

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

**In the Matter of the Fuel Adjustment)
Clauses for Ohio Power Company) Case No. 13-1892-EL-FAC**

**AEP OHIO REPLY TO OBJECTIONS OF OHIO ENERGY GROUP AND THE OHIO
CONSUMERS' COUNSEL**

Background

In adopting the modified Electric Security Plan for Ohio Power Company d/b/a AEP Ohio (“AEP Ohio” or the “Company”) in the *ESP II* proceeding (Case Nos. 11-346-EL-SSO *et al.*), the Commission incorporated three energy-only auctions during the ESP term: (1) a 10% energy-only auction initially; (2) a 60% energy-only auction starting in June 2014; and (3) a 100% energy-only auction from January to May 2015. In order to implement the Commission’s *ESP II* decision to conduct energy-only auctions to procure increasing portions of the SSO energy load during the ESP term, AEP Ohio filed its Application in Case No. 12-3254-EL-UNC (*CBP Case*) in order to establish the competitive bidding process rules and related documents as well as to finalize the method for reflecting the results of the wholesale energy-only auctions in retail SSO rates. In its November 13, 2013 Opinion and Order in the *CBP Case*, the Commission authorized the Company to unbundle the FAC and establish the Auction Phase-In Rider (APIR) and Fixed Cost Rider (FCR) in its place.

On March 3, 2014, AEP Ohio initiated the above-captioned case as the initial rate filing for both the APIR and FCR, in conjunction with the normal 2nd Quarter 2014 FAC update. The APIR includes the 10 % slice-of-system, energy-only auction clearing price of \$42.78/MWh accepted by the Commission in the February 26, 2014 Finding and Order in Case No. 14-300-EL-UNC. On March 12 and March 17, 2014, the Ohio Energy Group (OEG) and Ohio

Consumers' Counsel (OCC) filed objections to the Company's compliance filing and offered various observations and suggestions to which AEP Ohio needs to respond.

AEP OHIO REPLY

OEG and OCC falsely portray the unbundled FCR as a rate increase, even though the Company's March 3 filing represents the initial FCR rate. In falsely portraying the FCR rate increase, OEG and OCC rely on prior estimates of the FCR that were not presented for approval and were never in effect. (OEG Objections at 2; OCC Objections at 4-8.) For example, OEG claims that the FCR rates proposed in the Quarterly Filing would lead to a 72% increase for the OP rate zone and a 103% increase for the CSP rate zone. OEG goes on to contend that the proposed FCR "represents an annual increase of \$34.61" for an average residential SSO customer in the OP rate zone using 1,000 kWh per month and an "annual rate increase of \$49.50" for an average residential SSO customer in the CSP rate zone. OCC even claims (at 7) that the fixed costs being recovered through the FCR have "skyrocketed" and are based on "questionable estimates." These assertions are flawed.

Of course, because the FCR is an initial filing and has not been in effect before, it is fallacious to claim that there is a rate increase associated with the FCR. Moreover, the numbers OEG uses are misleading because they do not reflect the true before/after effect of the 1st Quarter FAC (the old FAC structure) to the 2nd Quarter FAC (restructured per the *CBP Case* decision). Similarly, OCC's argument (at 4) is off target in claiming that the Company's filing involves customers paying 27.64% to 30.2% more than the existing FAC. As reflected in Exhibit A attached hereto, the true comparison between the 1st and 2nd quarter 2014 FAC shows that the overall FAC increase was \$4.34/MWh for OP rate zone and \$5.12/MWh for CSP rate zone. If one looks at just the FCR component – which is the main target of OEG's and OCC's objections

– the change was only \$0.93/MWh for OP rate zone and \$1.10/MWh for CSP rate zone.¹ Of course, a certain level of volatility for fuel costs is the main reason that the FAC exists to begin with. Further, as shown in Exhibit B, an examination of the quarterly FAC changes over the last couple of years (since 2012) reveals a range of \$4.39/MWh for OP rate zone and \$5.01/MWh for CSP rate zone. Thus, the current rate change is within the range of recent historical changes for the FAC. AEP Ohio submits that OEG’s and OCC’s concerns are overblown.

