

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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 : Case No. 11-348-EL-SSO
Pursuant 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 : Case No. 11-349-EL-AAM
Ohio Power Company for Approval of : Case No. 11-350-EL-AAM
Certain Accounting Authority. :

**INITIAL POST-HEARING BRIEF OF THE STAFF OF THE PUBLIC
UTILITIES COMMISSION OF OHIO**

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INTRODUCTION

During the hearing in this case, many of these same parties filed briefs in what has been called AEP-Ohio's "capacity case."¹ Many of AEP-Ohio's (Company's) proposals in this case are closely related to the capacity case, and may hinge on the outcome of that case. The Company has repeatedly emphasized that this modified Electric Security Plan (ESP) is a "package" that should be considered as a whole.

The plan, if considered as a package and in the context of the Company's litigation position in the capacity case, is unacceptable to the Commission staff. Staff's position in this case is unchanged from the position that it articulated in the capacity case, and it reasserts the arguments advanced there by reference. In general, staff's position is that the

¹ *In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company*, Case No. 10-2929-EL-UNC.

Company should charge CRES providers the prevailing Reliability Pricing Model (RPM) capacity rates in the unconstrained region of PJM. Staff proposed that an alternative capacity charge of \$146.41/MW-Day be set as a state compensation mechanism for the Company in the event that the Commission should find that the prevailing RPM capacity rates during the June 1, 2012 through May 31, 2015 period are not appropriate. Adoption of the staff position would significantly impact the Company's proposals in this case, for instance, to provide a two-tiered "capacity discount" to encourage shopping, and a decoupling mechanism to shield the Company from financial impact in the transition to full market.

To whatever extent the Company may be correct in believing that the Commission would like for it to "move to market more quickly,"² the staff certainly submits that the quickest possible orderly transition to full market is in the best interests of all parties and the State of Ohio as a whole. The staff would prefer to see energy and capacity sold at market prices. While some transition mechanism may be appropriate, staff is more concerned that the transition occur as quickly, and as completely, as practicable.

² See, *e.g.*: Tr. 175.

DISCUSSION

I. ESP Versus MRO Test

The Company has proposed an Electric Security Plan (ESP) to fulfill its obligation to provide a Standard Service Offer (SSO) under R.C. 4928.141. It seeks approval of an ESP with a term beginning June 1, 2012 and ending May 31, 2015. The Company submits that its modified ESP will have the effect of stabilizing and providing certainty regarding retail electric service and is “more favorable in the aggregate as compared to the expected results that would otherwise apply under section 4928.142 of the Revised Code.” Staff’s analysis, however, demonstrates that the plan, at least on a purely quantitative basis, fails the MRO test.

A. RPM as the Appropriate Charge for Capacity

Staff witness Choueiki derived the Reliability Pricing Model-based (RPM-based) capacity component charges that staff witness Johnson used in developing the retail Market Rate Offer (MRO) price for the PJM delivery years 2012-2013, 2013-2014, and 2014-2015. Should the Commission find in Case No. 10-2929-EL-UNC that the prevailing RPM capacity rates during the June 1, 2012 - May 31, 2015 period are non-compensatory, staff witness Choueiki derived alternate capacity component charges for the Commission to consider when evaluating the MRO price test results.³

³ The results are summarized in Staff Ex. 101 at HMC-1 and HMC-2.

1. RPM-Based Component Charges

Company witness Thomas based the capacity component charge on the rate supported by AEP Ohio in Case No. 10-2929-EL-UNC; a fully embedded cost of \$343.98/MW-day⁴ (or \$355.72/MW-day after losses have been included). The capacity charge derived by Ms. Thomas is cost-based, not market-based.⁵ It is staff's position that it is generally not reasonable to use a cost-based capacity component charge in a retail MRO development.⁶ To the extent there is a transparent forward capacity price available in the market, that price should be used in the derivation of a capacity component charge that would then be included in a proposed retail MRO.⁷ This logic is no different than the use of the Simple Swap proposed by Ms. Thomas in the determination of an energy component charge in AEP Ohio's proposed retail MRO.⁸

Transparent forward capacity prices, from June 1, 2012 through May 31, 2015, are available in the PJM footprint.⁹ The capacity clearing prices in the RTO region for the 2012-2013, 2013-2014, and 2014-2015 delivery years are \$16.73/MW-Day, \$27.86/MW-

⁴ Company Ex. 114 at 15.

⁵ Staff Ex. 101 at 5.

⁶ Exceptions include: a Commission Finding that RPM-based capacity charges are not compensatory for AEP-Ohio or a Federal Energy Regulatory Commission Order in Docket No. ER-11 -2183 (the 205 filing) or Docket No. EL-11-32 (the 206 filing) approving a cost-based capacity charge for AEP-Ohio.

⁷ Staff Ex. 101 at 5.

⁸ Company Ex. 114 at 12.

⁹ <http://www.pim.eom/markets-and-operations/mm/rpm-auction-user-info.aspx#Item08>.

Day, and \$125.99/MW-day, respectively. Staff witness Choueiki derived a capacity component charge¹⁰ for each delivery year that was used in the development of the retail MRO by staff witness Johnson.

