BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's Review of Customer Rate Impacts From Ohio Power Company's Transition to Market Based Rates	**)** **)** **)** **)**	**Case No. 13-1530-EL-UNC**

COMMENTS OF FIRSTENERGY SOLUTIONS CORP.

I. INTRODUCTION

In its August 8, 2012 Opinion and Order in Case No. 11-346-EL-SSO ("ESP 2 Order"), the Commission modified and approved an application for the second Electric Security Plan ("ESP 2") of Ohio Power Company ("AEP Ohio"). The ESP 2 Order directed the attorney examiners to establish a new docket for the purposes of considering "a means to mitigate any potential adverse rate impacts to customers upon rates being set by auction" within 90 days. On June 27, 2013, the attorney examiners initiated this proceeding, and asked parties to comment on items including, but not limited to: 1) cross subsidies among tariff classes; 2) phase-outs of historic rate design mechanisms; 3) methodologies to transition to market based rates; and 4) potential impacts on high winter usage customers.

Decisions made both in this case and in Case No. 12-3254-EL-UNC, regarding AEP Ohio's competitive bid process for energy auctions ("CBP Case"), will determine how gradual AEP Ohio customers' transition to market-based rates will be. In its ESP 2 Order, the Commission stated that the decision to expand the proposed energy only auctions was "[b]ased on the importance of customers having access to market-based

prices and ensuring an expeditious transition to a full energy auction."[1] FES's blending proposal in the CBP Case is the only proposal presented that will further these goals. Namely, the total current Fuel Adjustment Clause ("FAC") should be included in the blending with the energy only auction results, and the Commission determined $188.88/MW-day for capacity should be blended with the base generation rates over the transition period to full market-based pricing. Further, as a Competitive Retail Electric Service ("CRES") provider, FES seeks a rate design for its proposed blending that will ensure AEP Ohio's Standard Service Offer ("SSO") rates closely track market rates. Such a rate design enables customers considering a competitive supplier to have an apples to apples comparison that is not masked by historical non-market based relationships and subsidies. The gradual elimination of AEP Ohio's current intra-zonal and intra-class subsidies will ensure AEP Ohio customers receive the correct pricing signals as they transition toward full market pricing, thus eliminating a barrier to achieving a more fully functioning competitive market in AEP Ohio's territory.

FES already stated its positions on a number of these issues in its Initial Comments, Reply Comments, and in the Direct Testimony of Sharon L. Noewer in the CBP Case. It is FES's position that the rate blending plan AEP Ohio proposed in the CBP Case does not comply with the ESP 2 Order or January 30, 2013 Entry on Rehearing in the ESP 2 ("ESP 2 Entry on Rehearing"). The Commission will have to rule on the proper approach to blending before parties can provide more precise comments on the appropriate rate design for AEP Ohio customers. However, FES submits these comments for the Commission's consideration with the proviso that many of its assumptions are dependent on what the Commission orders in the CBP Case. FES

[1] ESP 2 Order, p. 39.

Attachments 1 and 2 to these comments (labeled "Base Generation / $188.88/MW-Day Capacity Rate Design" and "Auction Blending Rate Design", respectively) illustrate FES's proposed rate design methodology incorporating its proposed rate blending methodology from the CBP Case. These attachments also provide a comparison to the blending and associated rate design proposed by AEP Ohio in the CBP Case. If the Commission approves the FES proposed blending in the CBP Case, then FES respectfully requests that the Commission approve the rate design FES proposes here. If the Commission does not accept the FES proposed blending in the CBP Case, then FES respectfully requests that it be permitted to submit additional comments on the rate design associated with the ultimate Commission decision in the CBP Case.

II. COMMENTS

1. Intra-Zonal and Intra-Class Subsidies

Under AEP Ohio's proposed methodology in the CBP Case, base generation rates would remain frozen until January 1, 2015, after which they would be reduced by 40% to approximate the $188.88/MW-day value for capacity pursuant to AEP Ohio's erroneous reading of the ESP 2 Entry on Rehearing.[2] As AEP Ohio witness Roush testified in the CBP Case, the base generation rates were originally established through the unbundling process in AEP Ohio's 1999 Electric Transition Plan and were then adjusted by several stipulated agreements.[3] AEP Ohio's base generation rates have not been calculated on a cost-of-service basis since the 1990's,[4] and instead are essentially black box rates, or, as

[2] CBP Case, Direct Testimony of David M. Roush, pp. 5-7.
[3] *Id.*, p. 3.
[4] ESP 2 Transcript Volume IV, p. 1211, lines 4-17.

described by Mr. Roush, "Louie leftovers".[5] The base generation rates have no relationship to market-based costs today, and therefore likely contain intra-class subsidies.

