

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's)	
Investigation of Ohio's Retail Electric)	Case No. 12-3151-EL-COI
Service Market)	

**SUPPLEMENTAL COMMENTS OF
OHIO POWER COMPANY**

INTRODUCTION

Through an Entry dated December 12, 2012, the Commission initiated this investigation and solicited comments on a series of questions. The Ohio Power Company (AEP Ohio) participated in the initial round of comments regarding matters raised in the December 12 Entry. On June 5, 2013, the Commission issued another Entry outlining additional topics and questions, providing interested parties with the opportunity to file supplemental comments and scheduling workshops to discuss the issues. The supplemental comments below are organized along the same lines as the issues that were raised in the Entry and are intended to supplement AEP Ohio's comments in the initial comment cycle. AEP Ohio reserves the right to address in its supplemental reply comments any issue addressed by another party.

SUPPLEMENTAL COMMENTS

I. MARKET DESIGN (MD) QUESTIONS

MD Supplemental Question (a): Comments were filed suggesting that the relationship between an incumbent electric distribution utility (EDU) and a customer should be neither terminated nor encouraged. Does this comment pertain to distribution service or to generation service?

Without knowing what particular comments are being referenced in this supplemental question, AEP Ohio offers the following. Since EDUs have exclusive service territories for distribution service and the service relationship for distribution services cannot be terminated or otherwise discouraged under current law, any comments about termination or encouragement of services would presumably relate to competitive retail electric services under R.C. Chapter 4928 such as generation service.

MD Supplemental Question (b): If predatory pricing or other market factors become a barrier to a fully functional competitive retail electric service market, can and should the Commission regulate predatory pricing or other market factors?

MD Supplemental Question (c): In a fully functional retail market, with no merchant or wholesale based default service, should the Commission and/or an independent market monitor have the ability to regulate market power?

There may be a basis during a transition period to fully competitive retail electric service wherein the Commission could exercise some oversight or high level conduct regulation (versus prescriptive economic ratemaking regulation), consistent with R.C. 4928.06. Regulation of the SSO by EDUs is prescribed by R.C. 4928.141 through 4928.144. But if an EDU offers competitive services in another service territory of another EDU, that should be considered a competitive retail electric service offering, per R.C. 4928.146. Beyond that, the Commission should generally treat competitive services as general consumer services and permit general laws to operate to ensure basic competitive market forces are applied – such as the Consumer Sales Practices Act and Antitrust laws.

MD Supplemental Question (d): Regarding government aggregation, should the Commission require public disclosure of any information in addition to commodity pricing, such as inducements or incentives related to commodity contracts? In general, should the Commission require public disclosure of any information in addition to commodity pricing, such as inducements, incentives, or broker commission related to commodity contracts?

Generally speaking, AEP Ohio submits that local governments should operate under Ohio law and required disclosures should be based on general State laws like the Ohio Public Records Act (R.C. 149.43) and R.C. Title 7 for Municipal Corporations. Such matters should be left to State and local laws. To the extent that the Commission exercises its jurisdiction under R.C. Chapter 4928 to regulate customer notices in connection with aggregated services, however, the Commission should ensure that pertinent information about the transactions – regarding the transaction being entered into by the retail customer – are accurately addressed.

MD Question (e): Would a time-differentiated standard service offer (SSO) rate cause more shopping based upon customer preference for avoiding uncertainty?

MD Supplemental Question (f): Are competitive retail electric service providers better positioned to manage uncertainty in a retail market than EDUs that offer a flat SSO rate?

Any features of the SSO rates must be addressed in a manner consistent with R.C. 4928.141 through 4928.144. That said, it is not clear that a time-differentiated rate necessarily increases uncertainty. In fact, time-differentiated rates may help certain customers reduce their energy costs as long as they are able to diligently monitor and shift usage. The provision of metering service must be provided by the EDU and recovery of related costs must be permitted on a timely basis. Of course, those metering costs should be considered in determining whether to require time-differentiated rates to begin with.

MD Supplemental Question (g): Is integrated resource planning compatible with a retail market construct? If yes, how can such planning be done, given the current construct of functionally separated business units? If no, how can investment in transmission, generation, and demand- management be co-optimized?

No. The only context under current law where the Commission has an interest in such matters would be if an EDU seeks to establish a nonbypassable charge based on a new generation facility under R.C. 4928.143(B)(2)(b) and (c). Beyond that narrow (and perhaps non-existent scenario in the future), the Commission should be out of the integrated resource planning business as the EDUs transition to fully competitive SSO structures and complete generation divestiture. There is no statutory basis for the Commission to regulate merchant generators or EDU affiliates that own or plan to build/acquire additional generation assets. Because such matters are not within the current statutory framework and are inconsistent with a fully competitive framework, the Commission must rely on market forces and the federal regulatory construct that applies to optimize transmission, demand resources and generation investment.

