

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio :
Power Company for Authority to : Case No. 13-2385-EL-SSO
Establish a Standard Service Offer :
Pursuant to § 4928.143, Revised Code, in :
the Form of an Electric Security Plan. :

In the Matter of the Application of Ohio :
Power Company for Approval of Certain : Case No. 13-2386-EL-AAM
Accounting Authority. :

REPLY BRIEF
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

Michael DeWine
Ohio Attorney General

William L. Wright
Section Chief

Devin D. Parram
Werner L. Margard
Katie L. Johnson
Assistant Attorneys General
Public Utilities Section
180 East Broad Street, 6th Floor
Columbus, OH 43215-3793
614.466.4397 (telephone)
614.644.8764 (fax)
devin.parram@puc.state.oh.us
katie.johnson@puc.state.oh.us
werner.margard@puc.state.oh.us

August 15, 2014

INTRODUCTION	1
DISCUSSION.....	1
1. The PPA Rider.....	1
a. The PPA Rider is Not Allowed under Ohio Law.....	2
i. The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(a).	2
ii. The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(d).	4
1. Condition 1- The PPA rider is a charge.	4
2. Condition 2.....	4
a. The PPA rider does not relate to bypassability.	5
b. The PPA rider does not relate to “limitations on customer shopping.”	6
c. The PPA rider does not relate to default service.	7
3. Condition 3- The PPA rider does not stabilize or provide certainty regarding retail electric service.	9
iii. The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(e).	12
iv. The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(i).	13
v. Conclusion.....	13
b. The PPA Rider is Not a Good Deal for Customers.....	13

i.	AEP-Ohio admits that the Commission will not have ongoing authority to ensure the prudence of PPA rider costs.....	14
ii.	The PPA rider is unnecessary because the structure of the SSO auctions and fixed-price contracts protect customers from volatile market rates.	16
iii.	The record contains more questions than answers about the costs and benefits of the PPA rider.	18
iv.	Ohio Energy Group’s attempt to support the PPA rider seriously hurts AEP-Ohio’s case.....	21
v.	Assuming the Commission likes the PPA concept, AEP-Ohio’s proposed PPA rider is not the appropriate way to ensure rate stability for customers.....	22
c.	AEP-Ohio’s other PPA arguments are not relevant.	25
2.	Sustained and Skilled Workforce Rider (“SSWR”).....	26
3.	Purchase of Receivable Program –Bad Debt Rider	27
4.	Distribution Investment Rider (“DIR”).....	31
a.	General Plant accounts should not be included in the DIR.	34
b.	Gross-Up Factor	36
c.	Adjustments should be made to the property tax rate and the net plant to which it is applied.....	36
5.	Storm Damage Recovery Rider (“SDRR”).....	37
a.	Carrying Charges	37
b.	Types of Recoverable Charges and Incremental Labor	39
c.	Mutual Assistance Revenues	40

6.	Enhanced System Reliability Rider (“ESRR”)	42
7.	Stand-by Service.....	43
8.	AEP-Ohio’s Auction Schedule.....	47
9.	AEP-Ohio Load Zone.....	48
10.	ESP Versus MRO Test.....	49
CONCLUSION		50
PROOF OF SERVICE.....		52

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio :
Power Company for Authority to : Case No. 13-2385-EL-SSO
Establish a Standard Service Offer :
Pursuant to § 4928.143, Revised Code, in :
the Form of an Electric Security Plan. :

In the Matter of the Application of Ohio :
Power Company for Approval of Certain : Case No. 13-2386-EL-AAM
Accounting Authority. :

REPLY BRIEF
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

INTRODUCTION

Staff submits this reply brief in response to the parties' initial post-hearing briefs filed in this case. If a particular issue is not addressed in this reply, Staff believes its initial brief adequately articulates Staff's position on the issue.

DISCUSSION

1. The PPA Rider

The Commission must answer two questions regarding the PPA rider: (1) is the PPA rider allowed under the law and (2) is it a good deal for customers? The answer to both questions is "no."

a. The PPA Rider is Not Allowed under Ohio Law¹

i. The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(a).

Ohio Power Company (“AEP-Ohio” or the “Company”) claims that Division (B)(2)(a) “provides authority to the Commission to adopt the PPA Rider,” stating that Division (B)(2)(a) “explicitly permits affiliate purchase power agreements.”² AEP-Ohio ignores critical language within R.C. 4928.143(B)(2)(a), which states that an ESP may include:

Automatic recovery of any of the following costs of the electric distribution utility, provided the cost is prudently incurred,... the cost of purchased power *supplied under the offer*, including the cost of energy and capacity, and including purchased power acquired from an affiliate.... (emphasis added).

The PPA rider cannot be authorized under this provision because the PPA rider does not relate to “the cost of purchased power *supplied under the offer*.”³ AEP-Ohio will not be supplying any purchased power to customers under the SSO. AEP-Ohio’s SSO will be

¹ The PPA rider violates federal law, as well. *See* Staff Initial Brief at 15-17.

² AEP-Ohio Initial Brief at 29.

³ R.C. 4928.143(B)(2)(a) (emphasis added).

100% auction based beginning June 1, 2015.⁴ The fuel adjustment clause (“FAC”) is the mechanism that currently allows AEP-Ohio to recover OVEC’s purchased power costs under R.C. 4928.143(B)(2)(a). AEP-Ohio’s FAC will cease to exist when AEP-Ohio transitions to 100% market-based SSO prices.⁵ AEP-Ohio’s right to recover generation-related costs under R.C. 4928.143(B)(2)(a) will end at this time, as well.

AEP-Ohio wants to ignore language within R.C. 4928.143. The Commission, however, does not have that luxury:

When interpreting a statute, a court must first examine the plain language of the statute to determine legislative intent. *Cleveland Mobile Radio Sales, Inc. v. Verizon Wireless*, 113 Ohio St.3d 394, 2007-Ohio-2203, 865 N.E.2d 1275, ¶ 12. The court must give effect to the words used, making neither additions nor deletions from words chosen by the General Assembly.⁶

The Commission should avoid statutory interpretations that read words out of the statute. The Supreme Court of Ohio has reversed the Commission before for improperly interpreting statutes.⁷ In *East Ohio Gas*, the Court stated that “the commission ...failed to

⁴ *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to § 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case Nos. 13-2385-EL-SSO, *et al.* (“*Ohio Power ESP III*”) (Staff Ex. 18 (Prefiled Direct Testimony of Dr. Hisham M. Choueiki) at 9) (May 20, 2014) (“Choueiki Direct”).

⁵ Tr. Vol. I at 33.

⁶ *In re Application of Columbus S. Power Co.*, 138 Ohio St. 3d 448, 454, 2014-Ohio-462, 8 N.E.3d 863, at ¶ 26.

⁷ *East Ohio Gas Co. v. Pub. Utilities Comm’n of Ohio*, 39 Ohio St. 3d 295, 530 N.E.2d 875, 879 (1988).

abide by a basic rule of statutory construction—that words in statutes should not be construed to be redundant, *nor should any words be ignored.*”⁸ The Commission can easily avoid the Court second-guessing its statutory interpretation in this case because the language of R.C. 4928.143(B)(2)(a) is clear: only costs related “purchased power *supplied under the offer*” can be recovered under this provision. (emphasis added).

ii. The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(d).

AEP-Ohio argues that the PPA rider can be authorized under Division (B)(2)(d).⁹ AEP-Ohio analyzes R.C. 4928.143(B)(2)(d) in three steps. Because the Commission has followed this three-step process in past cases, the Staff will do the same.

1. Condition 1- The PPA rider is a charge.

The first condition in AEP-Ohio’s analysis is whether the PPA rider is a “charge.” Staff concedes that the PPA rider is a charge.

2. Condition 2

AEP-Ohio claims that the PPA rider meets the second condition because it relates to bypassability, limitations on customer shopping, and/or default service.¹⁰

⁸ *East Ohio Gas Co. v. Pub. Utilities Comm’n of Ohio*, 39 Ohio St. 3d 295, 530 N.E.2d 875, 879 (1988) (emphasis added).

⁹ AEP-Ohio Initial Brief at 28.

¹⁰ AEP-Ohio Initial Brief at 27-28.

a. The PPA rider does not relate to bypassability.

AEP-Ohio does not cite any evidence showing that PPA rider is related to bypassability. Presumably, AEP-Ohio claims that any rider it proposes meets this condition of R.C. 4928.143(B)(2)(d), so long as the charge is bypassable or nonbypassable. Not only is this interpretation of Division (B)(2)(d) circular, but it also leads to absurd results. If accepted by the Commission, this interpretation would render the second condition meaningless because *all charges* are either bypassable or nonbypassable. According to AEP-Ohio's interpretation, an EDU automatically meets condition one and two by merely requesting a rider (bypassable or nonbypassable) in its SSO application.

The Commission should avoid adopting a statutory interpretation that leads to an absurd or unreasonable result. The Supreme Court of Ohio has stated that “[i]t is a cardinal rule of statutory construction that a statute should not be interpreted to yield an absurd result.”¹¹ AEP-Ohio interprets R.C. 4928.143 in a manner that removes almost all limitations on what charges can be authorized in an ESP. AEP-Ohio views R.C. 4928.143(B)(2)(d) as a “catch-all” provision, under which essentially any charge may be authorized.

¹¹ *Mishr v. Poland Bd. of Zoning Appeals*, 76 Ohio St. 3d 238, 240, 667 N.E.2d 365, 367 (1996); and *Canton v. Imperial Bowling Lanes, Inc.*, 16 Ohio St. 2d 47, 53, 242 N.E.2d 566, 570 (1968)(“The General Assembly will not be presumed to have intended to enact a law producing unreasonable or absurd consequences.”).

The Commission should be wary of adopting AEP-Ohio's overly expansive interpretation of R.C. 4928.143. Only a few years ago, the Supreme Court reversed the Commission for an overbroad interpretation of R.C. 4928.143.¹² The Court stated that the Commission's "interpretation [of R.C. 4923.143(B)(2)] would *remove any substantive limit to what an electric security plan may contain.*"¹³ The Court stated this was not a result the "General Assembly intended."¹⁴ The Commission should reject AEP-Ohio's attempt to remove any "substantive limit" on the charges that can be authorized under R.C. 4928.143(B)(2)(d).

b. The PPA rider does not relate to "limitations on customer shopping."

