

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 for Authority to |) | Case No. 11-346-EL-SSO |
| Establish a Standard Service Offer Pursuant |) | Case No. 11-348-EL-SSO |
| to § 4928.143, Ohio Rev. Code, in the Form |) | |
| of an Electric Security Plan. |) | |
| |) | |
| In the Matter of the Application of |) | |
| Columbus Southern Power Company and |) | |
| Ohio Power Company for Approval of |) | Case No. 11-349-EL-AAM |
| Certain Accounting Authority. |) | Case No. 11-350-EL-AAM |

MEMORANDUM OF THE
UNIVERSITY OF TOLEDO INNOVATION ENTERPRISES CORPORATION
IN SUPPORT OF AEP'S REQUEST
FOR ESTABLISHMENT OF A GENERATION RESOURCE RIDER

I. INTRODUCTION

The University of Toledo Innovation Enterprises ("UTIE") urges the Commission to approve AEP's request for the establishment of a Generation Resource Rider ("GRR"). Both AEP's application and the Commission's approval of the GRR are authorized by statute. Commission approval of the GRR, however, does not by itself constitute approval of the 49.9 megawatt Turning Point Solar ("TPS") project, which is the sole identified electric generating facility that will populate the GRR. Rather, approval of the GRR means only that the Commission will have approved a regulatory placeholder mechanism. The prudence of costs for the TPS project will be determined in a separate proceeding, as will the forecasted need for the TPS project, which is already the subject of another proceeding.

II. THE COMMISSION SHOULD APPROVE THE GRR

A. AEP Has the Right to Request, and the Commission has Authority to Approve an ESP that Includes a Nonbypassable Surcharge for New Generation

An ESP may include “the establishment of a nonbypassable surcharge for the life of an electric generating facility that is owned or operated by the electric distribution utility ***.” This surcharge “shall cover all costs of the utility specified in the application, excluding costs recovered through a surcharge under division (B)(2)(b) of this section.” R.C. 4928.143(B)(2)(c). Before the surcharge can be approved, the Commission must determine that there is a need for the electric generating facility. Presuming cost prudence and forecasted need are established, this provision of law provides the Commission with clear authority to order the creation of the GRR, as well as the construction of the TPS project via a nonbypassable charge.

B. The GRR Will Have No Impact on the Aggregate Test for Either an ESP or MRO

Approval of an ESP is dependent on a finding that the ESP “is more favorable in the aggregate” as compared to the expected results that would otherwise apply under section 4928.142 of the Revised Code (which deals with MROs). R.C. 4928.143(C)(1). Because it is available under either an ESP or MRO, the GRR will have no impact on the aggregate test.

As described by Company witnesses Nelson and Roush in their supplemental Commission-ordered testimonies, the TPS Project would fall under the Company’s proposed Rider GRR. However, as advised by Counsel, Rider **GRR would be available under either an ESP or a MRO**. Therefore, while Company witness Roush has quantified the customer impact of the TPS Project under Rider GRR, that customer impact would be exactly the same regardless of whether the Company is under a MRO or an ESP. **Therefore, the benefit or difference to be captured under the Aggregate MRO Test for the TPS Project is zero because the aggregate test captures the difference between what would exist under an ESP and what would exist under a MRO.**

(Supp. Testimony of Ms. Thomas, filed May 2, 2012, at p. 2/lines 6-15, emphasis added.) Some parties to the case have argued that the GRR (and, thus, the TPS project) does not have to be part of the MRO analysis when considering the MRO, meaning a significant difference exists in the aggregate value of the ESP versus the GRR. Commission witness Robert Fortney, however, testified during cross-examination, as he did in his written testimony, that the GRR (and, thus, the TPS project) can be a component of an MRO application. His testimony supports the conclusion that the aggregate value is the same for both the ESP and GRR and that the impact of the GRR/TPS project on the aggregate test is zero.

Even if the GRR were applied only to the ESP, the cost of the TPS project would result in a change of only \$8 million for purposes of calculating the aggregate test. While inappropriate to apply the GRR only to the ESP, if one were to do so, there would still be a quantifiable benefit of \$952 million for the ESP over an MRO. (Supp. Testimony of Ms. Thomas, filed May 2, 2012, at p. 3/lines 1-7.)

