BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Staff Proposal	)	
For An Economic Development	)	**Case No. 11-4304-EL-UNC**
Tariff Template	)	

OHIO POWER COMPANY'S AND COLUMBUS SOUTHERN POWER COMPANY'S INITIAL COMMENTS

By Entry dated July 15, 2011 (Entry), the Commission invited comments regarding the Commission Staff's proposed economic development tariff template, and on "the issue of recovery of delta revenue." (Entry at paragraphs 4 and 5). The Commission invited initial comments by August 5, 2011 and reply comments by August 15, 2011. In accordance with this schedule, Ohio Power Company and Columbus Southern Power Company (collectively AEP Ohio or the Companies) provide the following initial comments.

General Comments Regarding the Proposed Tariff Template

AEP Ohio supports the conceptual framework proposed by Commission Staff, which offers a standardized menu of rate incentives for eligible customers. Having such a published tariff offering is particularly useful when a customer is evaluating potential sites in Ohio as compared to other states. However, AEP Ohio has several concerns with the scope of the proposal.

First, from an economic development viewpoint, offering incentives to the entire class of "mercantile customer," as currently defined in Ohio law, is too broad. AEP Ohio favors a more defined approach to attracting industrial investment to Ohio. Retail and service industry customers would naturally follow population growth and new payrolls, generally without the need for the proposed incentives.

Second, as a general proposition, AEP Ohio believes that the level of incentives proposed must be flexible and allow for negotiation on an individual basis. Because the competitive dynamics of economic development change over time and every customer's needs are different, there is no "one-size-fits-all" solution to attracting investment to Ohio. For example, one approach may be to design incentives that would specifically assist a prospective customer in recouping a portion of their significant investment in Ohio.

Third, AEP Ohio is concerned that the burden of monitoring customer compliance and the reporting obligations fall solely on the utility. The Entry states that one purpose of the tariff option would be to minimize transaction costs associated with the current reasonable arrangement system. Under this proposal, the utility is not relieved of any such costs or obligations. AEP Ohio also questions whether the annual reporting requirement sufficiently captures the load factor and operating cost shifts that will likely occur under the Energy Intensive High Load Factor Provision, which could change the short-term rate for an eligible prospect.

Fourth, AEP Ohio would like clarification regarding whether the proposed tariff supersedes existing reasonable arrangements, whether a qualifying customer would be able to switch between available incentive programs, and whether participation in this tariff would preclude a customer from taking advantage of existing incentives offered by utilities (for example, energy efficiency programs). It is unclear whether the proposed tariff is intended to replace the existing reasonable arrangement system or be in addition to the current process. If it is an additional option, then the tariff will effectively establish a discount "floor." It is possible that the proposed tariff would not eliminate the significant transaction costs identified by the Commission Staff in the Entry, as prospects would simply weigh their transaction costs against the potential for additional discounts above the "floor" before proceeding under the current reasonable arrangement system. Moreover, it is not clear if the Companies' portion of the discounts tariff is intended to be an obligation in addition to AEP Ohio's existing economic development commitments.

Fifth, there should be additional provisions in the Energy Intensive High Load Factor option. The proposed language only requires the customer to maintain an annual average load factor of at least 60 percent. This is particularly troublesome for energy intensive customers that would otherwise have a higher load factor by managing their peak demand as they would do under the otherwise applicable tariff. Contrary to many EDU tariffs, under this option, the customer has no incentive to control its peak demands (other than maintaining a 60% annual average load factor) because the bill for the customer's usage is capped at the stated rates per kWh.

Sixth, additional clarification is needed regarding the qualifications for customers who are part of a national account as described under the terms and conditions of service. Unlike for other customers, there is no minimum kWh requirement and a comparable requirement should apply to national account customers.

Last, AEP Ohio finds the proposed enforcement provisions lacking. The tariff template simply states: "If the payroll level for new jobs created is more or less than the original reported, then an appropriate adjustment will be made for the following year incentive discount." While electric usage is readily measured by the utility, actual capital investment, employment and payroll must be provided by the customer. These statistics are not measured or verifiable by the utility. Therefore, the tariff's recourse provision must have more specificity, more options, and more accountability. Remedies could include refunds of discounts and/or a return to tariff in the event a new customer does not meet its investment obligations.

Comments on Delta Revenue Recovery

The Commission requested comments regarding the following issues surrounding delta revenue recovery:

- The proper amount of delta revenue which electric utilities should be permitted to recover under the proposed economic development tariff template.
- Whether there should be a differential in the amount of delta revenue recovered by electric utilities, based upon whether they own generation assets or provide generation through a competitive bid process.
- Whether the absence of such differential would create a disincentive to electric utilities to procure generation through a competitive bid process and stifle the further development of competitive markets.
- Whether the Commission should establish a consistent rate design for the recovery of delta revenue for all electric utilities, eliminating the distinctions between customer classes and rate mechanisms currently used by EDUs to calculate delta revenue.

