

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Staff Proposal for)
An Economic Development Tariff)
Template.)

Case No. 11-4304-EL-UNC

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INITIAL COMMENTS OF
THE RETAIL ENERGY SUPPLY ASSOCIATION

Pursuant to the Commission's July 15, 2011 Entry in this matter, the Retail Energy Supply Association ("RESA")¹ respectfully submits these Initial Comments in this case.

I. BACKGROUND

On July 15, 2011, the Public Utilities Commission of Ohio ("the Commission") issued an initial Entry in this case seeking public comment by August 5, 2011 on the Staff proposed economic development tariff template from interested stakeholders in Ohio. In its initial Entry, the Commission stated that while reasonable arrangements are useful in promoting economic development and in retaining or procuring jobs, the reasonable arrangements may involve significant transaction costs. These transaction costs would be substantially mitigated if utilities were to adopt a rate schedule to be used as an additional tool to promote economic development in certain situations.

The Staff has prepared a proposed economic development tariff template which ostensibly would be adopted by all electric utilities in order to facilitate economic development in job retention and job procurement and to mitigate transaction costs related to reasonable

¹ RESA's members include: Champion Energy Services, LLC; ConEdison Solutions; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; Energetix, Inc.; Energy Plus Holdings, LLC; Exelon Energy Company; GDF SUEZ Energy Resources NA, Inc.; Green Mountain Energy Company; Hess Corporation; Integrys Energy Services, Inc.; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; MXenergy; NextEra Energy Services; Noble Americas Energy Solutions LLC; PPL EnergyPlus, LLC; Reliant Energy Northeast LLC and TriEagle Energy, L.P.. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

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arrangements. RESA's understanding is that the template is not an offer per se of what the discounts should be, only of the format that a uniform economic development tariff would take.

The Commission stated in its Entry that it was seeking comments on several subjects including: 1) the proper amount of delta revenue which electric utilities should be permitted to recover under the proposed economic development tariff template; 2) 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 service through a competitive bid process; 3) 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 in this state; and 4) should the Commission explore eliminating the different rate mechanisms used by different electric utilities in the state to recover delta revenue from the various customer classes so that delta revenue is recovered using a consistent rate design for all electric utilities in this state.

II. INTRODUCTION

RESA is a broad and diverse group of retail energy suppliers who share the common vision that competitive retail energy markets develop a more efficient, customer-oriented outcome than the traditional monopoly utility structure. Several RESA members are certificated as Competitive Retail Electric Service ("CRES") providers and active in the Ohio retail market. As such, many of them currently provide CRES service to residential, commercial, industrial, governmental, and other retail customers in Ohio.

RESA believes in and supports competitive retail markets for energy because it believes that the inherent transparency, efficiency, and optimized resource allocation benefit all market stakeholders. RESA believes that these competitive market benefits also translate into support for

economic development in states that embrace and encourage the development of robust competition. CRES providers work closely with their customers and use the benefits of the competitive market to provide individualized value through customized energy products that not only save the customer money but also offer opportunities to optimize long-term energy usage. Adherence to the basic fundamentals of the competitive marketplace allow these benefits to accrue without the use of subsidies that can act to transfer costs from one class of customer to another and skew price signals to the detriment of efficient resource allocation and investment. While RESA is sensitive to the current economic environment and its impact on the people and businesses of Ohio, it feels that the state can more effectively spur economic development through policies and programs that are implemented in concert with support for the competitive energy market.

In the past, economic development programs and reasonable arrangements that focus on energy policy have been implemented in a way that could allow a utility to drive customers away from competitive supply and hold them captive to utility default service. Implemented in this way, these economic development programs can actually harm businesses by eliminating access to the value and efficiency available through competitive retail markets. Further, when competitive offers are generally less costly than utility supply, forcing the customer to remain on utility supply to receive the program benefits actually drives up the cost of the subsidy and the program itself. While RESA feels that the state would be better served through different economic development programs than the one proposed, it requests that adoption of the Economic Development Template under consideration be done in a manner that allows customers to participate regardless of who provides their electricity supply. RESA believes that if the Economic Development Template allows shopping customers to participate, then the

shopping customer can take advantage of both the value offered by the CRES provider and the economic incentives offered in the program.

III. COMMENTS

A. Response to the Commission's Questions

a. General Observations

For more than fifty years, pursuant to Section 4905.31, Revised Code, the Commission has had the authority on a case by case basis to approve electric service discounts to retail customers for the purpose of economic development. In Senate Bill 221, the latest statutory amendment to Ohio's electric industry restructuring law, a specific subsection Section 4905.31 (E), Revised Code was added which authorized the Commission to not only provide for economic development discounts, but to recover the costs of such discounts from customers as well as the cost of certain conservation initiatives. The Commission in response established rules for unique arrangements under which business owners with plans to expand employment, retain employment or make significant investments in facilities can apply with their local utility for discounts. OAC 4901:1-38-03. There are also a significant number of individual economic development projects or funds created within Electric Security Plans ("ESPs") that are administered by the utility, but billed as a rider to retail customers.

b. The proper amount of delta revenue which electric utilities should be permitted to recover under the proposed economic development tariff template.

