup>**

6 **Q Are significant future gains necessary to make the proposed transaction a net**  
7 **benefit to ratepayers over the eight-year term?**

8 **A** Yes. The Companies’ analysis shows a net loss of \$364 million in the first 31  
9 months of the proposed transaction. The Companies project net gains from 2019  
10 through the end of the term. (In COMPETITIVELY SENSITIVE  
11 CONFIDENTIAL Figure 1 above, this is shown by the cumulative net benefit  
12 increasing after 2018). These net gains are needed in order to make up for the  
13 losses incurred in the first three years. The “breakeven” point occurs when the  
14 value of the net benefit becomes positive, which is 2021 in the Companies’

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<sup>3</sup> Data Response OCC Set 17-RPD-10-Attachment 1. Summation of “NPV Under/(Over) Recovery” for \$144.5 million in 2016, \$151.6 million 2017, and \$67.4 million in 2018.

<sup>4</sup> Data Response OCC Set 17-RPD-10-Attachment 1. Attachments FES-1 through 4.



1 analysis. (In COMPETITIVELY SENSITIVE CONFIDENTIAL Figure 1 above,  
2 this is shown by the cumulative net benefit crossing the x-axis by 2021).

3 **Q How do the Companies justify these projected future gains starting in 2019?**

4 **A** The Companies are relying on forecasts of natural gas, energy, and capacity prices  
5 that are favorable to the transaction to support their assertion that customers will  
6 realize a net gain sometime in the future. However, we now know that these  
7 outdated forecasts are [REDACTED], as I will discuss further in the next  
8 section.

9 **Q Is it likely that the Companies [REDACTED] losses in the early years?**

10 **A** Yes, for the same reasons that their projected gains in the later years are likely  
11 [REDACTED]. In 2015, actual natural gas, energy, and capacity prices have all turned  
12 out [REDACTED] than what the Companies had projected and that they continue to  
13 rely on in this filing. As it was for 2015, their outlook for 2016 through 2018 is  
14 outdated and [REDACTED] biased—meaning the predicted losses in these early years  
15 are likely [REDACTED].

16 **Q Did FES find that the proposed transaction would cost ratepayers more in  
17 the early years?**

18 **A** [REDACTED] As I discussed in my direct testimony, the Companies substituted their own  
19 assumptions (generated by ICF) in place of FES's assumptions—the latter of  
20 which used [REDACTED] energy prices and [REDACTED] carbon prices.<sup>5</sup> As shown in  
21 COMPETITIVELY SENSITIVE CONFIDENTIAL Figure 1, under FES's  
22 assumptions, the proposed transaction would result in a net [REDACTED] to  
23 ratepayers from June 2016 through the end of 2018.<sup>6</sup>

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<sup>5</sup> Direct Testimony of Tyler Comings, p.8, lines 8-17.

<sup>6</sup> Attachment FES-4 adjusted with new ROE (10.38%). Undiscounted [REDACTED] are [REDACTED] in 2016, [REDACTED]  
[REDACTED] in 2017, and [REDACTED] in 2018. The net present value (i.e. discounted) value of these [REDACTED] is  
[REDACTED].

1 **Q Did FES project that there would be [REDACTED] in the future to make up**  
2 **for [REDACTED] through 2018?**

3 **A** No. Under FES’s assumptions, the proposed transaction would [REDACTED]  
4 during the eight year term. As shown in COMPETITIVELY SENSITIVE  
5 CONFIDENTIAL Figure 1, using FES’s assumptions with the new ROE of  
6 10.38% leads to a [REDACTED] through the end of the  
7 term.

8 **Q As a [REDACTED], would FES offer this deal if it thought the**  
9 **plants would become [REDACTED] on their own?**

10 **A** No. FES’s analysis of the transaction shows that it expects [REDACTED]  
11 [REDACTED] through 2024. Under the proposal, FES will be made whole and get a  
12 guaranteed rate of return at the expense of ratepayers. If FES expected the plants  
13 to be [REDACTED] on their own over the eight-year period, then—[REDACTED]—  
14 [REDACTED]—it would not offer the deal to ratepayers.

15 **Q Would the new “[REDACTED]” in the proposed stipulation be**  
16 **triggered under either the Companies or FES valuation estimates?**

17 **A** No. The Companies claim that the settlement includes “[REDACTED]  
18 [REDACTED]” as a “[REDACTED].”<sup>7</sup> These “credits” would be paid by the  
19 Companies, not FES. Therefore, FES and its shareholders—as owners of the  
20 plants—are not [REDACTED] with ratepayers. Moreover, this “[REDACTED]”  
21 mechanism is only triggered if there are losses or insufficient gains in each year—  
22 starting in 2020. In the first three years—when [REDACTED] the Companies [REDACTED]  
23 agree there will be significant losses to ratepayers—there is no possibility of a  
24 credit. Starting in 2020, [REDACTED] predict annual gains such that the credit  
25 would not be triggered.

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<sup>7</sup> Fifth Supplemental Testimony of Eileen M. Mikkelsen, p.3, line 25 through p. 4, line 3.

