BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Joint Application of Ohio Power Company and Solvay Specialty Polymers for Approval of a Special Arrangement Agreement	))))	Case No. 14-2296-EL-EEC

REPLY COMMENTS OF OHIO POWER COMPANY

Pursuant to Ohio Revised Code ("R.C.") sections 4928.66 and 4905.31(E) and Rule 4901:1-39-05(G), Ohio Administrative Code ("O.A.C."), Ohio Power Company d/b/a AEP Ohio ("Company") and Solvay Specialty Polymers ("Customer") (collectively, "Applicants") filed a Joint Application for Commission approval of the special arrangement described in this Joint Application and accompanying attachments whereby Customer allows combined heat and power ("CHP") energy efficiency ("EE") resources to count toward the Company's compliance with the EE benchmarks set forth in Amended Substitute Senate Bill 221. As explained in detail as part of the Joint Application (at 5-7), the energy and demand savings (as well as the Company incentives) would be split over two years (*e.g.*, 2015 and 2016) due to the size and impact of the project and the direct benefits to all customers by making this split over two years.

On January 12, 2015, the Industrial Energy Users – Ohio (IEU) filed comments that oppose the shared savings proposal offered by Joint Applicants and alternatively request that the opt-out provisions of SB 310 be prematurely activated. On February 2, 2015, the Ohio Manufacturers' Association Energy Group (OMAEG) filed comments that advocate adopting a higher customer incentive than agreed to by Joint Applicants,

argue that AEP Ohio be required to bid the CHP capacity reduction be into PJM, and oppose the shared savings proposal offered by Joint Applicants. For the reasons explained below and as stated in the Joint Application, the Commission should adopt the Joint Application without modification.

A. <u>The proposed customer incentives should be adopted because they are mutually acceptable to Joint Applicants and yield substantial savings in compliance costs to other customers.</u>

OMAEG argues that AEP Ohio negotiated too low of a price for the customer incentive associated with the CHP project and advocates that the price tag funded by other customers (including all of OMAEG's members) should actually be higher. (OMAEG comments at 2-6.) OMAEG goes into detail and provides supporting data (Figure 1.1) to show that AEP Ohio's negotiated price with the customer is lower than that paid in 15 other states in order to support CHP. OMAEG goes on to argue (at 4-6) that the proposed customer incentive is "out of line" with customer incentives under the Company's Custom Program and with the Company's proposed incentive here. The OMAEG's extreme position, while novel and memorable, is misguided and should be rejected.

The Joint Applicants have agreed to all terms, including the incentive level needed for this project. The Custom Program in the existing Plan allows AEP Ohio to determine the appropriate incentive level(s) needed to acquire projects. No additional review or attempt to match certain other states' CHP program incentives is warranted or necessary to approve this project. OMAEG is attempting to prescribe an incentive level just to match up with certain other states, while the Joint Applicants have already agreed to a different and lower incentive level that is sufficient.

OMAEG's hyperbolic claim (at 4) that the low proposed incentive could "chill further development of CHP" is baseless. AEP Ohio has no expectation that this unique arrangement sets an incentive level for all future CHP projects in AEP Ohio's service territory or the rest of Ohio. Each project should be reviewed on its own financial merits and incentives should be based on the CHP percent of total portfolio limits in law, AEP Ohio Plan budgetary considerations and how cost effective the CHP projects are compared to other energy efficiency projects. AEP Ohio is not surprised that the OMAEG research confirms that the incentive level is prudent as conveying real economic benefits for all customers that help pay for the Company's compliance costs.

Contrary to OMAEG's argument, however, the incentive level is not out of line with incentives typically offered through AEP Ohio's Custom program. OMAEG admits (at 4) that the 8 cents per kWh is only available for smaller Custom projects. OMAEG also rightly recognizes (at 4) the Bid4Efficiency program, AEP Ohio's reverse auction program, is used to help set larger Custom program (and other large program) project incentive levels. Then, OMAEG apparently forgets that admission and re-argues that the Joint Applicants agreed incentive amount is lower than that offered for other Custom program projects through the reverse auction. This claim is false. In the most recent round of auctions held in October 2014 for 2015 projects, several individual auctions closed at 2.5 cents/kWh, the same overall incentive pricing in the joint application, and none of the largest auctions closed at the level of incentive recommended by OMAEG. Moreover, it is generally true that larger projects yield a lower rate of incentive (*i.e.*, a lower $ per kwh level). Regardless, CHP projects are unique and require individual review to set appropriate performance basis and incentive levels. Each of them will be

filed for Commission review and approval and the Commission can ultimately resolve any disagreement as between AEP Ohio and the customer who is sponsoring an individual project. But it need not do so here, where the Company and customer are in agreement – notwithstanding OMAEG's attempt to intervene and drive up the price.