FES Attachment 1, "Base Generation / $188.88/MW-Day Capacity Rate Design", shows what AEP Ohio's customers are currently paying for base generation, and also estimates what AEP Ohio customers will pay for base generation from January 1, 2015 through May 31, 2015 under AEP Ohio's proposed rate design methodology compared to FES's proposal. For example, current average base generation rates for GS-1 and GS4/IRP customers in the Columbus Southern Power Rate Zone ("CSP") are $49.69 / MWh and $10.24 / MWh, respectively. Under AEP Ohio's proposed methodology, CSP Rate GS-1 customers would pay $29.81 / MWh for base generation from January 1, 2015 through May 31, 2015 and Rate GS4 / IRP customers would pay $6.14 / MWh. Under FES's proposed methodology, (which is discussed in more detail later on in these comments), CSP Rate GS-1 customers are estimated to pay $11.62 / MWh and Rate GS4 / IRP customers $11.54 / MWh over this same time period.

While this analysis is based on historical information, it demonstrates that AEP Ohio's existing base generation rate design contains intra-class subsidies rather than market-based relationships. If the intra-class subsidization that exist in the current rate design, which AEP Ohio admits are unrelated to actual costs of service, are not gradually eliminated during the stepwise increase in energy only auctions, as contemplated by FES's proposed rate design, then many of AEP Ohio's customers could experience rate shock when they move to full market based pricing after the current ESP is done. The intra-class disparities shown here do not account for the fact that AEP Ohio's proposal

[5] CBP Case, Transcript Volume I, p. 93, line 19.

fails to blend in its costs of $188.88 / MW-day for capacity to support the energy only auction product with the base generation rates prior to January 1, 2015. As demonstrated by FES in the CBP Case, failure to blend using the 188.88 / MW-day has further negative impacts on AEP customers as they transition to market-based pricing.

In addition to perpetuating the intra-class subsidies in its base generation rates through May 31, 2015, AEP Ohio's proposed rate design methodology would also continue intra-zonal subsidies through 2014. Under AEP Ohio's proposal, the current FAC would be split into an energy (variable) component and a non-energy (fixed) component under the AEP Ohio proposal. The energy (variable) component will be blended with the results of the energy only auction and recovered through a new Auction Phase-In Rider ("APR"). The APR will also include recovery of auction related costs. The non-energy (fixed) component will be recovered through a new Fixed Cost Rider ("FCR"), and it would remain in effect until May 31, 2015 (a full 5 months after the FAC was set to expire under the ESP 2 Order).[6] The FCR charge would essentially remain at the same level as today because it is excluded from the blending process, whereas the energy (variable) component of the existing FAC will theoretically decrease in the APR costs as it is replaced with increasing percentages of energy procured in the 10%, 60%, and 100% energy only auctions. In the CBP Case, AEP Ohio stated that it intends to calculate the APR through 2014 by allocating the entire revenue requirement for the rider in the same manner used to allocate the FAC today. By allocating in this manner AEP Ohio would "tilt the rate" to preserve the current differential between its rate zones

[6] ESP 2 Order, pp. 16-17.

thereby making the CSP "rate zone price a little higher and the Ohio Power Rate Zone ("OP") price a little lower."[7]

FES Attachment 2, "Auction Blending Rate Design", estimates the difference in the APR pricing between AEP Ohio's proposed methodology and that of FES, based on an assumed auction clearing price of $40 / MWh. As shown in this attachment, under AEP Ohio's approach, CSP customers are estimated to pay approximately $0.67 to $0.71 / MWh more than OP customers in Auction Phase 1 and $3.94 to $4.17 / MWh more than OP customers in Auction Phase 2 for the variable energy component of the APR, as compared to FES's proposal.[8] This is because AEP Ohio proposes to maintain the intra-zonal relationships in the existing FAC rate design throughout Auction Phase 1 and 2, while FES proposes to eliminate these intra-zonal relationships gradually through the blending process inherent in the increasing percentage of the energy only auction products.

Further, FES Attachment 2 demonstrates that the AEP Ohio approach will cost customers significantly more money than the FES proposal due to AEP Ohio's failure to blend the fixed portion of the FAC, and instead extend the fixed portion of the FAC beyond the approved December 31, 2014 expiration date. Specifically, Auction Phase 1 will cost customers $0.34 to $0.42 / MWh more, Auction Phase 2 will cost customers

[7] CBP Case, Transcript Volume I, p. 115, lines 7-10.

[8] See FES Attachment 2, page 1, Section IV, lines 28-30. FES and AEP Ohio are in agreement that there should be no difference between OP and CSP rate zone customers in Auction Phase 3. In the first two auction phases, the lower number in the range represents Ohio Power Rate Zone ("OP") Subtransmission/Transmission customers, and the higher number in the range represents a Columbus Southern Power ("CSP") rate zone Secondary customers. Auction Phase 1 would begin when 10% of the load is served by the energy only auction product, and would end May 31, 2014. Auction Phase 2 would begin June 1, 2014, when 60% of the load is served under the energy only auction products, and would end December 31, 2014. Auction Phase 3 would begin January 1, 2015, when 100% of the load is served under the energy only auction products, and end May 31, 2015.