In its initial brief, AEP-Ohio claims that the PPA rider "could also be considered a limitation on customer shopping."¹⁵ That is the opposite of AEP-Ohio witness Allen's testimony:

Q. And it's your position that the [PPA rider] is not a limitation on customer shopping, correct?

A. It's clearly not.¹⁶

¹² *In re Application of Columbus S. Power Co.*, 128 Ohio St.3d 512, 2011-Ohio-1788, 947 N.E.2d 655, ¶ 34.

¹³ *Id.* (emphasis added).

¹⁴ *Id.* (emphasis added).

¹⁵ AEP-Ohio Initial Brief at 28.

¹⁶ Tr. Vol. II at 566-67.

Mr. Allen's admission speaks for itself.

c. The PPA rider does not relate to default service.

AEP-Ohio argues that the PPA rider relates to default service. The Commission previously discussed what constitutes “default service” under Division (B)(2)(d) in AEP-Ohio’s last ESP case.¹⁷ The Commission specifically defined “default service” as the SSO, which is the “plan for AEP-Ohio customers who chose not to shop.”¹⁸ The Commission found that the Rate Stability Rider (“RSR”) related to “default service” because it froze non-fuel generation rates, which “allow[ed] all standard service offer customers to have rate certainty throughout the term of the ESP.”¹⁹ Because the RSR froze non-fuel generation rates, which are part of the SSO rate, the Commission found that the RSR “falls within the default service category” of R.C. 4928.143(B)(2)(d).²⁰

¹⁷ *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO, et al. (hereafter “*ESP II Case*”) (Entry on Rehearing at 15) (January 30, 2013).

¹⁸ *ESP II Case*, Entry on Rehearing at 15 (emphasis added).

¹⁹ *Id.*

²⁰ *Id.*

The Commission discussed default service in DP&L's most recent SSO case.²¹ In the *DP&L SSO Case*, the Commission found that DP&L's Service Stability Rider ("SSR") was authorized under R.C. 4928.143(B)(2)(d) because it maintained "DP&L's financial integrity so that it may continue to provide default service."²² The Commission specifically found that the "SSR is necessary for DP&L to provide stable and reliable distribution, transmission, and *generation service*."²³ At the time, DP&L was not structurally separated and was not at 100% market-based SSO prices. Because DP&L still relied upon its own generation to serve SSO customers, the Commission determined that DP&L's ability to meet its SSO service obligation would be diminished unless the SSR was granted. The Commission found that financial losses in any portion of DP&L's business would potentially hinder DP&L's ability to provide generation service to SSO customers.²⁴

Unlike the RSR or the SSR, the PPA rider is not related to default service. AEP-Ohio admits it is "just offering a hedge" that all customers, including shopping customers, must pay for.²⁵ Because the alleged hedging effect of the PPA rider will be

²¹ *In the Matter of the Application of The Dayton Power and Light for Approval of its Electric Security Plan*, Case No. 12-426-EL-SSO (hereafter "*DP&L SSO Case*") (Opinion and Order at 21) (Sep. 4, 2013).

²² *DP&L SSO Case*, Opinion and Order at 21.

²³ *DP&L SSO Case*, Second Entry on Rehearing at 7 (emphasis added).

²⁴ *DP&L SSO Case*, Opinion and Order at 21-22.

²⁵ Tr. Vol. I at 149; and 169.

applied to all customers, AEP-Ohio cannot claim that it relates specifically to default service. The PPA rider does not commit generation output to AEP-Ohio's SSO customers, and does not freeze any portion of SSO rates.²⁶ Unlike the SSR, the PPA rider has nothing to do ensuring the "financial integrity" of AEP-Ohio. AEP-Ohio witness Vegas admitted that the PPA rider is not needed to ensure the financial stability of AEP-Ohio.²⁷ There is no evidence that the PPA rider is connected to AEP-Ohio's provision of default service.

3. Condition 3- The PPA rider does not stabilize or provide certainty regarding retail electric service.

The third consideration under R.C. 4928.143(B)(2)(d) is whether the PPA rider has the "effect of stabilizing or providing certainty regarding retail electric service." There are two, separate issues for the Commission to consider under Condition 3. First, the Commission should determine if the PPA rider will actually stabilize customer rates. This is largely a factual dispute, which Staff addresses later in this reply.²⁸ The second issue is whether the PPA rider relates to "*retail electric service*." Retail electric service "means any service involved in supplying or arranging for the supply of electricity to

²⁶ Tr. Vol. I at 150.

²⁷ Tr. Vol. I at 166.

²⁸ Staff also addressed this issue in its initial post-hearing brief. Staff Initial Brief at 18-24.

ultimate consumers in this state, from the point of generation to the point of consumption.”²⁹

The Supreme Court has addressed what constitutes “retail electric service” within the context of R.C. 4928.143(B)(2)(d), and when generation-related charges are allowed under this provision. *In re Application of Columbus S. Power Co.*, 138 Ohio St.3d 448, 8 N.E.3d 863, 2014-Ohio-462 at ¶ 32 (“*CSP Remand Case*”). In the *CSP Remand Case*, the Court affirmed a Commission finding that carrying costs were allowed under R.C. 4928.143(B)(2)(d) because the “carrying charges had the effect of providing certainty regarding retail electric service, specifically by providing reasonably priced electric generation service.”³⁰ AEP-Ohio incurred carrying costs when it was the primary supplier of generation to SSO customers. In the *CSP Remand Case*, there was evidence that the carrying charges resulted in the generation of lower-cost power from AEP-Ohio’s coal-fired plants, and that this lower-cost power was actually being supplied to customers by AEP-Ohio.³¹ Therefore, the carrying costs associated with the generation of this lower-cost power were “generation service” related costs associated with AEP-Ohio’s actual “supply of electricity to ultimate consumers...from the point of generation to the point of consumption.”³²

²⁹ R.C. 4928.01(A)(27).

³⁰ *CSP Remand Case*, at ¶ 32.

³¹ *CSP Remand Case*, at ¶¶ 31-35.

³² R.C. 4928.01(A)(27); *CSP Remand Case*, at ¶ 32.

The PPA rider is distinguishable from the carrying charges at issue in the *CSP Remand Case*. The PPA rider does not relate to the “supply or arranging for the supply of electricity to ultimate consumers...from the point of generation to the point of consumption.”³³ It is not related to “generation service,”³⁴ and does not fit into any of the other specified categories of R.C. 4928.01(A)(27). AEP-Ohio admits that none of the energy or capacity associated with OVEC will be bid into the SSO auction or used to offset any of the SSO load included in the auction.³⁵ AEP-Ohio witness Allen admitted AEP-Ohio will “be acquiring all *generation services* for SSO customers from the market.”³⁶ In its initial brief, AEP-Ohio states at least four times that it is a “wires-only” company.³⁷ At least three AEP-Ohio witnesses testified that AEP-Ohio is just a “wires

³³ R.C. 4928.01(A)(27).

³⁴ “Generation service” is the only “service component” listed under in R.C. 4928.01(A)(27) that AEP-Ohio can arguably claim the PPA rider is related to. AEP-Ohio called the PPA rider a “generation hedging service.” AEP-Ohio Initial Brief at 28. AEP-Ohio has not argued, nor has it presented any evidence that the PPA rider can be considered an “aggregation service”, “power marketing service”, “power brokerage service”, “transmission service”, “distribution service”, “ancillary service”, “metering service”, or “billing and collection service.” Therefore, Staff will not address these other service components listed in R.C. 4928.01(A)(27).

³⁵ Company Ex. 1, (Application) at 8 (“None of the energy or capacity associated with the Company’s OVEC entitlement would be bid into the auctions to procure *generation services*...”)(emphasis added); Company Ex. 7 (Direct Testimony of William A. Allen at 10) (Dec. 20, 2013) (“Allen Direct”); Tr. Vol. I at 150 (AEP-Ohio witness Vegas admitted that “the [OVEC] generation is not being committed to serve customers.”)

³⁶ Allen Direct at 4. *See also Ohio Power ESP III* (Company Ex. 13 (Direct Testimony of Andrea E. Moore) at 9) (Dec. 20, 2013) (“Moore Direct”)) (“[T]he Company will be procuring the *generation service* needs of SSO customers through a full auction.”).

³⁷ AEP-Ohio Initial Brief at 70, 71, 72, and 106.

company.”³⁸ Various AEP-Ohio witnesses admitted that the PPA rider is just a “hedge” or “insurance product.”³⁹ Staff witness Choueiki put it quite succinctly: AEP-Ohio is “out of the business of selling generation service.”⁴⁰

Because the PPA rider does not relate to “retail electric service,” it cannot be authorized under R.C. 4928.143(B)(2)(d).

iii. The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(e).

The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(e), which states that the ESP plan may include a provision for “[a]utomatic increases or decreases in any component of the standard service offer price.” AEP-Ohio admits the PPA rider does not affect the SSO auction or SSO price.⁴¹ The PPA rider is an additional “hedging” charge, separate and apart from the SSO price.

³⁸ *Ohio Power ESP III*, Company Ex. 3 (Direct Testimony of Gary O. Spitznogle at 12) (Dec. 20, 2013) (“Spitznogle Direct”); Moore Direct at 9; Company Ex. 16 (Direct Testimony of Matthew D. Kyle at Exhibit MDK-1) (Dec. 20, 2013) (“Kyle Direct”)(AEP-Ohio witness Kyle bases his financial projections on the assumption that AEP-Ohio is a “wires only” company); Company Ex. 17 (Direct Renee V. Hawkins at 4-6, 9) (Dec. 20, 2013) (“Hawkins Direct”).

³⁹ Tr. Vol. I at 149; and Tr. Vol. XIII at 3099.

⁴⁰ Tr. Vol. XII at 2886; and Tr. XII at 2903 (“In your case, you are no longer providing generation service as of June 1st, 2015”).

