

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**COMMENTS
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

BRUCE J. WESTON
OHIO CONSUMERS' COUNSEL

Edmund "Tad" Berger
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
Telephone: (Berger) (614) 466-1292
Edmund.Berger@occ.ohio.gov

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I. INTRODUCTION

On June 27, 2013, in follow-up to its August 8, 2012 Opinion and Order in Ohio Power Company’s (“AEP Ohio” or “Utility”) last Electric Security Plan (“ESP”) proceeding, the Public Utilities Commission of Ohio (“PUCO”) invited comments on rate impacts and rate design to result from the ESP’s implementation of Standard Service Offer (“SSO”) auctions for AEP Ohio’s SSO customers. OCC and a number of other parties intervened in this matter and submitted Comments and Reply Comments. As discussed by OCC, PUCO Staff and RESA, the ability to provide substantive comments on issues of bill impact and rate design that affect Ohioans were limited by the fact that AEP Ohio had not yet made a detailed proposal regarding how it would apply auction prices to different customer classes’ rates and bills.¹

In its Finding and Order of November 13, 2013, the PUCO agreed with the PUCO Staff, OCC and RESA “that additional information is necessary to ensure customers are prepared for any changes that may occur as a result of market-based pricing, particularly

¹ OCC Initial Comments at 3 (August 12, 2013); PUCO Staff Comments at 1-3 (August 12, 2013); RESA Reply Comments at 2 (September 6, 2013).

AEP Ohio's winter usage customers.”² Therefore, the PUCO directed AEP Ohio to file specified rate impact and rate design information within sixty days of its November 13, 2013 Finding and Order.³ And the PUCO invited parties to file comments within 30 days of AEP Ohio's submission.⁴ Subsequently, AEP Ohio filed its information on January 10, 2014. AEP Ohio's filing was updated for certain inadvertent errors on February 4, 2014. Then, on February 13, 2014, AEP Ohio submitted what it termed “a narrowly focused alternative design of the Generation Capacity Rider” for Columbus Southern Power Rate Zone Schedule RR and RR1 customers to “apply during the 60% and 100% Energy Auction periods of November 2014 through May 2015.”

Implementation of AEP Ohio's SSO energy auctions in accordance with PUCO directives will impact the rates paid by AEP Ohio's customers. Although, for most AEP Ohio customers in both of its rate zones, the transition to auction based pricing will most likely be beneficial (resulting in reductions in rates),⁵ some residential customers, particularly Columbus Southern Power (“CSP”) rate zone residential customers with high winter usage, may experience rate increases that are greater than other residential customers.⁶ AEP Ohio's proposed alternative rate design, filed on February 13, 2014, is

² Finding and Order of November 13, 2013 at 7.

³ *Id.* at 7-8.

⁴ *Id.*

⁵ The likelihood of benefits from the transition to auction-based pricing assumes that the market price of energy and capacity remain low and below AEP Ohio's existing base generation rates and fuel charges.

⁶ As discussed below, this is the result of AEP Ohio's proposed elimination of the \$0.00/kWh current base generation rate for winter usage that is applied to CSP rate zone customer usage above 800 kWh per month. By January 1, 2015, this \$0.00/kWh rate would be equalized for all usage – both winter and summer – at the proposed Generation Capacity Rider rate of \$0.01755/kWh, unless the PUCO adopts AEP Ohio's proposed alternative rate design or another alternative rate design.

intended to reduce the possible impact of transition to auction-based rates on CSP's high winter-usage customers (those customers with monthly usage over 800 kWh).

OCC's Comments address the impact of the transition upon the CSP rate zone's high winter-usage customers and provide OCC's recommendations regarding AEP Ohio's proposed alternative rate design. As discussed below, OCC does not oppose AEP Ohio's proposed alternative rate design for the CSP rate zone, which is consistent with the objective of gradualism with respect to changes in the rates of CSP's high-use winter customers. OCC recommends that AEP Ohio's proposed 5 Coincident Peak ("CP") allocation of capacity costs should be subject to further review in AEP Ohio's ESP proceeding in Case No. 13-2385-EL-SSO. Additionally, AEP Ohio's proposed Auction Phase-in and Fixed Cost Riders should be subject to review and reconciliation for prudent costs actually incurred in a subsequent audit proceeding. Finally, the PUCO should monitor AEP Ohio's actual auction prices to ensure that customers are not adversely affected upon implementation of AEP Ohio's proposed rate design.

II. COMMENTS

A. AEP Ohio's Proposed Alternative Rate Design to Transition from Base Generation Rates to Auction-Based SSO Pricing Moderates the Possible Impact of Rate Changes on High Winter-Usage CSP Customers.