General Comments

Before commenting on these specific issues, AEP Ohio has several general concerns with the proposed tariff template's treatment of delta revenue. First, the Companies believe that their portion of contribution to the discount (currently proposed at 20%) must be tied to actual, incremental growth in electricity sales to the prospect. While an existing customer may increase the number of jobs or invest capital in their business, this may or may not result in any incremental sales of electricity.

Second, as proposed, there is no limit on the amount of delta revenue that can be accumulated, statewide, under this tariff. There is likewise no cap on the amount that EDUs, customers and the state of Ohio may be obligated to contribute towards these proposed economic incentives. AEP Ohio questions whether the lack of caps would lead to additional regulatory and financial uncertainties for EDUs, customers, and the State.

The Proper Amount of Delta Revenue Recovery

Ohio law provides for recovery of 100% of the revenues foregone by a utility as a result of a reasonable arrangement approved by the Commission. R.C. 4905.31. Forcing a utility to serve customers at a loss is neither reasonable nor legal, regardless of how the arrangement is structured.

The amount of delta revenue recovered must also be the true delta revenue – that is, the price differential between the EDU tariff rate and the discounted rate. The Companies agree with the definition of delta revenue proposed by Staff in the tariff which states that the discount the customer receives is relative to what they would otherwise "be billed according to the appropriate electric utility tariff schedule." An economic development program structure that would differ by allowing for recovery of any amount other than the delta revenue as defined above would not compensate the EDU for revenues foregone.

Different Recovery Mechanisms Based on Utility Structure

As set out above, AEP Ohio believes that 100% of delta revenue should be recoverable in any economic development program. All utilities, regardless of whether or not they own generation, have standard service offer rates which would be the basis for determining delta revenue based on the proposed tariff language which indicates a discount relative to billing according to the appropriate electric utility tariff schedule. Therefore, there is no incentive or disincentive created by the tariff for an EDU to either own generation or to use a competitive bid process. However, it is unclear whether or not customers that take generation service from a competitive retail electric service provider (CRES provider) qualify for the proposed tariff.

If the Commission utilizes some other basis for determining delta revenue, then utilities that own generation may be required to serve customers at a loss and competition may be hindered. EDUs would effectively be blocked from serving any economic development customers if not permitted full delta revenue recovery relative to the Commission-approved tariff that would otherwise be applicable. Customers looking for a long-term arrangement would then have extremely limited options, given that the vast majority of suppliers in the competitive market generally do not offer a long-term arrangement due to future pricing uncertainty.

The risks associated with eliminating a generation-owning utility's ability to serve economic development prospects are significant. Utilities have expertise and a lengthy track record of working cooperatively with local officials and industrial prospects to encourage mutually beneficial economic development. Competitive suppliers have no such expertise, and no incentive to work towards an agreement that would benefit the State's economy. The State risks losing prospects to surrounding jurisdictions if Ohio utilities cannot offer competitive rate incentives to customers because they are not permitted full cost recovery of delta revenues.

If the EDU is not permitted full recovery of delta revenues, it is also appropriate to question the basis for the proposed rates to be charged to customers under the Energy Intensive High Load Factor option. In any event, these rates should be clarified as to whether the rates reflect generation only or a bundled rate for generation, transmission and distribution. Bundled rates should reflect the appropriate difference in service provided by voltage level.

In summary, it is AEP Ohio's position that permitting EDUs to recover "revenues foregone" – the delta between tariff and discounted rates – under an economic development program protects customers, promotes competition, and supports the State's laudable goal of increased economic development and investment in the State.

Standardized Recovery Mechanism

AEP Ohio supports the establishment of a consistent rate design for the calculation and recovery of delta revenue that includes each element of foregone revenue. This is accomplished by billing the customer according to the appropriate electric utility tariff schedule (standard service offer), including all applicable riders compared to billing under the proposed Economic Development Tariff. This delta revenue is appropriate regardless of how the standard service offer rates are determined as it the determination of delta revenue between what the customer is billed and what they otherwise would have been billed by the EDU. Once the delta revenue is consistently determined, then a uniform basis for designing the rate for recovery of such delta revenues is possible and is a reasonable goal.

Conclusion

AEP Ohio supports the development of an economic development tariff that is carefully designed to attract quality investment in the State through the use of appropriate incentives. The current Staff proposal is a step in the right direction, and AEP Ohio looks forward to continued participation in this effort.

Respectfully submitted,

Steven T. Nourse
Anne M. Vogel
American Electric Power Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215-2373
Telephone: (614) 716-1608
Facsimile: (614) 716-2950
stnourse@aep.com
amvogel@aep.com
Counsel for Columbus Southern Power
Company and Ohio Power Company