1 **Q Given the substantial upfront losses that ratepayers will incur, should the**  
2 **proposed transaction be pursued?**

3 **A** No. The proposed transaction is valued based on information and assumptions  
4 that are outdated and unfairly biases the transaction to look favorable. Further, the  
5 transaction transfers significant market risks from FES to the Companies’  
6 customers. If the underlying plants were [REDACTED] on their own then FES would  
7 not need to offer this transaction.

8 Through 2018, the transaction is expected to cost \$364 million (according to the  
9 Companies) in net present value—\$155 million of which is in the first seven  
10 months alone. FES expects [REDACTED] through 2018 and that the  
11 proposed transaction [REDACTED] over the eight year term. Therefore, FES  
12 is offering virtually certain [REDACTED] for ratepayers in exchange for [REDACTED]  
13 [REDACTED]. These substantial projected short-term  
14 [REDACTED] and long-term risks to ratepayers demonstrate that the proposed transaction  
15 should not be pursued. No parties argue over the fact that ratepayers will [REDACTED] as  
16 soon as this deal is in place. The question is: how long will ratepayers continue to  
17 [REDACTED]?

18 **III. THE TRANSACTION IS MORE COSTLY FOR RATEPAYERS THAN IT**  
19 **APPEARS BECAUSE THE COMPANIES HAVE NOT UPDATED KEY**  
20 **INFORMATION**

21 **Q Have the Companies updated their assumptions of the value of the proposed**  
22 **transaction?**

23 **A** Only somewhat. The Companies have estimated the net present value of the  
24 transaction with the lower ROE and shorter term. However, the value of the  
25 transaction is highly dependent on natural gas, energy, and capacity prices that the  
26 Companies have not updated from the original analysis filed in August 4, 2014—

1 using load forecasts produced in February 2014 and natural gas price forecasts  
2 produced in [REDACTED].<sup>8</sup>

3 **Q Would updating this information change the value of the proposed**  
4 **transaction?**

5 **A** Yes. As I have described previously, the proposed transaction turns ratepayers  
6 into “de-facto merchant generators” that would be vulnerable to market risks.<sup>9</sup>  
7 The transaction would only provide a benefit to ratepayers if market prices  
8 generate enough revenue to more than make up for the cost of operating the plants  
9 and the rate of return that the Companies are obligated to pay to FES.

10 As I describe below, since the original filing, forecasts of natural gas prices,  
11 energy prices, and capacity prices have all turned out to be [REDACTED] than the  
12 Companies originally anticipated. By continuing to rely on outdated market price  
13 projections, the Companies are overstating the projected value of the eight year  
14 proposed transaction set forth in the Third Supplemental Stipulation, making it  
15 look more attractive than it actually is.

16 **A. THE COMPANIES’ NATURAL GAS AND ENERGY PRICE FORECASTS ARE**  
17 **[REDACTED] AND OUTDATED**

18 **Q How have natural gas prices and expectations changed since the Companies’**  
19 **valuation of the proposed transaction?**

20 **A** Both natural gas prices and future expectations have decreased markedly since the  
21 Companies’ valuation of the proposed transaction. Natural gas prices have  
22 averaged \$2.69 per MMBtu through November of 2015. Yet ICF predicted a price  
23 of \$4.34 per MMBtu in 2015 which is an overestimate of 61% (shown in  
24 CONFIDENTIAL Table 1). This comparison does not even incorporate more

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<sup>8</sup> See Direct Testimony of Judah Rose, Table 9 and Rose confidential workpapers.

<sup>9</sup> Direct Testimony of Tyler Comings, p.13, lines 5-8.

1 recent drops in natural gas prices in December of 2015, including a 16-year low  
2 spot Henry Hub price of \$1.65 per MMBtu on December 15th.<sup>10</sup>

3 NYMEX futures show that the market expects prices to remain below \$3 per  
4 MMBtu for 2016 and 2017. The ICF price forecast relied upon by the Companies  
5 in this proceeding is 70% higher than current market expectations for 2016, and  
6 [REDACTED] for 2017.

7 **CONFIDENTIAL Table 1: ICF Forecast Compared to 2015 Actual Prices**  
8 **and 2016 and 2017 NYMEX Futures<sup>11</sup>**

	ICF forecast (used in filing)	Actual (through Nov. 2015) and NYMEX (2016, 2017)	ICF overestimate (%)
2015	\$4.34	\$2.69	61%
2016	\$4.28	\$2.51	70%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

9

10 **Q Did you raise the issue that natural gas forecasts were too high previously?**

11 **A** Yes, I have addressed this issue several times. In my direct testimony (filed on  
12 December 22, 2014), I pointed out that the ICF forecasts were already too high for  
13 2015 and 2016.<sup>12</sup> I updated this argument in my supplemental testimony (filed on  
14 May 11, 2015) to show that prices and market expectations had decreased since  
15 my direct testimony was filed. Each time I have filed testimony (including this  
16 time), I point out that natural gas prices and expectations have continued to  
17 decrease since the previous filing.