1. Introduction

AEP Ohio proposes to phase-in auction-based pricing by reducing base generation rates by the percentage of energy (10%, 60% and 100%) that is obtained through the auctions during the auction phase-in period (April 1, 2014 to January 1, 2015). At the same time, AEP Ohio proposes to remove generation capacity costs from base generation rates and replace them with a Generation Capacity Rider based on the PUCO-determined

capacity cost of \$188.88/MW-day by the same percentages used to phase-in energy auction prices. While AEP Ohio's proposed methodology is, for the most part, a reasonable approach to the phase-in of auction pricing, it has one primary downside: the current block structure of AEP Ohio's base generation rates would result in a disproportionate impact on CSP Rate Zone customers with high winter usage. Consequently, it is necessary to phase-in rates for CSP Rate Zone customers. As AEP Ohio has proposed in its February 13, 2014 alternative rate design, this can be accomplished by implementing a block structure for the phase-in of CSP rate zone winter-usage Generation Capacity Rider rates.

2. Phase-In of energy auction rates and phase-out of energy portion of base generation rates.

As shown on page 1 of its January 10, 2014 filing, in developing its proposed rates to transition base generation rates to auction-based pricing, AEP Ohio proposed to reduce base generation rates by the specified percentage of SSO energy that is being procured through the auctions. Thus, for OPC Rate Zone RS customers, the current base generation rate of 2.78195 cents/kWh for usage up to 800 kWh would be reduced by 10%, or 0.27820 cents/kWh during the first auction period (Apr – Oct 2014), resulting in a revised rate of 2.50376 cents/kWh. Other OPC and CSP rate blocks would be adjusted in a similar fashion. For auction period 2 (Nov – Dec 2014), and auction period 3 (Jan – May 2015), base generation rates would be adjusted downward by the amounts acquired by auction in those periods, 60% and 100% respectively. SSO customers would then be charged the auction price for the specified percentage of energy then being procured through the SSO energy auctions.

3. Phase-In of generation capacity rider and phase-out of capacity cost portion of base generation rates.

Similarly, for the capacity costs included in base generation rates, AEP Ohio proposed to transition the capacity portion of base generation rates into a Generation Capacity Rider.⁷ Through this approach, base generation rates would be reduced in increments (10%, 60% and 100% reduction) and the Generation Capacity Rider would be phased in (10%, 60% and 100% of capacity costs) based on the cost of capacity of \$188.88/MW-day determined in AEP Ohio's capacity cost proceeding.⁸

Based on AEP Ohio's proposed use of PJM 5 coincident peaks for allocation of capacity costs between customer classes, the capacity rate applicable to the residential class would be 1.7550 cents/kWh, which would be phased in from April 1, 2014 to January 1, 2015. Using this allocation, for the first auction period (Apr 2014 – Oct 2014), base generation rates would be decreased by 10% (for CSP Rate Zone Rate RR, the reduction would be 0.296458 cents/kWh) and the Generation Capacity Rider charge would be 10% of capacity costs, or 0.17550 cents/kWh. In the second auction period, (Nov 2014 – Dec 2014), base generation rates would be decreased by 60% (for CSP Rate Zone Rate RR, the reduction would be 1.778748 cents/kWh) and Generation Capacity Rider charge would be 60% of capacity costs, or 1.05300 cents/kWh. In the last energy-only auction period (Jan – May 2015), base generation rates would be reduced to \$0.00/kWh and the Generation Capacity Rider charge would be the full 1.7550 cents/kWh. On June 1, 2015, the Generation Capacity Rider will be based entirely on the

⁷ AEP Ohio Filing of January 10, 2014 at 2.

⁸ AEP Ohio Filing of January 10, 2014 at 2; *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, Opinion and Order of July 2, 2012, p. 33.

rates resulting from capacity auctions rather than the \$188.88/MW-day associated with AEP Ohio's legacy generation.

4. Customer impacts from proposed phase-in of auction-based pricing and phase-out of base generation rates

As AEP Ohio notes, its proposed transition from base generation rates to rates based on the PUCO's determination of \$188.88/MW-day capacity costs "results in rate reductions for most customers," providing "some cushion or headroom should the results of the energy auction be higher than existing FAC energy rates."⁹ However, this transition, through the use of the proposed Generation Capacity Rider, will adversely affect CSP's RR and RR-1 customers with high winter usage who currently pay no base generation charges (\$0.00/kWh) for usage over 800 kWh in the winter.¹⁰ In the final energy-only auction period, their generation capacity charge would be 1.7550 cents per kWh for kWh above 800 in winter (when they paid nothing for this before because of the zero base generation rate). This will be offset by a 1.20458 cent per kWh reduction in their charges for the first 800 kWh of usage in winter months (smaller for RR-1 customers) and the same reduction for all kWh usage in summer months.¹¹

The net result of these changes is that, if no adjustment is made and all volumes are charged a Generation Capacity Rider of 1.7550 cents/kWh as of January 1, 2015, higher-usage winter CSP RR customers will experience an increase in their winter bills of approximately 3% - 26%, and high winter-use CSP RR-1 customers will experience a

⁹ AEP Ohio January 10, 2014 Filing at 3.