With respect to the FCR rate component, the rate impacts that do exist occur because recovery of the same costs is being applied to a smaller base and due to seasonality in the load over which the fixed costs are recovered. As shown in Exhibit C, the fixed costs being captured in the FCR were very comparable as between 2nd Quarter 2013 and 2nd Quarter 2014 but there is some seasonal variation in the costs from one quarter to the next. Thus, most of the change from the projected FCR to the initial proposed FCR is attributable to an increase in shopping during the same period. In this regard, OEG attacks the design of the FCR (at 2-3) as being “flawed” because it is a bypassable rider that recovers fixed costs. The theoretical “last man standing” scenario outlined by OEG is not imminent or even likely to ever occur over the remaining 14 months of the Company’s current ESP. More importantly, the Commission understood the issue when it approved AEP Ohio’s proposed FCR to continue fully recovering the fixed costs on a bypassable basis.

In any case, OEG goes on (at 3) to offer alternative solutions to either: (i) freeze the FCR rate in order to maintain consistency with the treatment of other charges that recover fixed costs and prevent “unauthorized rate increases”, or (ii) eliminate the FCR pending the outcome of the

¹ For purposes of this differential calculation, Exhibit A shows the FCR component for the 1st Quarter of 2014 even though it was still bundled within the FAC at that time. Thus, AEP Ohio continues to maintain that the embedded change does not amount to an increase relative to the FCR since the FCR has to date not been a separate rate component.

“double recovery” audit that is to occur in the FAC. (OCC, at page 4, also endorses OEG’s second remedy.) Both of these alternatives are flawed because they conflict with the final orders in the *ESP II* and *CBP Case* dockets.

Clearly, OEG’s second alternative of eliminating the FCR would blatantly violate the final order in the *CBP Case*, as further discussed below, which explicitly adopted the FCR effective April 1, 2014. With respect to the feature of reconciling the FCR to reflect fluctuations in non-shopping load, the Commission understood in approving the FCR that the whole point of the Company’s proposal was to continue recovery of the full amount of the OVEC/Lawrenceburg demand charges from non-shopping customers on a bypassable basis, regardless of whether the shopping trend continued to increase. Otherwise, it would have been completely unnecessary to unbundle the FCR and create another bypassable rate component separate from the FAC.

In the *CBP Case*, AEP Ohio witness Roush explained that purpose of the proposed FCR was to continue full recovery of the non-energy costs from non-shopping customers. (AEP Ohio Ex. 2 at 8-9; Tr. I at 124.) In deciding the *CBP Case*, the Commission adopted AEP Ohio’s proposal “to retain all non-energy fixed costs” because “the non-energy costs to be collected through the FCR pertain to previous purchased power contractual commitments that AEP Ohio has made to fulfill its obligation to provide a SSO to all non-shopping customers.” (*CBP Case*, Opinion and Order at 16.) On rehearing in the *CBP Case*, the Commission rejected FirstEnergy Solutions Corp. request to modify the FCR rate design, reiterating that the Opinion and Order “expressly adopted AEP Ohio’s proposal to unbundle the FAC, including the Company’s request for approval of the FCR as a means to recover non-energy costs related to purchased power agreements utilized by the Company to fulfill its SSO obligations (CBP Order at 16).” (*CBP*

Case, Entry on Rehearing at 12.) Thus, OEG's position in this case (as endorsed by OCC) asks the Commission to modify its final order in the *CBP Case* and is an untimely and improper request for rehearing of that decision.² Indeed, both of OEG's proposed solutions put the Company in a worse position than if it had never gained approval for the FCR. As such, they must be rejected.

Similarly, OCC's additional arguments lack merit and otherwise conflict with the Commission's final order in the *CBP Case*. For example, OCC attacks the automatic approval process set up in the December 4, 2013 Entry by hyperbolizing (at 5-6) that it is "unfortunate for Ohioans that they are being placed at risk with a deregulatory approach that provides for automatic approval" and concluding that the approved process "contributes to a regulatory system that is out of balance in favor of utilities." Ironically, OCC goes on to advocate a process that would suspend utility rate filings through the filing of objections by OCC. In addition to being an untimely challenge of the December 4, 2013 Entry in this case, OCC's complaints are overblown and its self-serving proposals are without merit.