A capacity component charge for the 2012-2013 delivery year that would be billed with every MW-hour of energy, for example, is computed by dividing the RPM capacity clearing price (\$16.73/MW-day) by the product of 24 (24 hours in a day) and an estimate of the Company load factor.¹¹ The net result is a capacity component charge of \$1.08/MW-hour.¹² Using the same arithmetic, the capacity component charges for the 2013-2014 and 2014-2015 delivery years are \$1.80/MW-hour and \$8.13/MW-hour, respectively.¹³

2. FRR Construct

For the purpose of satisfying PJM's reserve margin requirement, the Company operates under the Fixed Resource Requirement (FRR) construct.¹⁴ The FRR construct is an alternative to RPM for procuring capacity available to Load Serving Entities (LSEs) in the PJM footprint. Unless a CRES provider in the AEP Ohio service area opted out of FRR in March of 2009, 2010, or 2011, the provider would have to procure its capacity obligation during the upcoming ESP period from the Company.

10 Staff Ex. 101 at HMC-1.

11 Id. at 6. AEP-Ohio's load factor is estimated at 64.54% (See HMC-2 for derivation).

12 Id. at 6. $\$1.08/\text{MW-hour} = (\$16.73/\text{MW-day}) / (24 \text{ hours/day} \times 0.6454)$.

13 Id.

14 PJM Reliability Assurance Agreement (RAA), Schedule 8.1.

Under the FRR construct, a state that has implemented retail choice has the ability to set the capacity rate that an FRR Entity will charge its retail competitors under a “state compensation mechanism.”¹⁵ To the extent there is no capacity compensation mechanism available in a particular retail choice state, the default capacity charge is the RPM clearing price in the unconstrained region.¹⁶ Additionally, the FRR entity, as an alternative to the RPM clearing price in the unconstrained region, may apply under Section 205 of the Federal Power Act for permission from the Federal Energy Regulatory Commission (FERC) to charge a cost-based capacity rate that is found to be just and reasonable.¹⁷

In its March 7, 2012 Order in Case No. 10-2929-EL-UNC, the Commission has set the following interim two-tier rate for capacity in the AEP Ohio service area as a state compensation mechanism: the 2011-2012 RPM clearing price of \$116.15/MW-day for tier-one customers, and \$255/MW-day for tier-two customers.¹⁸ This interim rate, as extended by the Commission’s May 30, 2012 Order, is in effect until July 2, 2012, at which time the rate for capacity will revert to the 2012-2013 RPM clearing price for all customers. Using the same methodology and load factor assumption described above, the \$116.15/MW-day and \$255/MW-day capacity rates translate to capacity component charges of \$7.50/MW-hour and \$16.46/MW-hour, respectively.¹⁹

15 IEU Ex. 114, Schedule 8.1, Section D, paragraph 8.

16 Staff Ex. 101 at 8-9.

17 Id. at 9.

18 Id.

19 Id. at 10.

3. Staff's Recommendation

In general, staff's position is to charge CRES providers the prevailing RPM rate in the unconstrained region of PJM.²⁰ If the Commission finds in Case No. 10-2929-EL-UNC that the prevailing RPM rates during the proposed ESP period are not compensatory, staff's recommendation would then be for AEP Ohio to charge CRES providers the capacity rate developed by staff witness Medine,²¹ \$146.41/MW-day, in Case No. 10-2929-EL-UNC.²² Further, staff's position is that, if the Commission finds that the prevailing RPM rates are non-compensatory and accepts staff's \$146.41/MW-Day capacity rate estimation, the capacity charge used in the MRO price test would be calculated using staff witness Choueiki's methods described above for deriving the RPM-based capacity charges as a state compensation mechanism capacity charge.

B. MRO Retail Pricing

Company witness Thomas offered a MRO retail pricing construct that valued and summed ten price components to arrive at a MRO price. The ten price components are as follows: (1) Simple Swap; (2) Basis Adjustment; (3) Load Following / Shaping Adjustment; (4) Capacity; (5) Ancillary Services; (6) an Alternative Energy Requirement;

²⁰ *Id.* Exceptions to this response are: a Commission finding that RPM-based capacity charges are not compensatory for AEP-Ohio or a Federal Energy Regulatory Commission Order in Docket No.ER- IJ -2183 (the 205 filing) or Docket No.EL-11-32 (the 206 filing) approving a cost-based capacity charge for AEP-Ohio.

²¹ *In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company*, Case No. 10-2929-EL-UNC (*Capacity Case*) (Testimony of Emily S. Medine on behalf of Staff of the Public Utilities Commission of Ohio) (May 7, 2012).

²² Staff Ex. 101 at 10.