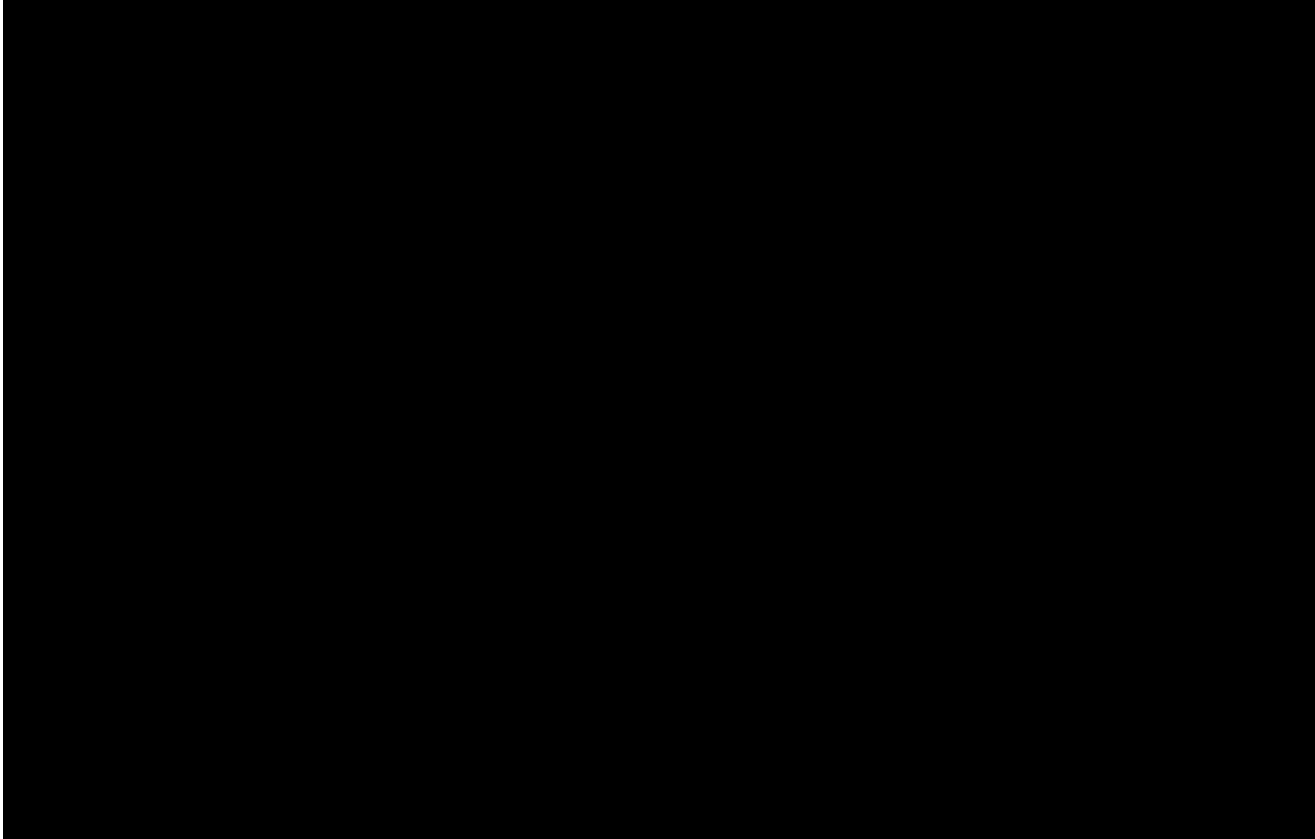
<sup>10</sup> EIA Natural Gas Weekly Update: [http://www.eia.gov/naturalgas/weekly/archive/2015/12\\_17/index.cfm](http://www.eia.gov/naturalgas/weekly/archive/2015/12_17/index.cfm).

<sup>11</sup> Natural gas price in 2015 is the average of Henry Hub spot prices from January through November 2015 reported by EIA (available at: <https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm>). NYMEX futures are from December 29, 2015 and are attached as Exhibit TFC-43 (downloaded from: [http://www.cmegroup.com/trading/energy/natural-gas/natural-gas\\_quotes\\_settlements\\_futures.html](http://www.cmegroup.com/trading/energy/natural-gas/natural-gas_quotes_settlements_futures.html)). ICF forecast prices are reported in the workpapers of Judah Rose.

<sup>12</sup> Direct Testimony of Tyler Comings, Table 6.

1 **Q Has ICF produced a more recent forecast that more accurately reflects**  
2 **natural gas price expectations?**

3 **A** Yes. In a report for DTE Electric in Michigan, ICF produced a Henry Hub natural  
4 gas price forecast in August 2015 that included consideration of EPA's Clean  
5 Power Plan--shown in CONFIDENTIAL Figure 2<sup>13</sup>. While this more up-to-date  
6 forecast remains higher than actual prices and expectations for 2015 through  
7 2017, it is [REDACTED] in every year than the ICF forecast used in the Companies'  
8 filing.