⁴¹ Company Ex. 1, (Application) at 8; Allen Direct at 10.

iv. The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(i).

The PPA rider cannot be authorized under R.C. 4928.143(B)(2)(i) because it does not “promote economic development” or “job retention.” AEP-Ohio witness Vegas admitted that the alleged economic benefits of OVEC will not disappear if the PPA rider is not granted.⁴² He admitted AEP-Ohio does not have the power to unilaterally close the OVEC units if the PPA rider is denied.⁴³ The OVEC units will continue to run and jobs will not be lost if the PPA rider is denied.

v. Conclusion

R.C. 4928.143 provides the Commission the flexibility needed to ensure that AEP-Ohio provides reliable and reasonably priced SSO service. But the statute is not limitless. AEP-Ohio’s PPA rider proposal goes well beyond the language and intent of the statute. This rider will take the Commission down an unprecedented path. If the PPA rider is granted, this means that EDUs can charge customers for essentially any costs, even if these costs are completely unrelated to the supply of electricity to customers.

b. The PPA Rider is Not a Good Deal for Customers.

AEP-Ohio is selling a “hedging” or “insurance product” to the Commission. The Commission should determine if the alleged benefits of the product are worth the costs. The record shows that there are numerous reasons the Commission should not buy what

⁴² Tr. Vol. I at 40; Tr. Vol. I at 163-164.

⁴³ Tr. Vol. I at 163.

AEP-Ohio is selling. Even if the Commission believes the PPA rider is permitted under Ohio and federal law, Staff maintains that the PPA rider should be denied because AEP-Ohio failed to prove the benefits of the PPA rider outweigh the costs.⁴⁴

i. AEP-Ohio admits that the Commission will not have ongoing authority to ensure the prudence of PPA rider costs.

One negative aspect of the PPA rider is that the Commission will have no authority over AEP-Ohio's PPA rider costs. Staff expressed this concern in its initial brief.⁴⁵ AEP-Ohio confirmed Staff's fears. AEP-Ohio stated that it wants the Commission to provide a "one-time, up front prudence review" of the PPA contract.⁴⁶ AEP-Ohio wants the Commission to be "*bound by that prudence determination for the full term of that contract.*"⁴⁷ The Commission and customers will be wedded to that upfront determination *until 2040*.⁴⁸

AEP-Ohio tries to reduce concerns about the Commission's limited ability to regulate PPA costs by comparing the PPA rider to AEP-Ohio's Timber Road renewable

⁴⁴ AEP-Ohio has the burden of proving that the proposed ESP is more favorable, in the aggregate, than an MRO. R.C. 4928.143(C)(1). Because AEP-Ohio cannot establish the true costs and benefits of the PPA rider, it is impossible to say the ESP, with a PPA rider, is more favorable than an MRO.

⁴⁵ Staff Initial Brief at 8.

⁴⁶ AEP-Ohio Initial Brief at 31.

⁴⁷ AEP-Ohio Initial Brief at 33 (emphasis added).

⁴⁸ AEP-Ohio Initial Brief at 33.

energy purchase agreement (“REPA”).⁴⁹ This is like comparing apples and oranges. The Timber Road REPA is a long-term contract that allows AEP-Ohio to meet in-state renewables requirements.⁵⁰ AEP-Ohio entered into the Timber Road REPA after an RFP process.⁵¹ Although the Commission authorized recovery of costs related to the Timber Road REPA, the Commission reviews these costs for prudence in FAC/Alternative Energy Rider (“AER”) cases.⁵² The Commission recently performed a full management/performance audit of AEP-Ohio’s REPAs and renewable energy credit (“REC”) purchasing decisions.⁵³ In addition, costs related to the Timber Road REPA are recovered in through bypassable riders.⁵⁴

This is quite different from the process AEP-Ohio proposes for its PPA rider. The OVEC PPA is not the result of an RFP process, and is unrelated to renewable energy benchmarks.⁵⁵ The PPA would have a “one-time, up front prudence review,” and then

⁴⁹ AEP-Ohio Initial Brief at 31.

⁵⁰ *ESP II Case*, Opinion and Order at 19.

⁵¹ *ESP II Case*, Opinion and Order at 19.

⁵² *ESP II Case*, Opinion and Order at 19.

⁵³ *In the Matter of the Application of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company and Related Matters*, Case No. 11-5906-EL-FAC (Report of Management/Performance and Financial Audits) (May 9, 2014).

⁵⁴ *ESP II Case*, Opinion and Order at 19 (indicating costs related to REPAs are recovered through the FAC and the AER).

⁵⁵ Tr. XII at 2888-2889.

the Commission would have no authority to disallow costs related to the PPA.⁵⁶ If the Commission is concerned about the prudence of PPA rider costs, the Commission's only recourse would be to file a complaint at FERC.⁵⁷ In addition, the PPA rider is nonbypassable, which presents a host of legal problems that the REPA's do not.⁵⁸

ii. The PPA rider is unnecessary because the structure of the SSO auctions and fixed-price contracts protect customers from volatile market rates.

AEP-Ohio uses scare tactics to sell the PPA rider, insinuating that the PPA rider is the only way to protect customers from potential market volatility. AEP-Ohio states that "reasonable rates are not achieved by unmitigated exposure to volatile market rates."⁵⁹ Staff agrees. That is why the Commission currently mitigates market volatility by staggering and laddering its SSO auction products. These methods have been extremely successful in Ohio. The SSO auction results for FirstEnergy⁶⁰ are a great example.⁶¹ Capacity prices in the ATSI zone increased from \$108.89 to \$357 over a five-year

⁵⁶ AEP-Ohio Initial Brief at 31.

⁵⁷ Tr. Vol. I. at 31-33; Staff Initial Brief at 7-8.

⁵⁸ See Staff Initial Brief at 12-14, discussing how the PPA rider would violate R.C. 4928.02(H).

⁵⁹ AEP-Ohio Initial Brief at 44.

⁶⁰ "FirstEnergy" is, collectively, Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("CEI") and The Toledo Edison Company ("Toledo Edison").

⁶¹ *Ohio Power ESP III*, Company Exhibit 24 (FirstEnergy Auction Results) at unnumbered pg. 2.

period.⁶² This is a 228% increase in capacity price. During the same time, the blended SSO auction price increased slightly from \$55.60 to \$62.09 in FirstEnergy's territory.⁶³ This is only an 11.68% increase in generation prices for SSO customers. This is proof the SSO auction structure is already mitigating capacity market volatility without the assistance of a PPA rider.

FirstEnergy's SSO customers were also protected from large fluctuations in the real-time energy markets. AEP-Ohio witness McDermott prepared a table that shows the fluctuations in energy prices in the AEP Zone from 2005 to 2013.⁶⁴ Although this table does not reflect the energy prices in the ATSI zone, it is safe to assume the ATSI zone had comparable fluctuations in energy prices during this time. The ATSI zone probably experienced higher energy prices and more volatility because of constraints. FirstEnergy's SSO customers were not exposed to these drastic price fluctuations because they pay the SSO auction prices. AEP-Ohio witness McDermott admitted that SSO

⁶² <http://www.pjm.com/~media/markets-ops/rpm/rpm-auction-info/atsi-frr-integration-auction-results.ashx>; <https://www.pjm.com/~media/markets-ops/rpm/rpm-auction-info/20120518-2015-16-base-residual-auction-report.ashx> (Capacity prices in the ATSI zone from the 2011/2012 planning year to the 2015/2016 planning year); and Tr. Vol. XIII at 3312.

⁶³ *Ohio Power ESP III*, Company Exhibit 24 (FirstEnergy Auction Results) at unnumbered pg. 2. The SSO auction price was \$55.60 for 2011-2012. Although 32% of the load remains to be auctioned off, it is safe to assume the SSO auction price for 2015-2016 will be approximately \$62.09.

⁶⁴ *Ohio Power ESP* (Company Ex. 32 (Rebuttal Testimony of Karl A. McDermott) at Appendix B) (Jun. 23, 2014) ("McDermott Rebuttal").

customers are protected from the volatility of the real-time energy markets because these customers pay prices established on an annual basis through SSO auctions.⁶⁵

In addition, there a number of fixed-price offers available in FirstEnergy's territory.⁶⁶ AEP-Ohio witness Allen admitted there are a number different CRES providers that have fixed-price offers that range from 18 months to 35 months in FirstEnergy's territory.⁶⁷ CRES providers are committing to these fixed-price offers in FirstEnergy's territory even though capacity prices will escalate to \$357 in the ATSI zone in 2015/2016.⁶⁸ This is evidence that the PPA rider is unnecessary because there are already market-based hedging options available to shopping customers.

iii. The record contains more questions than answers about the costs and benefits of the PPA rider.

The Commission, rightfully, will want to evaluate the true costs and benefits of PPA rider before entering into this "one-time, up front," long-term commitment. The Commission will be unable perform such an evaluation, however. This is because there

⁶⁵ Tr. Vol. XIII at 3141.

⁶⁶ Allen Rebuttal, Ex. WAA-R3, at 1.

⁶⁷ Tr. Vol. XIII at 3317. Mr. Allen admitted that a 35-month contract is essentially a three-year contract. Tr. Vol. XIII at 3318. A three-year contract could cover the entire term of a three-year ESP, depending on when then contract was entered into.

⁶⁸ Tr. Vol. XIII at 3316-3318; Staff Exhibit 19 (Apples to Apples Comparison Chart, CEI); Staff Exhibit 20 (Apples to Apples Comparison Chart, Ohio Edison); Staff Exhibit 21 (Apples to Apples Comparison Chart, Toledo Edison).

are many unanswered questions regarding the costs and benefits of the PPA rider. AEP-Ohio's initial brief highlights some of the major problems.

AEP-Ohio admits in its initial brief that the “reconciliation component of the [PPA] rider” will not always result in the PPA rider moving in the “opposite direction of the market.”⁶⁹ AEP-Ohio witness Allen admitted during the hearing that the true-up element of the PPA rider does not move “counter to the market.”⁷⁰ This means the PPA rider will not always “smooth out market fluctuations” of the real-time energy market as AEP-Ohio witness Vegas claims.⁷¹ Rather, the PPA rider could move in the same direction of the market, which would exacerbate price volatility for customers that pay real-time energy prices.