(7) Auction Revenue Rights (ARR) Revenues; (8) Losses; (9) Risk Adjustment; and (10) Retail Administration. Staff agrees that each component represents a legitimate category of costs that would be incurred in the market to procure power and energy for SSO customer load.²³ In order to ascertain the validity of the Company's MRO retail pricing construct, staff witness Johnson conducted an independent test to determine if the Company's retail pricing construct would predict the results of the three December 15, 2011 Duke Energy Ohio auctions for procuring SSO load (Duke SSO Auctions).²⁴ Staff witness Johnson substituted market data that was available to the bidders in the Duke SSO auctions for market data used by Ms. Thomas, and using those substituted data, calculated predictions (or "backcasts") of the Duke SSO auctions based upon the Company's retail pricing construct.²⁵ Using this apples-to-apples comparison, Mr. Johnson compared his predicted results with the actual results and, in doing so, he valued each of Company witness Thomas' ten pricing components in such a way that maintained the same product definitions for her retail pricing construct and for the Duke SSO auctions.²⁶ Mr. Johnson concluded that the MRO retail pricing construct offered by Ms. Thomas reasonably predicted, or "backcasted," the actual results of the FirstEnergy SSO

²³ Staff Ex. 102 at 9.

²⁴ *Id.* at 10.

²⁵ *Id.*

²⁶ *Id.* at 10-11. Two of the ten price components needed adjustment in order to maintain comparability between a market price applicable to AEP Ohio and a market price applicable to Duke. Those two price components were the Basis Adjustment and the Alternative Energy Requirement components.

auctions and the Duke Energy Ohio SSO auctions, and was therefore valid for forecasting the values of future procurements, so long as the appropriate transparent market values are used for the Simple Swap and for the capacity components.²⁷

Given the validity of the the Company MRO retail pricing construct, staff witness Johnson used that construct to project future MRO prices in the same manner used the construct to backcast the FirstEnergy SSO auction results and the Duke Energy Ohio SSO auction results. Staff witness Johnson projected three MRO values using different capacity prices for each while using staff witness Choueiki's capacity values: (1) the PJM RPM Base Residual Auctions for the appropriate PJM delivery periods²⁸; (2) the \$146.41/MW-Day recommendation of staff witness Emily Medine in Case No. 10-2929-EL-UNC; and (3) \$255/MW-day the second tier of AEP Ohio interim capacity rate.²⁹

For Simple Swap values, as done by Company witness Thomas, Mr. Johnson used the most recent daily quotes, available at the time of testimony preparation, for on-peak and off-peak products available from ICE and weighted the on-peak and off-peak strips by the number of on peak and off peak hours.³⁰ While these are not the values available just prior to auction, it is the most reasonable and up-to-date information.³¹ Nonetheless,

²⁷ *Id.*

²⁸ Staff Ex. 101 at HMC-1.

²⁹ *Capacity Case (Opinion & Order)* (March 7, 2012).

³⁰ Staff Ex. 102 at 28-29.

³¹ *Id.* at 29.

the selection of quote dates is a significant when calculating the value of the Simple Swap.³² Mr. Johnson stated:

For example, in Case No. 08-920-EL-SSO, et al., AEP's prior ESP filing, AEP filed its MRO estimate using a sampling of pricing data over the recent year, ending in June, 2008. By the time the hearing commenced Simple Swap prices had fallen nearly 25% from the June, 2008 levels.

The Simple Swap exhibits significant volatility. Attachment DRJ-3 shows the trend over the last 29 months of the around the clock forward price for one year, two years, and three years forward. The Simple Swap quotes from 2010 through August of 2011 for a year forward varied from low to high of more than 33%. The Simple Swap quotes from the same period for two and three years forward varied between a low of \$40 and a high of \$50, an upward swing of 25%.³³

Most striking is the downward trend from September 2011 through the present and forward prices for each of the three forward years have fallen significantly and precipitously by a greater percentage than the previous swings. Although uncertainty will always exist, Company witness Thomas' choice of forward quote prices was acceptable given the volatility of forward prices and the lead time of making an ESP filing relative to a SSO auction.

Mr. Johnson estimated MRO prices for each of the delivery periods by dividing the 2014-2015 PJM planning year into two periods to correspond with, and support staff witness Fortney's analysis. Staff witness Fortney recognized that the Company proposes

³² *Id.* at 30.

³³ *Id.*

to auction its load beginning on 1/1/2015.³⁴ It will prove useful for the Commission to understand how prices may be expected to behave during the two separate periods of the last PJM delivery year as analyzed by Mr. Fortney. Below are the three sets of MRO prices staff witness Johnson predicted based upon the different assumptions regarding the price of capacity:

Capacity Price set at RPM auction prices

PJM planning year 2012 - 2013	\$45.99
PJM planning year 2013 – 2014	\$51.35
June 1, 2014 through December 31, 2015	\$59.35
January 1, 2015 through May 31, 2015	\$61.98

Capacity Price set at \$146.41 (staff witness Medine in 10-2929-EL-UNC)

PJM planning year 2012 - 2013	\$54.35
PJM planning year 2013 – 2014	\$59.00
June 1, 2014 through December 31, 2015	\$60.67
January 1, 2015 through May 31, 2015	\$63.30

Capacity Price set at \$255

PJM planning year 2012 - 2013	\$61.37
PJM planning year 2013 – 2014	\$66.01
June 1, 2014 through December 31, 2015	\$67.68
January 1, 2015 through May 31, 2015	\$70.31 ³⁵

Staff witness Fortney used these prices, accepting the generation rates and the resulting revenue impacts which the company is proposing. In order to fully compare the proposed ESP with an MRO, it was also necessary for Mr. Fortney to consider the additional proposed revenue mechanisms. Because some of the proposed riders have zero revenue associated with them, Mr. Fortney determined to include only Retail Stability Rider (RSR) in his analysis.