9  
10 **CONFIDENTIAL Figure 2: Comparison of Natural Gas Price Forecasts**  
11 **(\$/MMBtu)<sup>14</sup>**  
12

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<sup>13</sup> Exhibit A-25, Before the Michigan PSC, Case No.: U-17920, p.17, attached as Exhibit TFC-44 (also available at: <https://efile.mpsc.state.mi.us/efile/docs/17920/0024.pdf>). Numbers adjusted to nominal dollars based on 2.1% annual inflation.

<sup>14</sup> *Id.* Direct Testimony of Judah Rose, p 87 Attachment II.

1 **Q Are low natural gas prices attracting new natural gas generation in Ohio?**

2 **A** Yes. Table 2 shows five natural gas plants that are slated to come on-line in the  
3 next several years. These plants alone would represent nearly 4 GW of new  
4 capacity in Ohio. Four of these five plants (2.8 GW) have been approved by the  
5 Ohio Power Siting Board, three are currently under construction, and all have  
6 applied for interconnection with PJM.<sup>15</sup> The company applying for approval of  
7 one of these facilities cited “abundant, local, low-cost supply of natural gas in the  
8 region” as a reason for proposing the plant.<sup>16</sup>

9 **Table 2: New Natural Gas Generation in Ohio<sup>17</sup>**

10

Project Name	Capacity (MW)	Approved by OPSB	Under Construction	Expected operation date
Oregon Clean Energy Center	799	X	X	2017
Carroll County Energy Generation Facility	700	X	X	2017
Clean Energy Future - Lordstown	800	X		2018
Middletown Energy Center	540	X	X	2018
South Field Energy Electric Generation Facility	1,100			2020

11

12 **Q Has ICF also overestimated energy prices so far this year?**

13 **A** [REDACTED]. As shown in CONFIDENTIAL Table 3, ICF has [REDACTED] 2015 ATSI  
14 energy prices by [REDACTED] and AEP-Dayton Hub prices by [REDACTED]. Given that natural  
15 gas and energy prices are generally correlated, it is unsurprising that ICF’s  
16 outdated forecast also [REDACTED] energy prices.<sup>18</sup>

<sup>15</sup> See Ohio Power Siting Board, Approved Cases (available at: <http://www.opsb.ohio.gov/opsb/index.cfm/siting-case-breakdown/approved-cases/>). PJM Interconnection Queue (in order listed in Table 2): Y1-069, Y2-050, Z2-028, Z1-079, and AA1-123. (available at: <http://www.pjm.com/planning/generation-interconnection/generation-queue-active.aspx>)

<sup>16</sup> Lordstown Energy Center Application to the Ohio Power Siting Board, Table 01-1 (available at: <http://dis.puc.state.oh.us/TiffToPdf/A1001001A15C23B10630A26755.pdf>)

<sup>17</sup> *Id.*

<sup>18</sup> See Direct Testimony of Judah Rose, p.23, Figure 4.

1

**CONFIDENTIAL Table 3: ICF Forecast Compared to 2015 Actual Prices<sup>19</sup>**

PJM Zone	Actual 2015 price (\$/MWh)	ICF forecast (\$/MWh)	ICF (%)
ATSI	\$32.93	[REDACTED]	[REDACTED]
AEP-Dayton	\$31.80	[REDACTED]	[REDACTED]

2 **Q Have low natural gas and energy prices caused the Sammis plant to operate**  
3 **less frequently in 2015 relative to what the Companies project for the future?**

4 **A** [REDACTED] Low natural gas and energy prices—which are correlated—compound to  
5 reduce revenue to coal generators in two ways: 1) coal generators are called upon  
6 less often because they are less competitive relative to natural gas and 2) less  
7 revenue is created for the same amount of energy because prices are lower.