The aggregate test is not limited to quantitative matters. The Commission must also consider the qualitative benefits of the ESP. As stated by Mr. Fortney:

I believe there are other considerations, which cannot be quantified, that the Commission should take into account when making its final decision. Staff has indicated in previous proceedings (most recently in the Staff comments filed in DP&L's Case No. 12-426-EL-SSO), that, although either an electric security plan or a market rate option would fulfill the obligation under R.C. 4928.141, the electric security plan can offer advantages for the ratepayers of the applicant, the applicant, and the public at large.

(Fortney direct testimony, filed May 9, 2012, at p. 6/lines 12-18.)

Mr. Fortney specifically pointed to the GRR as a qualitative value the Commission should consider when contrasting the aggregate test for an ESP against an MRO option: "Further, if there is an established need for additional generation in the future, the GRR provides

a mechanism to enable the Commission to allow for the construction of generation facilities, while committing to the diversity of state supply, and allowing the applicant to fulfill its REC obligations.” (*Id.* at p. 7/lines 9-13.)

The only proposed project to populate the GRR is the TPS project. If the Commission establishes a quantifiable cost for the TPS project, irrespective of whether it does so for both the ESP and MRO or the ESP alone, the Commission must also establish and consider its qualitative value, which is significant. The TPS project will result in significant tax revenue and economic growth, as the project will create over 300 permanent construction jobs in Noble County over multiple years. An estimated 85 percent of the supply chain associated with the project to consist of Ohio-based vendors. The project will use primarily Ohio manufactured components, thus contributing to this state’s manufacturing base and emerging solar supply chain. Further, the project will allow AEP to meet its solar requirements under the renewable portfolio standard in a manner that creates real economic value for the state of Ohio, as opposed to merely engaging in the paper transaction of REC purchasing.

Based on statutory authority, the Commission should approve the regulatory mechanism to be put in place by the GRR and determine that the GRR/TPS project presents zero impact on the aggregate test. If the Commission does apply the costs associated with the GRR/TPS project only to the ESP, then it should also make a reasonable attempt to quantify the corresponding benefits so that a fair comparison can be made with the MRO regarding the aggregate test.

III. Because the GRR is a “Placeholder” Rider,
Neither Its Cost Nor Its Need is to be Determined in This Proceeding

As AEP witness Philip Nelson testified, “It is important to note that the Company is not seeking approval of the TPS project in the adjudicatory proceeding scheduled to begin May 14, 2012. The Company proposes to provide final known costs to the Commission in a later proceeding for the Commission to determine the prudence of those costs.” (Supp. Testimony of Philip Nelson, filed May 6, 2012, at p. 1/line 9 to p. 2/line 2).

The Commission ordered Messrs. Nelson and Rousch and Ms. Thomas to provide supplemental testimony regarding costs for the TPS project. Regardless of their testimony, it cannot change the fact that the prudence of the costs associated with the TPS project must be determined in a separate proceeding. While some parties have argued against the prudence and estimated costs of the TPS project, their arguments are misplaced; there is insufficient information in this case to make a comprehensive quantitative or qualitative assessment of the TPS project. For this reason, UTIE urges the Commission to approve the GRR so that a separate prudence case can begin as quickly as possible.

Several parties also contend that the need for the TPS project has not been proven. The issue of need, however, is not to be determined in this case but in the long-term forecast case (10-501-EL-FOR) pending before the Commission.

III. CONCLUSION

Statutory authority provides grounds for AEP requesting and the Commission approving a nonbypassable charge for the TPS project. Because the GRR and project provide a qualitative advantage in terms of positive economic impact, the Commission should approve an ESP that

includes the GRR. The Commission should also commence as soon as possible a separate proceeding for purpose of establishing the prudence of costs of the TPS project.

/s/ Jack D'Aurora

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CERTIFICATE OF SERVICE

I certify that a copy of this document was served by e-mail upon counsel for all other parties, as set forth on the attached list, on this 29th day of June, 2012.

/s/ Jack D'Aurora

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Summary: Memorandum of The University of Toledo Innovation Enterprises Corporation in Support of AEP's Request for Establishment of a Generation Resource Rider electronically filed by Jack D'Aurora on behalf of University of Toledo Innovation Enterprises Corporation