¹⁰ AEP Ohio January 10, 2014 Filing at 3-4.

¹¹ AEP Ohio January 10, 2014 Filing at 4.

winter period increase of 6% - 24%.¹² The precise amount of a customer's winter period increase will depend on the customer's usage and upon the rates determined by the competitive bid auctions. The above-referenced winter bill increases reflect auction prices of \$30, \$35, and \$40 per MWh.

As noted above, the increase in winter high usage bills occurs because current base generation rates for CSP residential customers are \$0.00/kWh for usage of more than 800 kWh in winter months. But the implementation of AEP Ohio's proposed Generation Capacity Rider will effectively increase this charge by January 1, 2015 to 1.7550 cents/kWh.

Based on OCC's analysis, the number of residential customers who may experience significant rate increases is small compared to AEP Ohio's total customer base of nearly 1.3 million total customers. There are approximately 42,500 CSP winter high-use residential customers out of total CSP residential customers of approximately 550,000.¹³ Further, the impact of these rate increases may be significantly moderated by the acquisition of electricity through the auction mechanism, depending on the ultimate prices achieved in the auctions. It will also be moderated by the reduction in capacity costs reflected in base generation rates based upon the PUCO's previous determination that AEP Ohio's capacity costs are \$188.88/MW-day. And, effective June 1, 2015, capacity costs may be further moderated when the level of capacity costs is based upon

¹² AEP Ohio Filing of January 10, 2014, Attachment 2A, pp. 1-2, Attachment 2B, pp. 1-2, Attachment 2C, pp. 1-2.

¹³ AEP Ohio Response to Staff 1-001 Attachment 1 - page 2.

PJM capacity auction prices, which will initially be lower than the PUCO-determined capacity costs of \$188.88/MW-day.¹⁴

OCC does not oppose CSP's proposal presented on February 13, 2014, to moderate the possible rate increases to CSP's high-use winter customers by providing blocked Generation Capacity Rider rates during the period of 60% and 100% energy-only auctions. These alternate rates provide a reduced Generation Capacity Rider applicable to usage over 800 kWh in a month. Based on the potential auction prices utilized by AEP Ohio in its analysis, under this alternative rate design, during the 100% energy auction period beginning January 1, 2015, high winter-use RR customer bills will range from a decrease of -1.85% to an increase of 12.50%. Rate RR-1 customer bills will range from an increase of 0.76% to 12.48%. AEP Ohio's proposal results in smaller reductions, or slight increases, in low-use winter customer rates compared to its original filing. It also moves CSP high-use winter customer rates gradually toward market-based rates. Whether or not that rate block differential will be completely eliminated at the end of the phase-in period, i.e. on June 1, 2015, is an issue which should be addressed in AEP Ohio's pending ESP proceeding in Case No. 13-2385-EL-SSO.

B. AEP Ohio's Proposed Allocation of Capacity Costs Based on a 5 CP Allocation Methodology Should be Addressed in AEP Ohio's ESP III Proceeding at Case No. 13-2385-EL-SSO.

As noted above, AEP Ohio proposes to translate the capacity cost portion of current base generation rates (\$188.88/MW-day) into its proposed Generation Capacity

¹⁴ AEP ESP III Application, Exhibit DMR-1 reflects a capacity price of \$12.12/MWh for June 2015 – May 2016, and \$5.39/MWh for June 2016, - May 2017. These rates are lower than the \$17.55/MWh capacity costs included in the residential Generation Capacity Rider effective January 1, 2015, thus suggesting that customers will see further savings when rates are set based upon PJM's generation capacity auctions.

Rider rates through the period of the energy-only auctions by allocating these costs among customer classes based on a 5 Coincident Peak (5 CP) allocator.

Although OCC is not taking issue with AEP Ohio's 5 CP allocator in this proceeding, the appropriateness of the 5 CP allocator is a factual issue that should be reviewed in AEP Ohio's ESP III proceeding based on evidence of the correspondence between the proposed allocator and cost causation for the combined energy and capacity auctions. OCC reserves the right to propose a different allocator in that proceeding.

C. The Amounts and Allocation of AEP Ohio's Auction Phase-in Rider and Fixed Cost Rider Should be Subject to Adjustment for Prudent Costs Actually Incurred.