8 Despite these pressures, the Companies continue to [REDACTED]  
9 [REDACTED].

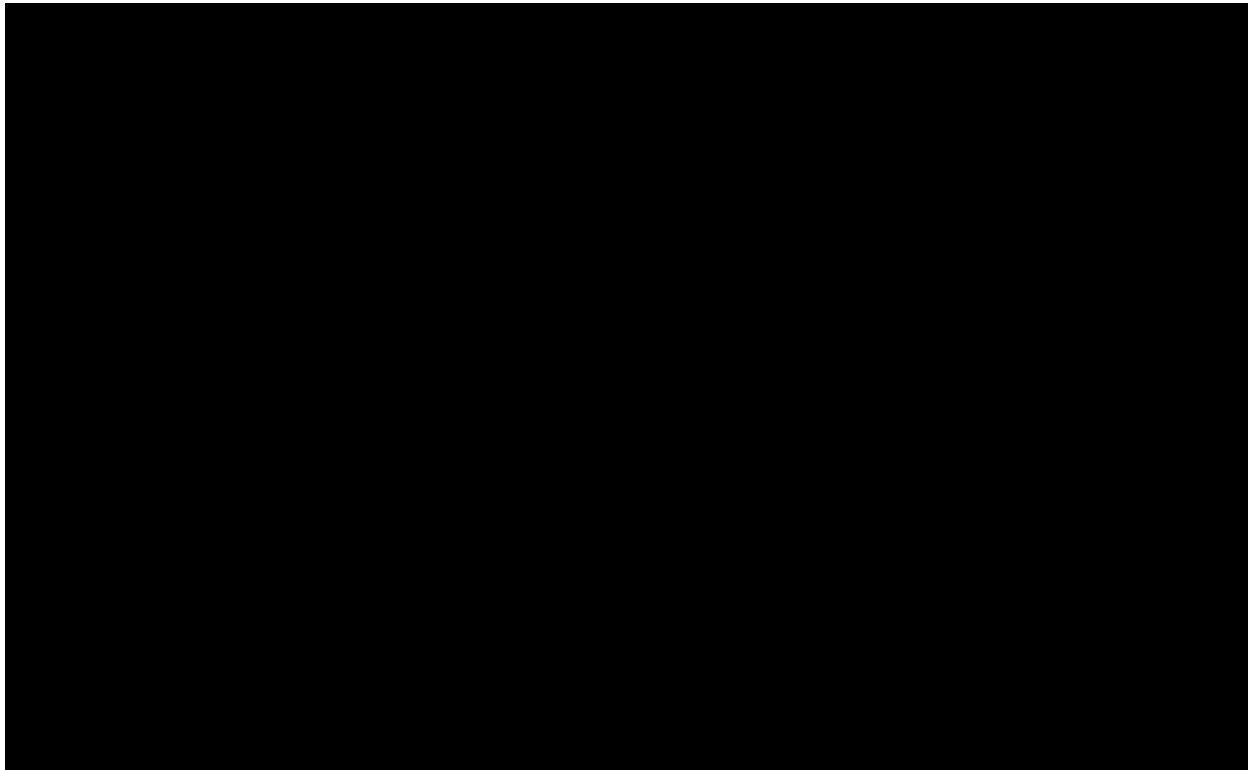
10 CONFIDENTIAL Figure 3 shows that the Sammis plant has operated at a 57%  
11 capacity factor from 2010 through 2014 and 47% through October of 2015.<sup>20</sup> The  
12 Companies had previously projected that Sammis would operate at an [REDACTED]  
13 capacity factor in 2015, which is [REDACTED] given actual data available in  
14 2015.<sup>21</sup> From 2016 through 2024, the Companies are projecting that the plant will  
15 operate at an average capacity factor of [REDACTED].

<sup>19</sup> ICF forecast prices are all-hours averages from Data Response to SC Set 1- RPD-28 Attachment 1 – Confidential. ATSI and AEP-Dayton hub prices are an all-hours average through December 18, 2015 (available at: <http://www.pjm.com/markets-and-operations/energy/day-ahead/impda.aspx>).

<sup>20</sup> Net plant generation from EIA’s Electricity Data Browser, Plant level data report, Monthly net generation through October 2015 (available at: <http://www.eia.gov/electricity/data/browser/>).

<sup>21</sup> SC Set 1 INT-10, Attachment 1-Competitively Sensitive Confidential.





1

2 **CONFIDENTIAL Figure 3: Sammis Historical and Projected Capacity**  
3 **Factor (%)**<sup>22</sup>

4 **Q Have you updated the energy revenue estimate generated by Sammis for**  
5 **2015 so far?**

6 **A** Yes. In my supplemental testimony, I presented estimates of Sammis energy  
7 market revenue compared to what the Companies had projected for 2015.<sup>23</sup> Using  
8 more up-to-date operational data available through September 2015, I now project  
9 that the Companies will have [REDACTED] 2015 revenue from the Sammis plant  
10 by [REDACTED]. (The Sammis plant is on track to generate [REDACTED] in energy

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<sup>22</sup> Net plant generation from EIA’s Electricity Data Browser, Plant level data report, Monthly net generation through October 2015 (available at: [http://www.eia.gov/electricity/data/browser/.](http://www.eia.gov/electricity/data/browser/)) Companies’ projection is from workpapers of Jason Lisowski.

<sup>23</sup> Supplemental Testimony of Tyler Comings, p.12.

1 revenue [REDACTED].<sup>24</sup>) This represents a [REDACTED] of energy  
2 revenue for 2015.

3 **Q Are the Companies also predicting that the OVEC plants will run more in**  
4 **the future than they have in 2015?**

5 **A** [REDACTED]. Kyger Creek and Clifty Creek have operated at a 51% capacity factor  
6 through October 2015 (using the latest data available).<sup>25</sup> The Companies had  
7 projected that the OVEC units would operate at [REDACTED] in 2015 which is [REDACTED]  
8 [REDACTED] given the performance through October. The Companies are predicting  
9 that the plants will run an average of [REDACTED] from 2016 through 2024. As with  
10 Sammis, the Companies expect the OVEC plants will [REDACTED]  
11 in the future [REDACTED] performance and the underlying causes of that  
12 performance—namely low natural gas and energy prices.

13 **Q How is data for 2015 relevant to the proposed transaction, which begins in**  
14 **2016?**

15 **A** Comparing actual data to forecasts for 2015 shows that the Companies have  
16 significantly overvalued the proposed transaction and continue to do so. The 2015  
17 data provides further evidence that the [REDACTED] projected by the Companies  
18 and FES under the proposed transaction are likely to be [REDACTED] than  
19 projected, and that it is even less likely that the proposed transaction would [REDACTED]  
20 [REDACTED] over the eight year term.

