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BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIOMORC 12 PM 4: 33

In the Matter of the Application of Ohio)	DUOG
Edison Company, The Cleveland Electric)	PUCO
Illuminating Company, and The Toledo)	
Edison Company for Authority to Establish)	Case No. 08-935-EL-SSO
A Standard Service Offer Pursuant to)	
Section 4928.143, Revised Code, in the	
Form of an Electric Security Plan.	

REPLY BRIEF OF INDUSTRIAL ENERGY USERS-OHIO

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December 12, 2008

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BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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REPLY BRIEF

I. INTRODUCTION

Pursuant to the briefing schedule established by the Attorney Examiners, Industrial Energy Users-Ohio ("IEU-Ohio") respectfully submits its Reply Brief for consideration by the Public Utilities Commission of Ohio ("Commission").

Ohio Edison Company ("OE"), The Cleveland Electric Illuminating Company ("CEI"), and The Toledo Edison Company ("TE") (collectively, "FirstEnergy" or "Companies") filed their applications for approval of a standard service offer ("SSO") under Sections 4928.143 and 4928.142, Revised Code, before the Commission on July 31, 2008. Specifically, FirstEnergy proposed an electric security plan ("ESP") with a three-year term, a four-month ESP, and a market rate offer ("MRO"). To date, the Commission has not accepted both the four-month ESP and the MRO. Thus, the only application for an SSO that remains pending is the ESP that is the subject of this case.

¹ At the November 11, 2008 Commission meeting, the Commission stated that it was pulling the fourmonth ESP from the agenda, which effectively terminated it by its own terms. The Commission issued an Opinion and Order on the MRO case on November 25, 2008 stating that the MRO failed to meet all but one of the statutory threshold requirements in Section 4928.142, Revised Code, among others. See In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Approval of a Market Rate Offer to Conduct a Competitive Bidding Process for Standard Service Offer Electric Generation Supply, Accounting Modifications Associated with

FirstEnergy is maintaining a posture that its as-filed ESP is a package that must be approved in totality, without modification.² By IEU-Ohio's count, there were 21 briefs representing at least 28 parties. Each of the parties, with the exception of FirstEnergy, argued that the ESP as filed is unreasonable and recommended that the Commission not approve the ESP without a wide range of modifications. IEU-Ohio identified the specific modifications it recommends in its Post Hearing Brief. However, and more importantly, IEU-Ohio recommended that without specifically accepting, modifying or rejecting the ESP application, the Commission should issue "an order" pursuant to Section 4928.143(C)(1), Revised Code, that finds that there is an insufficient record to evaluate the proposed ESP and to compare it to the expected outcome under Section 4928.142, Revised Code. IEU-Ohio urged the Commission to direct the Companies to promptly pursue compliance with the requirements of Amended Substitute Senate Bill 221's ("SB 221") portfolio obligations subject to cost recovery and to encourage the Companies to work with customers to promptly submit proposed reasonable arrangements and any "delta revenue" recovery mechanisms for the Commission's consideration. Finally, IEU-Ohio requested that the Commission find that Section 4928.141(A), Revised Code, determines the SSO that shall be in effect until an SSO is first authorized under either Sections 4928.142 or 4928.143, Revised Code.

If the Commission does not accept IEU-Ohio's recommendations and instead issues an order on the merits of the as-filed ESP, there is one outcome that is the most

Reconciliation Mechanism, and Tariffs for Generation Service, Case No. 08-936-EL-SSO, Opinion and Order (November 25, 2008) (hereinafter "MRQ Order").

² For example, the Brief of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company in Support of their Electric Security Plan (hereinafter "FE Brief") concludes that the ESP "as a whole, clearly is more favorable than the expected results under an MRO and should, therefore, be approved." FE Brief at 74.

probable. Given the record evidence that demonstrates modifications to FirstEnergy's ESP are necessary and the fact that the Commission's ruling on FirstEnergy's MRO set precedent that it must respect in this case,³ the Commission cannot approve the ESP without modification. FirstEnergy's suggestion that its as-filed ESP must be approved without modification ignores these realities. However, if the Commission rejects the ESP or approves the ESP with modifications that FirstEnergy subsequently does not accept, there are significant ramifications that the parties, the Companies and the Commission must be prepared to address.