³⁴ Staff Ex. 110.

³⁵ Staff Ex. 102 at DRJ-4, 5 and 6.

Mr. Fortney’s conclusion, summarized in the table below, was that under *all three* of these scenarios the ESP as proposed by the Company is not more favorable than the blended MRO utilizing the forecasted market rates as determined by staff witness Johnson.

	Average Rate in cents per kWh		
	@ RPM	@ \$146.41	@ \$255
June 2012 – May 2013 AEP ESP Proposal, incl. RSS	6.412	6.412	6.412
June 2012 – May 2013 Staff Blended Market Rate	6.054	6.138	6.208
June 2013 – May 2014 AEP ESP Proposal, incl. RSS	6.379	6.379	6.379
June 2013 – May, 2014 Staff Blended Market Rate	6.000	6.153	6.293
June 2014 – Dec, 2014 AEP ESP Proposal, incl. RSS	6.382	6.382	6.382
June, 2014 – Dec 2014 Staff Blended Market Rate	6.132	6.172	6.382
Average Over Term – AEP ESP Proposal, incl. RSS	6.392	6.392	6.392
Average Over Term – Staff Blended MRO	6.051	6.152	6.280

C. Qualitative Considerations.

Even though staff believes that the proposed ESP cannot satisfy the MRO test on a strictly quantitative basis, the Commission may also take qualitative factors into consideration that may justify approval of the plan in some form.

For example, staff witness Fortney testified that an electric security plan can offer advantages for ratepayers, the applicant, and the public at large. Specifically, he noted that the transition to competitive markets is beneficial to ratepayers because a move to a full market rate could be achieved more quickly than through the blending phase-in of an MRO. The proposed ESP would also allow for rate certainty and stability during the transition. Finally, Mr. Fortney noted that the proposed Generation Resource Rider

(GRR) provides a mechanism to allow for the construction of additionally needed future generation facilities.

Staff takes no position on whether these qualitative factors justify approval of the modified ESP. Should the Commission decide to approve the Company's proposal, staff believes that it should also adopt the recommendations below.

II. Corporate Separation

On March 30, 2012, and contemporaneous with its modified ESP application, the Company filed an application for approval of corporate separation.³⁶ On May 29, 2012, the Attorney Examiner suspended consideration of that application until such time as the Commission orders otherwise. While consideration of the plan should proceed in that docket, there are aspects of it that were addressed by the Company in this application, and upon which the Commission is asked to rule.

Specifically, the Company requested that it not be required to transfer \$296 million in pollution control bonds to its proposed Genco.³⁷ Staff witness McCarter testified that the Company had made no showing that use of intercompany notes would have a substantial negative impact on its cost of debt.³⁸ Consequently, staff recommended that the Commission deny that request at this time. As Ms. McCarter made clear on

³⁶ *In the Matter of the Application of Ohio Power Company for Approval of Full Legal Corporate Separation and Amendment to its Corporate Separation Plan*, Case No. 12-1126-EL-UNC.

³⁷ Company Ex. 102.

³⁸ Staff Ex. 108.

cross-examination, staff is not opposed to the Company retaining its pollution control bonds.³⁹ But staff believes that the Company has failed in this case to adequately demonstrate that it should not be required to transfer those bonds. The Company should be directed to make a filing to the Commission, within six months of the completion of corporate separation, demonstrating the substantial negative impact on AEP-Ohio that would be avoided if it desires not to transfer this debt or use intercompany notes.

Staff witness McCarter further recommended that the Corporate Organization chart be updated to reflect the legal entities that are related to American Electric Power Inc., as well as all reportable segments related to the AEP-Ohio operating company. This should be similar to the information American Electric Power Inc. provides in its 10 K filing to the Securities and Exchange Commission.⁴⁰

III. Standard Service Offer Rate Provisions of the Modified ESP

A. Generation Rates

1. SSO Generation Service Rider (base generation rate)

The Company has proposed to freeze current non-fuel generation rates until such time as those rates are established through a competitive bidding process. It is proposing to bundle the current Environmental Investment Carrying Charge Rider (EICCR) and the base generation rates. Staff supports the Company's proposal conceptually.

³⁹ Tr. 4405.

⁴⁰ Staff Ex. 108.

2. Fuel Adjustment Clause

The proposed ESP includes continuation and modification of a bypassable Fuel Adjustment Clause (FAC). The Company is proposing to modify the FAC by removing renewable energy credits (RECs) from the FAC, and recovering this expense through a new Alternative Energy Rider. In addition, bundled purchased power products, or REPAs, would be split into their REC and non-REC components, with the REC component recovered through the AER and the non-REC portion through the FAC. The Company also proposes to unify the rates for each FAC rate zone into a single set of merged rates, on a delayed basis. Staff supports these proposals.

3. Alternative Energy Rider

The Company proposes establishing a bypassable Alternative Energy Rider (AER) for recovery of REC expense. Staff generally supports the concept of separately identifying and recovering costs associated with renewable energy requirements.⁴¹ Staff does, however, recommend that auditing procedures be established, and that the audit be conducted by the same auditor chosen to conduct the FAC audit. Annual audits would allow for a determination of the appropriateness and recoverability of costs associated with renewable energy requirement compliance, and for determination of the proper assignment of costs between the two riders. It is logical to have the audits conducted at the same time by the same auditor.