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<sup>24</sup> The Companies' energy revenue projection for Sammis [REDACTED] is from SC Set 1-INT-16, Attachment 1 - Competitively Sensitive Confidential for 2015. My revenue estimate is based on actual hourly generation and prices through September 2015 (the latest hourly generation data available). The annualized 2015 result is based on revenue from January through September and number of hours [REDACTED] = [REDACTED] \* (8760 hours in a year) / (6552 hours from January through September). Gross unit generation from EPA's Air Markets Program Data is available at: <http://ampd.epa.gov/ampd/>. Net plant generation is pulled from EIA's Electricity Data Browser, Plant level data report (available at: <http://www.eia.gov/electricity/data/browser/>). Hourly energy prices are pulled from PJM (available at: <http://www.pjm.com/markets-and-operations/energy/real-time/lmp.aspx>.)

<sup>25</sup> Net plant generation from EIA's Electricity Data Browser, Plant level data report, Monthly net generation through October 2015 (available at: <http://www.eia.gov/electricity/data/browser/>.) Companies' projection is from workpapers of Jason Lisowski.

1 **Q Given recent market data on natural gas and energy prices, is the proposed**  
2 **transaction overvalued from the ratepayers perspective?**

3 **A** Yes. The Companies' valuation of the proposed transaction is predicated on  
4 natural gas and energy price expectations that are [REDACTED] and outdated. These  
5 expectations have led the Companies to conclude that the plants involved in the  
6 transaction are more competitive than they actually are or that they can reasonably  
7 expect to be over the eight year term of the proposed transaction.

8 At a minimum, the Companies should be required to provide up-to-date forecasts  
9 of market energy and natural gas prices, and of other key assumptions, so that the  
10 likely customer impacts of the proposed eight year transaction can be projected  
11 and evaluated on the basis of expected market conditions today, rather than on the  
12 basis of stale and [REDACTED] biased information. Relying on forecasts of key  
13 assumptions that were performed almost two years ago, and that are already  
14 proving to be wrong, is unacceptable.

15 **B. THE COMPANIES' CAPACITY PRICE FORECASTS ARE [REDACTED] AND**  
16 **OUTDATED**

17 **Q Is the capacity price forecast used by the Companies reasonable?**

18 **A** No. I stated in my direct testimony that it was unreasonable for the Companies to  
19 assume that capacity prices will [REDACTED].<sup>26</sup>  
20 Since then, PJM has adopted a Capacity Performance (CP) standard that (all else  
21 equal) would lead to capacity price increases and lower load forecasts that would  
22 decrease prices (all else equal). However, even with the new CP standard, the  
23 actual PJM capacity auction results for the 2018/2019 delivery year were much  
24 [REDACTED] than the Companies anticipated: \$165 per MW-day [REDACTED]  
25 [REDACTED] (shown in CONFIDENTIAL Figure 4).<sup>27</sup> The Companies have not  
26 updated the valuation to reflect these new results. They have also not reflected