MD Supplemental Question (h): Could integrated resource plans be done on a statewide basis? If so, how would such planning be accomplished? Could the Commission be helpful in facilitating this type of planning?

Even beyond the reasons cited above against integrated resource planning for individual EDUs or affiliated/unaffiliated merchant generators, AEP Ohio cannot imagine a statewide planning process that would be feasible or workable. Market forces should provide a basis for investment in facilities to provide competitive services. There are a multitude of firms involved in providing such services in Ohio and coordinating their individual decisions and planning processes would simply be infeasible, impractical and ineffective.

II. CORPORATE SEPARATION (CS) SUPPLEMENTAL QUESTIONS

CS Supplemental Question (a): How can the Commission ensure that decisions made on behalf of the jurisdictional EDU are not providing preferential outcomes for non-regulated entities?

See the above consolidated discussion of MD Supp. Q. (b) and (c).

CS Supplemental Question (b): Is there a corporate structure that will ensure decisions made by non-EDU affiliates minimize costs to ratepayers of the EDU?

To the extent this question relates to merchant generators that are not affiliated with an EDU, AEP Ohio offers no response.

CS Supplemental Question (c): Since generation has been declared competitive in Ohio, should return on investment for EDUs be reduced in order to reflect lower risk?

CS Supplemental Question (d): Should the capital structure of EDUs be more heavily weighted toward debt in light of the reduced risk associated with a wires-only company?

It is not clear what return on investment is being referenced here but distribution investment is addressed in individual rate cases based on the factual findings required under R.C. Chapter 4909. Regarding other matters, the Commission must establish SSO rates pursuant to the hybrid statutory regime found in R.C. 4928.141 through 4928.144. Such matters must be made based on a case-by-case approach relying on evidence presented in particular proceedings and cannot be determined in the context of a generic industry proceeding such as the current case. It is also important to note that there is an interplay between the cost of debt and equity and the capital structure of an EDU and this must be considered, along with other pertinent facts that exist at the time, when evaluating the appropriate capital structure.

CS Supplemental Question (e): FERC Order 1000 requires and/or enables regional transmission organizations to consider non-transmission options and merchant transmission options in their planning processes. Would a statewide integrated resource plan or shadow plan provide the market with guidance on where and/or how to make investments in conjunction with the PJM planning process?

CS Supplemental Question (f): How could a competitive process be developed to provide all transmission developers, including incumbent transmission owners, with a fair chance to bid a transmission solution to a reliability problem identified by PJM?

CS Supplemental Question (g): Should competitive bidding for transmission construction be considered in order to ensure the lowest possible cost?

As discussed in AEP Ohio's initial comments, these are matters addressed by FERC and the Commission should not interfere with the existing federal mandates and process in this area. In fact, PJM has already in the process of establishing a competitive process as part of its transmission planning process in order to comply with FERC's Order 1000 mandate. Any duplication of the PJM's competitive process by the State of Ohio would only slow down the transmission planning process at the RTO. Regarding the prospect of statewide planning for resource planning relating to competitive services, see AEP Ohio's comments above for Market Design Supp. Q. (g) and (h). Beyond that, AEP Ohio submits that these are matters for FERC and PJM jurisdiction and oversight.

CS Supplemental Question (h): Does the current treatment of capacity injection rights adequately address units that retire and are later reactivated?

The PJM tariff provides for a one-year retention of Capacity Interconnection Rights that are associated with deactivated generation capacity resources for generation

interconnection purposes.¹ No changes should be made that would undermine this tariff provision that was developed through discussions with the PJM stakeholders.

CONCLUSION

For the foregoing reasons, AEP Ohio respectfully requests that the Commission consider the above supplemental comments. AEP Ohio reserves the right to file supplemental reply comments.

Respectfully submitted,

//s/ Steven T. Nourse

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¹ Under the PJM tariff, the term “injection rights” is usually associated with merchant transmission, while the term “interconnection rights” is usually associated with generation capacity resources. In this case, the question appears to refer to rights that are associated with deactivated generation capacity resources, so the response is provided based on that presumption.

CERTIFICATION OF SERVICE

I hereby certify that a copy of the Ohio Power Company's Comments was served on the persons stated below by electronic mail, this 8th day of July 2013.

//s/ Steven T. Nourse

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Commission of Ohio Docketing Information System on

7/8/2013 5:06:45 PM

in

Case No(s). 12-3151-EL-COI

Summary: Comments -Supplemental Comments of Ohio Power Company electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company