AEP-Ohio claims repeatedly that the “stabilizing effect” of the PPA rider is undisputed.⁷² This is untrue. Many parties, including Staff, believe that AEP-Ohio failed to prove that the PPA rider will stabilize rates for customers. AEP-Ohio presented various, conflicting OVEC cost-estimates during the hearing, which Staff and other

⁶⁹ AEP-Ohio Initial Brief at 46.

⁷⁰ Tr. Vol. II at 517.

⁷¹ *Ohio Power ESP III*, Company Ex. 2 (Direct Testimony of Pablo A. Vegas at 13) (Dec. 20, 2013) (“Vegas Direct”).

⁷² For example, AEP-Ohio states that “it is *undisputed* that customers will receive a credit or charge that moves in the opposite direction of market prices under the PPA Rider.” AEP-Ohio Initial Brief at 47 (emphasis added); And AEP-Ohio claims that “[the intervenors] *do not challenge* the premise that the PPA Rider credit/charge would mitigate the effects of volatile market prices.” (emphasis added).

parties address in their initial briefs. AEP-Ohio criticizes Staff for not developing its own cost-impact analysis. That Staff did not develop an independent cost-analysis is irrelevant. There are plenty of cost-impact scenarios in the record, which Staff did review.⁷³ The results of these scenarios are alarming enough. The Commission does not need yet another cost-impact scenario to understand that the PPA rider may cost customers dearly.

AEP-Ohio relies on a flawed illustration prepared by AEP-Ohio witness Allen to show the benefits of the PPA rider.⁷⁴ This illustration is unreliable because it fails to account for OVEC's costs.⁷⁵ Cost is a critical component in determining whether the PPA rider will be a credit or charge.⁷⁶ Staff witness Choueiki explained that Mr. Allen's illustration is flawed and inconsistent with how the PPA rider is actually calculated.⁷⁷

AEP-Ohio highlights some of the speculative benefits that the PPA rider could provide "if extreme weather occurs during the ESP term."⁷⁸ AEP-Ohio states that "a probabilistic model – such as Monte Carlo" could prove that these speculative benefits

⁷³ Tr. XII at 2907-2908.

⁷⁴ AEP-Ohio Initial Brief at 51; *Ohio Power ESP III* (Company Ex. 32 (Rebuttal Testimony of William A. Allen) at Exhibit WAA-R2) (Jun. 20, 2014) ("Allen Rebuttal").

⁷⁵ Tr. XIII at 3210 and 3214.

⁷⁶ Allen Direct Exhibit WAA-1. This exhibit, prepared by AEP-Ohio witness Allen, clearly shows that expenses are key component in the PPA rider calculation.

⁷⁷ Tr. XII at 2945.

⁷⁸ AEP-Ohio Initial Brief 48.

do, in fact, exist.⁷⁹ AEP-Ohio admits, however, that it did not perform this “more sophisticated simulation.”⁸⁰ Therefore, there is no substantive evidence in the record to support the AEP-Ohio’s “extreme weather” claim.

AEP-Ohio repeatedly mentions “long-term rate stability” and the “long-term benefits” of the PPA rider. AEP-Ohio points to these “long-term benefits” of the “expanded PPA” when it helps its case, but also claims the PPA rider only relates to OVEC and this particular ESP. The fact is that nothing would prevent AEP-Ohio from abandoning the whole PPA rider concept at the end of the three-year ESP term or *even early* if AEP-Ohio’s early termination clause is granted. There is nothing in the ESP statute or AEP-Ohio’s application that gives the Commission the power to order AEP-Ohio to continue the PPA rider for the “long-term.” Whether or not AEP-Ohio delivers these “long-term benefits” to customers is within AEP-Ohio’s sole discretion.

iv. Ohio Energy Group’s attempt to support the PPA rider seriously hurts AEP-Ohio’s case.

AEP-Ohio relies on Ohio Energy Group (“OEG”) witness Taylor to help sell the PPA rider.⁸¹ Mr. Taylor is the only non-Company witness that testified in support the PPA rider. Ironically, Mr. Taylor’s testimony may be the best evidence that the PPA rider is a bad idea. After espousing all the benefits of the PPA rider, Mr. Taylor requests

⁷⁹ AEP-Ohio Initial Brief 49.

⁸⁰ AEP-Ohio Initial Brief 49.

⁸¹ AEP-Ohio Initial Brief at 26, 28, 32, 45, 53, and 69.

that “any customer with more than 10 MW of load per single site” be allowed to opt out of the PPA rider. This special opt-out appears to be aimed at OEG’s clients. OEG supports the PPA rider only if its customers can avoid paying PPA rider. The Commission should be very skeptical of OEG’s conditional support for the PPA rider.

Another reason the Commission should question OEG witness Taylor’s testimony is his misunderstanding of the Commission’s authority to regulate PPA rider costs. Mr. Taylor incorrectly assumed that the Commission would be able to review PPA rider costs for prudence, and thought the Commission would have the authority to disallow PPA rider costs.⁸² AEP-Ohio witness Vegas testified that the Commission would *not* have authority to disallow PPA rider cost, and testified that the Commission must file a complaint at FERC to challenge PPA rider costs.⁸³ One must wonder if Mr. Taylor would have been as enthusiastic about the PPA rider if he knew the Commission would have no authority to regulate the PPA rider.

v. Assuming the Commission likes the PPA concept, AEP-Ohio’s proposed PPA rider is not the appropriate way to ensure rate stability for customers.

Even if the Commission likes the general PPA concept, there is no way to determine if AEP-Ohio’s proposal is the best option for customers. The Commission should have the ability to compare different options, but the Commission will not have

⁸² Tr. Vol. XI at 2562.

⁸³ Tr. Vol. I at 33, and 154-155.

this ability because AEP-Ohio is not proposing any request for proposal (“RFP”) or competitive bidding process.

AEP-Ohio witness McDermott’s testimony shows the danger of adopting the PPA rider without implementing some form of auction or RFP process. Mr. McDermott admits that the Commission could issue an RFP or hold an auction instead of adopting the PPA rider if the Commission is concerned about price stability.⁸⁴ If the Commission established an auction or RFP process, it would be able to establish a base price (or “strike price”) that customers will pay in generation-related cost.⁸⁵ Mr. McDermott admits that the Commission would know the strike price from the outset if it holds an auction.⁸⁶ This construct would be superior to the PPA rider. AEP-Ohio witness McDermott admits that the strike price for the OVEC units is unknown, and that the price that customers will ultimately pay is based upon a variety of dynamic factors.⁸⁷ In essence, because of all these unknown factors, the Commission would be entering into this “one-time, up front,” long-term commitment blindly.

There is one way (besides denying the PPA rider) that can help alleviate this problem: require AEP-Ohio to implement an RFP process. Other jurisdictions that have

⁸⁴ Tr. Vol. XIII at 3093.

⁸⁵ Tr. Vol. XIII at 3089.

⁸⁶ Tr. Vol. XIII at 3094.

⁸⁷ Tr. Vol. XIII at 3089, and 3093-3094

approved PPAs required the issuance of RFPs to ensure that the PPAs were beneficial for customers. AEP-Ohio witness McDermott testified regarding some of these other jurisdictions. The Department of Public Utilities for Connecticut requires an RFP process for PPAs,⁸⁸ and also requires a finding that the transaction will benefit ratepayers.⁸⁹ The Delaware Public Service Commission required a finding of long-term benefits for customers as a result of the PPA.⁹⁰ It also required an ongoing process of reviewing costs to determine if bad faith, waste, abuse of discretion, or a violation of law exist.⁹¹ The Maine Public Utilities Commission also held an RFP process when considering wind production PPAs.⁹² Mr. McDermott acknowledged that Massachusetts' required a RFP process, as well.⁹³

An auction or RFP process would allow the Commission to make an informed decision about the value of a particular PPA proposal. AEP-Ohio's PPA rider proposal does not do this. It leaves the Commission in the dark regarding the costs customers will ultimately bear, and provides the Commission no way of assessing the true value of AEP-Ohio's proposal.

⁸⁸ Tr. Vol. XIII at 3135.

⁸⁹ Tr. Vol. XIII at 3139.

⁹⁰ Tr. Vol. XIII at 3135.

⁹¹ Tr. Vol. XIII at 3135.

⁹² Tr. Vol. XIII at 3189.

⁹³ Tr. Vol. XIII at 3191.

c. AEP-Ohio's other PPA arguments are not relevant.

In its initial brief, AEP-Ohio raises a number of other arguments that are largely irrelevant. For example, AEP-Ohio discusses reform at PJM, and then states that this reform might cost money.⁹⁴ Even if AEP-Ohio is correct, this is irrelevant. AEP-Ohio's frustration with reform at PJM or FERC has nothing to do with whether the PPA rider is either lawful or effective. AEP-Ohio also discusses various activities taking place before it moved to a fully competitive market, such as its purchase of Monongahela Power Company.⁹⁵ This is irrelevant because AEP-Ohio will become a "wires only" company in June of 2015, and there will no longer be any legal justification for AEP-Ohio's recovery of generation-related costs for units that are not committed to AEP-Ohio's customers.

AEP-Ohio also argues that "EDUs remain responsible for the provision of SSO."⁹⁶ No one disputes this point. R.C. 4928.141 requires an EDU to provide an SSO for default customers, "including a firm supply of electric generation service." AEP-Ohio's SSO is procured completely through an auction. The PPA is an "insurance product" that has nothing to do with providing generation service to SSO customers. This is why the PPA is not only unnecessary, but contrary to Ohio law.

⁹⁴ AEP-Ohio Initial Brief at 64-66.

⁹⁵ AEP-Ohio Initial Brief at 36-38.

⁹⁶ AEP-Ohio Initial Brief at 41.

AEP-Ohio makes other arguments regarding the PPA rider that Staff disagrees with, but these arguments have either been addressed in Staff's initial brief or simply do not warrant a response.