II. ARGUMENT

A. MRO Order Precedent

As noted above, FirstEnergy filed three separate SSO proposals. Many aspects of the plans were similar if not the same. For example, in all three SSO proposals, FirstEnergy proposed generation tariffs that are based solely on per kilowatt hour ("kWh") charges as opposed to the existing tariffs, which include demand charges and a declining block structure. When the Commission issued its Order rejecting the MRO, it addressed provisions within the MRO that are substantially similar or the same as those in the ESP that is now before the Commission. For the same reasons identified in the MRO Order and the record and initial briefs in this case, the Commission should respect its precedent and modify the ESP as described below.

As with the MRO proposal, FirstEnergy's generation rate design is based upon per kWh charges.⁴ As the Commission stated in its MRO Order:

³ For example, to be consistent with the MRO Order, the Commission would necessarily be required to reject the kWh-based generation rate design FirstEnergy has also proposed under the ESP.

⁴ Company Exhibit 9A at 10.

...there also is nothing in Section 4928.142, Revised Code, which diminishes the Commission's existing authority over rate design or duty to ensure the availability of reasonably priced electric service. Section 4928.142, Revised Code, simply provides a new mechanism for the determination of the amount of generation rates and expressly authorizes the Commission to prescribe retail rates; it does not speak to how such rates are designed or allocated among customers.

MRO Order at 24. Citing the policy of the State in Section 4928.02, Revised Code, which requires the Commission to ensure the availability of unbundled and comparable retail electric service that provides customers with the supplier, term, price, conditions, and quality options they elect to meet their respective needs, the Commission found that FirstEnergy failed to demonstrate that its proposed rate design advances the State policies and held that the proposed rate design should not be approved. *Id.* For these reasons and those identified in IEU-Ohio's Post Hearing Brief, the Commission should modify FirstEnergy's ESP such that the generation rider rates are structured as a two-part rate consisting of both demand and energy components.

Similarly, while the MRO proposal did not include any information regarding how FirstEnergy would comply with the portfolio requirements in SB 221, the ESP proposal includes placeholders at best. The ESP Application identifies that the Companies will commit to providing \$5 million each year from 2009 through 2013 for investment in customer energy efficiency/demand-side improvements made after January 1, 2009,⁵ and the direct testimony of Gregory F. Hussing mentions the proposed demand-side management and energy efficiency rider.⁶ However, the ESP proposal does not provide the Commission with enough information to make an informed comparison on

⁵ Company Exhibit 9A at 26.

⁶ Company Exhibit 4 at 10-11.

how SB 221 requirements to meet alternative energy resource, demand-response, energy efficiency and peak demand requirements will be achieved.

In the MRO Order, the Commission found that FirstEnergy's MRO Application could not be approved in the absence of a proposal by the Companies for compliance with the energy efficiency and peak demand reduction requirements of Section 4928.66, Revised Code. MRO Order at 29. As the ESP proposal does not contain enough information to make any qualitative or quantitative analysis, IEU-Ohio recommends that the Commission abide by its precedent and require FirstEnergy to supplement its Application to provide additional specificity on how customer-sited resources will be accommodated under its ESP.

B. Default Outcome

Should the Commission reject or modify any aspect of the ESP Application, the Companies may withdraw the Application thereby terminating it according to Section 4928.143(C)(2)(a), Revised Code, after having satisfied the Section 4928.141, Revised Code, obligation to make at least one ESP application filing. Under these circumstances, Section 4928.143(C)(2)(b), Revised Code, requires the Commission to issue an order continuing the provisions, terms and conditions of the most recent rate plan, until a subsequent SSO is authorized under Section 4928.142, Revised Code. Further, Section 4928.141(A), Revised Code, states that until an SSO is established under either Section 4928.142 or 4928.143, Revised Code, "... the rate plan of an electric distribution utility shall continue for the purpose of the utility's compliance ..." with Section 4928.141, Revised Code. "Rate plan" is defined as "the standard service

offer in effect on the effective date of the amendment of this section by S.B. 221 of the 127th general assembly."⁷

SB 221 is clear. FirstEnergy's rate plan in place on July 31, 2008 must continue until an SSO is established under either Section 4928.142 or 4928.143, Revised Code: This outcome is one that occurs as a matter of law and not because the Commission is exercising any authority under either Section 4928.142 or 4928.143, Revised Code. Therefore, the Commission does not have any authority to modify the SSO in place on July 31, 2008 until such time as the Commission approves a new SSO pursuant to Sections 4928.142 or 4928.143, Revised Code.

Of course, FirstEnergy is not foreclosed from pursuing the MRO option through a new MRO application or a new/revised ESP proposal. However, until the Commission approves a new SSO, the existing rate plan must remain in effect.

C. Federal Law

As IEU-Ohio noted in its Post Hearing Brief, as a practical matter, the Commission may be constrained by its obligation to respect determinations made by the Federal Energy Regulatory Commission ("FERC") on the power supply agreement between the Companies and FirstEnergy Solutions ("FES") because the Companies do not own or control generation assets with which to serve the SSO customers and, thus, must purchase power to serve the SSO load. The Companies have recognized the possibility for this outcome. For example, in their brief on the four-month ESP, the Companies stated:

Consequently, if an acceptable ESP order is not issued before the 150-day deadline in violation of the statute, then, absent a Short Term ESP.

⁷ SB 221 became effective on July 31, 2008. Section 4928.01(A)(33), Revised Code, defines "rate plan."

the Companies will have no option but to purchase competitive market power and pass their costs on to customers. See R.C. § 4928.142; Entergy La., Inc. v. La. PSC, 539 U.S. 39, 47 (2003). If the Commission fails to act and the Companies are forced to buy power at market prices and the Companies' rates do not immediately reflect the market costs, very negative financial consequences could arise even in the best of times – let alone in the financially turbulent, credit-constrained times we are now in. Under these circumstances, ignoring the statutorily mandated timelines would represent a perverse disregard of a known risk. Accordingly, if the Commission were to shirk its statutory responsibilities, it would be doing so in a wanton and reckless manner knowing that such conduct in all probability would result in injury to the Companies.

See Brief of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company in Support of Their Short-Term ESP Offer, Note 3 at 3 (October 31, 2008).

As an electric distribution utility ("EDU") without generating assets, the Companies must obtain the supply to serve the SSO requirements and it is not known whether such supply may be obtained at the same price, terms and conditions as the supply purchased to serve the SSO load for the period of the preceding rate plan. Also, given the timing of this case and FirstEnergy's FERC waiver request, 8 it appears likely that the Companies may need to purchase power in the competitive market at market prices after January 1, 2009 in order to provide generation service to Ohio customers. IEU-Ohio recommends the Commission recognize this possibility and, if this scenario occurs, direct the Companies to supplement the record in this proceeding with its plan for procuring power, including the projected effects of such purchases on total costs and revenues.

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(C26873:6)

⁸ See FirstEnergy Solutions Corp., et al., FERC Docket Nos. ER09-134-000, ER09-135-000, ER09-136-000, ER09-137-000, Amendments to Market-Based Rate Tariffs Waiving Affiliate Restrictions in Ohio at 9 (October 28, 2008).

III. CONCLUSION

For the reasons discussed herein, IEU-Ohio respectfully requests that the Commission issue an order that finds:

- there is insufficient information available in the record to evaluate the proposed ESP and to compare it to the expected outcome under Section 4928.142, Revised Code;
- 2) the Commission is not accepting, modifying or rejecting the ESP application;
- a specific and identified process is necessary for FirstEnergy to furnish the information necessary for the Commission to prudently fulfill its duties under Section 4928.02, Revised Code;
- 4) the rate plan as of July 31, 2008 shall be in effect until an SSO is first authorized under either Sections 4928.142 or 4928.143, Revised Code;
- 5) the Companies shall promptly pursue compliance with the requirements of SB 221's portfolio obligations subject to approval of a proposal to address the costs of compliance;
- 6) the Companies must address the consequences of any end to Commission-approved reasonable arrangements;
- 7) reasonable arrangements are available when approved by the Commission to address specific needs and circumstances and SB 221 also provided a means for EDUs to address "delta revenue"; and,
- 8) the Companies shall supplement the record in this proceeding with their plan for procuring power, including the projected effects of such purchases on total costs and revenues.

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