⁴¹ Staff Ex. 104.

In addition, staff also generally agrees with the Companies' proposal to allocate the cost components of bundled products. Staff witness Strom recommended that the details of how to determine the cost components, and how to apply the allocation to specific situations, should be determined in the context of the AER audits.⁴² This same process should be applied to renewable generation from currently existing generation facilities.

Staff witness Cunningham specifically supported the Paulding Wind Farm II, LLC (Timber Road) renewable energy purchase agreement (REPA) contract as reasonable and prudent, and recommended its approval in this case.⁴³ Mr. Cunningham recommended that the Company be permitted to recover costs associated with energy, capacity, and renewable energy credits (RECs) outlined in the contract, subject to annual FAC and AER audits.⁴⁴

4. Generation Resource Rider

The Company proposes establishing a new nonbypassable Generation Resource Rider (GRR) to collect costs associated with investment in generating facilities in accordance with R.C. 4928.143 (B)(2)(c). This proposed rider is designed to recover renewable and alternative capacity additions, as well as more traditional capacity constructed or financed by the Company and approved by the Commission. Any charges

⁴² *Id.*

⁴³ Staff Ex. 103.

⁴⁴ *Id.*

included in the GRR would need to be approved in a separate Commission proceeding. The GRR is specifically intended to include the proposed Turning Point solar project, if approved.

During the cross-examination of staff witness Strom, Commissioner Porter asked several questions pertaining to the proposed regulatory treatment of the Timber Road REPA and the Turning Point solar facility.⁴⁵ As proposed by the Company, the costs associated with the Timber Road REPA would be recovered through bypassable riders: the energy and capacity costs would appear in the FAC, while the REC (renewable energy credit) costs would appear in the AER. Conversely, the costs associated with the potential Turning Point solar facility, if approved by the Commission, are proposed for recovery through the nonbypassable GRR.

Commissioner Porter's questions sought to understand the rationale for the different ratemaking mechanisms proposed for these two specific renewable projects.

Specifically, Commissioner Porter asked:

So I'm just trying to understand the difference between renewable projects included in one rider from staff's perspective and renewable projects included in another rider from staff's perspective. One rider is bypassable, one rider is not bypassable.⁴⁶

R.C. 4928.143(B)(2)(c) allows the Company to establish a nonbypassable surcharge, provided that certain requirements are satisfied. One of the requirements is that the facility be "owned or operated by the electric distribution utility." As correctly

⁴⁵ Tr. 2511.

⁴⁶ Tr. 2514.

noted by Commissioner Porter, the Timber Road REPA is a power purchase agreement. As such, the Company neither owns nor operates that facility. Therefore, the costs associated with this REPA would not be eligible for recovery through a nonbypassable surcharge under R.C. 4928.143(B)(2)(c). Staff supports the use of the FAC (for the energy and capacity components) and the AER (for the renewable attributes) to recover the Timber Road REPA costs.

With respect to the potential Turning Point solar facility, the Company may be able to satisfy the statutory “owned or operated” requirement for a nonbypassable surcharge. However, before any costs are included in the GRR (currently proposed as a zero-dollar placeholder), there are a number of other requirements from R.C. 4928.143(B)(2)(c) that would also need to be satisfied. Those requirements have not been addressed in this proceeding, and it is staff’s expectation that these requirements would be addressed in the separate future proceeding proposed by the Company.⁴⁷ These statutory requirements include:

- The facility was sourced through a competitive bid process;
- The facility is newly used and useful on or after January 1, 2009;
- The Commission has determined the need for the facility⁴⁸; and
- The facility’s output shall be dedicated to Ohio consumers.

The need determination, whether the proposed Turning Point solar facility would satisfy the projected need for additional in-state solar capacity, is pending a Commission decision in Case No. 10-0501-EL-FOR. The Turning Point solar facility was the only

⁴⁷ Ohio Power Company’s modified Electric Security Plan, p. 8.

⁴⁸ Currently being evaluated in Case No. 10-0501-EL-FOR.

option proposed by the Company for satisfying this need, and, therefore Turning Point comprised the scope of the analysis in that proceeding. However, the separate future proceeding proposed by the Company would entail a proceeding in which costs are appropriately considered. Therefore, the costs of Turning Point, and any other alternatives for satisfying the in-state solar requirement, should be presented and considered in a future proceeding consistent with staff's recommendation in Case No. 10-0501-EL-FOR:

The non-signatories will raise a large number of concerns about this need determination. They will argue that the plan has not been shown to be cost-effective, that market forces will lead to more construction and obviate the need for Turning Point, that less expensive options may appear, that a non-bypassable charge is inappropriate for various reasons, and doubtless many other things. Although these concerns should be considered by the Commission at the appropriate time, that time is not now. The arguments are premature. Financial issues are not dealt with through forecasting cases. Financial issues should be dealt with through cases where recovery is sought and no recovery is sought for any amount in this case. Whether there is some alternative to Turning Point Solar that is in some way superior must be reserved for a case in which there is some alternative to consider.⁴⁹