$2.05 to $2.55 / MWh more, and Auction Phase 3 will cost customers $3.66 to $3.86 / MWh more— all due to AEP's proposal to not phase out the fixed portion of FAC.[9]

AEP Ohio therefore proposes to continue the existing non-market based relationships in its current SSO rates, including having certain SSO rate classes and rate zones subsidize others. Since the Commission's stated goal is to transition AEP Ohio to market pricing, these historical relationships should not be preserved and should instead be gradually phased out through the course of the auction phases.

2. **Phase Outs of Historic Rate Design Mechanisms**

Consistent with its testimony in the CBP Case, FES proposes here that the total FAC should be blended with the results from the energy only auctions. The capacity supporting these energy only auctions should be the $188.88/MW-day value which is AEP Ohio's capacity "cost" as determined by the Commission. Under the FES proposal in the CBP Case, the $188.88 / MW-day would be blended with base generation rates in a manner similar to what would occur under a Market Rate Offer ("MRO"). Consistent with the ESP 2 Order and ESP 2 Entry on Rehearing, base generation rates under FES's proposal would be frozen at current levels, and blended with the increasing percentage of market energy and capacity at AEP Ohio's cost of capacity so that customers would realize the benefits of market-based pricing. The blending schedule would follow the percentages for the energy only auctions approved in the ESP 2. Therefore, rates in Auction Phase 1 would be a 90% / 10% blend, Auction Phase 2 would be a 40% / 60% blend, and Auction Phase 3 would be a 0% / 100% blend of historic vs. new rates.[10]

[9] See FES Attachment 2, page 1, Section III, lines 19-24.
[10] See CBP Case, Attachments 1 and 2 of the Direct Testimony of Sharon L. Noewer for details, including illustrative calculations which demonstrate that the AEP Ohio blending approach will cost AEP Ohio customers an estimated $180 million more than the FES blending approach.

This is the only blending methodology that makes sense given the Commission's objective to gradually transition AEP Ohio's customers to market-based rates. The rate design FES proposes here, when coupled with its proposal for blending from the CBP Case, achieves the Commission's objective by phasing out historical non-market based relationships. Moreover, through FES witness Noewer's testimony in the CBP Case, FES estimates that AEP Ohio's proposed blending methodology would costs customers approximately $180 million more than the FES proposal. By adopting both FES proposals the Commission will ensure AEP Ohio customers experience a smoother transition to market-based rates at a lower cost.

3. Methodologies to Transition to Market-Based Rates

If FES's proposal in the CBP Case is adopted by the Commission, there would be no need to create any mechanism beyond the simple approach described above to phase out the historic rate designs and ensure the transition to market-based rates. The blending percentages set by the Commission in the ESP 2 Case would naturally result in gradualism. As time goes on, a smaller percentage of the rate will include current base generation rates and the current FAC, and a larger percentage would include the results of the energy only auctions and the $188.88 / MW-day capacity rate. At the end of the ESP period, the biggest difference for customers would be the move from the $188.88 / MW-day capacity rate to market-based capacity prices since the energy portion of the SSO rates at that time would already be at 100% market.

As part of the CBP Case, AEP Ohio provided little information as to how the auction results would be translated to retail rates. Nevertheless, AEP Ohio's translation to retail rates should seek to align with actual costs; and, similar to the methods used by

other Ohio utilities, each AEP Ohio customer should pay the market price resulting from the auction, adjusted for losses (and grossed up for CAT and uncollectables, as applicable). The resulting retail rates should then be blended with the total FAC to determine the energy portion of the SSO rate during the transition period. Just as energy should be allocated based on usage and voltage levels, capacity should be allocated to each rate class based on cost causation through customers' contribution to coincident peak demand. The resulting retail rates, reflecting $188.88/MW-day for capacity, should be blended with current base generation rates to determine the capacity portion of the SSO rate during the transition period. FES's proposed rate design discussed above ensures that all customers pay for SSO service based on the cost to serve them by gradually eliminating intra-class and intra-zonal subsidies that serve to mask price signals and distort customer shopping decisions. FES respectfully request that its rate blending and rate design proposals be adopted by the Commission.

4. <u>Potential Impacts on High Winter Usage Customers</u>

FES takes no position on this topic at this time.

