

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
Ohio Power Company for Authority to)	
Establish a Standard Service Offer)	Case No. 13-2385-EL-SSO
Pursuant to Section 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)	Case No. 13-2386-EL-AAM
Certain Accounting Authority)	

**OHIO POWER COMPANY'S REPLY TO OBJECTIONS FILED BY
ENVIRONMENTAL INTERVENORS**

On June 22, 2016, the Environmental Law & Policy Center, Natural Resources Defense Council, Sierra Club, and Ohio Environmental Council (collectively, the “Environmental Intervenors”) filed an Objection in response to the *ESP III Extension* request filed by Ohio Power Company (AEP Ohio) in this proceeding on May 13, 2016. While the Environmental Intervenors detail their opposition to the customer charge proposal as part of their Objection, they ultimately oppose the Company’s recommended procedural schedule for considering the customer charge proposal. The Company fully reserves its substantive arguments supporting the customer charge for testimony and briefing (since the merits of the proposal are well beyond the scope of this pleading), but will address the propriety of the customer charge proposal being included in this case and support the reasonableness of its proposed procedural schedule. Although much of the proposed schedule has already been extended since some of the Company’s proposed dates have already passed and others are rapidly approaching, the Company maintains that an expedited schedule for resolution of the entire Application to Amend remains appropriate.

The Environmental Intervenors argue that the Company’s proposal would “effectively transition the residential customer charge to a straight fixed variable (SFV) rate structure, the

first of its kind in Ohio for an electric distribution utility.” (Objections at 1.) The Objection then relies on the *Rate Structure Case*, Case No. 10-3126-EL-UNC, where the Commission indicated that “the appropriate time to implement an SFV rate design is during an electric utility’s rate case.” (Objections at 7.) This passing statement from a 2010 case about SFV does not, however, preclude the Company from proposing an increase to its customer charge in a separate proceeding such as this *ESP III Extension*. Similarly, Environmental Intervenors remind the Commission that it has previously indicated that it would “undertake a full evaluation of the effectiveness of the [Pilot Throughput Balancing Adjustment Rider] PTBAR and the merits of its decoupling approach versus alternative rate designs.” (Objections at 2.) But there is nothing in that commitment that precludes consideration and decision of those matters in this proceeding.

Indeed, the Company has already provided the information in its base distribution rate case docket (Case No. 11-351-EL-AIR) to evaluate the difference between a SFV rate design and the Company’s PTBAR. (*AIR Case*, June 9, 2015 filing.) That was provided over a year ago. The Objections contend that the Commission does not have ample evidence to approve the Company’s proposal to increase the customer charge. But the Company has provided evidence of SFV versus decoupling as well as the bill impacts associated with the proposed change in this case in the June 2015 AIR filing – which is the appropriate information the Commission needs to make its determination.

The costs in the Company’s most recent base distribution rate case, as filed with the updated cost of service study and SFV versus decoupling docket, show the customer charge and the demand costs of the base distribution case. The Environmental Intervenors state that AEP Ohio witness Zelina testified in the AIR case that the customer charge would reflect “the full customer cost.” (Objections at 5.) But Environmental Intervenors ignore that Mr. Zelina’s testimony also clarified that “[t]he costs of providing distribution service do not vary with volumetric usage and would ideally be collected through a monthly fixed charge or through

demand charges. Since most residential customers do not have meters capable of measuring demand, residential distribution demand costs are generally collected through per kWh energy charges.” (*AIR Cases*, Zelina Direct Test. (March 14, 2011) at 5-6.) Thus, collecting demand-related charges through a customer charge is appropriate because the costs of providing distribution service do not vary with volumetric usage. Accordingly, the Company’s AIR testimony is consistent with the Company’s current proposed increase in the customer charge.

The Environmental Intervenors state in their opposition the purpose of the decoupling rider is to provide revenue certainty for a utility so the utility is made whole at the end of the year if its sales are lower than anticipated – for example, because of energy efficiency programs or a “cool summer” (Objection at 3.) This statement concludes that the utility is made whole to the revenue requirement set in its base distribution case. Implementing a higher customer charge in conjunction with the PTBAR would have the same impact on the Company because the overall revenue requirement would remain in place. Thus, the crux of the issue does not lie with the collection of the revenue requirement by the Company; the real issue presented by the customer charge adjustment is who pays for the distribution system and the proposed customer charge attempts to better align cost causation with recovery through base distribution rates.

Moreover, there are other factors supporting the customer charge that the Company will develop and present in this proceeding. For example, a fourfold increase in net metering customers has occurred in AEP Ohio’s service territory since the timeframe of its last base distribution case. This significant increase in net metering customers is further evidence that the customer charge needs to be increased to a reasonable level as to decrease the subsidization by all other customers of net metering customers. There is a disparity between residential customers with and without net metering and the extensive subsidization by non-net metering customers of net metering customers allows net metering customers to use the demand related

and customer related distribution system while paying little through current variable charges.

The Company's proposal however will bring these bills closer in line.

The intervenors point out that AEP Ohio increased its customer charge to \$8.40 in January 2015 in compliance with the Commission order in the AIR case (Objections at 3.) Even under the current proposal, the Company will only collect 68% of the base distribution system through a customer charge and 32% will remain in an energy charge. The Company is not proposing to move to a full SFV rate design at this time.

The Commission should also reject the Environmental Intervenors' arguments that the PPA Stipulation in Case No. 14-1693-EL-RDR prevents the Company from proposing any changes (Objections at 4.) The PPA Stipulation agreed that the Company would not propose "any changes relating to the current ESP term (*i.e.*, through May 31, 2018) for the riders and tariffs approved in the *ESP III* Order." The current customer charge was approved in the AIR Case, not the *ESP III* case – as Environmental Intervenors acknowledge. (Objections 3.) Therefore, it is not "off limits" for consideration in this case by virtue of the PPA Stipulation commitment.

In short, the Company is not precluded from proposing an increase in the customer charge and the Commission is not precluded from considering the proposal in this proceeding. The Company has provided the information necessary to determine that there is virtually no difference in applying a SFV rate design as compared to a decoupling rider. The Commission has the necessary customer bill impacts of the Company's proposal, has the necessary calculation to determine that the Company's rate design is revenue neutral to the Company and intended only to represent a fair approach to cost recovery.

CONCLUSION

Ultimately, the substantive arguments for and against the customer charge increase will be determined in the merit stage of this proceeding. For now, it is sufficient to conclude that the

proposal can be considered here and that the schedule need not be further delayed. Certainly, the extended proposal to delay the schedule advanced by Environmental Intervenors (culminating in a November evidentiary hearing) is far too protracted and should not be adopted. Moreover, the extra AIR-style procedure (and related deadlines for a Staff Report, motions to strike and rebuttal testimony) is also inappropriate and unjustified. Accordingly, the Commission should adopt an expedited procedural schedule along the lines outlined in the Company's May 13, 2016

Application to Amend.

Respectfully submitted,

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CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Ohio Power Company's Reply to Objections of Environmental Intervenors* was sent by, or on behalf of, the undersigned counsel to the following parties of record this 6th day of July 2016, via electronic transmission.

/s/ Steven T. Nourse

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Summary: Reply -Ohio Power Company's Reply to Objections Filed by Environmental
Intervenors electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company