Staff also expects that the other aforementioned statutory requirements will be addressed in a subsequent proceeding proposed by the Company, prior to cost recovery through the GRR. It would be during this separate future proceeding that parties could explore (among other items) whether the use of the GRR results in shopping customers paying

⁴⁹ Staff Post-Hearing Brief, Case 10-0501-EL-FOR; p. 8

twice for certain alternative energy portfolio standard compliance costs. Commissioner Porter touched on this concept when he asked Mr. Strom:

But from staff's perspective if it's a renewable project, if it's a project that's to meet the renewable portfolio standards or requirements under SB 221, since a shopping customer when it shops, the CRES provider also has to meet those requirement, then those types of projects should be bypassable from staff's perspective?⁵⁰

Staff believes that this question may be addressed by the Company's efforts to satisfy the statutory requirement of dedicating the facility's output to Ohio consumers. Although the specific methodology has not yet been determined, the Company has indicated that it expects the Turning Point solar RECs (S-RECs) to be allocated between shopped and nonshopped customers.⁵¹ In addition, the Company has indicated that the energy and capacity from the Turning Point facility would be sold into the market, with the revenues credited against the GRR.⁵² The net result of these efforts to "dedicate [the output from Turning Point] to Ohio consumers" may substantially ameliorate any concerns with double-payment of compliance costs by shopped customers. However, as mentioned earlier, staff believes these details would be appropriately addressed during the separate future proceeding before any costs are inserted into the proposed GRR.

⁵⁰ Tr. 2514.

⁵¹ Tr. 599, 1170, 2140.

⁵² Tr. 2139.

5. Interruptible Service Rates

The Company is proposing to restructure its Schedule Interruptible Power – Discretionary (IRP-D) as Rider IRP-D, reflecting an offset to firm service rates. The Company has proposed to increase the IRP-D credit to \$8.21 per kW-month. The Company also proposes to permit retail customer participation in PJM demand response programs.

AEP Ohio is also proposing to eliminate Rider Emergency Curtailable Service (ECS) and Rider Price Curtailable Service (PCS), including the proposed changes pending in Case Nos. 10- 343-EL-ATA and 10-344-EL-ATA. Customers with peak demand response attributes that have cleared in the PJM market that are also receiving an incentive payment through a reasonable arrangement shall commit such peak demand response attributes to the Company at no additional cost. Finally in this regard, AEP Ohio proposes that it be allowed to issue an RFP to meet any remaining peak demand reduction mandates.

Staff supports the proposed Rider IRP-D, but only through the ESP period. At the end of the ESP term, staff believes that the Company should no longer be permitted to offer a discount from the SSO rate (or, for that matter, any “inferior” quality SSO service, allowing customers who which such service to seek willing providers in the marketplace).

Staff believes, however, that the IRP-D credit should be determined using the capacity rate ultimately determined by the Commission in Case No. 10-2929-EL-UNC. Despite the Ohio Energy Group’s arguments to the contrary, this is entirely consistent

with the methodology for calculating the credit employed by Company witness Roush. Using the FRR generation rate recommended by staff witness Emily Medine in Case No. 10-2929-EL-UNC, staff witness Scheck recommended an interruptible credit value of \$3.34/kw/month.⁵³

In addition, staff believes that any SSO interruptible service offered as a part of economic development or competitive response should be offered as a part of a reasonable or special arrangement, rather than as a tariff service.⁵⁴ Furthermore, staff believes that the Company should not be permitted to offer an unlimited amount of interruptible service as a part of economic development or competitive response. Staff witness Scheck testified that the need for interruptible service should not depend on whether it is offered as a part of economic development or competitive response. Customers should be expected to respond to curtailment requests in the same way.

Finally, staff recommends that any customer that chooses interruptible service should be allowed to return to the fixed SSO with a notice of no more than 3 years. As most competitive bid auctions are no longer than 3 years in length, the Company could easily incorporate a returning interruptible customer to firm SSO with three years advance notice.

⁵³ *Id.*

⁵⁴ Staff Ex. 105.

6. Retail Stability Rider

The Company has proposed a nonbypassable Retail Stability Rider (RSR). It attempted to justify this rider by demonstrating that its proposed discounted capacity pricing plan would otherwise put it in a precarious financial position. The RSR is described as a generation revenue decoupling charge.

As staff witness Fortney testified, staff does support some form an RSR mechanism.⁵⁵ Staff, however, supports a rider that would allow the Company to recover the difference between the cost of capacity to be determined by the Commission in the 10-2929 case, and the state-mandated rate that it will be allowed to charge CRES providers for capacity.

B. Discounted Capacity Charges

The Company proposes to discount capacity charges during the remaining period that it remains a FRR entity in the capacity market. The Company also proposes to transition to an energy auction for 100% of SSO load for delivery commencing January 2015. The Company is also willing to engage in an energy-only, slice-of-system auction for 5% of SSO load as part of the ESP package prior to January 2015, provided that it is made whole financially.

As noted above, staff's position is that the Company should charge CRES providers the prevailing RPM capacity rates in the unconstrained region of PJM. Staff has

⁵⁵ Tr. 4555.

no objection to the Company offering a discount from the state-mandated rate which they will be allowed to charge CRES providers for capacity.