III. CONCLUSION

Several elements of AEP Ohio's proposed blending and rate design methodologies are inconsistent with the Commission's objectives as stated in the ESP 2 Order and the ESP 2 Entry on Rehearing. AEP Ohio's proposal would preserve intra-class and intra-zonal subsidies. These subsidies distort price signals important to a properly functioning retail market and prevent a more gradual transition to market based pricing for AEP Ohio's SSO customers. Therefore, the AEP Ohio proposal should be rejected. FES's proposed blending and its proposed rate design for that blending as

shown in FES Attachments 1 and 2, present a more logical process to gradually introduce AEP Ohio's SSO customers to market based pricing, and the Commission should adopt both to ensure its goals for AEP Ohio, as stated in its ESP 2 Order and Entry on Rehearing, are met. Should the Commission not ultimately accept FES's proposed blending in the CBP Case, FES respectfully requests that it be permitted to submit additional comments in this docket on the rate design for the blending plan that the Commission ultimately approves.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Reply Comments of FirstEnergy Solutions Corp.* was e-filed with the Public Utilities Commission of Ohio and served via electronic mail to the parties listed below on this 12th day of August, 2013.

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I. AEP Approach Prices in $/MWH

Reduce Base G Rate by 40%

Line	Company / Rate Schedule	(A) AEP Current Base G	(B) Reduction to Base G	(C) Proposed Base G
	CSP Rate Zone			
(1)	RS	$21.88	$8.75	$13.13
(2)	GS1	$49.69	$19.87	$29.81
(3)	GS2	$47.90	$19.16	$28.74
(4)	GS3	$23.92	$9.57	$14.35
(5)	GS4/IRP	$10.24	$4.09	$6.14
(6)	AL	$31.81	$12.72	$19.08
(7)	SL	$19.64	$7.86	$11.79
(8)	SBS	$30.30	$12.12	$18.18
(9)	Subtotal	$21.99	$8.80	$13.19
	OP Rate Zone			
(10)	RS	$25.71	$10.28	$15.42
(11)	GS1	$36.39	$14.56	$21.84
(12)	GS2	$32.51	$13.00	$19.51
(13)	GS3	$21.86	$8.74	$13.11
(14)	GS4/IRP	$16.37	$6.55	$9.82
(15)	EHG	$15.92	$6.37	$9.55
(16)	EHS	$0.00	$0.00	$0.00
(17)	SS	$26.27	$10.51	$15.76
(18)	FL	$4.45	$1.78	$2.67
(19)	OL	$54.03	$21.61	$32.42
(20)	SL	$53.02	$21.21	$31.81
(21)	SBS	$485.22	$194.09	$291.13
(22)	Subtotal	$22.87	$9.15	$13.72
(23)	**AEP Ohio**	**$22.52**	**$9.01**	**$13.51**

(A) Exhibit DMR-1, Case No. 11-346-EL-SSO, Filed March 30, 2012
(B) Column (A) * 40%
(C) Column (A) * 60%

II. AEP Approach vs. FES Approach Prices in $/MWH

Line	Company / Rate Schedule	(A) AEP Proposed Base G	(B) FES Proposed Base G	(C) Difference
	CSP Rate Zone			
(1)	RS	$13.13	$18.09	($4.97)
(2)	GS1	$29.81	$11.62	$18.19
(3)	GS2	$28.74	$11.54	$17.20
(4)	GS3	$14.35	$11.54	$2.81
(5)	GS4/IRP	$6.14	$11.54	($5.40)
(6)	AL	$19.08	$0.00	$19.08
(7)	SL	$11.79	$0.00	$11.79
(8)	SBS	$18.18	$11.54	$6.64
(9)	Subtotal	$13.19	$13.80	($0.60)
	OP Rate Zone			
(10)	RS	$15.42	$18.09	($2.67)
(11)	GS1	$21.84	$11.62	$10.21
(12)	GS2	$19.51	$11.54	$7.97
(13)	GS3	$13.11	$11.54	$1.58
(14)	GS4/IRP	$9.82	$11.54	($1.72)
(15)	EHG	$9.55	$11.54	($1.99)
(16)	EHS	$0.00	$11.54	($11.54)
(17)	SS	$15.76	$11.54	$4.22
(18)	FL	$2.67	$11.62	($8.95)
(19)	OL	$32.42	$0.00	$32.42
(20)	SL	$31.81	$0.00	$31.81
(21)	SBS	$291.13	$11.54	$279.59
(22)	Subtotal	$13.72	$13.30	$0.42
(23)	**AEP Ohio**	**$13.51**	**$13.52**	**($0.01)**

(A) Section I, Column C.
(B) Section III, Columns H through J
(C) Column A - Column B

III. FES Approach

$188.88 per MW-day adjusted by class

(1)	Assumptions		
(2)	Capacity ($/MW-day)	$188.88	Source: Case No. 10-2929-EL-UNC
(3)	System Peak (Retail) (MW)	9,352	Exhibit DMR-3, Case No. 11-346-EL-SSO, Filed March 30, 2012
(4)	Revenue Requirement	$644,738,102	Calculation: Line 2 x Line 3 x 365

