

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of :
Columbus Southern Power Company and :
Ohio Power Company to Establish New : Case No. 11-531-EL-ATA
Market Based Rates for Former CRES :
Customers That Elected to Avoid the :
POLR Charge. :

COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

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**Pricing Terms and Conditions for Resolving Case No. 11-531-EL-ATA
(AEP Market Rate for Return Customers)**

INTRODUCTION

Columbus Southern Power Company and Ohio Power Company (AEP or the Companies) propose adoption of Schedule MB-1 (Market Based Service – Small) and MB-2 (Market Based Service – Large), which specify the applicable Market Generation Rates to be charged to customers returning from a CRES Provider, who had elected to avoid the POLR charge while taking service from a CRES Provider. While recognizing that the matter of the POLR charge is at issue in Case No. 08-920-EL-SSO, *et al.*, on remand from the Ohio Supreme Court, and at issue in Case No. 11-346-EL-SSO, *e. al.*, wherein the Companies have proposed to continue the POLR charge, Staff understands the need to establish market rates for such returning customers.

The Staff of the Public Utilities Commission of Ohio (Staff) addresses in these comments the pricing provisions of the proposed tariffs and certain minimum stay requirements.,

COMMENTS

1. **The return pricing construct for small customers is meritorious, but the specification of prices for each of the elements must be better defined.**

The tariff, as proposed, only names the ten market pricing components that would sum to a market price. Names of components are not enough. The tariff must specify how those components are to be calculated and the resulting price. The tariff should describe a process by which customers can know in advance what their price will be, and how it will be calculated. At the very least, there should be a description of how customers can discover the price after it is calculated, and how customers will have the opportunity to challenge the validity of those calculations.

Staff suggests the following process to enhance the transparency of the pricing specifications, and to ease price discovery by customers. Each pricing element should be posted on an Electronic Bulletin Board (EBB) that can be accessed by returning customers who would be subject to the rates. Notice of, and access to, such EBB should be provided to shopping customers who avoid the POLR charge.

The determination and calculation of each pricing element should be presented with sufficient documentation and in sufficient detail that the total price is transparent to any customer .Documentation of market data sources should be provided.

The EBB should include an expedited means of challenging any or all of the values or calculations of the pricing components through a mediation process administered by the Commission.

a. The Simple Swap pricing component should be calculated using open source published prices

The source of the forward contracts that are the basis of the Simple Swap price should be documented. Where such data may be proprietary subject to a paid subscription, the Companies must provide documentation of the numbers used upon request.

b. The Capacity pricing component should be based upon a Commission approved price or pricing methodology.

The language in Schedule MB-2 could be construed to mean that the capacity charge will be cost based. The PJM regional transmission organization (PJM) employs a transparent market based auction process that results in a specification of the price of capacity. The results of the auctions are posted on the PJM website. The auctions determine capacity prices for each of three years forward.

Currently, the Commission has approved the use of PJM's auction prices as the market value for capacity.¹ Unless and until the Commission decides otherwise, the capacity value should be the value determined by PJM's capacity auction.

¹ *In re Ohio Power and Columbus Southern Power*, Case No. 10-2929-EL-UNC (Entry) (December 8, 2010).

- c. The Basis Adjustment Component should be based upon publicly available historical locational marginal prices.**

PJM publishes and maintains a longitudinal data base of locational marginal prices (LMPs) for various pricing points. Because forward contracts that determine the price of the Simple Swap are traded at AD Hub, but prices are settled at the AEP zone, both as defined by PJM, there is a legitimate need to calculate and include a basis differential. The Companies should include such data or references to such data on their EBB. The Companies should also include an explanation of how the historical LMP data has been used to determine the Basis Adjustment.

- d. The Marginal Losses and Congestion components should be based upon the values in the Companies' Transmission Cost Recover Rider**

The values should be posted on the EBB and the posting should reference the pertinent information in the most recent Transmission Cost Recovery Rider.

- e. The Load Following / Shaping Adjustment component and the Risk Adjustment component should be valued specifically on the EBB.**

Staff's understanding is that these two components are neither readily quantified by a formulaic approach, nor based upon accessible data. A way to create some degree of transparency and legitimacy is for an independent party to monitor the valuation of these components and make a judgment whether the levels specified on the EBB are within a reasonable range.

f. The Alternative Energy Requirement should be based upon costs incurred to comply with 4928.64 ORC.

The value of this component should be specified on the EBB. Reference to proceedings that establish the costs and rates for the Companies to comply should be provided on the EBB.

g. The Losses component should be priced consistent with the Companies' Supplier Tariff.

The losses to be included in this pricing component are limited to distribution system losses. The Companies' supplier tariffs that govern the terms and conditions by which a competitive electric retail supplier can do business within the Companies' certified territory should govern the calculation of these losses. Reference to the supplier tariff should be included on the EBB, and all calculations to derive the value of losses should be adequately documented on the EBB.

h. The value of the Retail Administration component should be specified on the EBB.

Staff believes that the Retail Administration component is a fixed price component, which is simply chosen by the Companies to cause the total competitive price to reflect market conditions. The value of this component should be specified on the EBB. In no case should this component exceed \$5 per MWh unless approved by the Commission. The rationale for this recommendation will be submitted in Staff testimony in Case No. 11-346-EL-SSO, *et al.*

i. The Transition Risk component should be specified on the EBB.

The Transaction Risk component is subjective and non-transparent. Staff believes that the types of risks valued by this component should be listed on the EBB. The Transaction Risk component should be subject to a reasonable value. That value should be capped at nine percent of the value of the Simple Swap component. The rationale for this recommendation will be submitted in Staff testimony in Case No. 11-346-EL-SSO, *et al.* The source of the forward contracts that are the basis of the Simple Swap price should be documented. Where such data may be proprietary subject to a paid subscription, the Companies must provide documentation of the numbers used upon request.

2. The construct for large customers is feasible, but it leaves those customers with no option that enables them to know in advance what their price will be.

In general, Staff has no issue with the Companies' proposal, save that the capacity component should be subject to the same condition listed in 1.b above, that the charge should be based upon a Commission-approved methodology or rate. The language in Schedule MB-2 could be construed to mean that the capacity charge will be cost based. The Commission has ordered in Case No. 10-2929-EL-UNC that capacity shall be valued based on the PJM auction price. Unless and until the Commission orders otherwise, the capacity charge should be valued at the PJM auction price.

Staff believes that an option should be available for large customers to take service at prices that are known in advance. Large customers should therefore have the same option available as small customers. Large customers should be able to choose between

this option, the energy component of which is based real time locational marginal prices established by PJM at the AEP load zone, and the fixed price option offered to small customers.

3. There should be a minimum stay provision for large customers who opt to return to SSO service after avoiding a POLR charge.

Large customers who may opt to return to SSO rates may do so, but, if they have not paid a POLR charge, they may return only after a minimum stay period. Aggregations of customers shall be considered to be large customers for purposes of the minimum stay requirements. Staff believes that the minimum stay requirement should be that large customers should remain on Schedule MB-2 for three of the four months of June, July, August and September. This minimum stay provision will ensure that the Companies do not incur losses by having to purchase seasonally expensive power for customers who take service at a fixed price that reflects year-round costs. No minimum stay provisions should apply to customers who opt to take service from a Competitive Retail Electric Service provider subsequent to taking service under this tariff.

However if a large customers elects to pay a POLR charge when taking service from a Competitive Retail Electric Service provider no minimum stay provisions apply.

Small customers taking service from a Competitive Retail Electric Service provider who pay a POLR charge may return to SSO rates at anytime. Small customers that avoid a POLR charge when taking service from a Competitive Retail Electric Service provider must return to the tariffed market generation rate before transitioning to the SSO. At any time after returning to the tariffed market generation rate small customers

may opt to take service from a CRES provider, or to return to the SSO rate. To return to the SSO rate small customers must affirmatively elect to do so. The Companies will effectuate the transition from the tariffed market generation rate to the SSO rate as quickly as is practicable. The period between a small customer's affirmative election and the actual return to SSO rates should not exceed two billing periods.

4. There should be more fixed price options for both large and small customers.

In particular to accommodate customers who may be subject to a minimum stay, and in general to accommodate customers who may wish to take market based return service for a term longer than a month at a time, Staff recommends the Companies offer monthly fixed price options for twelve months in advance. Customers would then have the option to specify the term of service up to one year.

Prices of the Simple Swap vary daily based upon quotes offered by various market makers and published in generally available source publications. The monthly price for the next month and subsequent months will therefore vary day by day.

Staff believes the EBB is an appropriate vehicle for customers to discover fixed prices for flexible future terms, and the daily update can be automated. Staff therefore believes the market price for each of the next twelve months should be updated daily and posted on the EBB by 9 AM.

In order to enable the Companies to properly hedge load that may choose a longer term than a single month, customers must be required to opt for such term in a timely manner. Staff suggests that customers may choose any term and price combination by 2

PM to be in effect beginning with the next or prompt month. If customers do not make such an election they will remain on a month to month term.

SUMMARY AND CONCLUSION

The Staff recommendations set forth above detail the following general principles;

- The Companies' proposals are generally sound, but lack specificity and transparency as to what prices will be and how those price levels will be determined,
- The guidelines regarding process for establishing pricing component values will enable customers to discover specific prices and to understand how those prices are determined,
- The use of an electronic bulletin board will facilitate price discovery and transparency,
- Some minimum stay provisions are necessary to prevent gaming and/or losses when customers opt for SSO rates subsequent to taking service under these return rates, and
- More options for customers will result in better meeting customer needs.

Staff believes that these recommendations are feasible. Staff welcomes constructive criticism and further suggestions in the reply comments scheduled in this case.

Respectfully submitted,

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following Parties of Record, this 22nd day of July, 2011.



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