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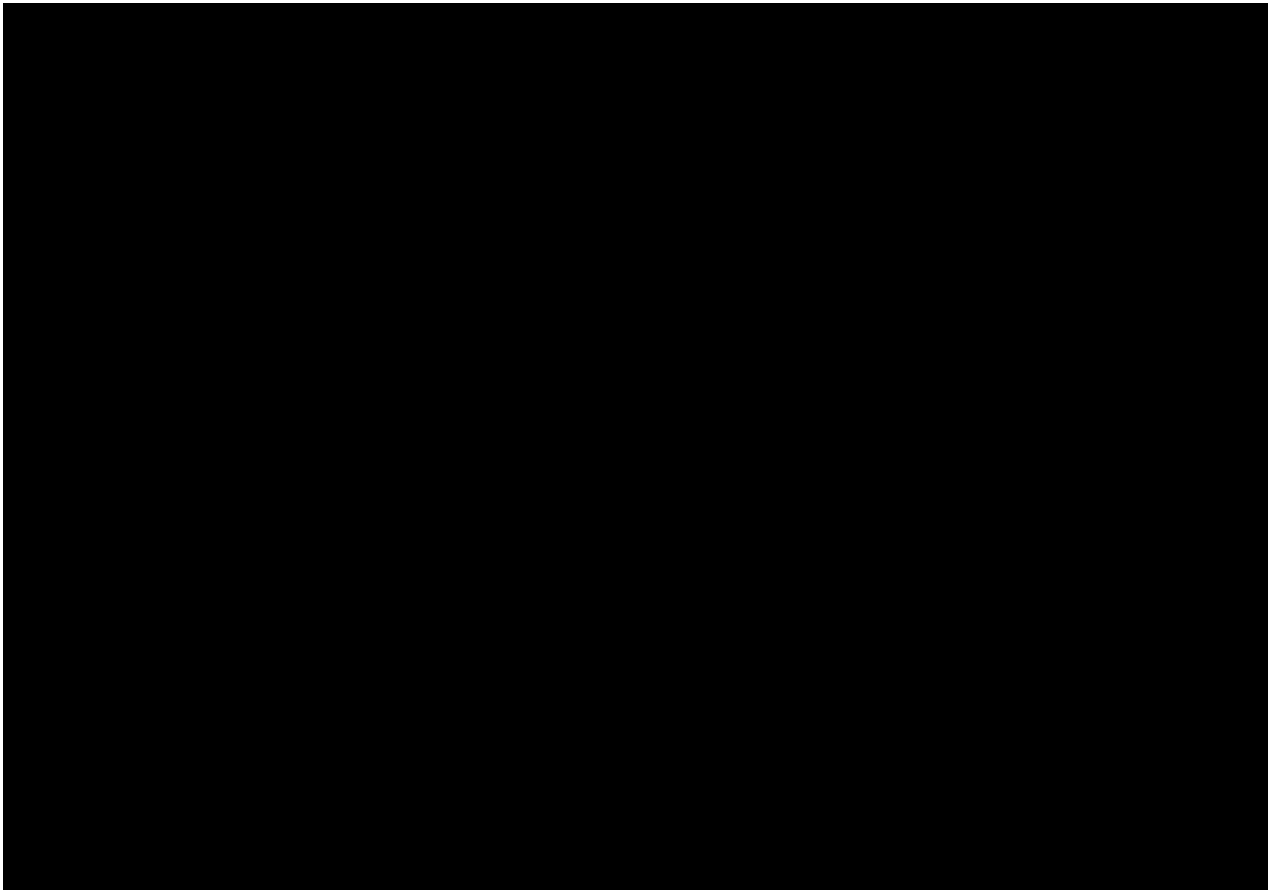
<sup>26</sup> Direct Testimony of Tyler Comings, p.29, lines 8-14.

<sup>27</sup> PJM BRA results (available at: <http://www.pjm.com/~media/879A2FA2A1794C7887A98686A70336D2.ashx>). Companies' capacity price projections are presented in Lisowski's workpapers.

1 any changes to capacity revenue from the transitional auctions for 2016/2017 and  
2 2017/2018.

3 As shown below, the historical capacity prices can be volatile from year to year.  
4 [REDACTED], historical PJM prices have never maintained a high  
5 price level for more than a year or two. The Synapse capacity price forecast was  
6 [REDACTED] the actual 2018/2019 result—I projected \$176 per MW-day and the  
7 result was \$165 per MW-day. While my forecast is still likely too high for the  
8 future auctions, it is [REDACTED] than the forecast used by the  
9 Companies.

10



11  
12  
13

**CONFIDENTIAL Figure 4: Past PJM Auction Results through 2018/2019, and Companies' Projected Capacity Price (\$/MW-day)<sup>28</sup>**

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<sup>28</sup> *Id.*

1 **Q Is PJM considering changes to the capacity market that would put**  
2 **downward pressure on capacity prices?**

3 **A** Yes. All else equal, a decrease in peak load requirement would lead to a lower  
4 capacity price. As I have discussed previously, the Companies relied on the 2014  
5 PJM load forecast. Since then, PJM released a 2015 load forecast that was lower  
6 than its 2014 forecast.<sup>29</sup> In the latest 2016 forecast, PJM has updated its  
7 methodology yet again. For this latest forecast, PJM states that it is now  
8 accounting for “trends in equipment/appliance saturation and efficiency, and  
9 distributed solar generation...”<sup>30</sup>

