

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**COMMENTS ON AEP OHIO'S COMPLIANCE FILING
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

On June 27, 2013, a new docket was opened and an Entry was issued in Case No. 13-1530-EL-UNC for the review of customer rate impacts resulting from Ohio Power Company's (AEP) transition to market based rates. Various parties filed comments and reply comments in the docket. On November 13, 2013 the Commission issued a Finding and Order in Case No. 13-1530-EL-UNC directing AEP to file rate impact information within 60 days. On January 10, 2014, AEP filed the requested information, which was further updated on February 3, 2014. On February 13, 2014 AEP filed additional schedules that provide an alternative rate design of the Generation Capacity Rider for Columbus Southern Power (CSP) residential customers during the winter months.

The information provided in the filings includes customer impacts based on three different energy-only auction price scenarios as well as other rate modifications listed below:

- 1) Auction prices of \$30, \$35 and \$40/MWh

- 2) The effects of migrating from the current base generation rates to generation capacity rates that reflect \$188.88/MW-day, as well as modifying the rate design associated with capacity costs
- 3) A fixed fuel charge
- 4) Merged auction phase-in rider rates beginning on January 1, 2015, when the 100% energy-only auction begins

AEP January 10, 2014 Filing

Auction Prices

AEP has provided proposed rates, revenues and typical bills that would result from energy-only auction prices of \$30, \$35 and \$40/MWh.

The auction prices are utilized to design a new Auction Phase-in Rider (APIR) rate for each customer class. For the 10% auction, the APIR rates will be effective April 1, 2014 through October 31, 2014 and will include 90% of the effective fuel adjustment clause rider rate (FAC) and 10% of the auction price plus auction costs, losses and taxes. For the period of November 1, 2014 through December 31, 2014, the APIR will include 40% of the effective FAC and 60% of the auction price plus auction costs, losses and taxes. Finally, from January 1, 2015 through May 31, 2015, the APIR will include 100% of the auction price plus auction costs, losses and taxes. As discussed below the current FAC will be adjusted beginning April 1, 2014 to exclude fixed costs which will be recovered through a new Fixed Cost Rider (FCR).

Base Generation Rates

Currently, the AEP tariffs include base generation rates for most all customer classes. During the period from April 1, 2014 to January 1, 2015, the current base

generation rates will be phased out and a new Generation Capacity Rider (Capacity Rider) will be phased in. The new Capacity Rider will reflect the \$188.88/MW-day capacity charge approved by the Commission in Case No. 10-2929-EL-UNC. Under AEP's proposal, the revenues associated with the \$188.88/MW-day capacity charge are allocated to customer classes based on a 5 Coincident Peak (5CP) methodology, as utilized by PJM. Following the allocation of revenue responsibility to each class using the 5CP methodology, AEP developed a kWh (energy) rate for each class designed to recover the revenue responsibility allocated to each class. In addition, customer classes that currently contain block rate structures, seasonal rates and/or time of day rates, were modified so that all kWh's consumed regardless of the time of day or season, will be billed the same Capacity Rider rates for that class. This change in allocation and rate design will be 100% phased in on January 1, 2015. Beginning June 1, 2015, the Capacity Rider will reflect market based auction prices as opposed to the \$188.88/MW-day price approved by the Commission.

Phasing-in the new Capacity Rider 60% on November 1, 2014 and 100% on January 1, 2015 could result in significant increases to certain CSP residential customers during the winter months as can be seen in Attachment 2 of the original filing. As a result, on February 13, 2014, AEP filed an alternative rate design proposal for the Commission's consideration. The proposed alternative rate design provides for lower tail block rates (over 800 kWh) for CSP residential customers during the winter months, than was proposed in the January 10, 2014 filing for the 60% and 100% auctions.

Fixed Cost Rider (FCR)

The company has included a new fixed cost rider, which represents the fixed cost portion of the current FAC. This bypassable rider will be in effect from April 1, 2014 through May 31, 2015.

Merged Auction Phase-In Rider Rates

Currently, CSP and OP have separate FAC rates. Under the proposal, although the auctions will produce one auction price, AEP will maintain the current CSP/OP rate differential during the period of time when the 10% auction and the 60% auction rates are in effect since a portion of the blended rate will include the current FAC construct. However; beginning with the effective date of the 100% energy-only auction rates (Jan. 1, 2015), the CSP and OP APIR rates will be merged into a single rate.

Staff's Review and Recommendations

Staff has reviewed the filing and the impacts resulting from all three auction price scenarios and is providing the following summary and recommendations based on this review.