RESA takes no position on the amount of the delta revenue which the utility should absorb.

c. Should 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 service through a competitive bid process.

Distribution utilities (“EDCS”) that provide bundled power with the utility service are permitted to have a margin in the sale of the power. Thus, in the past under cost of service rate making the utilities did not receive 100% of the delta revenue. Similarly, in the Staff’s pro forma tariff proposal, 20% of the delta revenues are proposed to be absorbed by the utility. However, the distribution utilities that currently competitively bid out their standard service offer (“SSO”) are not in a position to discount the electric power generation that is obtained through such process as under the auction construct, the winning suppliers are paid the auction clearing price for capacity and energy. For those EDCs, there are no generation profits against which delta revenue reduction can be applied. In sum, the delta revenue recovered by EDCs that rely upon competitive procurement should be 100%. RESA recognizes that the rate design utilized to recover power supply costs resulting from a competitive bid process can be manipulated to provide an economic development incentive for one class of customers while recovering the cost of such incentive from another class. If such an approach is utilized in order to provide certain customers with discount supply costs, it is essential that the mechanism utilized be implemented in a supplier-neutral manner as discussed more fully below.

d. Should the Commission explore eliminating the different rate mechanisms used by different electric utilities in the state to recover delta revenue from the various customer classes so that delta revenue is recovered using a consistent rate design for all electric utilities in this state

RESA believes that uniformity in the method used to fund economic development within the state is a positive development.

First, it eliminates undue discrimination, for with a uniform economic development tariff similarly-situated customers, with similar like economic development plans, will not receive different incentives just because of the service area they happen to be located in. Further, the

Commission ought to consider consolidating all of the economic development riders, surcharges and programs of an EDC into the single standardized economic development tariff.

Second, a standardized economic development tariff would permit the Commission to keep a database on how the economic development programs are fairing. It allows for uniform monitoring and a uniform auditing process.

Finally, the largest drawback of today's scattered economic development programs is that it is hard to tell what the actual burden of all the economic riders or surcharges are on the customers who must pay these discounts. In addition to the unique arrangements which the Commission has approved, some of the ESPs have economic development programs which are funded by rate payers via different riders. While the subsidies may have a stimulus effect on job formation for the companies receiving the benefits, there is also a depressing impact on the economic health of the companies and residential customers who pay the subsidies. A uniform system in which all the economic development subsidies were in a single tariff provision simplifies the Commission's task of monitoring these costs. That would permit the Commission to provide some level of assurance to those responsible for paying the subsidy that the Commission is monitoring the level of the subsidy.

B. Suppliers for The Economic Development Programs

The Staff in its proposal does not specifically note where the power will come from for the economic development programs. The Commission in its order ought to be clear that customers who wish to take advantage of the economic development program do not have to surrender their right to shop for a CRES provider. If the economic development customer wishes to have fixed price power, or power pegged to indices that better match their business costs, or

specific conservation programs which are part of an offer from a CRES provider that should made be available.


The mechanics of the discount process does not in and of itself require the supply to come only from the utility's SSO. In fact, the discount can and should be implemented in a way that is entirely supplier-neutral. This can be accomplished in a variety of ways, but the end result should be that a customer receiving an economic development incentive should be able to capture the monetary value of that incentive regardless of whether the customer takes the EDC's SSO or supply from a CRES provider. For example, the utility can apply the economic development incentive as a credit to the distribution side of a customer's bill and the customer would receive this credit whether or not it is a shopping customer or a standard offer customer, or for EDCs that purchase supplier receivables the EDC can pay the CRES provider for the energy and send the customer a consolidated bill with the discounted applied.

The following example shows one method of discounting that could be implemented when an economic development customer bought power from the SSO, then how the same amount of assistance could be applied if the economic development customer bought power from a CRES provider. Using the sample Economic Development Chart attached to the July 15, 2011 Entry, let's assume that an economic development customer invests \$50 million in a new pressing plant. That customer would be entitled to a 2% discount total discount from its electric service bill each month for 60 months. If the economic development customer then had a monthly electric bill of \$2,000 for energy and \$1,000 for distribution charges, the discount would be \$60, comprised of a \$40 discount for energy and a \$20 discount for distribution.

If the economic development customer bought energy from a CRES provider using the same amounts, then the utility could still apply a credit of \$60 to the customer's bill. The initial

credit would be based on a discount off of what SSO supply costs would be even if the customer receives service from a CRES provider. The economic development customer would be free to negotiate the best generation supply offer from a CRES and still retain the full value of the economic development discount. If the customer is able to negotiate a generation offer that is less than the cost of the SSO, then the value of the economic development discount becomes even greater relative to the customer's actual generation costs. Using the example from earlier, if the customer negotiates a CRES provider offer that is 10 percent less than standard service costs, then the customer's actual generation charges would be \$1800. Combined with distribution charges of \$1000, the customer's total bill would be \$2800. The customer would still receive the \$60 credit on its distribution bill, resulting in an effective economic development discount of 2.14 percent.

Respectfully submitted,


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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing document is being served by email on the following persons and further certify that a copy of the foregoing document will be served subsequently on all persons who submit initial comments in this case.

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