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(7)	Customer Class / Rate Schedule	Peak Demand		Revenue Requirement	Retail MWH Sales			Retail Rate ($ / MWH)		
(8)		MW	% Total		CSP	OP	TOTAL	CSP	OP	TOTAL
(9)	Residential	3,886	41.6%	$267,905,503	7,470,811	7,335,378	14,806,189	$18.09	$18.09	$18.09
(10)	GS-1, FL	127	1.4%	$8,755,532	369,557	383,767	753,324	$11.62	$11.62	$11.62
(11)	GS-2/3/4, SBS, EHG, EHS, SS	5,339	57.1%	$368,077,067	13,267,661	18,631,190	31,898,851	$11.54	$11.54	$11.54
(12)	AL/OL, SL	0	0.0%	$0	98,971	125,665	224,636	$0.00	$0.00	$0.00
(13)	Total	9,352	100.0%	$644,738,102	21,207,000	26,476,000	47,683,000	$13.80	$13.30	$13.52

NOTES

(B) Contribution to 5 CP peak demand. Source: Exhibit DMR-3, Case No. 11-346-EL-SSO, Filed March 30, 2012.

(C) Calculation: Column B / Column B Total

(D) Calculation: Line 4 x Column C

(E)-(G) Annual total retail MWH sales. Source: Exhibit DMR-3, Case No. 11-346-EL-SSO, Filed March 30, 2012.
Note: Exhibit DMR-1 in Case No. 11-346-EL-SSO, referenced above in Section I, was based on 43.5 million MWH sales.

(H)-(J) Calculation (Lines 9-12): Column D / Column G.

(H)-(J) Calculation (Line 13): Sumproduct (Columns E-G, Columns H-J) / Columns E-G

AEP Approach vs. FES Approach

I. AEP Approach *

All Prices in $/MWH

Line	Auction Percentage	10%			60%			100%		
		Variable	Fixed	Total	Variable	Fixed	Total	Variable	Fixed	Total
	CSP Rate Zone									
(1)	Secondary	$41.38	$4.24	$45.62	$44.35	$4.24	$48.59	$42.53	$3.86	$46.39
(2)	Primary	$39.94	$4.10	$44.04	$42.81	$4.10	$46.90	$41.05	$3.73	$44.78
(3)	Sub/Tran	$39.15	$4.02	$43.16	$41.95	$4.02	$45.97	$40.23	$3.65	$43.89
	OP Rate Zone									
(4)	Secondary	$35.24	$3.61	$38.85	$37.76	$3.61	$41.38	$42.53	$3.86	$46.39
(5)	Primary	$34.01	$3.49	$37.50	$36.45	$3.49	$39.94	$41.05	$3.73	$44.78
(6)	Sub/Tran	$33.34	$3.42	$36.75	$35.73	$3.42	$39.15	$40.23	$3.65	$43.89
	AEP Ohio									
(7)	Secondary	$37.66	$3.86	$41.53	$40.37	$3.86	$44.23	$42.53	$3.86	$46.39
(8)	Primary	$36.36	$3.73	$40.09	$38.96	$3.73	$42.69	$41.05	$3.73	$44.78
(9)	Sub/Tran	$35.63	$3.65	$39.29	$38.19	$3.65	$41.84	$40.23	$3.65	$43.89

* Source: Page 2, Section IV. Assumes energy only auction clearing price of $40/MWH for all periods

II. FES Approach **

All Prices in $/MWH

Line	Auction Percentage	10%			60%			100%		
		Variable	Fixed	Total	Variable	Fixed	Total	Variable	Fixed	Total
	CSP Rate Zone									
(10)	Secondary	$40.95	$3.82	$44.77	$41.83	$1.70	$43.52	$42.53	$0.00	$42.53
(11)	Primary	$39.53	$3.69	$43.22	$40.37	$1.64	$42.01	$41.05	$0.00	$41.05
(12)	Sub/Tran	$38.74	$3.61	$42.36	$39.57	$1.61	$41.18	$40.23	$0.00	$40.23
	OP Rate Zone									
(13)	Secondary	$35.51	$3.25	$38.77	$39.41	$1.45	$40.86	$42.53	$0.00	$42.53
(14)	Primary	$34.28	$3.14	$37.42	$38.04	$1.40	$39.44	$41.05	$0.00	$41.05
(15)	Sub/Tran	$33.60	$3.08	$36.68	$37.29	$1.37	$38.65	$40.23	$0.00	$40.23
	AEP Ohio									
(16)	Secondary	$37.66	$3.48	$41.14	$40.37	$1.55	$41.91	$42.53	$0.00	$42.53
(17)	Primary	$36.36	$3.36	$39.71	$38.96	$1.49	$40.46	$41.05	$0.00	$41.05
(18)	Sub/Tran	$35.63	$3.29	$38.92	$38.19	$1.46	$39.65	$40.23	$0.00	$40.23