In general, the rate impacts appear to be a result of:

- Potential of the Energy-only auction prices being higher than the variable FAC
- The new FCR Rider
- Rate Design of the new generation capacity rider
- Merging CSP and OP into a single Auction Phase-In Rider

Auction Prices vs. Variable FAC

Referencing the January 10, 2014 AEP filing, Attachment 3, page 2 of 8, line 5, it appears that the current FAC Rates, adjusted to remove the fixed cost portion of the FAC, are approximately \$32/MWh for CSP and \$27/MWh for OP. As a result, in general, auction prices that exceed the effective variable FAC rates (adjusted for the reconciliation adjustment component (RA)) will result in increases to AEP customers. However, there are other changes being implemented such as the phase in of the \$188.88/MW-day Capacity Rider and other rate design modifications that may offset or increase the impacts to some customers as discussed below.

Fixed Cost Rider (FCR)

As previously discussed, AEP has included a new fixed cost rider, which represents the fixed cost portion of the current FAC rider. This bypassable rider will be in effect from April 1, 2014 through May 31, 2015. This charge will be filed as part of the FAC quarterly filings and will be subject to annual audits.

Base Generation Rates

The current Base Generation rates will be phased out and the new Generation Capacity Rider will be phasing in the \$188.88 MW-day generation capacity rate previously approved by the Commission, beginning April 1, 2014. In addition, as a result of transitioning to market based rates the revenue requirement resulting from the \$188.88 MW-day rate will be allocated to customer classes based on the 5 CP methodology.

Current base generation rates include both demand (kW) and energy charges (kWh) for most customer classes with demand meters. The proposed Capacity Rider charge will be a kWh only rate and will not include kW demand charges. AEP's kWh-only rate proposal is similar to the First Energy rate design for auction based energy and capacity charges. The AEP proposed rate design provides for a simple, easy to understand rate design that also provides for an easier comparison of SSO rates to rates offered by other suppliers.

Per the original filing on January 10, 2014, as the new Capacity Rider rate is phased in, all kWhs consumed by customers within the same class will be charged the same rate. For example, currently, CSP Residential customers have a base generation charge rate design in the winter months that includes a charge per kWh for the first 800 kWhs used in a month but includes no charge for any kWhs above 800 kWhs. Under the new rate design, all kWhs below and above 800 kWhs per month would be charged that same kWh charge. As a result, CSP Residential winter customers with usage greater than 800 kWhs would experience higher increases as the new rate design is phased in. To mitigate the significant increases that may occur as a result, on February 13, 2014, AEP filed an alternative rate design for the Capacity Rider for the Commission's consideration that would reduce the impacts on the CSP residential winter customers.

Merged Auction Phase-In Rider Rates

The final auction prices will be blended with the effective variable FAC rates from April 1, 2014 through May 31, 2015, to design the new APIR, although from January 1, 2015 through May 31, 2015, the APIR will reflect 100% of the auction price and the

effective variable FAC will be completely phased out. While the auctions will produce a single auction price, AEP will maintain different APIR rates for CSP and OP through December 31, 2014, since the FAC, which currently includes different rates for CSP and OP, will still be in effect and included in the blending through December 2014. Beginning January 1, 2015, the APIR will be merged and CSP and OP customers will pay the same APIR rate.

Currently, CSP has a higher variable FAC rate than OP, so when the rates are merged beginning January 1, 2015, the rate impacts will be greater for the OP customers.

Table A- Customer Class Impacts

Table A includes a summary of the class average impacts for each auction (10%, 60% and 100%) as well as the cumulative impacts to each class that result from comparing current rates to rates that will be in place beginning January 1, 2015, that will reflect the 100% auction rates. This table was developed utilizing the \$40/MWh auction price scenario from the AEP February 3, 2014 revised filing, and the February 13, 2014 alternative rate design filing. Table A includes most of the major classes of customers; however, impacts to all classes are provided in Attachment 1 to the AEP filings.

As provided in Table A, for CSP, Column D, the cumulative class impacts range from a 20.81% decrease to a 5.96% increase. For OP, Column D, the impacts range from a 24.97% decrease to 7.03% increase. However, because of individual consumption patterns, the phase-in of the market rate design and other factors discussed in these comments, customers within these classes may experience increases higher or lower than the class average.