AEP Ohio also proposes to blend FAC energy costs, auction purchase costs and auction costs into the Auction Phase-In Rider and to implement the Fixed Cost Rider for the FAC non-energy costs. AEP Ohio proposes to maintain a differentiation of these rates by rate zone through December 2014 "since a portion of the rates will continue to be based upon the legacy FAC construct," allowing for a gradual transition to rates based entirely on auction procurements in January 2015, when "a rate zone differentiation no longer makes sense."¹⁵

AEP Ohio's translation of the portion of FAC energy and non-energy costs and auction purchase costs and auction costs through December 31, 2014 and the elimination of rate zone differentiations upon implementation of 100% energy auctions appears reasonable. However, the appropriateness of the costs included in these riders and the allocation of these costs among customer classes should be subject to prudence review in

¹⁵ AEP Ohio January 10, 2014 Filing at 2-3.

future audit and reconciliation proceedings, and only actual, prudently-incurred costs should be permitted to be charged to customers.

D. The PUCO Should Monitor Auction Results and Transition Period Rates to Ensure Customers are not Adversely Affected by Implementation of the Proposed Rate Design.

AEP Ohio performed a “sensitivity analysis,” estimating potential rate impacts for customers in each SSO customer class utilizing a range of usage levels with different usage, and utilizing three different potential energy auction clearing prices - \$30.00/MWh, \$35.00/MWh, and \$40.00/MWh.¹⁶ These auction clearing prices do not include the mark-up for the Auction Phase-in Rider and Fixed Cost Riders.

While these potential energy auction prices appear to provide a reasonable range of potential rate impacts, the PUCO should monitor the actual energy auction results and the resulting transition period rates to ensure that customers are not adversely affected by the implementation of the proposed rate design.

III. CONCLUSION

OCC does not oppose AEP Ohio’s proposal for transitioning from current base generation rates to auction-based rates, as modified by its February 13, 2014 proposed alternative Generation Capacity Rider. These rates would be temporary, applying only through May 31, 2015. AEP Ohio’s proposed 5 CP revenue allocation should be reviewed in AEP Ohio’s pending ESP III proceeding for energy and capacity rates set by auction on and after June 1, 2015. Further, the costs included in AEP Ohio’s Auction Phase-in and Fixed Cost Riders should be subject to prudence review and reconciliation. Finally, the PUCO should monitor the results of AEP Ohio’s actual energy auction results

¹⁶ AEP Ohio Filing of January 10, 2014, Attachments 2A, 2B, and 2C.

and resulting transition period rates to ensure customers are not adversely affected by their implementation and should allow further comments from parties if concerns arise regarding customer bill impacts.

Respectfully submitted,

BRUCE J. WESTON
OHIO CONSUMERS' COUNSEL

/s/ Edmund "Tad" Berger

Edmund "Tad" Berger
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel

10 West Broad Street, Suite 1800

Columbus, Ohio 43215-3485

Telephone: (Berger) (614) 466-1292

Edmund.Berger@occ.ohio.gov

CERTIFICATE OF SERVICE

I hereby certify that a copy of these *Comments* was served on the persons stated below via electronic transmission to the persons listed below, this 24th day of February, 2014.

/s/ Edmund "Tad" Berger

Edmund "Tad" Berger
Assistant Consumers' Counsel

SERVICE LIST

Werner Margard
Steven Beeler
Public Utilities Commission of Ohio
180 E. Broad St., 6th Fl.
Columbus, OH 43215
Werner.margard@puc.state.oh.us
Steven.beeler@puc.state.oh.us

David F. Boehm
Michael L. Kurtz
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
dboehm@BKLawfirm.com
mkurtz@BKLawfirm.com
jkylercohn@BKLawfirm.com

Vincent Parisi
Matthew White
Interstate Gas Supply, Inc.
6100 Emerald Parkway
Dublin, OH 43016
vparisi@igsenergy.com
mswhite@igsenergy.com

Steven T. Nourse
Matthew J. Satterwhite
Yazen Alami
AEP Service Corporation
1 Riverside Plaza, 29th Floor
Columbus, OH 43215
stnourse@aep.com
mjsatterwhite@aep.com
yalami@aep.com

Mark A. Hayden
FirstEnergy Service Company
76 South Main Street
Akron, OH 44308
haydenm@firstenergycorp.com

M. Howard Petricoff
Gretchen L. Petrucci
Vorys, Sater, Seymour and Pease LLP
52 E. Gay Street
P.O. Box 1008
Columbus, OH 43216-1008
mhpetricoff@vorys.com
glpetrucci@vorys.com

AE: Sarah.Parrot@puc.state.oh.us
Jonathan.tauber@puc.state.oh.us

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