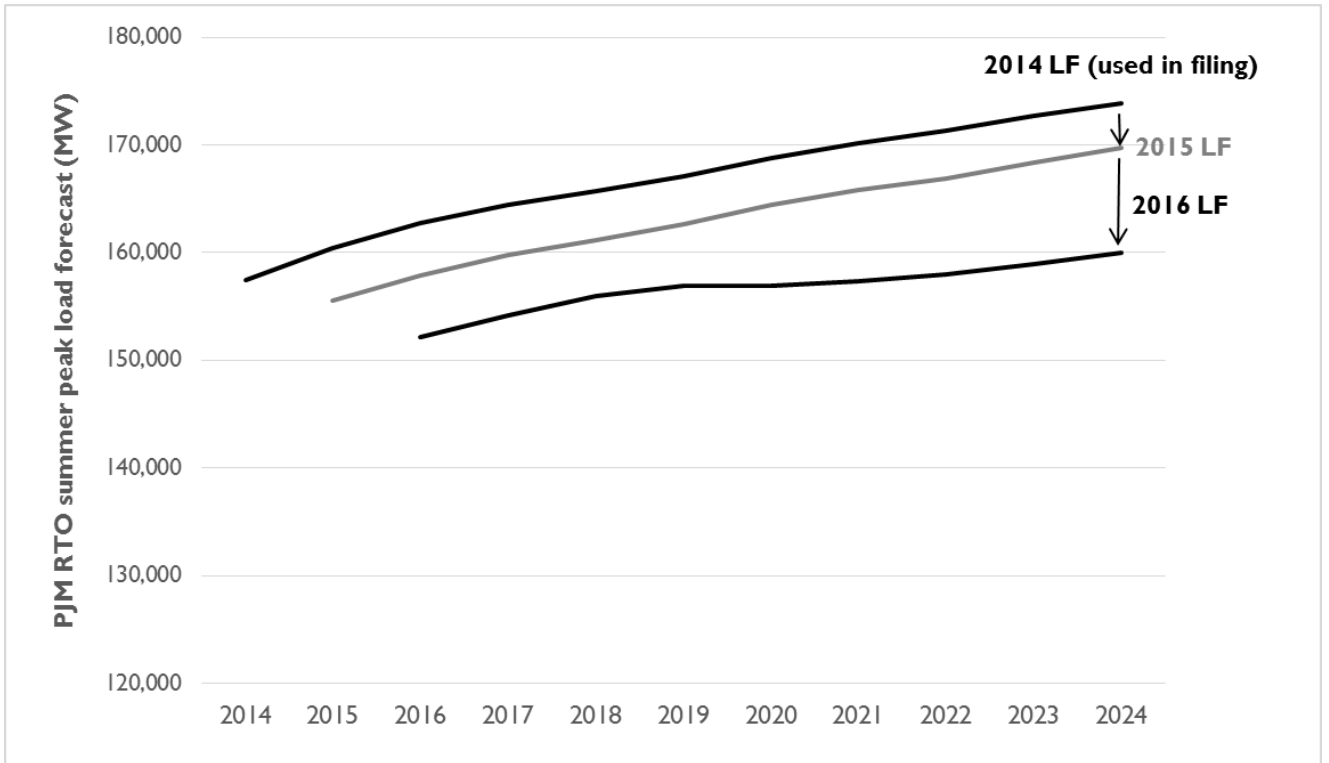
10 As a result of this new methodology (shown below in Figure 5), 2016 peak load  
11 forecasts for the region are 3.7% lower in 2016 and 5.7% lower in 2024.<sup>31</sup> The  
12 Companies rely on outdated load forecasts from February 2014 that lead them to  
13 overstate load requirements and, as a result, [REDACTED] capacity and energy prices.

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<sup>29</sup> Supplemental Testimony of Tyler Comings, p.15, line 16 through p.16.

<sup>30</sup> PJM 2016 Load Forecast, p.1, attached as Exhibit TFC-45 (also available at:  
<http://www.pjm.com/~media/documents/reports/2016-load-report.ashx>).

<sup>31</sup> PJM Load Forecast Reports from 2014 through 2016, Table B-1. Load Forecast (available at:  
<http://www.pjm.com/~media/documents/reports/2016-load-report.ashx>)



1

2 **Figure 5: PJM’s 2014-2016 Gross Peak Load Forecasts (“LF”)**

3 **Q Given the use of outdated forecasts, should the proposed transaction be**  
 4 **pursued at this time?**

5 **A** No. The Companies have used stale forecasts that are approaching two years old.  
 6 Importantly, in the case of natural gas, energy, and capacity prices, they are  
 7 biased towards overvaluing the transaction. The Companies should at a bare  
 8 minimum update the assumptions to reflect recent market trends. I have testified  
 9 previously that the Companies’ analysis was likely overstated, but as actual data  
 10 has become available it is even more apparent that their analysis simply cannot be  
 11 supported.

12

1 **IV. FINDINGS AND RECOMMENDATIONS**

2 **Q What are your findings?**

3 **A** The Companies and I agree that ratepayers will bear significant costs in the first  
4 31 months of the transaction. Where we differ is whether ratepayers will ever  
5 recover from these losses. I find that:

6 1. Under the Companies' expectations, ratepayers will pay \$364 million  
7 in the first 31 months of the proposed transaction (June 1, 2016  
8 through December 31, 2018).

9 2. Under FES's expectations, ratepayers will [REDACTED] over the  
10 same period, and [REDACTED] during the eight year transaction.  
11 Thus the seller (FES) values the transaction [REDACTED] than the buyer  
12 (the Companies). In any type of transaction, a value [REDACTED] of  
13 this sort is a red flag—and should especially be so as the risk is being  
14 shifted from FES shareholders to the Companies' customers.

15 3. Ratepayers are unlikely to recover from these predicted losses. The  
16 Companies have not updated key factors that have markedly changed  
17 since the filing. This has led them to significantly overvalue the  
18 transaction. Unfortunately, ratepayers would suffer as a result of this  
19 oversight.

20 **Q What are your recommendations?**

21 **A** For reasons discussed above, I recommend that the Rider RRS be denied.

22 **Q Does this conclude your testimony?**

23 **A** Yes, it does. However, I reserve the right to update or supplement my testimony  
24 based on new information that may become available.

## CERTIFICATE OF SERVICE

I hereby certify that on this date I served a copy of the foregoing Third Supplemental Testimony of Tyler Comings (Redacted version) upon the following parties via electronic mail.

Date: December 30, 2015

s/ Shannon Fisk

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Shannon Fisk

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