Table A				
Summary of \$40/MWh Scenarios Provided by AEP				
Customer Class Impacts				
	% Increase	% Increase	% Increase	Total
	10%	60%	100%	Accumulative
	Auction	Auction	Auction	% Increase
CSP	A	B	C	D
R-R	0.89	2.34	-1.07	2.14
R-R-1	1.07	4.38	0.44	5.96
GS-1	-1.41	-8.82	-10.52	-19.56
GS-2 Sec	-1.22	-8.07	-10.17	-18.43
GS-2 Pri	-1.34	-8.59	-10.54	-20.81
GS-3 Sec	0.44	-0.28	-4.01	-3.86
GS-3 Pri	0.65	0.54	-3.67	-2.52
GS4	1.73	4.61	-2.13	4.15
Total CSP	0.62	1.00	-2.34	-0.76
	% Increase	% Increase	% Increase	Total
	10%	60%	100%	Accumulative
	Auction	Auction	Auction	% Increase
OP	A	B	C	D
RS	0.46	0.62	2.61	3.71
GS-1	-0.59	-4.44	-1.78	-6.70
GS-2 Sec	-0.35	-3.44	-0.65	-4.41
GS-2 Pri	-0.54	-4.40	-1.45	-6.30
GS-2 Sub	-1.32	-8.85	-4.79	-14.36
GS-2 Trans	-1.35	-8.87	-4.95	-14.55
GS-3 Sec	0.39	-0.15	2.57	2.82
GS-3 Pri	0.25	-0.93	2.05	1.36
GS-3 Sub	-0.68	-5.75	-1.76	-8.05
GS-3 Trans	-0.03	-2.73	1.10	-1.69
GS-4 Sub	-1.17	-8.46	-3.84	-13.01
GS-4 Trans	-2.39	-14.29	-10.32	-24.97
EHG	0.81	2.01	4.07	7.02
School	-0.68	-5.71	-1.77	-8.01
Total OP	0.24	-0.55	1.79	1.47

Following are Staff's observations and recommendations based on its review of the AEP filings:

- As discussed throughout the comments, there are certain CSP Residential customers that are currently charged a zero base generation rate for all kWhs over 800 during the winter billing period. Based on the January 10, 2014 AEP filing, these customers could experience significant increases on their winter bills as a result of the rate design of the new Capacity Rider that will be phased in from April 1, 2013 through January 1, 2015. The proposed alternative design filed by AEP on February 13, 2014 provides for lower tail block rates (over 800 kWh) for CSP residential customers during the winter months, than was proposed in the January 10, 2014 filing for the 60% and 100% auctions. The alternative design proposal helps mitigate the substantial increases some customers may have experienced absent the alternative design. As a result, the Staff recommends that the Commission adopt the proposed alternative rate design for the CSP Residential winter customers as proposed.
- Currently, AEP has several schedules that provide for time differentiated rates for base generation charges. Time differentiated rates will be 100% phased out on January 1, 2015, and therefore, time of day rates built into the current base generation rate design will be eliminated. In its ESP III application, AEP is proposing to completely eliminate certain time differentiated rates (CPP, TOD2, and RTP, for example). However, because of the generation rate design that is being phased in beginning April 1, 2014, the base generation charge portion of

these schedules will be eliminated prior to the effective date of ESP III. In addition, the Company is proposing a significant extension of its gridSMART program, including approximately 894,000 new smart meters in its service territory in Ohio. Part of the justification for this proposed rollout of smart meters is the proposition that customers will be able to observe their consumption during wholesale peak times and be able to save money by reducing their consumption during these time periods. The Staff realizes that such offers may eventually be made by competitive retail electric suppliers (CRES), but to date none has been observed. Until such time the Ohio retail electricity market matures, the Staff recommends that any of the Ohio EDUs that have Commission approved smart meter rollouts be required to offer at least one time differentiated rate in each customer class with a critical peak price and/or peak time rebate reflective of the wholesale market. As a result, the Staff recommends that the following AEP schedules: in the CSP Rate Zone titled RLM, RS-ES, RS-TOD, Experimental RS-TOD2, Rider DLC, RS-CPP, RS-RTP, and GS-2-TOD and in the OP Rate Zone titled RS-ES, RS-TOD, RDMS, and GS-TOD, that provide for either direct load control, energy storage, and/or time differentiated rates should be maintained. Staff and other parties should have an opportunity to fully review the bill impacts as part of the ESPIII and/or the gridSMART Phase 2 rider case proceedings of the Company before a decision is made regarding eliminating the time differentiated rates listed above.

Staff's comments are based on the AEP filings which include three scenarios based on auction prices of \$30, \$35, and \$40/MWh. Although Table A provides a summary of the potential impacts using an auction price equal to \$40/MWh, it is unknown what the actual auction price will be. Therefore, if the actual auction results are higher, the rate impacts would be higher as well. As a result, in addition to the recommendations above, the Commission could consider implementing a cap on the amount of increase that would occur as a result of the modifications to the rates and rate designs during the energy-only auctions.

Respectfully submitted,

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Comments on AEP Ohio's Compliance Filing, 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 22nd day of August, 2013.

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