Furthermore, staff certainly believes that the quickest possible orderly transition to full market is in the best interests of all parties and the State of Ohio as a whole. The staff would prefer to see the transition occur as quickly, and as completely, as practicable, and suggests that more auctions, more frequent auctions, or an auction of a considerably greater “slice” of system SSO load would be appropriate, and should be considered by the Commission.

C. Distribution Rates

1. Distribution Investment Rider

The Company proposes the establishment of a Distribution Investment Rider (DIR) to provide capital funding for distribution assets needed to support distribution asset management programs, distribution capacity and infrastructure additions, and to support the continued implementation of advanced technology including AEP Ohio’s gridSMART® initiative. As part of its determination whether to allow an ESP to include such a provision, the Commission “shall examine the reliability of the electric distribution utility’s distribution system and ensure that customers’ and the electric distribution utility’s expectations are aligned and that the electric distribution utility is placing sufficient emphasis on and dedicating sufficient resources to the reliability of its distribution system.”⁵⁶

⁵⁶ R.C. 4928.143(B)(2)(h).

Staff witness Baker testified that the Company's 2011 reliability measures showed worse performance in 2011 when compared with the previous year. For the CSP territory, both System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI) performance measures worsened in 2011; and SAIFI worsened in the OP territory. In addition, the CSP territory missed one of its reliability standards in 2011. Based on these results, Mr. Baker recommended that the Commission find that OPC's reliability expectations are not currently in alignment with those of its customers.⁵⁷ Staff is, however, not recommending that the Commission *not* approve the DIR. It is, however, recommending that a number of conditions be imposed should it decide to do so.

As staff witness Baker testified, the DIR lacks sufficient definition.⁵⁸ Consequently, the Company should be ordered to work with the staff to develop a distribution capital plan that focuses on reliability. This would be consistent with the Commission's earlier December 14, 2011 order approving the since rejected stipulation. There the Commission ordered that:

Companies are ordered to work with staff to develop a plan to emphasize proactive distribution maintenance that focus spending on where it will have the greatest impact on maintaining and improving reliability for customers. . . . Further, Companies shall submit its plan for Commission review in a separate docket.⁵⁹

⁵⁷ Staff Ex. 106.

⁵⁸ *Id.*

⁵⁹ Opinion and Order (December 14, 2011) at 46.

Staff submits that this directive remains appropriate and should be adopted if the DIR is approved.

If the DIR is approved, then the Commission should also order that the calculation include an offset or credit for accumulated deferred income taxes (ADIT). Company witness Allen testified in rebuttal that including an adjustment in the DIR calculation for ADIT would be inconsistent with the revenue credit related to the DIT included in the distribution rate case settlement.⁶⁰ Even if true, it is necessary to bear in mind that the distribution case revenue credit was, as Mr. Allen acknowledged, part of a settlement. The fact that it is “inconsistent” is irrelevant. The appropriate treatment, as Ms. McCarter testified, is to include an offset or credit for ADIT.⁶¹

As discussed below, the Company proposes to expand its gridSMART project. It also indicated that it intends to seek recovery of some of those costs through the DIR. Staff recommends that the current gridSMART rider be used to capture all gridSMART costs, and that gridSMART costs not be recovered through the DIR. As staff witness McCarter testified on cross examination, limiting recovery of gridSMART costs to the gridSMART Rider would make it easier to track both expenditures and savings, and for the Commission to identify benefits associated with the gridSMART program.⁶²

⁶⁰ Company Ex. 151.

⁶¹ Staff Ex. 108.

⁶² Tr. 4398.

Ms. McCarter also recommended a process for annual audits of the DIR, together with a final reconciliation, to ensure the accuracy of the quarterly filings.⁶³ Staff urges the Commission to adopt its recommended process.

Finally, staff acknowledges that the Company's distribution rate case, Case Nos. 11-351-EL-AIR and 11-352-EL-AIR, anticipated that a DIR would be approved as part of the Company's ESP. The parties to the since-rejected stipulation agreed to a \$62.344 million customer credit to eliminate potential double counting. These credits are continuing despite the fact that the Company is not currently recovering a DIR. Consequently, the Commission should reconsider this credit if does not approve a DIR in this case.

2. gridSMART Rider

The proposed ESP includes continuing the gridSMART Rider, unified into a single set of merged rates. Staff supports the gridSMART project.⁶⁴ While staff supports the continuation of the gridSMART Rider, it does not support expansion of the program, generally, until the results from Phase I have been reviewed and analyzed. It is staff's recommendation that the results of Phase I be reviewed to determine what has worked well and what components of the pilot program could be improved before the Company is permitted to progress to a wider deployment.⁶⁵ Staff is aware that the scope of the pilot

⁶³ Staff Ex. 108.

⁶⁴ Tr. 4378.

⁶⁵ Staff Ex. 107.

has already been expanded to allow the Company to leverage American Reinvestment Recovery Act (ARRA) Smart Grid Demonstration Project funds. But no further expansion of the project should be approved until the Phase I Pilot project is completed.

