

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application Seeking)	
Approval of Ohio Power Company's)	
Proposal to Enter into an Affiliate Power)	Case No. 14-1693-EL-RDR
Purchase Agreement for Inclusion in the)	
Power Purchase Agreement Rider)	
)	
In the Matter of the Application of Ohio)	
Power Company for Approval of Certain)	Case No. 14-1694-EL-AAM
Accounting Authority)	

**JOINT INITIAL BRIEF OF INTERSTATE GAS SUPPLY, INC., DIRECT ENERGY
SERVICES, LLC, AND DIRECT ENERGY BUSINESS, LLC**

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I. INTRODUCTION

On December 14, 2015, Ohio Power Company ("AEP") and a diverse group of parties, including Interstate Gas Supply, Inc. ("IGS") and Direct Energy Services, LLC and Direct Energy Business, LLC ("Direct Energy") (IGS and Direct Energy are collectively referred to as "Suppliers") submitted a Joint Stipulation and Recommendation ("Stipulation") to resolve the outstanding issues presented in this proceeding. While the Stipulation represents a comprehensive resolution of several different issues, the Suppliers file this brief in support of three pilot programs and the further deployment of advanced metering recommended for consideration in the Stipulation:

- The guaranteed discount rate referral program ("Referral Program");

- The Competition Incentive Rider (“CIR”);
- Supplier consolidated billing program (“SCB”);
- Grid modernization and expansion of advanced metering (“AMI”).

These programs will contribute to the development of the competitive market, increase the availability of innovative products and services, and result in direct savings to customers. Therefore, IGS and Direct Energy urge the Commission to acknowledge the benefits of these programs in its Opinion and Order.

II. ARGUMENT

Rule 4901-1-30, O.A.C. authorizes parties to Commission proceedings to enter into a stipulation. While a Stipulation does not bind the Commission, the terms of such agreements are accorded substantial weight. The ultimate issue for our consideration is whether the agreement, which embodies considerable time and effort by the signatory parties, is reasonable and should be adopted. In considering the reasonableness of a stipulation, the Commission has used the following criteria, commonly referred to as the three prong test:

- (1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
- (2) Does the settlement, as a package, benefit ratepayers and the public interest?
- (3) Does the settlement package violate any important regulatory principle or practice?¹

The proposed programs satisfy these criteria.

¹ See *Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm’n*, 68 Ohio St.3d 559 (1994).

A. The Stipulation satisfies the First Prong

The Stipulation is the result of intense bargaining between a diverse set of parties. While not all parties to the negotiations signed the Stipulation, every party had a seat at the table. The final Stipulation submitted to the Commission for consideration was signed by a large, diverse group of parties of varying interests. Therefore, the Stipulation satisfies the first prong and should be approved.

B. The Pilot Programs will benefit ratepayers and the public interest

As discussed further below, the pilot programs will contribute to the development of the competitive market, promote comparable and unbundled rate structures, increase the availability of innovative products and services, and result in direct savings to shopping customers. As AEP witness Allen testified, it is hoped that each of these competitive enhancements will ultimately reduce the costs that customers pay.² Therefore, each of the programs will benefit ratepayers and the public interest.

The stipulation includes provisions that meet the state policy by ensuring a continuing diversity of supplies through innovation and methods to further allow customers to meet their energy needs. It is the position of IGS and Direct Energy that inclusion of the competitive market enhancement pilots along with broader roll out of AMI will ensure that competitive options for customers in Ohio will improve under the settlement.

² Tr. Vol. XIX at 4875.

1. The Referral Program

Under this provision of the Stipulation, AEP is required to file a proposal for a pilot program in its January 6, 2016, comments in Case No. 12-3151-EL-COI.³ The Stipulation provides that AEP is required to propose “an EDU third-party agent call transfer process to educate and enroll interested customers moving and initiating service and to establish a procedure for the offering of a standard discount rate providing a guaranteed discount off the price to compare without early termination fees.”⁴

The Referral Program will both enhance customer education regarding retail electric choice as well as result in direct customer savings through a guaranteed discount off the standard service offer price. The program will also highlight to customers their options to receive retail electric service and also provide consumers with the supplier, price, terms, conditions, and quality options they can elect to meet their respective needs. Thus, the Referral Program will provide several direct benefits to customers by increasing consumer understanding and engagement in the competitive market, as well as direct financial benefits to participating customers.

2. The Competition Incentive Rider

Under this provision, AEP will file an application to establish “a bypassable CIR as an addition to the SSO non-shopping rate above the auction price with the purpose of incenting shopping and recognizing that there may be costs associated with providing

³ Joint Stipulation and Recommendation at 19 (Dec. 14, 2015).

⁴ Joint Stipulation and Recommendation at 19 (Dec. 14, 2015).

retail electric service that are not reflected in SSO bypassable rates.”⁵ Amounts collected through the CIR will be refunded to all distribution customers.⁶ Moreover, “AEP Ohio will provide an analysis as part of its next distribution rate case to show all of the actual costs required to provide SSO generation service that are included in the Company's cost of service study.”⁷

As Mr. Allen testified, “[t]he goal of provisions like that is to grow the market for shopping customers and to allow more opportunity for CRES providers to enter the market and to provide more innovative offerings to customers as a market is developed.”⁸ The Commission will have the opportunity to “consider whether the filing of that kind of mechanism has the potential to improve Ohio’s competitive markets.”⁹ The Commission has already “recognized that there may be value in incentives to customers shopping.”¹⁰ And the Commission has in the past approved shopping incentive structures on at least two occasions.¹¹

Moreover, as the Stipulation notes, the CIR recognizes that there are costs associated with providing retail electric service that are not reflected in SSO bypassable rates.¹² OCC witness Haugh agreed that there are several additional costs that retail

⁵ *Id.* at 12.

⁶ *Id.*

⁷ Joint Stipulation and Recommendation at 13 (Dec. 14, 2015).

⁸ Tr. Vol. XX at 4928.

⁹ Tr. Vol. XVIII at 4642.

¹⁰ *Id.*

¹¹ Tr. Vol. XX at 4927-28.

¹² Joint Stipulation and Recommendation at 12-13 (Dec. 14, 2015).

electric providers must incur that are not exclusively related to the commodity of electricity, such as scheduling, product development, pricing, risk management, and regulatory.¹³ In its next distribution rate case, AEP will provide an analysis of the costs embedded in distribution rates that are necessary to provide the SSO.¹⁴

Finally, the CIR is revenue neutral to AEP so, on net, it will not increase costs for customers. Rather, it will merely help to correct a subsidy that currently is flowing from distribution rates to default service and otherwise incent retail choice.

The CIR is clearly beneficial to customers and in the public interest. It will promote the state policy in favor of retail electric choice by encouraging new supplier entry. That enhanced competition will foster the development of innovative products and services which should lower the total costs for all customers. Moreover, the CIR will decrease the total costs that shopping customers pay through its crediting mechanism, which, in part, is intended to account for the fact that the default service does not reflect all costs that are necessary to provide retail electric service and would help to eliminate a subsidy flowing from shopping to non-shopping customers.

3. Supplier Consolidated Billing

Under this provision, AEP, Staff, and Signatory parties will work to establish a two-year SCB for participating CRES providers.¹⁵ SCB allows a customer to receive a consolidated bill from their CRES provider as opposed to an electric distribution utility. The SCB pilot is to provide “the industry with data and information on the practicality of

¹³ Tr. Vol. XXI at 5400-03.

¹⁴ Joint Stipulation and Recommendation at 13 (Dec. 14, 2015).

¹⁵ *Id.* at 16-19.

a supplier consolidated billing implementation in the Ohio Electric Choice Market.”¹⁶ The pilot limits the amount of customers that each participating CRES provider may enroll in the program to 5,000 customers per year.¹⁷ The limited size of the pilot ensures close staff oversight over the program and its feasibility for scale.

This pilot is open to signatory parties but will allow any size customer to enroll on a participating supplier’s SCB option, thus allowing for full analysis of interest in and workings of SCB. In addition, the SCB pilot includes a transition plan to allow any supplier the ability to participate after review of the findings from the pilot.¹⁸ While the SCB is initially limited to only signatory parties, Witness Bennett agreed that this pilot would be difficult to run with a partner who was an adversary and that it is appropriate to enter into pilots with partners who share the same goal.¹⁹

The SCB pilot will benefit ratepayers and the public interest because it will enable CRES providers to offer customers more innovative products and services and increase customer awareness of their retail electric choice opportunities. In addition, SCB will require costs to be shared between suppliers and the company. Then, if a decision is made post-pilot for a full rollout of SCB, the staff will work with parties to ensure costs are appropriately handled. This pilot program will provide the Commission with necessary information to evaluate the feasibility of implementing SCB throughout AEP’s service territory.

¹⁶ *Id.* at 17.

¹⁷ Joint Stipulation and Recommendation at 17 (Dec. 14, 2015).

¹⁸ *Id.* at 18.

¹⁹ Tr. Vol. XXII at 5575-76.

4. Grid Modernization

AEP's commitment to create a timeline for full smart meter deployment in conjunction with the above items will allow customers greater access to options to meet their individual needs.²⁰ AEP is committing to a specific timeframe and process in this settlement which will allow customers access to a grid structure that is more comprehensive than currently exists. This is a significant benefit to customers not only for products but for reliability and control over their usage.

C. The programs do not violate any regulatory policy or principle

The programs do not violate any regulatory policy or principle; rather, they *promote* the state policy contained in R.C. 4928.02. The state policy is undeniably procompetitive. It favors customer education, innovation, and retail electric choice. The aforementioned enhancements to the competitive market further each of these principles.

Moreover, during AEP's next distribution rate case, it will provide an analysis of all of the costs embedded in distribution rates that are required to provide SSO generation service. Thus, the CIR supports the state policy of promoting unbundled, comparable rates.

AEP's grid modernization plan, particularly smart grid deployment accompanied with enhanced access to customer usage information, will further promote the state policy of enabling customers to have increased access to retail products and services that fit their needs. Moreover, Ohio law contains provisions that favor grid modernization. See 4928.143(H) ("provisions regarding distribution infrastructure and

²⁰ Joint Stipulation and Recommendation at 29-30 (Dec. 14, 2015).

modernization incentives for the electric distribution utility” including “a long-term energy delivery infrastructure modernization plan for that utility. . .”).

Accordingly, neither the pilot programs nor AEP’s grid modernization plan violate any regulatory policy or principle.

III. CONCLUSION

For the reasons stated herein, IGS and Direct Energy recommend that the Commission find that the portions of the Stipulation related to the pilot programs and AEP’s proposed grid modernization plan are the product of serious bargaining, are in the public interest, and do not otherwise violate any regulatory policy or principle. These programs will contribute to the development of the competitive market, increase the availability of innovative products and services, and result in direct savings to customers. Therefore, IGS and Direct Energy recommend that the Commission approve these components of the Stipulation.

Very truly yours,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing *Joint Initial Brief of Interstate Gas Supply, Inc., Direct Energy Services, LLC, and Direct Energy Business, LLC* was served this 1st day of February 2016 via electronic mail upon the following:

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Case No(s). 14-1693-EL-RDR, 14-1694-EL-AAM

Summary: Brief Submitted by IGS Energy and Direct Energy electronically filed by Mr. Joseph E. Oliker on behalf of IGS Energy and Direct Energy