The other theme in OCC's objections is the filed rate doctrine that has been a bedrock principle in Ohio regulation (and nationally) for more than a half century. OCC's sour grapes arguments about prior cases it lost at the Commission and the Supreme Court of Ohio cannot form a proper basis for this Commission to part from the previously-approved course charted for the FAC and the FCR. AEP Ohio is following the Commission's decision in the *ESP II* case and the *CBP Case* in filing a quarterly FAC adjustment that establishes the initial FCR. Further, contrary to the false "alarm bells" OCC sounds in its objections, the Company has never argued that the audit/reconciliation process for the FAC violates the retroactive ratemaking principle

² OEG also advanced the same position in its February 24, 2014 comments in Case No. 13-1530-EL-UNC.

under the filed rate doctrine. As it pertains to the FCR, AEP Ohio has challenged the pursuit of the double recovery allegations as undermining the prior decisions in approving the Company's base generation rates and the FAC, but the Company also stands ready to defend the conclusion that no double recovery has occurred. In any case, as it pertains to the issue at hand, AEP Ohio understands that the FAC and the FCR are subject to audit and reconciliation. Thus, OCC's objections are without merit and should be ignored or rejected.

CONCLUSION

For the reasons stated in the above reply comments, the Commission should reject OEG's and OCC's objections and adopt AEP Ohio's positions.

Respectfully submitted,

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Exhibit A

Forecast Period	Energy Forecast 4/	OP Rate Zone						CSP Rate Zone									
		FCR Component		FAC Component	Weight	Auction Purchase		Auction Cost	Total FAC 3/	FCR Component		FAC Component	Weight	Auction Purchase		Auction Cost	Total FAC 3/
First Quarter 2014 1/	4,341,843,423	5.9498	26.7739	100%	-	0%			32.7237	7.0215	31.5969	100%	-	0%			38.6184
Second Quarter 2014 2/	3,484,851,600	6.8844	28.9509	90%	39.8480	10%	0.1339	37.0589		8.1246	34.1660	90%	47.0260	10%	0.1580		43.7346
Weighted Change		0.9346	1.9593		1.3074		0.1339	4.3352		1.1031	2.3122		1.5429		0.1580		5.1162

1/ Data filed in Case No. 13-1530-EL-UNC, January 10, 2014 (\$/MWh)

2/ Data filed in Case No. 13-1892-EL-FAC, March 3, 2014 (\$/MWh)

3/ Excludes Reconciliation Component, Losses and Taxes.

4/ Note that energy forecast is affected by seasonality of usage and changes in shopping.

Exhibit B

Total FAC Rates *

	<u>OP Rate</u> <u>Zone</u>	<u>CSP Rate</u> <u>zone</u>
First Quarter 2012	30.5085	36.1794
Second Quarter 2012	32.2981	38.2911
Third Quarter 2012	33.6513	39.8911
Fourth Quarter 2012	33.0479	39.0011
First Quarter 2013	33.7747	39.8588
Second Quarter 2013	34.8985	41.1850
Third Quarter 2013	33.8444	39.9410
Fourth Quarter 2013	32.7237	38.6184
Range	04.3900	05.0056

* Excludes Reconciliation Component, Losses and Taxes
(\$/MWh)

Exhibit C

FCR Component					
Period	April	May	June	Total	
Second Quarter 2013 1/	\$ 9,342,147	\$ 8,384,182	\$ 6,857,191	\$	24,583,520
Second Quarter 2014 2/				\$	25,700,000
Second Quarter Comparison Increase/(Decrease) 3/				\$	1,116,480
1/ Actual Fixed Costs					
2/ Forecasted Fixed Costs					
3/ Difference in Fixed Costs from 2nd Quarter 2013 compared to 2nd Quarter 2014					

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing AEP Ohio Reply was served upon the parties of record by electronic service this 18th day of March 2014.

//s// Steven T. Nourse

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Summary: Reply to Objections of Ohio Energy Group and the Ohio Consumers' Counsel electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company