** Source: Page 3, Section IV. Assumes energy only auction clearing price of $40/MWH for all periods

III. AEP Approach vs. FES Approach ***

All Prices in $/MWH

Line	Auction Percentage	10%			60%			100%		
		Variable	Fixed	Total	Variable	Fixed	Total	Variable	Fixed	Total
	CSP Rate Zone									
(19)	Secondary	$0.43	$0.42	$0.85	$2.52	$2.55	$5.07	$0.00	$3.86	$3.86
(20)	Primary	$0.41	$0.41	$0.82	$2.43	$2.46	$4.89	$0.00	$3.73	$3.73
(21)	Sub/Tran	$0.40	$0.40	$0.81	$2.38	$2.41	$4.79	$0.00	$3.65	$3.65
	OP Rate Zone									
(22)	Secondary	($0.28)	$0.36	$0.08	($1.65)	$2.17	$0.52	$0.00	$3.86	$3.86
(23)	Primary	($0.27)	$0.35	$0.08	($1.59)	$2.09	$0.50	$0.00	$3.73	$3.73
(24)	Sub/Tran	($0.26)	$0.34	$0.08	($1.56)	$2.05	$0.49	$0.00	$3.65	$3.65
	AEP Ohio									
(25)	Secondary	$0.00	$0.39	$0.39	$0.00	$2.32	$2.32	$0.00	$3.86	$3.86
(26)	Primary	$0.00	$0.37	$0.37	$0.00	$2.24	$2.24	$0.00	$3.73	$3.73
(27)	Sub/Tran	$0.00	$0.37	$0.37	$0.00	$2.19	$2.19	$0.00	$3.65	$3.65

*** Section I minus Section II. Assumes energy only auction clearing price of $40/MWH for all periods

IV. AEP Approach vs. FES Approach (CSP vs. OP)

All Prices in $/MWH

Line	Auction Percentage	10%			60%			100%		
		Variable	Fixed	Total	Variable	Fixed	Total	Variable	Fixed	Total
	CSP vs. OP									
(28)	Secondary	$0.71	$0.06	$0.77	$4.17	$0.38	$4.55	$0.00	$0.00	$0.00
(29)	Primary	$0.68	$0.06	$0.74	$4.02	$0.36	$4.39	$0.00	$0.00	$0.00
(30)	Sub/Tran	$0.67	$0.06	$0.73	$3.94	$0.36	$4.30	$0.00	$0.00	$0.00

Calculation: Lines 19-21 minus Lines 22-24

AEP Approach

I. Pre-Auction FAC Cost

All Prices in $/MWH

Line		Variable	Fixed	Total
	CSP Rate Zone			
(1)	Secondary	$40.68	$4.24	$44.92
(2)	Primary	$39.27	$4.10	$43.37
(3)	Sub/Tran	$38.49	$4.02	$42.50
	OP Rate Zone			
(4)	Secondary	$34.64	$3.61	$38.26
(5)	Primary	$33.44	$3.49	$36.93
(6)	Sub/Tran	$32.77	$3.42	$36.19
	AEP Ohio			
(7)	Secondary	$37.03	$3.86	$40.89
(8)	Primary	$35.74	$3.73	$39.47
(9)	Sub/Tran	$35.03	$3.65	$38.69

Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).

II. Post Auction FAC Costs

All Prices in $/MWH

Line	Auction Percentage	10%			60%			100%		
		Variable	Fixed	Total	Variable	Fixed	Total	Variable	Fixed	Total
	CSP Rate Zone									
(10)	Secondary	$36.61	$4.24	$40.86	$16.27	$4.24	$20.52			
(11)	Primary	$35.34	$4.10	$39.44	$15.71	$4.10	$19.80			
(12)	Sub/Tran	$34.64	$4.02	$38.65	$15.39	$4.02	$19.41			
	OP Rate Zone									
(13)	Secondary	$31.18	$3.61	$34.79	$13.86	$3.61	$17.47			
(14)	Primary	$30.10	$3.49	$33.58	$13.38	$3.49	$16.86			
(15)	Sub/Tran	$29.50	$3.42	$32.92	$13.11	$3.42	$16.53			
	AEP Ohio									
(16)	Secondary	$33.33	$3.86	$37.19	$14.81	$3.86	$18.67	$0.00	$3.86	$3.86
(17)	Primary	$32.17	$3.73	$35.90	$14.30	$3.73	$18.03	$0.00	$3.73	$3.73
(18)	Sub/Tran	$31.53	$3.65	$35.18	$14.01	$3.65	$17.67	$0.00	$3.65	$3.65

Calculation: Variable Costs multiplied by (1-Auction Percentage). Fixed costs held constant.

III. Auction Results

All Prices in $/MWH

Line			
(19)	Auction Price	$40.00	Assumption from AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).
(20)	Auction Costs	$0.0889	Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).
	Loss Factors		
(21)	Secondary	1.0608	Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).
(22)	Primary	1.0240	Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).
(23)	Sub/Tran	1.0036	Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).