Moreover, the incentives paid to the customer and the shared savings received by AEP Ohio are simply not comparable. The customer's incentive is based on the amount needed to encourage and support the CHP project for the customer. The total net benefit and, therefore, shared savings is based on the value to all customers for this very large project. These types of large projects help the cost effectiveness and value of the entire portfolio. Due to the shared savings mechanism, the Company is encouraged to be as cost effective as possible. As far as the OMAEG claim that the Joint Applicants' agreed incentive level will chill further CHP development, AEP Ohio believes the opposite is much more likely. This application is one of two that AEP Ohio has filed jointly for CHP projects with customers. Approval of these applications is more likely to encourage other customers and developers to move forward. OMAEG continues to argue that incentives matter, pointing to AEP Ohio's own incentives. However, the Joint Applicants have agreed to the incentive level, so their point is moot.

Finally in this regard, OMAEG recommends (at 6) that the Commission schedule a technical workshop in 12 months to evaluate "the incentive mechanism." OMAEG's recommendation falsely presumes that the proposed incentive for this project is somehow going to apply to all CHP projects in AEP Ohio's service territory. And the time frame for OMAEG's recommended workshop is inconsistent with the process established under SB 310 for re-evaluating the statutory requirements (*i.e.*, the General Assembly will be

evaluating whether to amend the EE/PDR benchmarks and/or the incentive systems and AEP Ohio's existing POR plan will remain in place through 2016 as is). In any case, the recommendation to have a general workshop to consider CHP incentives is beyond the scope of this case and should not be implemented based solely on OMAEG's input and advice.

B. AEP Ohio is not required to bid the CHP project into the PJM capacity auction

Next, OMAEG (at 6-8) argues that, since the CHP project will result in demand and energy reductions, AEP Ohio should be required to bid the resulting demand reduction into PJM's capacity auctions. OMAEG is mistaken regarding their understanding of AEP Ohio's requirements related to EE bidding into PJM auctions. AEP Ohio is under no requirement in the existing Plan or Stipulation to bid any energy efficiency resources from its programs into any PJM auction.

While AEP Ohio has voluntarily and of its own accord bid resources into these auctions since 2012, the Company believes it would be an amendment to the Plan if the Commission made any determination on bidding CHP resources or any other EE resources into future auctions before January 1, 2017. Other EDUs that are explicitly required to bid EE/PDR resources into PJM capacity auctions as part of their POR plans were able to retain 20% and have their risk mitigated. AEP Ohio is simply not required to do this (although it has voluntarily done so to date) and it would be unfair to unilaterally impose such a requirement at this stage of plan implementation – especially without permitting the Company to retain a portion of the revenues and receive risk mitigation.

Further, as OMAEG points out (at 7), PJM does not allow CHP resources to be bid into the capacity auction. The reason is not an oversight, as OMAEG speculates. In PJM Manual 18, rev 26, effective January 1, 2015, page 58 it says, "The EE Resource must be fully implemented at all times during the Delivery Year, without any requirement of notice, dispatch, or operator intervention." This statement clearly rules out CHP as an EE resource. While AEP Ohio could review the issue with PJM, any action on the part of AEP Ohio to approach PJM regarding this subject should be voluntary and the Company disagrees with the supposition by OMAEG that CHP bidding is an oversight by PJM. The permanent nature of a lighting project, for example, is qualitatively different from a CHP system that requires significant operation and maintenance. Regardless, the impact of this project will be reflected in the PJM forecast and those benefits will accrue over time whether payments are received or not.

OMAEG is also mistaken regarding the counting of shared savings. The Stipulation only excludes shared savings from retrospective projects. This is a prospective project and the Joint Applicants have been working together to make it happen since 2013. As stated in the Joint Application (at 2), the project was not yet in service and the Joint Applications have been working on it for over a year. Accordingly, shared savings is permitted for this project. The only remaining question is what level of shared savings should be adopted.

C. <u>AEP Ohio should be permitted to receive the shared savings as jointly proposed, but in no event can the proposal be considered a portfolio plan amendment or prematurely trigger opt-out rights under SB 310.</u>

IEU (at 3-6) and OMAEG (at 8-9) argue that the Commission must reject Joint Applicants' proposal that 20% of the shared savings calculated for this project be

considered outside the shared savings cap provided for in Case No. 11-5568-EL-POR. Both commenters claim that adopting the proposal would constitute an amendment of the portfolio plan that should not be entertained. IEU goes on (at 6-7) to advocate that, if the Commission adopts the Joint Applicants' so-called amendment, then the Commission should proceed to find that eligible customers may opt out of AEP Ohio's portfolio plan (permitted under Section 6 of SB 310 only if a portfolio plan amendment is adopted by the Commission prior to 2016). Because the statutory time frame for portfolio plan amendments affecting 2015-2016 has already expired[1] and AEP Ohio has explicitly disavowed requesting an amendment (Application at 9), the only question presented is whether the proposed treatment of shared savings associated with the project is permitted under the current plan.

AEP Ohio maintains that the proposed treatment of shared savings associated with this project is permitted under the existing portfolio plan. As IEU has acknowledged (at 4), Section 6(B) of SB 310 explicitly recognizes that the Commission can take actions during 2015-16 to administer the implementation of the existing portfolio plan. While the Company's plan does incorporate a default cap on shared savings applicable to "measurable programs" (Stipulation at Par. V), the plan separately permits incremental proposals (including incentives) under the Custom Program – each of which is presented for approval by the Commission after input from interested parties (Section 4.2.2 of the Plan). The Commission's ability to accept the Joint Application is also consistent with its authority in this proceeding under R.C. 4905.31 and R.C. 4928.66 to adopt a unique arrangement that includes this incremental shared savings proposal.

[1] Both IEU (at 5) and OMAEG (at 9) have admitted that the statutory deadline for approving a portfolio plan amendment under SB 310 has expired.

More specifically, all costs associated with this Application will be recovered as a part of the already approved costs in the Custom Program for the 2012-2014 EE/PDR Portfolio Plan, which is being extended for 2015 and 2016. The costs recovered in this Application will reduce program costs in the Business programs portion of the EE/PDR Portfolio Plan. Upon approval, the agreement will be implemented and the Company will reflect the cost recovery and any cost savings as part of the EE/PDR Rider. Because the proposed incentives are permissible under the Custom Program and are cost-effective and within the approved level of spending, the Commission should approve the proposal as reflected in Exhibit 4a.

Finally, in an apparent attempt to save face even though it seeks to undermine the proposal of one of its members, IEU (at 6-7) argues that the Commission's acceptance of IEU's positions should not affect the customer's proposed incentive because the customer "could have filed an application … without AEP Ohio 'consent'" and "should not be required to refile an application because AEP Ohio believes it has some unilateral right to withdraw." This is a red herring and should be ignored. The customer did not file its own unilateral proposal but this case was filed as a Joint Application. IEU does not represent the customer in this proceeding and cannot assert rights on behalf of the customer – especially rights that do not exist. Whether or not the customer could have made a different filing and presented different circumstances is immaterial to the disposition of this case; this case was filed with mutual consent of both joint applicants. Moreover, as stated in the Joint Application (at 9-10), the Company did not assert a right to withdraw if the shared savings exclusion proposal is rejected.

If the Commission disagrees with AEP Ohio and determines that it is not permitted, then that provision of the proposal can be denied and the remainder approved (as was already indicated on pages 9-10 of the Joint Application). It is not possible to approve an amendment of the plan at this point and prematurely trigger opt-out rights for eligible customers under Section 5 of SB 310, as IEU suggests. Thus, regarding shared savings, the Commission should only address the two related issues presented here: (a) whether the 20% exclusion proposal is permitted under the existing portfolio plan, and (b) whether the exclusion proposal should be adopted as an incentive to the Company given the substantial benefits to customers of the project. AEP Ohio submits that the Commission should answer both questions in the affirmative.

CONCLUSION

For the foregoing reasons and those stated in the Joint Application, the proposed special arrangement should be adopted by the Commission without modification.

Respectfully submitted,

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CERTIFICATION OF SERVICE

I hereby certify that a copy of the Reply Comments Of Ohio Power Company was served on the persons stated below by electronic mail, this 10th day of February 2015.

//s/ Steven T. Nourse
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Summary: Comments -Reply Comments of Ohio Power Company electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company