2. Sustained and Skilled Workforce Rider ("SSWR")

As noted in its initial brief, Staff opposes approval of the proposed Sustained and Skilled Workforce Rider ("SSWR"). The intervenors who commented on the SSWR⁹⁷ also opposed it, preferring to see any increases for recovery of incremental operations and maintenance ("O&M") labor costs occur in the context of a rate case. Staff supports those arguments.

AEP-Ohio stated that "because [Staff] did not raise any concerns with the underlying idea of the cost recovery itself, the Commission should approve the SSWR as proposed."⁹⁸ But additional concerns were raised by other intervenors that were not addressed by AEP-Ohio. As Staff noted in its initial Post-Hearing Brief, OCC witness Effron testified that the retirement of employees elsewhere in the Company could offset costs incurred by the addition of these new employees, and may well not increase either the total employee complement or actual labor expense.⁹⁹ Mr. Effron also testified that

⁹⁷ Office of the Ohio Consumer's Counsel ("OCC") Initial Brief at 101-109, Ohio Manufacturer's Association Energy Group Initial Brief at 18-19, Ohio Partners for Affordable Energy ("OPAE") Initial Brief at 37.

⁹⁸ AEP-Ohio Initial Brief at 100.

⁹⁹ *Ohio Power ESP III*, OCC Ex. 18 (Pre-filed Direct Testimony of David J. Effron) at 22) (May 6, 2014) ("Effron Direct").

the SSWR does not meet any of the requirements that the Commission has relied on in the past to determine if a cost should be recovered in a rider, including the magnitude and volatility of the costs, or the extent to which such costs are within the control of AEP-Ohio.¹⁰⁰ He further testified that collecting the costs of new employees through the SSWR could create an incentive for AEP Ohio to add employees rather than to use less costly alternatives.¹⁰¹

The fact that a cost could be recovered through a rider approved as part of an ESP does not necessarily mean that such a rider should be approved. AEP-Ohio has failed to demonstrate that the SSWR will, as claimed, “ensure safe and efficient operations for years to come.”¹⁰² All that the SSWR will truly ensure is that ratepayers will pay more for costs that could and should be examined and approved as part of a base rate case.

3. Purchase of Receivable Program –Bad Debt Rider

When addressing its proposed purchase of receivables (“POR”) program in its initial brief, AEP-Ohio discusses the importance of consistency.¹⁰³ Staff agrees that consistency is one important goal for the Commission. For example, Staff believes AEP-Ohio, like Duke Energy Ohio, Inc. (“Duke”), should implement a discount rate before

¹⁰⁰ Effron Direct at 4.

¹⁰¹ *Id.* at 21.

¹⁰² AEP-Ohio Initial Brief at 100.

¹⁰³ AEP-Ohio Initial Brief at 126-130.

implementing a bad debt rider.¹⁰⁴ Duke is the only EDU with a POR program that is combined with a bad debt rider. Duke had a discount rate for years before it implemented a zero discount rate and established its generation-related bad debt rider. AEP-Ohio admits this in its initial brief.¹⁰⁵ Staff witness Donlon testified that starting a POR program with a discount rate ensures that “accurate data is collected to properly determine the risk and potential impact CRES suppliers’ uncollectible charges will have on the Company’s bad debt expense.”¹⁰⁶ Staff witness Donlon testified that Duke has a better understanding of its collection practices and the potential risks of bad debt expense because of Duke’s previous experience with a discount rate.¹⁰⁷

Although Staff believes consistency is important, Staff has always maintained that POR programs should be evaluated on a case-by-case basis. In the Retail Market Investigation, Staff recommended that the Commission order all EDUs that did not have POR programs to file applications to implement POR programs.¹⁰⁸ When making this recommendation, Staff specifically mentioned that each “territory is unique” and recommend that “each individual application be evaluated by the Commission on its

¹⁰⁴ *Ohio Power ESP III* (Staff Ex. 14 (Prefiled Direct Testimony of Patrick Donlon) at 5-6) (May 20, 2014) (“Donlon Direct”).

¹⁰⁵ AEP-Ohio Initial Brief at 126.

¹⁰⁶ Donlon Direct at 7.

¹⁰⁷ Tr. Vol. IX at 2173-2176.

¹⁰⁸ *In the Matter of the Commission’s Investigation of Ohio’s Retail Electric Service*, Case 12-3151-EL-COI (“Market Development Work Plan at 17”)(January 16, 2014).

individual merits.”¹⁰⁹ There is nothing unusual about Staff making different recommendations regarding EDUs when there are differences between the EDUs.

One reason Staff believes AEP-Ohio’s POR proposal should be treated differently from Duke’s current POR program is because of the unresolved issue regarding AEP-Ohio’s collection practices. Staff witness Bossart testified that the credit and collection practices of Duke were considered in Case No. 08-1229-GA-COI.¹¹⁰ Although this audit involved gas utilities, Staff was provided Duke’s collection practices for both gas and electric because Duke is combination utility.¹¹¹ Staff witness Bossart testified that Duke, the only EDU with a POR program combined with a bad debt rider, uses benchmarks and criteria in its collection practices.¹¹² Staff asked AEP-Ohio if it had similar benchmarks or criteria. AEP-Ohio witness Moore testified that AEP-Ohio does not have these kind of benchmarks.¹¹³

AEP-Ohio makes a few different arguments to distract from the fact that it does not have (or will not provide) the information Staff asked for. First, AEP-Ohio argues that Staff will be unable to properly evaluate AEP-Ohio’s benchmarks because Staff has

¹⁰⁹ Market Development Work Plan at 17.

¹¹⁰ *In the Matter of the Five-Year Review of Natural Gas Company Uncollectible Riders*, 08-1229-GA-COI (Audit Report)(May 3, 2010).

¹¹¹ Tr. VIII at 1901-1902.

¹¹² Tr. Vol. VIII at 1905.

¹¹³ Tr. IV at 1120.

not developed its own standard benchmarks.¹¹⁴ This argument irrelevant. Staff never intended to compare AEP-Ohio's benchmarks (if any exist) to standardized, Staff-created benchmarks. Staff's goal was much simpler than that. Staff wants to (1) ensure that AEP-Ohio has collection benchmarks in place and (2) learn more about those benchmarks. Unfortunately, Staff was unable to meet these goals because AEP-Ohio did not provide the requested information.

AEP-Ohio also claims it is being held to a different standard than other EDUs, and criticizes Staff for not evaluating DP&L's and FirstEnergy's collection practices before making a recommendation in this case.¹¹⁵ This is another red herring. Neither DP&L nor FirstEnergy have POR programs connected to bad debt riders. In addition, Staff is being consistent by asking AEP-Ohio to develop benchmarks like Duke, the only EDU with a POR program combined with a bad debt rider. AEP-Ohio may discount Staff's concerns about ensuring collection benchmarks are implemented, but Staff's concerns about increasing uncollectible expenses are not unfounded. In 2013, AEP-Ohio's uncollectable expense exceeded the amount it recovers in base distribution rates.¹¹⁶ If AEP-Ohio's POR proposal is adopted, AEP-Ohio will incur additional uncollectible expenses that will ultimately be paid for by customers.

¹¹⁴ AEP-Ohio Initial Brief at 130 and 132.

¹¹⁵ AEP-Ohio Initial Brief at 131.

¹¹⁶ Staff Initial Brief at 39. Tr. IV at 1108.

Staff is surprised that asking AEP-Ohio for benchmarks is such a controversial issue. Regardless, Staff maintains that benchmarks for AEP-Ohio's collection practices are necessary to protect customers if a bad debt rider is implemented in connection with AEP-Ohio's POR program. Staff requests that the Commission order AEP-Ohio to work with Staff regarding the Company's use of benchmarks in its collection practices before fully implementing the POR program.

4. Distribution Investment Rider ("DIR")

As noted in its initial Post-Hearing Brief, Staff generally supports continuation of the Distribution Investment Rider ("DIR") as approved in AEP-Ohio's prior SSO case. Among the intervenors, only the Ohio Manufacturers' Association Energy Group appears to share this view.¹¹⁷ The remaining intervenors who commented on the DIR¹¹⁸ generally oppose its continuation, preferring to see any increases for recovery of distribution investments occur in the context of a rate case. The criticisms focused largely on the lack of quantifiable system improvement, and the failure to account for the cost at which consumers are no longer willing to pay to have their expectations met by AEP-Ohio.

The Commission has repeatedly emphasized the need for the AEP-Ohio to quantify actual reliability improvements achieved as a result of implementation of its DIR plans. As Staff has already noted, the Commission was critical of the AEP-Ohio's 2013

¹¹⁷ Ohio Manufacturer's Association Energy Group Initial Brief at 6-11.

¹¹⁸ Kroger Initial Brief at 4-6, OCC Initial Brief at 80-90, and OPAE Initial Brief at 32-39.

DIR because it did “not quantify, for many of the components, the reliability improvements that are expected to occur through the DIR investments.”¹¹⁹ AEP-Ohio downplays the importance of quantification, noting that it “has a role in the DIR effort but it is not the underlying goal of infrastructure investment.”¹²⁰ The goal is for the Company to move from a reactive to a more proactive replacement maintenance program.¹²¹ No-one is arguing that the Company should be “waiting for equipment to fail and detrimentally impact customer service.”¹²² Maintaining and improving the distribution system is an expectation. Doing so only in response to failure is not acceptable.

But the lack of quantification is troubling, even to Staff. As Staff made clear in its Comments on AEP-Ohio’s 2013 Work Plan:

Staff expects the majority of programs listed in the DIR Work Plan to either maintain, improve, or have no impact on reliability in the localities where they are implemented. More broadly, Staff also expects that the combined impact of these programs will result in improved reliability performance across the Company’s entire service territory.¹²³

¹¹⁹ *In the Matter of the Commission’s review of Ohio Power Company’s Distribution Investment Rider Plan*, Case No. 12-3129-EL-UNC (Finding and Order at 10) (May 29, 2013) (“2013 DIR Plan Case”).

¹²⁰ AEP-Ohio Initial Brief at 80.

¹²¹ *Id.* at 47.

¹²² AEP-Ohio Initial Brief at 80.

¹²³ *2013 DIR Plan Case* (Staff Comments at 3) (Jan. 18, 2013).

The Commission order in that case echoed that concern, and the Commission should do so again in this proceeding. The Commission did not intend that the Company should run equipment to failure and interrupt customer service or delay restoration efforts just so the Company can report a metric. But it did intend, and indeed directed, that:

AEP Ohio . . . quantify actual reliability improvements achieved for any program that is expected to reduce the frequency and/or duration of outages. For any program that is expected to maintain reliability, AEP Ohio is directed to quantify the outages avoided by implementation of the DIR plan . . . ¹²⁴

AEP-Ohio did provide a reliability improvement quantification for applicable DIR programs in the context of Case No. 14-255-EL-RDR, and Staff summarized that performance in its Comments for that case. Nevertheless, the Commission should reaffirm its directive for the Company to file such quantification annually if the DIR is approved in any form in this proceeding.

While Staff agrees with the intervenors that improvement quantification is and should be a critical expectation of the accelerated recovery that the DIR provides, it concurs with the Company that the Company's efforts have been in alignment with those of its customers.¹²⁵ Consequently, Staff, with the changes that it has recommended, has recommended that the DIR mechanism be continued.

¹²⁴ 2013 DIR Plan Case (Finding and Order at 12) (May 29, 2013).

¹²⁵ Staff must, however, take issue with the Company's characterization that Staff agrees with the Company's *present* proposal. AEP-Ohio Initial Brief at 78. Staff witness Baker's testimony related to the Company's performance over the past three years, and did not address its *present* proposal. That proposal includes a number of aspects (the inclusion of General Plant, for example) that Staff has specifically opposed in this case.

a. General Plant accounts should not be included in the DIR.

All of the intervenors who commented on the DIR opposed the proposed inclusion of General Plant. As a general matter, and as Staff has already noted, such recovery is neither consistent with the intent of the ESP statute, nor the Commission's directives with respect to the DIR.

AEP-Ohio relies in particular upon its desire to replace its mobile radio system as the justification for the inclusion of the General Plant Account in the DIR. However, according to the Company's application the mobile radio system was not projected to begin replacement until 2017 with potential completion in 2018.¹²⁶ Upon cross examination, AEP-Ohio witness Dias testified that if the General Plant Account were included in the DIR, AEP-Ohio would accelerate the replacement of the mobile radio system to 2015.¹²⁷ If the Company's internal decision-making determined that the business case justified beginning of the replacement in 2017, it is inappropriate to accelerate replacement simply because AEP-Ohio has obtained a cost plus recovery mechanism. The existence of the DIR should not override normal business practices.

As the Company noted, Staff witness McCarter acknowledged that some General Plant projects could be properly includable in the DIR mechanism. In considering whether it would be possible to review such projects for inclusion in the DIR, Ms. McCarter stated that:

¹²⁶ *Ohio Power ESP III*, Company Ex. 4 (Pre-filed Direct Testimony of Selwyn J. Dias at 19) (Dec. 20, 2013) ("Dias Direct").

¹²⁷ Tr. II at 351.

Something that has been fully reviewed by staff for the same reason that the general plant in SmartGrid Phase 1 I'm okay with because I know that the staff has fully audited the costs and the purposes for which the investment was made.¹²⁸

While Staff's position is not a complete prohibition on including General Plant, the fact remains that Staff cannot recommend increasing the DIR to include General Plant in this case based on the record before the Commission. Ms. McCarter clearly testified that she did not know that anything could resolve Staff's concern with General Plant overall,¹²⁹ and that there was nothing that would, in her opinion, justify approval of the Company's proposal in this case.¹³⁰

Staff respectfully requests that the Commission reaffirm its directive that "AEP Ohio's DIR spending should be focused on those components that will *best* improve or maintain reliability."¹³¹ Quite simply, General Plant, based on the record before the Commission, does not satisfy that criteria. In general, assets recorded in the General Plant accounts are more appropriately considered for recovery in a distribution rate case. Expenses to be recovered in the DIR should be directly related to maintaining reliability of distribution service.¹³² The costs of investing in merely "supportive" facilities should be excluded from the DIR.

¹²⁸ Tr. IX at 2295.

¹²⁹ *Id.*

¹³⁰ Tr. IX at 2294.

¹³¹ *2013 DIR Plan Case* (Finding and Order at 12) (May 29, 2013). (Emphasis added).

¹³² McCarter Direct at 3.

b. Gross-Up Factor

The Company argues that its proposed carrying charge Gross-Up Factor, including recovery of AEP-Ohio's obligation to fund a portion of the PUCO and OCC budgets is appropriate to "ensure that there is no shortfall."¹³³ Staff has already demonstrated that there are only two scenarios where AEP-Ohio could experience such a shortfall: (1) if its revenues increased disproportionately to the revenues of all of the other regulated public utilities operating in Ohio, and (2) an increase in the PUCO and/or OCC budgets. AEP-Ohio has simply failed to demonstrate that revenues would increase so disproportionately as to justify this change in the Gross-Up factor. Permitting the Company to include PUCO and OCC budget assessments in the Gross-Up Factor increasing rider revenues is inappropriate.

c. Adjustments should be made to the property tax rate and the net plant to which it is applied.

Staff supported the testimony of OCC witness Effron with respect to adjusting the carrying cost rate. The Company criticized both Mr. Effron and Staff witness McCarter for failing to review the underlying data or to take into account all parts of the equation. The criticism was predicated on the possibility, among other factors, that the property tax rate may have gone up since the carrying charge rate was set.

But the record is devoid of any such evidence, nor were any adjustments to account for such changes proposed by the Company either in its Application or in

¹³³

Staff Initial Brief at 83.

rebuttal. Consequently, OCC witness Effron’s adjustment remains the only record-supported adjustment that should be made to the property tax rate.

5. Storm Damage Recovery Rider (“SDRR”)

Staff generally supports both the continuation of the Storm Damage Recovery Rider (“SDRR”) and the modifications, with notable exceptions, proposed by the Company.¹³⁴ Specifically, Staff proposed that: (1) carrying charges should be based on the most recently approved long-term cost of debt rather than a weighted average cost of Capital (“WACC”), (2) only incremental labor costs should be recoverable through the rider, and (3) the Company should be required to demonstrate that all of its incremental storm damage costs were prudently incurred and reasonable, and that revenues received for such costs are incremental and not already recovered through base rates. The Company takes issue with each of Staff’s recommendations.

a. Carrying Charges

Staff submits that a carrying charge based on the most recently approved cost of long-term debt should be applied to any difference between the total major storm cost and the \$5 million baseline at the end of the previous calendar year.

The Company argues that the carrying charge should be based on WACC,

¹³⁴

Staff Initial Brief at 57.

claiming that this rate is more appropriate for riders that take more than twelve months to collect.¹³⁵ But the expectation is that the SDRR will be a yearly rider, recoverable in one year.¹³⁶ While the previous rider was the result of an approved stipulation, Staff notes that the Commission found that carrying charges be calculated at the long-term cost of debt rate.¹³⁷ Consequently, this argument is unavailing.

Secondly, the Commission has historically granted use of WACC for carrying charges only in cases where a recovery for capital is included. As Staff noted in the case establishing the initial SDRR rate, WACC is typically used to determine carrying charges when a request includes capital expenditures.¹³⁸ Since the SDRR includes only O&M expenses, it is more appropriate to calculate carrying charges by using the long-term debt rate. Staff witness Liphtratt testified that it is more appropriate to use the cost of long-term debt than the WACC since there would be no capital costs included in the rider.¹³⁹ Since the recovery of a return of and on capital is not at issue, a long-term debt rate should apply, and not a WACC rate.

¹³⁵ AEP-Ohio Initial Brief at 91.

¹³⁶ *In the Matter of the Application of Ohio Power Company to Establish Initial Storm Damage Recovery Rider Rates*, Case No. 12-3255-EL-RDR (“2012 SDRR Case”) (Opinion and Order at 5, 7) (April 2, 2014).

¹³⁷ *Id.* at 15.

¹³⁸ 2012 SDRR Case, Staff Memorandum in Response to the Ohio Power Company’s Motion to Record a Carrying Cost (September 6, 2013) at 2.

¹³⁹ Tr. VII at 1690.

b. Types of Recoverable Charges and Incremental Labor

Staff's underlying position is that the Company should be entitled to recover all of its prudently incurred incremental expenses. Allowing recovery of expenses already recovered through base rates would be a double recovery, and inappropriate.

It is indisputable that the first 40 hours of an employee's normal wage is already included in base rates. Staff believes that no incremental labor is included in the first 40 hours of straight-time labor during a given week even with a storm restoration effort in effect. To the extent that any of these 40 hours are performed in storm restoration work, they are still included in base rates.¹⁴⁰ When rates are calculated in a base rate case, Staff determines the number of employees that typically work in a week and multiplies it by 40 hours and the wage rates to arrive to an amount of labor to be included in base rates. Therefore, the straight-time pay of the first 40 hours in a week for union employees is already included in base rates.

The Company argues that this is a strictly accounting distinction, and ignores the realities of long hours and harsh conditions during storm restoration. Staff understands the extreme conditions and long hours that the Company's employees may have to endure. Staff further understands the Company and union policies for paying employees for these efforts. But there still must be reasonableness in determining what customers should pay, and the Company still must ensure that no double recovery occurs.

¹⁴⁰ Staff recognizes that overtime employed for storm restoration beyond the first 40 hours is incremental and would be appropriate for recovery in the storm rider.

This recommendation is consistent with Staff testimony in the *ESP II Case* establishing the \$5 million threshold. There, Staff witness Hecker testified that Staff had determined that the base line should be reduced to eliminate labor costs incurred that were not incremental and “would have been incurred anyway.”¹⁴¹ All Staff is asking is that the Commission exclude the first 40 hours of straight-time labor hours from recovery through the SDRR unless the Company can demonstrate that such costs are truly incremental and not already recovered in base rates.

c. Mutual Assistance Revenues

The cost responsibility for providing employees and equipment to another utility are and should be borne by the receiving utility, and should not be recovered in the SDRR. But the Company should not be entitled to retain all of revenues received from other utilities for mutual assistance rendered. Such revenues should be reviewed to determine if they should be applied as an offset to SDRR recoveries.

As noted above, the first 40 hours of straight-time labor used in providing mutual assistance to peer utilities has already been charged to and recovered from ratepayers through base rates. The reimbursement of these straight-time labor hours, which the Company reports as revenues, is a double recovery and should be offset or credited against the Company’s SDRR recoveries.

The Company argues that the expenses and revenues associated with providing

¹⁴¹ *ESP II Case* (Direct Testimony of Jeffrey Hecker at 3) (August 4, 2011).

mutual assistance to peer utilities in emergencies are not included in base rates, but rather are included in Account 186. Regardless of how mutual assistance revenues and expenses are reported for financial reporting reasons using Account 186, for rate making purposes, the employee count and regular hours of these employees assigned to mutual assistance were used to develop current base rates. When an AEP-Ohio employee works on storm repair for another utility (mutual assistance), their first 40 hours of straight-time is included in base rates, but is subsequently reported for financial reporting purposes in Account 186, which is a Miscellaneous Deferred Debits account. The reporting of the expenses to Account 186 is used in similar fashion to an Accounts Receivable account where the Company reports the expenses it incurred in providing mutual assistance until the host utility provides reimbursement of those expenses. The mere recording of the first 40 hours of straight time in Account 186 for financial reporting purposes do not negate the fact that those 40 hours are already recovered in base rates. Consequently, revenues received from the host utility for these hours may constitute a double recovery and, if so, should be offset against the SDRR.

The Company should bear the burden of proof to demonstrate that all of its incremental storm damage costs were prudently incurred and reasonable. The Company should also bear the burden of proof of demonstrating that the revenues received were incremental – that is, not already recovered through base rates.

6. Enhanced System Reliability Rider (“ESRR”)

AEP-Ohio notes in its initial brief that Staff did not perform a quantification or calculation to develop its position on the ESRR.¹⁴² This is true. Instead, Staff analyzed and compared two calculation methodologies that the Company presented. Based on this analysis, Staff found that the methodology that yielded the \$18 million estimate was more robust and accurate. This is because Staff believes it is more accurate and appropriate to estimate O&M costs for the ESRR using a broad set of factors (including AEP’s system-wide historical trim costs, inflation of material and labor, the volume of forestry work, the type of vegetation scheduled for clearing, the amount of “hotspotting” required, and the growth rates that impact vegetation during any given year) rather than using the costs of a special, inherently more expensive, catch-up project and reducing that amount by an inaccurate percentage amount (30%).¹⁴³ Therefore, Staff recommends that the Commission reject the Company’s proposed ESRR increase from \$18 million to \$25

¹⁴² AEP-Ohio Initial Brief at 85-86.

¹⁴³ Baker Direct at 8, 10. Interestingly, in its Initial Brief, the Company chooses to invalidate Staff’s position in this case by pointing out that Staff was unaware in making its recommendation in testimony that the 30% reduction was based on an experience of one of the Company’s affiliates in Oklahoma. This is interesting because, prior to Staff filing testimony, Staff sent data requests to the Company asking how the 30% reduction was calculated and the Company never made Staff aware of the experience of its Oklahoma affiliate in any of its responses. Consequently, the first time Staff heard this information was at hearing. Regardless, as stated in its Initial Brief, Staff believes the 30% reduction amount is inappropriate because the Company has not presented any evidence that Oklahoma’s tree-trimming activities are comparable to Ohio’s and AEP-Ohio has the burden to prove its case.

million and instead order that AEP-Ohio's O&M recovery in the ESRR remain at \$18 million.

7. Stand-by Service

The Company's Initial Brief creates a cloud of confusion regarding the Company's position on Stand-by Service. Therefore, in reply, Staff will first describe the confusion surrounding AEP-Ohio's position on Stand-by Service and then present Staff's position on the issue.

In its Application, AEP-Ohio stated it is "proposing to eliminate...Schedule Stand-by Service (SBS)" and that it "can no longer administer the SBS option."¹⁴⁴ The Company explained that "Schedule Stand-by Service is being eliminated because AEP Ohio's distribution charges will be the same for the general service schedule and the Schedule Standby Service, and AEP-Ohio, as a wires company, should no longer provide generation related backup and maintenance services."¹⁴⁵ Staff reasonably interpreted this language to mean that the Company was proposing to eliminate Stand-By Service.

After AEP-Ohio filed its Application, during informal conversations with Staff, AEP-Ohio indicated that it intended to continue Stand-by Service, but that Stand-by Service customers would pay for their Stand-by Service under the SSO rate instead of the Stand-by Service tariff. In response to this new information, Staff had a conversation

¹⁴⁴ *Ohio Power ESP III*, Company Ex. 13 (Prefiled Direct Testimony of Andrea E. Moore) (Dec. 20, 2013) ("Moore Direct") at 9-10.

¹⁴⁵ Spitznogle Direct at 12.

with the Company on May 14, 2014 to clarify the Company's position and sent a data request to the Company to memorialize that conversation in writing.¹⁴⁶ In that data request, Staff witness Schaefer asked the Company to "confirm that the company will be providing generation-related backup and planned maintenance services through the applicable SSO rates."¹⁴⁷ The Company responded,

Confirmed. The Company will procure generation supply through the auctions. The auction winners will provide generation service. The Company's proposed tariffs no longer make a distinction between standard service, supplemental service or backup and maintenance service. As such a non-shopping customer will take service under the appropriate standard tariff and will pay the applicable SSO rates, Riders GENE, GENC and the ACCR, for each kWh of usage, whether used for backup, maintenance or supplemental service.¹⁴⁸

AEP-Ohio witness Roush adopted this data request response in his testimony.¹⁴⁹

At that point, Staff thought it was clear that the Company intended to continue to provide generation-related backup and planned maintenance services. However, in its Initial Brief, AEP-Ohio again muddied the waters by stating the Commission "should approve AEP-Ohio's proposals to eliminate Schedule Stand-by Service (SBS)" and "it is appropriate that AEP Ohio, as a wires company, no longer provide generation-related backup and maintenance services."¹⁵⁰

¹⁴⁶ *Ohio Power ESP III*, Staff Ex. 1 (PUCO-Staff Schaefer Company Data Request - 23-001).

¹⁴⁷ *Id.*

¹⁴⁸ *Id.*

¹⁴⁹ Tr. Vol. III at 980-981.

¹⁵⁰ AEP-Ohio Initial Brief at 70.

At this point, Staff is uncertain as to what the Company would like the Commission to approve.¹⁵¹ Staff's position, however, remains firm. Staff believes that the Company must offer generation-related stand-by services to partial-service customers at least as long as the SSO is in place, that the Company must have a Stand-by Service tariff, and that the tariff must reference the applicable riders for generation-related services (GENE, GENC, ACCR), along with the appropriate tariffs for distribution service.

R.C. 4928.141 states, "an electric distribution utility shall provide consumers, on a comparable and nondiscriminatory basis within its certified territory, a standard service offer of all competitive retail electric services necessary to maintain essential electric service to consumers, including a firm supply of electric generation service." In addition, R.C. 4928.14 states, "the failure of a supplier to provide retail electric generation service to customers within the certified territory of an electric distribution utility shall result in the supplier's customers, after reasonable notice, defaulting to the utility's standard service offer under sections 4928.141, 4928.142, and 4928.143 of the Revised Code until the customer chooses an alternative supplier." Thus, Staff believes that AEP-Ohio's attempt to stop providing certain components of electric generation, explicitly backup and maintenance services, is contrary to Ohio law.

¹⁵¹ Given that the Company has the burden of proof in this case it is hard to imagine the Company has met its burden given that it is virtually impossible to ascertain what the Company is asking approval for.

The Company has agreed with Staff's position that it must continue to offer Stand-by Service. In Case No. 12-2051-EL-ORD, the Commission asked whether it made sense for EDUs to offer a standby tariff for generation-related services, given the regulatory environment in Ohio.¹⁵² The Company responded, "it does make sense for Ohio EDUs to offer a standby tariff for generation-related services as long as Ohio EDUs are required to offer SSO generation service."¹⁵³

In addition, R.C. 4928.02(K) encourages the "implementation of distributed generation across customer classes through regular review and updating of administrative rules governing critical issues such as... standby charges." Staff believes that it would be inconsistent with Ohio's energy policy to allow AEP-Ohio to discontinue Stand-by Service.

Finally, given the potential confusion for partial-service customers, Staff believes that the Stand-By Service tariff should be maintained and reference the applicable riders for generation-related services (GENE, GENC, ACCR), along with the appropriate tariffs for distribution service. This will make it easier for customers to understand how backup and planned maintenance charges will be calculated and ensure that customers are aware that the services are offered through the SSO. Therefore, the Commission should order

¹⁵² *In the Matter of the Commission's Review of Chapter 4901:1-22, Ohio Administrative Code, Regarding Interconnection Services*, Case No. 12-2051-EL-ORD, (Entry at 6) (Jan. 16, 2013).

¹⁵³ *In the Matter of the Commission's Review of Chapter 4901:1-22, Ohio Administrative Code, Regarding Interconnection Services*, Case No. 12-2051-EL-ORD, (Initial Supplemental Comments of Ohio Power Company at 6) (Jan. 31, 2013).

the Company to continue to offer Stand-by Service and to maintain a Stand-by Service tariff that references the applicable riders.

8. AEP-Ohio's Auction Schedule

AEP-Ohio claims that “there is no evidence beyond [OCC witness Kahal’s and Staff witness Strom’s] conjecture, that rate volatility will be increased materially by the Company’s laddering proposal.”¹⁵⁴ AEP-Ohio misses the point of Staff’s recommendation. Staff never claimed that rate volatility will necessarily increase due to AEP-Ohio’s proposed SSO auction schedule. Staff’s primary concern was that AEP-Ohio’s proposal, which completely terminates auction products twice within a three-year period, exposes SSO customers to potential rate volatility if energy prices change substantially during the term of the ESP.¹⁵⁵ AEP-Ohio allegedly shares Staff’s concerns about potential rate volatility. AEP-Ohio’s entire PPA rider case hinges on the argument that the energy and capacity markets are volatile, and that steps must be taken to mitigate the potential volatility. To address concerns about potential market volatility, AEP-Ohio should increase the laddering of its auction products. More laddering means less exposure to price volatility. This is not conjecture. It is a fact that AEP-Ohio’s own witness acknowledged.¹⁵⁶

¹⁵⁴ AEP-Ohio Initial Brief at 12.