In addition, neither the total costs nor the benefits of further deployment have been defined satisfactorily for staff. As staff witness Cleaver testified, the Company has previously stated that it needs additional research and experience, and additional time to study the benefits and customer acceptance, of certain technologies and programs before expanding.⁶⁶

Staff witness Scheck testified that the data collection is not expected to be completed until December 31, 2013, with the analysis of that data not expected to be completed until March 31, 2014.⁶⁷ Nonetheless, he indicated that staff thinks that it would be acceptable to allow the Company to go forward with other phases of the project provided that there are no other issues, such as security and interoperability, that need to be in compliance with the NISTER guidelines and/or standards before proceeding. In addition, Mr. Scheck recommended that proven distribution investments such as volt-var could proceed independently of the gridSMART project itself.⁶⁸

⁶⁶ Staff Ex. 107.

⁶⁷ Staff Ex. 103.

⁶⁸ *Id.*

3. Enhanced Service Reliability Rider

The ESP includes continuation of the Enhanced Service Reliability Rider (ESRR), unified for each rate zone into a single set of merged rates. The ESRR enables the Company to recover the incremental costs associated with transitioning to a cyclical-based vegetation management program.

Staff supports continuation of the ESRR, but only through 2014. Staff recommends that the ESRR should not recover costs incurred after the end of 2014.⁶⁹ As of the end of 2014, OPC will have completed its transition to, and will begin regular maintenance on, a four-year cycle vegetation management program. While the ESSR allowed accelerated cost recovery during the transition, the return to normal operations should be recovered through base rates.

Staff further submits that the base rates established in the Company's most recent distribution rate case establish an appropriate funding level for ongoing vegetation management. Further, however, those rates reflect an increase in O&M expense recovery for vegetation management that justifies a reduction of the proposed ESSR. The stipulation approved by the Commission's order in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR effectively granted the Company an additional \$17.8 million in annual O&M expense recovery to support its planned four-year cycle vegetation management program.⁷⁰ Consequently, the ESSR as proposed overstates the remaining cost of the

⁶⁹ Staff Ex. 106.

⁷⁰ *Id.*

transition to be incurred for the years 2012 through 2014, and should be reduced, by \$17.8 million.

To ensure that the Company will continue to use the additional vegetation management O&M that was included in base rates, staff recommends that the Commission order the Company to file, before 2014, a revised vegetation management program that commits the Company to complete end-to-end trimming on all of its distribution circuits every four years beginning in 2014.

D. Energy Efficiency/Peak Demand Reduction Rider

The ESP includes modification and continuation of a Energy Efficiency/ Peak Demand Reduction Rider (EE/PDR), unified for each rate zone into a single set of merged rates. Staff supports the Company's proposal.

E. Economic Development Rider

The ESP includes continuation and modification of a nonbypassable Economic Development Rider (EDR), unified for each rate zone into a single set of merged rates. Staff supports the Company's proposal.

IV. New Accounting Deferrals and Recovery of Existing Regulatory Assets

The Company filed Case Nos. 11-4920-EL-RDR and 11-4921-EL-RDR to establish a non-bypassable Phase-In Recovery Rider (PIRR) for collection of deferred fuel expenses. Specifically, the PIRR is intended to recover authorized deferred FAC expense that remain on the Company books as of December 31, 2011 over a 7 year period from 2012 through 2018. The Company proposes to delay the commencement of PIRR recovery until June 2013 (with the end of the recovery period remaining as December 31, 2018), while continuing to accrue a weighted average cost of capital carrying charge during the continuing deferral period. It also seeks to suspend the procedural schedule currently established in Case Nos. 11-4920-EL-RDR and 11-4921-EL-RDR.

Staff recommends that the Company should, upon Commission approval, merge their FAC rates and implement the merged PIRR without delay. As staff witness

Turkenton testified, the delay would result in the imposition of an additional \$71M in carrying charges.⁷¹ As Ms. Turkenton simply stated, “[c]ustomers will pay less carrying costs if collections begin sooner.”⁷² There are no additional costs being deferred into the PIRR during the 2012-2013 timeframe since the Company is currently collecting its full fuel costs through FAC. The Company should be directed to merge both its FAC and the PIRR rates, and start collection as soon as practicable following a Commission order in this case. And the Company should be denied the recovery of carrying costs since it voluntarily elected to delay collections that were supposed to begin January 1, 2012.

V. Conclusion

Staff is committed to encouraging the quickest possible orderly transition to full market. Staff believes that this approach is in the best interests of all market participants, and the State of Ohio as a whole. Such a transition should occur as quickly, and as completely, as practicable.

The Company’s proposed modified ESP, although it fails a strictly quantitative comparison with an MRO approach, may, with modification, help to achieve this goal. Staff believes that there are significant qualitative factors that should be considered in determining whether to the ESP should be approved.

Staff has, however, a number of recommendations that should also be adopted if the Commission approves, as proposed or otherwise modified, the Company’s plan. If the

⁷¹ Staff Ex. 109.

⁷² *Id.*

Commission approves an ESP in this proceeding, it should adopt the recommendations contained above and in staff's testimony in this case.

Respectfully submitted,

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Initial Post-Hearing Brief submitted on behalf of the staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the following parties of record, this 29th day of June, 2012.

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Summary: Brief electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO