



Darke Rural Electric Cooperative, Inc.

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FILE

September 25, 2015

Chairman Andre T. Porter
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

RECEIVED-DOCKETING DIV.
2015 OCT 23 PM 4:08
PUCO

Re: Public Comments of the Cooperative on AEP's PPA Rider Proposal in PUCO Case Nos. 14-1693-EL-RDR and 14-1694-EL-AAM

Dear Chairman Porter:

INTRODUCTION

I am writing on behalf of Darke Rural Electric Cooperative, Inc. (the Cooperative) to encourage the Public Utilities Commission of Ohio (PUCO) to approve American Electric Power's (AEP's) PPA Rider proposal as requested by AEP in PUCO Docket Nos. 14-1693-EL-RDR and 14-1694-EL-AAM.

Please file these comments as Public Comments in the above-cited dockets.

BACKGROUND

The Cooperative is one of the twenty-five electric distribution cooperatives providing retail electric service in the predominantly rural areas of the State of Ohio.¹ The Cooperative and the other twenty-four electric distribution cooperatives own and purchase power from Buckeye Power, Inc. (Buckeye), which provides wholesale power to the Cooperative and the other Ohio electric distribution cooperatives. The Cooperative and the other Ohio electric distribution cooperatives, in turn, provide retail electric service to nearly 1,000,000 residents in portions of 77 out of Ohio's 88 counties.

¹ The twenty-five electric distribution cooperative members of Buckeye providing retail electric service in the State of Ohio are: Adams Rural Electric Cooperative, Inc., Buckeye Rural Electric Cooperative, Inc., Butler Rural Electric Cooperative, Inc., Carroll Electric Cooperative, Inc., Consolidated Electric Cooperative, Inc., Darke Rural Electric Cooperative, Inc., Firelands Electric Cooperative, Inc., The Frontier Power Company, Guernsey-Muskingum Electric Cooperative, Inc., Hancock-Wood Electric Cooperative, Inc., Holmes-Wayne Electric Cooperative, Inc., Licking Rural Electrification, Inc., Logan County Cooperative Power & Light Association, Inc., Lorain-Medina Rural Electric Cooperative, Inc., Mid-Ohio Energy Cooperative, Inc., Midwest Electric, Inc., Midwest Energy Cooperative, North Central Electric Cooperative, Inc., North Western Electric Cooperative, Inc., Paulding-Putnam Electric Cooperative, Inc., Pioneer Rural Electric Cooperative, Inc., South Central Power Company, Tricounty Rural Electric Cooperative, Inc., Union Rural Electric Cooperative, Inc., and Washington Electric Cooperative, Inc.



In order to provide wholesale electric generation service to the Cooperative and the other electric distribution cooperatives and their retail members/consumers, Buckeye owns or controls various generation resources, including, among other things, an 18% interest in the Ohio Valley Electric Corporation (OVEC) and its Kyger Creek and Clifty Creek base-load coal-fired power plants (an approximately 400 MW interest), and an 87% interest in Unit Nos. 2 and 3 at the Cardinal Generating Station (an approximately 1,066 MW interest). Buckeye's total electric generating resources constitute approximately 2,200 MW.

As you know, American Electric Power (AEP) has proposed in the PUCO Case Nos. cited above that the net benefit/detriment of AEP's interest in OVEC and in Unit No. 1 at the Cardinal Generating Station (as well as other generation resources owned by AEP affiliate, AEP Generation Resources Inc. (AEP GenCo)) be dedicated to AEP's retail consumers in the State of Ohio as a hedge against volatile market prices.

The Cooperative supports AEP's proposal both because the Cooperative agrees with the reasons that AEP and others have cited in support of AEP's application, and also because the failure of the PUCO to approve AEP's proposal could have particular and specific adverse impacts on Buckeye and its members, including the Cooperative, and the nearly 1,000,000 residents in the State of Ohio served by them, as described in more detail below.

THE OHIO COOPERATIVES SUPPORT STABLE RATES ASSOCIATED WITH LONG-TERM INVESTMENTS IN OWNED-GENERATION RESOURCES AND COST-OF-SERVICE RATEMAKING PRINCIPLES

As you know, neither the Cooperative nor any of Ohio's other electric distribution cooperatives have chosen to make the irrevocable election to opt-into competition for retail generation service. Instead, Ohio's electric distribution cooperatives have, through their ownership of Buckeye, elected to own or control sufficient generation resources to meet the load of their retail member/consumers and to recover the cost of those resources through rates set by their local Boards of Trustees and the Board of Trustees of Buckeye. Accordingly, the Cooperative and the other Ohio electric cooperatives have made the decision to remain traditional, vertically-integrated, cost-of-service electric utilities. Consistent with that decision, the Cooperative supports AEP's proposal that the PUCO permit a portion of AEP's Ohio generation portfolio to be dedicated to AEP's Ohio consumers on a cost-of-service basis and as a hedge against market volatility.

The Cooperative and the other Ohio electric cooperatives have made the decision that continuing to own and control their own generation resources and recover the cost of same through cost-of-service ratemaking is a superior alternative to relying on volatile market prices and short-term contracts. The Cooperative agrees with AEP that permitting a portion of AEP's Ohio generation portfolio to be dedicated to AEP's Ohio consumers on a traditional cost-of-service basis (while relying on the market to serve the remaining portion) is a superior alternative to relying 100% on volatile markets and on PJM Interconnection, LLC (PJM), if the purpose is to ensure that a sufficient and diverse portfolio of generation resources is in place to meet the

requirements of Ohio residential, commercial and industrial consumers for reliable and affordable electric service.

The Cooperative is also concerned that if the PUCO fails to approve AEP's proposal in a timely manner, then AEP may elect to sell all or a portion of its remaining Ohio generation fleet, including AEP's interest in OVEC and AEP's interest in Unit No. 1 at the Cardinal Generation Station, to a third party. If AEP sells its interest in OVEC and Cardinal Unit No. 1, the Cooperative is concerned that this could result in specific negative impacts on Buckeye, the Cooperative, and Buckeye's other electric distribution cooperative members.

POTENTIAL MISALIGNMENT OF INTERESTS BETWEEN BUCKEYE AND NEW OWNERS OF OVEC AND CARDINAL STATION, RESULTING IN POTENTIAL STRANDED COSTS TO BUCKEYE AND ITS MEMBERS

Traditionally, the owners of OVEC and of the Cardinal Generating Station, including Buckeye and AEP, have all been vertically-integrated electric utilities operating on cost-of-service ratemaking principles and with a long-term focus on affordability and reliability. The Cooperative is concerned that if AEP sells its Ohio generation to a third party, such as a hedge fund or independent power producer, which may have little or no prior ties to the State of Ohio and over which the PUCO may have little to no regulatory control, then the new owner(s) of OVEC and of Cardinal Unit No. 1 may have a different focus than Buckeye. The new owners may be more interested in short-term profitability than in long term affordable rates and reliability for Ohio consumers. This could result in the kinds of disagreements and controversies with the new owner(s) in the future that Buckeye has been fortunate to avoid to a large extent in the past during its nearly 50-year relationship with AEP.

In particular, the Cooperative is concerned that there may result a misalignment of interest with respect to continued investment in and operation of OVEC and the Cardinal Station. Buckeye (through its subsidiary Buckeye Power Generating, LLC) currently has an approximately \$320 million unamortized investment in OVEC, and Buckeye has an approximately \$1.3 billion unamortized investment in the Cardinal Generating Station. After a sale by AEP of its interest in OVEC and Cardinal Unit No. 1 at a presumable discount price and associated write-off of a portion of AEP's investment in those assets, the new owner(s) may have a different point of view than Buckeye regarding the amount and timing of continued investments in OVEC and the Cardinal Station. If OVEC or the Cardinal Station is prematurely retired (or dispatched less often than Buckeye would otherwise desire) as a result of such disagreements, then Buckeye may have stranded investments in those assets.

POTENTIAL INCREASED COSTS TO BUCKEYE ASSOCIATED WITH FAILURE OF AEP TO OPERATE AND MAINTAIN CARDINAL STATION AND PROVIDE BACK-UP POWER

In addition, the Cooperative is concerned that after a sale, the new owner(s) may not be willing or able to operate the Cardinal Station on behalf of Buckeye and/or may not be willing or

able to supply back-up power to Buckeye, to the same extent that AEP has done ever since the Cardinal Station commenced commercial operations in 1968.

Buckeye has relied heavily on AEP's expertise over the years in all aspects of operating and maintaining the Cardinal Station, including procuring coal, environmental permitting, routine maintenance and repairs, managing construction and capital projects, and labor relations and employee benefits, with AEP providing such services on a cost-of-service basis to Buckeye and its members. If AEP sells its interest in the Cardinal Station, the Cooperative is concerned that AEP will no longer be willing or able to provide such services to Buckeye, and the Cooperative is also concerned that any new owner(s) may not be willing or able to provide such services at all or at least not with the same level of expertise/experience and economy that AEP previously provided such services. While Buckeye will be able to operate and maintain the Cardinal Station itself, either through owned resources or contractual arrangements with other third parties (either with the new owner(s) or other third party contractors), any such new arrangements will be disruptive to Buckeye and may potentially result in increased costs to Buckeye and its members, including the Cooperative. Buckeye currently has a very small staff and does not directly operate any of its own generation resources. If Buckeye is required to take over operations at Cardinal Station, Buckeye may be required to increase its staffing substantially and/or to contract with other third parties who will likely require that a profit/fee element be included in connection with providing O&M services at Cardinal Station, thereby potentially increasing Buckeye's costs of operations and certainly the complexity of those operations for Buckeye.

Buckeye has also relied on AEP to provide back-up power to Buckeye when the Cardinal Station is out of service for any reason. In return for approximately 13% of the Cardinal Station's output, AEP has provided back-up power to Buckeye ever since Cardinal Station commenced commercial operation in 1968. AEP's back-up obligation currently runs to 2026. The Cooperative is concerned that if AEP sells its interest in the Cardinal Station, then the new owner(s) of AEP's interest may not be willing or able to supply back-up power to Buckeye in a manner comparable to AEP's long-term performance. This arrangement works well between Buckeye and AEP because AEP has a large generation fleet from which to provide back-up power (in return for a 13% share of Buckeye's Cardinal Units), whereas Buckeye is a small utility and not able to back-up large baseload units like Cardinal Unit Nos. 2 or 3 with its own resources to the same extent that AEP can.

The Cooperative prefers that AEP maintain its longstanding relationship with Buckeye and believes that if the PUCO approves AEP's PPA Rider for OVEC and the Cardinal Unit No. 1 (and AEP's associated obligations under the Cardinal Station Agreement), then AEP will continue to provide at-cost operation and maintenance services for the Cardinal Station, will continue to honor its back-up power obligations under the Cardinal Station Agreement, and will continue to have an alignment of interests with Buckeye with respect to continued investment in and operation of OVEC and the Cardinal Station, consistent with the long-term interests of Ohio consumers in affordable and reliable electric service.

POTENTIAL INCREASED COSTS TO BUCKEYE ASSOCIATED WITH INCREASED INVESTMENTS IN TRANSMISSION BY AEP AND OTHERS RESULTING FROM PLANT CLOSURES

AEP has indicated that if the PPA Rider proposal is not approved, and if, as a result, AEP decides to shutter some or all of its Ohio coal plants, AEP and others will be required to make substantial investments in transmission assets only to maintain the reliable operation of the electric system (not improve or increase it). Buckeye has already seen the impact of generation retirements on its costs for transmission service. Buckeye, the Cooperative, and the other Ohio cooperatives do not own transmission resources and are dependent on the transmission systems of AEP, FirstEnergy, Duke and DPL to deliver power from Buckeye's owned generation resources to the delivery points of the Cooperative and Buckeye's other members. Buckeye's transmission costs have increased 100% over the last ten years, largely resulting from increased transmission investments necessary to cope with generation retirements that have already occurred and that are planned. If AEP's and FirstEnergy's PPA Rider proposals are not approved, AEP has indicated that it may retire more baseload coal plants resulting in more transmission investments just to maintain reliability, thereby resulting in further increased costs to Buckeye and the Cooperative with no associated benefits.

POTENTIAL RISKS TO OHIO'S ELECTRIC SYSTEM RELIABILITY

Finally, the bulk electric power system is undergoing historic shifts as long-term coal-fired base-load power plants are closed as a result of recent federal EPA rules and inadequate cost support for such plants through federally-regulated RTO capacity and energy markets. While new natural gas-fired base-load power plants are currently being added and may be added in the future, the natural gas system infrastructure has proven during the recent polar vortex that it has not kept up with the increased demands placed on such system resulting from the shift away from coal-fired power plants and towards natural gas-fired plants. In addition, intermittent renewable resources, such as wind and solar, are not an adequate substitute for dispatchable base-load power plants.

Further closure or underinvestment in Ohio's remaining coal-fired power plants will add reliability risks to the bulk electric power system. PJM has recognized this risk to reliability and has hastily developed new capacity market rules to attempt to address concerns with winter power system reliability in the face of recent and planned coal-fired power plant closures. While the results of the initial capacity auctions under the new PJM capacity performance market rules provided some increased cost support for coal-fired base-load power plants, it is too soon to tell whether the increased risk of performance penalties associated with the new market rules will outweigh any benefits resulting from the auctions, or whether the increased cost support under the new PJM capacity market rules will continue in the future.

In the face of uncertain federally-regulated PJM energy and capacity market rules over which the PUCO has no control, AEP's PPA Rider proposal would provide the long-term cost support for important coal-fired base-load power plants located in the State of Ohio necessary for

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electric system reliability that cannot be easily replaced with natural gas-fired base-load power plants or intermittent renewable resources.

CONCLUSION

For the reasons set forth above, the Cooperative, on behalf of its retail member/consumers in the State of Ohio, supports AEP's PPA Rider proposal and urges the PUCO to approve it in a timely manner.

Sincerely,

A handwritten signature in black ink, appearing to read "Ted", is positioned below the word "Sincerely,".

Ted Holsapple
General Manager

cc: Governor John Kasich