	Auction Percentage	10%			60%			100%		
		Price	Costs	Total	Price	Costs	Total	Price	Costs	Total
	CSP Rate Zone									
(24)	Secondary	$4.66	$0.10	$4.77	$27.97	$0.10	$28.07	$46.62	$0.10	$46.72
(25)	Primary	$4.50	$0.10	$4.60	$27.00	$0.10	$27.10	$45.00	$0.10	$45.10
(26)	Sub/Tran	$4.41	$0.10	$4.51	$26.46	$0.10	$26.56	$44.10	$0.10	$44.20
	OP Rate Zone									
(27)	Secondary	$3.97	$0.09	$4.06	$23.82	$0.09	$23.91	$39.70	$0.09	$39.78
(28)	Primary	$3.83	$0.09	$3.92	$22.99	$0.09	$23.08	$38.32	$0.09	$38.40
(29)	Sub/Tran	$3.76	$0.08	$3.84	$22.53	$0.08	$22.62	$37.56	$0.08	$37.64
	AEP Ohio									
(30)	Secondary	$4.24	$0.09	$4.34	$25.46	$0.09	$25.55	$42.43	$0.09	$42.53
(31)	Primary	$4.10	$0.09	$4.19	$24.58	$0.09	$24.67	$40.96	$0.09	$41.05
(32)	Sub/Tran	$4.01	$0.09	$4.10	$24.09	$0.09	$24.18	$40.14	$0.09	$40.23

Calculation (AEP Ohio Total): Price = Auction Price x Auction Percentage x Loss Factor. Costs = Auction Costs x Loss Factor
Rate Zone pricing differentials maintained by existing FAC relationship until 100% Auction Phase.

IV. FAC, Auction Results, and Auction Costs

All Prices in $/MWH

Line	Auction Percentage	10%			60%			100%		
		Variable	Fixed	Total	Variable	Fixed	Total	Variable	Fixed	Total
	CSP Rate Zone									
(33)	Secondary	$41.38	$4.24	$45.62	$44.35	$4.24	$48.59	$42.53	$3.86	$46.39
(34)	Primary	$39.94	$4.10	$44.04	$42.81	$4.10	$46.90	$41.05	$3.73	$44.78
(35)	Sub/Tran	$39.15	$4.02	$43.16	$41.95	$4.02	$45.97	$40.23	$3.65	$43.89
	OP Rate Zone									
(36)	Secondary	$35.24	$3.61	$38.85	$37.76	$3.61	$41.38	$42.53	$3.86	$46.39
(37)	Primary	$34.01	$3.49	$37.50	$36.45	$3.49	$39.94	$41.05	$3.73	$44.78
(38)	Sub/Tran	$33.34	$3.42	$36.75	$35.73	$3.42	$39.15	$40.23	$3.65	$43.89
	AEP Ohio									
(39)	Secondary	$37.66	$3.86	$41.53	$40.37	$3.86	$44.23	$42.53	$3.86	$46.39
(40)	Primary	$36.36	$3.73	$40.09	$38.96	$3.73	$42.69	$41.05	$3.73	$44.78
(41)	Sub/Tran	$35.63	$3.65	$39.29	$38.19	$3.65	$41.84	$40.23	$3.65	$43.89

Calculation (Variable): Sum of post auction variable FAC Costs from Section II and Total Auction Results from Section III.
Calculation (Fixed): Post Auction FAC Costs from Section II.

FES Approach

I. Pre-Auction FAC Cost All Prices in $/MWH

Line		Variable	Fixed	Total
	CSP Rate Zone			
(1)	Secondary	$40.68	$4.24	$44.92
(2)	Primary	$39.27	$4.10	$43.37
(3)	Sub/Tran	$38.49	$4.02	$42.50
	OP Rate Zone			
(4)	Secondary	$34.64	$3.61	$38.26
(5)	Primary	$33.44	$3.49	$36.93
(6)	Sub/Tran	$32.77	$3.42	$36.19
	AEP Ohio			
(7)	Secondary	$37.03	$3.86	$40.89
(8)	Primary	$35.74	$3.73	$39.47
(9)	Sub/Tran	$35.03	$3.65	$38.69

Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).