¹⁵⁵ *Ohio Power ESP III* (Staff Ex. 16 (Prefiled Direct Testimony of Raymond W. Strom) at 2-3) (May 20, 2014) (“Strom Direct”); Staff Initial Brief at 63-65.

¹⁵⁶ *Ohio Power ESP III* (Company Ex. 32 (Rebuttal Testimony of William A. Allen) at 2-3) (Jun. 20, 2014) (“Allen Rebuttal”).

The real question is how to fix AEP-Ohio's auction schedule to reduce customers' exposure to potential rate volatility. AEP-Ohio's primary concern appears to be Staff witness Strom's proposal for a five-year ESP term.¹⁵⁷ AEP-Ohio does not criticize any of Staff witness Strom's other recommendations in its initial brief. Staff explained in its initial brief that the five-year ESP term is just one of many ways the Commission could repair AEP-Ohio's proposal.¹⁵⁸ Whichever option the Commission chooses, Staff's ultimate concern is reducing customers' exposure to potential rate volatility.

9. AEP-Ohio Load Zone

Staff agrees it is appropriate for AEP-Ohio to analyze the benefits and costs of petitioning PJM to change AEP-Ohio's auction delivery point. However, given that switching to an AEP-Ohio Load Zone would reduce prices for customers and improve the auction process, Staff believes it is appropriate for the Commission to require the Company to complete such a study within a specified time frame. Specifically, the Commission should order the Company to complete the study prior to the independent auction administrator's dissemination of bidder information materials for the first auction in which the AEP-Ohio load zone is used as the auction delivery point. Also, the Commission should order the Company to share the assumptions and results of the study with Staff.

¹⁵⁷ AEP-Ohio Initial Brief at 11-14.

¹⁵⁸ Staff Initial Brief at 63-65.

10. ESP Versus MRO Test

The Company has proposed an ESP to fulfill its obligation to provide a SSO under R.C. 4928.141. The Company submits that its modified ESP will have the effect of stabilizing and providing certainty regarding retail electric service and is “more favorable in the aggregate as compared to the expected results that would otherwise apply under section 4928.142 of the Revised Code.”

While a number of intervenors offered arguments on whether the Company’s proposed ESP satisfied this statutory test, the Staff did not do so. Staff does have an opinion on the issue. Specifically, Staff witness Turkenton testified that when all provisions of the ESP application are considered, she believed that the ESP, with Staff’s recommended modifications, was more favorable in the aggregate than an MRO application would be.¹⁵⁹ She based her opinion on the fact that, beginning June 1, 2015, SSO generation rates will be 100% market-based rates, and there would be no difference between market-based generation rates under a MRO or ESP filing. She also considered qualitative benefits that result from the ESP application, including a base distribution rate freeze through May 31, 2018, continued needed investments in its distribution system using the Distribution Investment Rider (DIR) and Enhanced Service Reliability Rider (ESRR), and continuation of the Residential Distribution Credit Rider through May 31, 2018.¹⁶⁰

¹⁵⁹ *Ohio Power ESP III*, Staff Ex. 15 (Pre-filed Direct Testimony of Tammy S. Turkenton at 3) (May 20, 2014) (“Turkenton Direct”).

¹⁶⁰ *Id.* at 3-4.

Ms. Turkenton made it very clear that Staff's opinion was based on approval of the ESP *not* as proposed by the Company, but as *modified* by the Staff.¹⁶¹ Staff did not perform an analysis as to whether the ESP as proposed by the Company, without Staff's modifications, would pass the ESP v. MRO test,¹⁶² and offers no opinion on that question.

CONCLUSION

Staff recommends that the Commission approve AEP-Ohio's application, with the modifications recommended by Staff in its initial brief and this reply. Staff believes these modifications will result in an ESP that will benefit all parties involved.

¹⁶¹ Tr. IX at 2202.

¹⁶² Tr. IX at 2211 and 2225.

Respectfully submitted,

Michael DeWine
Ohio Attorney General

William L. Wright
Section Chief

/s/ Devin D. Parram

Devin D. Parram
Werner L. Margard
Katie L. Johnson
Assistant Attorneys General
Public Utilities Section
180 East Broad Street, 6th Floor
Columbus, OH 43215-3793
614.466.4397 (telephone)
614.644.8764 (fax)
devin.parram@puc.state.oh.us
katie.johnson@puc.state.oh.us
werner.margard@puc.state.oh.us

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Reply Brief** 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 15th day of August, 2014.

/s/ Devin D. Parram

Devin D. Parram

Assistant Attorney General

Parties of Record:

Steve T. Nourse
Matthew J. Satterwhite
American Electric Power Service Corp.
1 Riverside Plaza, 29th Floor
Columbus, OH 43215
stnourse@aep.com
mjsatterwhite@aep.com

Daniel R. Conway
Porter Wright Morris & Arthur
41 South High Street
Columbus, OH 43215-6194
dconway@porterwright.com

Kimberly W. Bojko
Rebecca L. Hussey
Mallory Mohler
Carpenter, Lipps & Leland
280 North High Street, Suite 1300
Columbus, OH 43215
bojko@carpenterlipps.com
hussey@carpenterlipps.com
mohler@carpenterlipps.com

Stephen M. Howard
Gretchen L. Petrucci
Vorys Sater Seymour & Pease
52 East Gay Street
Columbus, OH 43216
smhoward@vorys.com
glpetrucci@vorys.com

Mark A. Hayden
Jacob A. McDermott
Scott J. Casto
FirstEnergy Solutions Corp.
76 South Main Street
Akron, OH 44308
haydenm@firstenergycorp.com

Colleen L. Mooney
Ohio Partners for Affordable Energy
231 West Lima Street
Findlay, OH 45839
cmooney@ohio.partners.com

Elizabeth H. Watts
Duke Energy Ohio, Inc.
155 East Broad Street, 21st Floor
Columbus, OH 43215
elizabeth.watts@duke-energy.com

Maureen R. Grady
Joseph P. Serio
Edmund Berger
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street
Suite 1800
Columbus, OH 43215
grady@occ.state.oh.us
serio@occ.state.oh.us
berger@occ.state.oh.us

Thomas J. O'Brien
Dylan F. Borchers
Bricker & Eckler
100 South Third Street
Columbus, OH 43215-4291
tobrien@bricker.com
dborchers@bricker.com

Philip B. Sineneng
Stephanie M. Chmiel
Thompson Hine
41 South High Street, Suite 1700
Columbus, OH 43215-6101
philip.sineneng@thompsonhine.com
stephanie.chmiel@thompsonhine.com

Mark A. Whitt
Andrew J. Campbell
Gregory L. Williams
Whitt Sturtevant
88 East Broad Street, Suite 1590
Columbus, OH 43215
whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com

Judi L. Sobecki
Dayton Power & Light Company
1065 Woodman Drive
Dayton, OH 45432
judi.sobecki@dplinc.com

Rocco D'Ascenzo
Duke Energy Ohio, Inc.
139 East Fourth Street, 1303-Main
Cincinnati, OH 45202
rocco.dascenzo@duke.energy.com

Richard L. Sites
Ohio Hospital Association
155 East Broad Street, 15th Floor
Columbus, OH 43215-3620
ricks@ohanet.org

David F. Boehm
Michael L. Kurtz
Kurt Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
dboehm@bkllawfirm.com
mkurtz@bkllawfirm.com
kboehm@bkllawfirm.com

Samuel C. Randazzo
Frank P. Darr
Matthew R. Pritchard
McNees, Wallace & Nurick
21 East State Street, 17th Floor
Columbus, OH 43215
614.469.8000 (telephone)
614.469.4653 (fax)
sam@mwncmh.com
fdarr@mwncmh.com
mpritchard@mwncmh.com

John Finnigan
Environmental Defense Fund
128 Winding Brook Lane
Terrace Park, OH 45174
jfinnigan@edf.org

Trent Dougherty
Ohio Environmental Council
1207 Grandview Avenue, Suite 201
Columbus, OH 43215-3449
trent@theoec.org

Joseph M. Clark
Direct Energy Services
21 East State Street, 19th Floor
Columbus, OH 43215
joseph.clark@directenergy.com

Nicholas McDaniel
Environmental Law & Policy Center
1207 Grandview Avenue, Suite 201
Columbus, OH 43212
mcdaniel@elpc.org

Derrick Price Williamson
Spilman Thomas & Battle
1100 Bent Creek Boulevard, Suite 101
1233 Main Street, Suite 4000
Mechanicsburg, PA 17050
dwilliamson@spilmanlaw.com

Gregory J. Poulos
EnerNOC, Inc.
471 East Broad Street, Suite 1520
New Albany, OH 43215
gpoulos@enernoc.com

Mark S. Yurick
Zachary D. Kravitz
Taft Stettinius & Hollister
65 East State Street, Suite 1000
Columbus, OH 43215
yurick@taftlaw.com
zkravitz@taftlaw.com

J. Thomas Siwo
Bricker & Eckler
100 South Third Street
Columbus, OH 43215-4291
tsiwo@bricker.com

Tai C. Shadrick
Spilman Thomas & Battle
300 Kanawha Boulevard East
Charleston, WV 25301
tshadrick@spilmanlaw.com

Michael R. Smalz
Ohio Poverty Law Center
555 Buttles Avenue
Columbus, OH 43215-1137
msmalz@ohiopovertylaw.org

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

8/15/2014 4:20:27 PM

in

Case No(s). 13-2385-EL-SSO

Summary: Reply Reply Brief of Staff electronically filed by Mr. Devin D Parram on behalf of PUCO Staff