

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) Case No. 13-1530-EL-UNC
Based Rates.)

FINDING AND ORDER

The Commission finds:

- (1) Ohio Power Company d/b/a AEP Ohio (AEP Ohio or the Company)¹ is a public utility as defined in R.C. 4905.02 and an electric utility as defined in R.C. 4928.01(A)(11), and, as such, is subject to the jurisdiction of this Commission.
- (2) On August 8, 2012, the Commission modified and approved AEP Ohio's application for an electric security plan (ESP), which established a series of competitive energy auctions for the Company's standard service offer (SSO) load. *In re Columbus Southern Power Company and Ohio Power Company*, Case No. 11-346-EL-SSO, et al., Opinion and Order (Aug. 8, 2012) at 15-16, 38-40. In the Opinion and Order, the Commission directed the attorney examiners to establish a new docket and a procedural schedule to allow Staff and any interested party to consider means to mitigate any potential adverse rate impacts for customers upon AEP Ohio's rates being set by auction.
- (3) By Entry issued on June 27, 2013, the attorney examiner established the instant docket for the Commission's review of customer rate impacts from AEP Ohio's transition to market based rates. The Entry also established a comment process encouraging interested persons to file comments on items, including, but not limited to, cross subsidies among tariff classes, phase-outs of historic rate design mechanisms, methodologies to transition to market based rates, and potential impacts on high winter usage customers.

¹ On March 7, 2012, the Commission approved and confirmed the merger of Columbus Southern Power Company (CSP) into Ohio Power Company (OP). *In re Ohio Power Company and Columbus Southern Power Company*, Case No. 10-2376-EL-UNC, Entry (Mar. 7, 2012).

- (4) Initial comments were filed by FirstEnergy Solutions Corp., Industrial Energy Users-Ohio (IEU-Ohio), IGS Energy (IGS), AEP Ohio, and Staff. Reply comments were filed by IEU-Ohio, IGS, Ohio Consumers' Counsel (OCC), AEP Ohio, Ohio Energy Group (OEG), and the Retail Energy Supply Association.
- (5) By Finding and Order issued on November 13, 2013, the Commission directed AEP Ohio, within 60 days, to provide information regarding auction based rates, including the expected rate design for each customer class, schedules for each customer class that identify billing determinants, potential rate impacts for each customer class, and any options that would mitigate adverse impacts that may result from implementing the rate design. Interested parties were invited to file comments within 30 days of AEP Ohio's compliance filing.
- (6) On January 10, 2014, AEP Ohio filed the additional information requested by the Commission in the November 13, 2013 Finding and Order. AEP Ohio updated its compliance filing on February 4, 2014, by submitting corrections to certain schedules.
- (7) By Entry issued on February 10, 2014, the deadline for the filing of comments on AEP Ohio's compliance filing was extended to February 24, 2014.
- (8) On February 13, 2014, AEP Ohio supplemented its compliance filing with an alternative rate design proposal for the Generation Capacity Rider (GCR), which would apply only during the winter months for Schedule R-R and R-R-1 customers in the CSP rate zone for the period of November 2014 through May 2015.
- (9) OCC, IEU-Ohio, OEG, and Staff filed comments regarding AEP Ohio's compliance filing on February 24, 2014. AEP Ohio filed a reply to Staff's comments on March 7, 2014.

Summary of Compliance Filing

- (10) In the compliance filing, AEP Ohio notes that it has provided the rate impact information required by the Commission in the November 13, 2013 Finding and Order. As an overview,

AEP Ohio states that the Company plans to adjust its existing base generation rates by the percentage of SSO energy that is being procured through the energy auctions. AEP Ohio further states that it also plans to implement the phase-in of the \$188.88/megawatt-day (MW-day) capacity charge for SSO customers through the GCR. AEP Ohio explains that capacity prices for each class of customers would be determined based upon the contribution of each class to the PJM 5 Coincident Peaks (CP) and would be computed on a per kilowatt hour (kWh) basis. Additionally, AEP Ohio states that it plans to blend the fuel adjustment clause (FAC) energy costs, auction purchase costs, and costs from conducting the auctions in the Auction Phase-In Rider (APIR), while implementing the Fixed Cost Rider (FCR) for the FAC non-energy costs. AEP Ohio proposes to maintain separate rates by rate zone for the period of April 2014 through December 2014, given that a portion of the rates will continue to be based upon the legacy FAC construct during that period.

- (11) In support of its compliance filing, AEP Ohio explains that it has included Attachments 1A, 1B, and 1C, which are schedules for each SSO customer class that identify billing determinants by rate block and seasonally, where applicable, under three different energy auction price outcomes (\$30.00/megawatt-hour (MWh), \$35.00/MWh, and \$40.00/MWh, respectively). AEP Ohio states that Attachments 2A, 2B, and 2C are schedules reflecting the potential rate impacts for each SSO customer class at a range of usage levels representing different customer sizes and load factors under the three different energy auction price outcomes. Finally, AEP Ohio notes that Attachment 3 is comprised of the Company's workpapers supporting the rate calculations.
- (12) Overall, AEP Ohio explains that the transition from traditional base generation rates to rates based upon the \$188.88/MW-day capacity rate results in rate reductions for most customers. AEP Ohio notes, however, that customers could experience increases or decreases in their monthly bills, depending on the actual outcome of the energy auctions. According to AEP Ohio, in the CSP rate zone, Schedule R-R residential customers with high winter usage

would experience an increase of \$0.01760 per kWh for any usage over 800 kWh per month. AEP Ohio points out that the increase is offset by a reduction of \$0.0120458 per kWh for the first 800 kWh of usage in winter months and all usage in summer months. AEP Ohio explains that the net effect is that customers using less than 1,348 kWh per month would experience decreases, while customers using more than 1,347 kWh per month would experience increases. AEP Ohio concludes that its analyses indicate that no special rate design accommodations are necessary, although the Company notes that a cumulative rate increase cap could be implemented to address any remaining concerns.

- (13) Additionally, in a supplement to its compliance filing, AEP Ohio proposes an alternative rate design for the GCR, in response to feedback received by the Company. AEP Ohio explains that the alternative rate design would apply only during the winter months for Schedule R-R and R-R-1 customers in the CSP rate zone for the period of November 2014 through May 2015.

Summary of Comments

- (14) In its comments, Staff provides a summary of the class average impacts for each energy auction for most of the major classes of customers, as well as the cumulative impacts for each class that result from a comparison of current rates to the rates that will be in place beginning on January 1, 2015. Staff notes that its summary was developed using a \$40.00/MWh auction price scenario. Staff explains that, with respect to the CSP rate zone, the cumulative rate impacts range from a 20.81 percent decrease to a 5.96 percent increase, while the cumulative rate impacts vary from a 24.97 percent decrease to a 7.03 percent increase in the OP rate zone. Staff notes, however, that customers within these classes may experience increases that are higher or lower than the class average, in light of individual consumption patterns and other factors.
- (15) Staff points out that certain customers in the CSP rate zone are not currently charged a base generation rate for any usage over 800 kWh during the winter months. According to Staff, such customers could experience significant

increases during the winter as a result of the rate design of the new GCR that will be phased in from April 1, 2014, through January 1, 2015. Staff explains that AEP Ohio's proposed alternative rate design would provide for lower tail block rates for usage over 800 kWh for these residential customers during the winter months, thus mitigating the substantial increases that would otherwise occur. Staff, therefore, recommends that the Commission adopt AEP Ohio's alternative rate design proposal.

- (16) Further, Staff notes that AEP Ohio has several schedules that provide for time differentiated rates for base generation charges, which will be entirely phased out on January 1, 2015, while the Company also proposes to eliminate certain time differentiated rates in its pending ESP application in Case No. 13-2385-EL-SSO, et al. Staff points out that AEP Ohio is also proposing to install nearly 894,000 new smart meters through its gridSMART program, which are intended to enable customers to monitor and reduce their consumption during wholesale peak times. Accordingly, Staff recommends that AEP Ohio maintain its RLM, RS-ES, RS-TOD, Experimental RS-TOD2, Rider DLC, RS-CPP, RS-RTP, and GS-2-TOD schedules for the CSP rate zone and the RS-ES, RS-TOD, RDMS, and GS-TOD schedules for the OP rate zone. Staff further recommends that interested parties should have an opportunity to review the bill impacts as part of the pending ESP or gridSMART proceedings, before a decision is made to eliminate the time differentiated rates. In its reply, AEP Ohio notes that it has attached a detailed tariff proposal to comply with Staff's recommendation for the remainder of the current ESP term. AEP Ohio, however, states that it reserves the right to revisit the issue of time differentiated rates during the Company's pending ESP proceedings. AEP Ohio also explains that the Company would require prompt tariff approval, in order to complete the billing and information technology changes necessary to implement the time differentiated rates by April 1, 2014.
- (17) Finally, Staff emphasizes that, although its summary utilizes an auction price scenario of \$40.00/MWh, the rate impacts could be higher, if the actual auction price is higher. Staff, thus, notes that the Commission may need to consider implementation of a cap on the amount of any increase that

would occur as a result of the modifications to AEP Ohio's rates and rate designs during the energy auctions.

- (18) In its comments, OCC states that it does not oppose AEP Ohio's proposed alternative rate design for residential customers with high winter usage in the CSP rate zone, which OCC believes is consistent with the principle of gradualism. OCC notes that Schedule R-R and R-R-1 customers with high usage in the CSP rate zone would otherwise experience considerable increases in their winter bills.
- (19) OCC also recommends that AEP Ohio's proposed 5 CP allocation of capacity costs be subject to further review in the Company's pending ESP proceedings. Next, OCC asserts that the FCR and APIR should be subject to review and reconciliation for prudent costs actually incurred in a subsequent audit proceeding. Finally, OCC urges the Commission to monitor AEP Ohio's actual auction prices to ensure that customers are not adversely affected upon implementation of the Company's proposed rate design, and to allow comments from parties if concerns arise regarding customer bill impacts.
- (20) IEU-Ohio argues that the information in AEP Ohio's compliance filing indicates that customers will be adversely impacted primarily by the Company's double recovery of purchased power costs through the FCR, in the amount of \$110 million per year. IEU-Ohio urges the Commission to eliminate the FCR, or, alternatively, to address the double-recovery allegations in Case No. 11-5906-EL-FAC, et al., as quickly as possible, by issuing the assured supplemental request for proposal and expediting the review of the double-recovery allegations. *In re Columbus Southern Power Company and Ohio Power Company*, Case No. 11-5906-EL-FAC, et al. (FAC Audit Case), Entry (Dec. 4, 2013) at 3-4, Entry on Rehearing (Feb. 13, 2014) at 6. According to IEU-Ohio, immediate action is necessary, given the massive impact of the FCR and the fact that its energy-based rate design disproportionately shifts revenue responsibility to large customers. IEU-Ohio emphasizes that the FCR will enable AEP Ohio to recover \$110 million from SSO customers regardless of the amount of shopping that occurs, and that

even a small change in shopping would drastically increase the impact of the FCR. IEU-Ohio also recommends that AEP Ohio be directed to allocate the revenue requirement for the FCR using the same 5 CP method used to allocate capacity costs, consistent with the principle of cost causation.

- (21) In its comments, OEG asserts that AEP Ohio's compliance filing reveals a critical flaw in the design of the FCR. OEG points out that the FCR is designed to recover the same amount of fixed costs (in 2014, \$48.2 million in the CSP rate zone and \$62.5 million in the OP rate zone) regardless of the number of AEP Ohio's SSO customers, which results in escalating FCR charges for such customers as shopping increases in the Company's service territory. OEG notes that AEP Ohio's estimated FCR charge was \$4.00/MWh in February 2013. According to OEG, since that time, the FCR charge has increased to \$6.00/MWh in the OP rate zone and \$7.00/MWh in the CSP rate zone. OEG contends that, prior to the resolution of the *FAC Audit Case*, the Commission should eliminate the FCR charge, subject to the ultimate findings regarding the double-recovery allegations at issue in the *FAC Audit Case*, in order to prevent unnecessary harm to customers. Alternatively, OEG proposes that, for as long as the FCR charge continues, the Commission should freeze the level of the FCR charge to where it would have been as of August 8, 2012, which is when the Commission approved AEP Ohio's current ESP. OEG notes that this approach has already been in place with respect to AEP Ohio's base generation rates, which also recover fixed costs, since August 8, 2012. OEG argues that, by freezing the FCR charge at its August 8, 2012 level, the Commission would prevent additional unauthorized rate increases as shopping grows. OEG adds that SSO customers should receive a refund of the difference between the FCR costs already recovered and what would have been recovered at the August 8, 2012 level.

Conclusion

- (22) Upon review of AEP Ohio's compliance filing of January 10, 2014, as updated on February 4, 2014, and February 13, 2014, as well as the comments filed by Staff, OCC, IEU-Ohio, and OEG, the Commission finds that AEP Ohio's proposal for

transitioning from the Company's current base generation rates to auction based rates, as supplemented, is reasonable and should be approved. In accordance with Staff's recommendation, we find that AEP Ohio's alternative rate design proposal for schedule R-R and R-R-1 customers in the CSP rate zone, which would apply during the winter months for the period of November 2014 through May 2015, should be approved, as a means to mitigate the rate impact that would otherwise occur. As OCC notes, AEP Ohio's alternative rate design proposal is consistent with the principle of gradualism.

- (23) Turning to the remainder of OCC's comments, we find that nothing precludes OCC from proposing a different allocation methodology for capacity costs in AEP Ohio's pending ESP proceedings. Similarly, we note that the FCR and APIR are already subject to review and reconciliation in the context of AEP Ohio's quarterly FAC proceedings. *See, e.g., In re Columbus Southern Power Company and Ohio Power Company*, Case No. 11-5906-EL-FAC, et al., Finding and Order (Mar. 19, 2014). Finally, although the Commission has emphasized that we will not interfere with the competitive market, the Commission will continue to monitor actual auction prices and the impact on customers. *See, e.g., In re Ohio Power Company*, Case No. 14-300-EL-UNC, Finding and Order (Feb. 26, 2014).
- (24) Regarding IEU-Ohio's and OEG's recommendation that the FCR be eliminated, as well as OEG's alternative recommendation that the FCR rate be frozen at the August 8, 2012 level, the Commission finds that the recommendations should be rejected, as they amount to a collateral attack on our prior order addressing AEP Ohio's competitive bid procurement (CBP) process and the Company's proposal to unbundle the FAC. *In re Ohio Power Company*, Case No. 12-3254-EL-UNC (CBP Case), Opinion and Order (Nov. 13, 2013). In the CBP Case, the Commission adopted AEP Ohio's proposal to unbundle the FAC, including the Company's request for authority to establish the FCR. CBP Case at 16. The Commission affirmed our decision on rehearing. CBP Case, Entry on Rehearing (Jan. 22, 2014). Again, we emphasize that the double-recovery allegations related to the FCR will be reviewed by an independent auditor in the

FAC Audit Case, with the FCR subject to reconciliation as a result of the audit. As IEU-Ohio and OEG recognize, the Commission has directed Staff to issue a supplemental request for proposal with respect to the investigation of the double-recovery allegations, and the Commission fully intends to move forward with the investigation as expeditiously as possible. We also decline to adopt IEU-Ohio's proposal to allocate the revenue requirement associated with the FCR on a 5 CP basis. The Commission notes that fixed costs recovered through the FAC, the predecessor to the FCR, have been allocated on a per kWh basis, which is consistent with AEP Ohio's proposed allocation of the FCR.

- (25) Consistent with Staff's recommendation and AEP Ohio's tariff proposal filed on March 7, 2014, the Company is directed to maintain its RLM, RS-ES, RS-TOD, Experimental RS-TOD2, Rider DLC, RS-CPP, RS-RTP, and GS-2-TOD schedules for the CSP rate zone and the RS-ES, RS-TOD, RDMS, and GS-TOD schedules for the OP rate zone, unless otherwise ordered by the Commission. AEP Ohio, Staff, or any other interested party may raise the issue of time differentiated rates for further consideration in the Company's pending ESP proceedings.
- (26) Accordingly, the Commission finds that AEP Ohio should be authorized to file final tariffs consistent with this Finding and Order. The final tariffs shall be approved effective April 1, 2014, contingent upon final review by the Commission.

It is, therefore,

ORDERED, That AEP Ohio's compliance filing, as supplemented, be accepted. It is, further,

ORDERED, That AEP Ohio take all necessary steps to carry out the terms of this Finding and Order. It is, further,

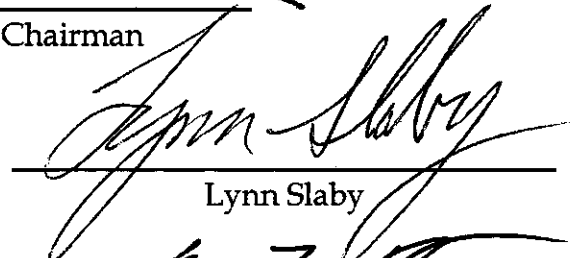
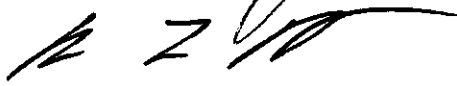
ORDERED, That AEP Ohio be authorized to file final tariffs consistent with this Finding and Order, and that the effective date of the new tariffs shall be April 1, 2014, contingent upon final review by the Commission. It is, further,

ORDERED, That AEP Ohio file, in final form, complete copies of its tariffs, consistent with this Finding and Order. AEP Ohio shall file one copy in its TRF docket and one copy in this case docket. It is, further,

ORDERED, That AEP Ohio shall notify its customers of the changes to the tariffs via bill message or bill insert within 30 days of the effective date of the revised tariffs. A copy of this customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least 10 days prior to its distribution to customers. It is, further,

ORDERED, That a copy of this Finding and Order be served upon all parties and other interested persons of record in this case.

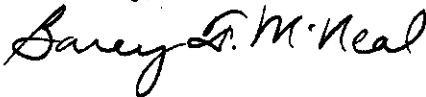
THE PUBLIC UTILITIES COMMISSION OF OHIO


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