II. Post Auction FAC Costs All Prices in $/MWH

Line	Auction Percentage	10%			60%			100%		
		Variable	Fixed	Total	Variable	Fixed	Total	Variable	Fixed	Total
	CSP Rate Zone									
(10)	Secondary	$36.61	$3.82	$40.43	$16.27	$1.70	$17.97	$0.00	$0.00	$0.00
(11)	Primary	$35.34	$3.69	$39.03	$15.71	$1.64	$17.35	$0.00	$0.00	$0.00
(12)	Sub/Tran	$34.64	$3.61	$38.25	$15.39	$1.61	$17.00	$0.00	$0.00	$0.00
	OP Rate Zone									
(13)	Secondary	$31.18	$3.25	$34.43	$13.86	$1.45	$15.30	$0.00	$0.00	$0.00
(14)	Primary	$30.10	$3.14	$33.24	$13.38	$1.40	$14.77	$0.00	$0.00	$0.00
(15)	Sub/Tran	$29.50	$3.08	$32.57	$13.11	$1.37	$14.48	$0.00	$0.00	$0.00
	AEP Ohio									
(16)	Secondary	$33.33	$3.48	$36.80	$14.81	$1.55	$16.36	$0.00	$0.00	$0.00
(17)	Primary	$32.17	$3.36	$35.53	$14.30	$1.49	$15.79	$0.00	$0.00	$0.00
(18)	Sub/Tran	$31.529	$3.289	$34.819	$14.013	$1.462	$15.475	$0.000	$0.000	$0.000

Calculation: Variable Costs and Fixed Costs each multiplied by (1-Auction Percentage).

III. Auction Results All Prices in $/MWH

Line			
(19)	Assumed Auction Price	$40.00	Assumption from AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).
(20)	Auction Costs	$0.0889	Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).
	Loss Factors		
(21)	Secondary	1.0608	Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).
(22)	Primary	1.0240	Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).
(23)	Sub/Tran	1.0036	Source: AEP discovery response in Case No. 12-3254-EL-UNC (FES 3-3 Attachment 1).

	Auction Percentage	10%			60%			100%		
		Price	Costs	Total	Price	Costs	Total	Price	Costs	Total
	CSP Rate Zone									
(24)	Secondary	$4.24	$0.09	$4.34	$25.46	$0.09	$25.55	$42.43	$0.09	$42.53
(25)	Primary	$4.10	$0.09	$4.19	$24.58	$0.09	$24.67	$40.96	$0.09	$41.05
(26)	Sub/Tran	$4.01	$0.09	$4.10	$24.09	$0.09	$24.18	$40.14	$0.09	$40.23
	OP Rate Zone									
(27)	Secondary	$4.24	$0.09	$4.34	$25.46	$0.09	$25.55	$42.43	$0.09	$42.53
(28)	Primary	$4.10	$0.09	$4.19	$24.58	$0.09	$24.67	$40.96	$0.09	$41.05
(29)	Sub/Tran	$4.01	$0.09	$4.10	$24.09	$0.09	$24.18	$40.14	$0.09	$40.23
	AEP Ohio									
(30)	Secondary	$4.24	$0.09	$4.34	$25.46	$0.09	$25.55	$42.43	$0.09	$42.53
(31)	Primary	$4.10	$0.09	$4.19	$24.58	$0.09	$24.67	$40.96	$0.09	$41.05
(32)	Sub/Tran	$4.01	$0.09	$4.10	$24.09	$0.09	$24.18	$40.14	$0.09	$40.23

Calculation (AEP Ohio Total): Price = Auction Price x Auction Percentage x Loss Factor. Costs = Auction Costs x Loss Factor.
No pricing differential between Rate Zones.

IV. FAC, Auction Results, and Auction Costs All Prices in $/MWH

Line	Auction Percentage	10%			60%			100%		
		Variable	Fixed	Total	Variable	Fixed	Total	Variable	Fixed	Total
	CSP Rate Zone									
(33)	Secondary	$40.95	$3.82	$44.77	$41.83	$1.70	$43.52	$42.53	$0.00	$42.53
(34)	Primary	$39.53	$3.69	$43.22	$40.37	$1.64	$42.01	$41.05	$0.00	$41.05
(35)	Sub/Tran	$38.74	$3.61	$42.36	$39.57	$1.61	$41.18	$40.23	$0.00	$40.23
	OP Rate Zone									
(36)	Secondary	$35.51	$3.25	$38.77	$39.41	$1.45	$40.86	$42.53	$0.00	$42.53
(37)	Primary	$34.28	$3.14	$37.42	$38.04	$1.40	$39.44	$41.05	$0.00	$41.05
(38)	Sub/Tran	$33.60	$3.08	$36.68	$37.29	$1.37	$38.65	$40.23	$0.00	$40.23
	AEP Ohio									
(39)	Secondary	$37.66	$3.48	$41.14	$40.37	$1.55	$41.91	$42.53	$0.00	$42.53
(40)	Primary	$36.36	$3.36	$39.71	$38.96	$1.49	$40.46	$41.05	$0.00	$41.05
(41)	Sub/Tran	$35.63	$3.29	$38.92	$38.19	$1.46	$39.65	$40.23	$0.00	$40.23

Calculation (Variable): Sum of post auction variable FAC Costs from Section II and Total Auction Results from Section III.
Calculation (Fixed): Post Auction FAC Costs from Section II.

Summary: Comments 13-1530-EL-UNC FES Initial Comments electronically filed by Mr. Jacob A McDermott on behalf of FirstEnergy Solutions Corp.