BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Joint Application of Vadata, Inc. and Ohio Power Company for Approval of a Unique Economic Development Arrangement for Ohio Data Center Campuses.	))))	Case No. 17-1827-EL-AEC

*****PUBLIC VERSION*****

COMMENTS
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

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I. INTRODUCTION

On behalf of the 1.3 million residential utility consumers of Ohio Power Company ("AEP" or "Utility"), who already are paying the highest electric bills among AEP consumers in the states where AEP serves, the Office of the Ohio Consumers' Counsel ("Consumers Counsel" or "OCC") makes the following recommendations to the Public Utilities Commission of Ohio ("PUCO") for considering the application of Vadata Inc. ("applicant" or "mercantile customer", an affiliate of Amazon Web Services Inc. The applicant seeks a usage-based discount on its electric bill from AEP for economic development for the next ten years.

In this type of case, the PUCO considers various factors including a balance between the positive benefits of economic development and the cost (subsidy) charged to other Ohioans who the utility (here, AEP) asks to fund its rate discount. We note our longstanding position that utilities such as AEP should pay a share (along with a share paid by consumers) of the costs of programs to bring to Ohio the benefits of economic development. The Consumers' Counsel appreciates the courtesy and helpfulness of Vadata in discussing with us its application.

II. COMMENTS

The PUCO has adopted rules addressing "reasonable arrangements."[1] Under the rules, if it appears to the PUCO that the application may be unjust or unreasonable, the PUCO may order a hearing.[2] The PUCO may also change, alter, or modify the unique arrangement.[3]

The Consumers' Counsel's recommendations are, in general, applicable not only to this application, but essentially to any application for programs and funding for economic development. In the typical economic development arrangement considered by the PUCO, the discount to the mercantile customer is applied to the mercantile customer's total bill. And that discount creates so-called "delta revenue" (being the revenue the utility forgoes collecting as a result of the rate discount) that the PUCO has allowed utilities to collect from other customers through an economic development rider.

This application is different in that the rate discount is applied to the mercantile customer's usage (kWhs) for certain riders and there is no charge to the economic development rider. Nonetheless, it can be expected that AEP will seek to collect from other customers, through charges on customers' electric bills, the revenues AEP would forgo as a result of the discounts proposed in the application.

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[1] Ohio Admin. Code 4901:1-38.

[2] Ohio Admin. Code 4901:1-38-05(A)(2).

[3] See Ohio Rev. Code 4905.31; Ohio Admin. Code 4901:1-38-05(B)(4).

A. In balancing economic development program benefits with costs, the PUCO should quantify the total costs of an applicant's economic development program and ensure that Ohio utility consumers pay the least subsidy to their utility that is needed for the economic development.

Under the proposed unique arrangement, the revenue that AEP receives from the mercantile customer for distribution service is less than it would otherwise receive under tariffed rates. The reduced revenues AEP would collect from the mercantile customer occur because the mercantile customer would pay a reduced rate for certain tariffed charges below what other customers are charged. As noted economist Milton Friedman famously remarked "there's no such thing as a free lunch" -- and AEP can be expected to seek to make up the reduced revenues from other customers, by allocating those costs through the riders that the remaining customers pay. Under the application, it is estimated that residential customers of AEP could likely pay [redacted] per year for the discount provided to the mercantile customer, when the [redacted] data centers are up and running. Residential and other customers could potentially pay much more if new riders are added that are energy related or the revenue requirements established under existing riders increase.

There are three types of discounts under the proposed arrangement. First, the mercantile customer receives a tiered billing determinant (usage) discount for transmission and distribution charges. Under this provision, the mercantile customer receives an increasing discount for its energy usage depending on the number of data centers energized, including its existing three data centers that began operating in October of 2016. The mercantile customer's kWh usage discount will reduce the transmission and distribution charges the mercantile customer pays on a kWh basis for

each of its three existing accounts and will increase the usage discount to be paid by the mercantile customer if any new data centers are added. With transmission and distribution usage discounts for the mercantile customer, there will be less money collected from the mercantile customer than the tariff requires. AEP can be expected to seek to collect the discount from the remaining customers, including residential consumers. Most riders have a revenue requirement AEP collects and if a large customer is receiving a discount then the revenue requirement is spread out among other customers and would likely result in higher rates for other customers.

Second, the mercantile customer's kWh usage is capped [redacted] kWh per account per month for charges "relating to energy supply."[4] Usage above the cap [redacted] The mercantile customer has confirmed that the charges relating to energy supply, at this time, are solely the purchase power adjustment rider. AEP can be expected to seek to collect the revenue shortages from the purchase power adjustment rider discount from other customers, including residential consumers. Residential customers' share of the increase is estimated to be [redacted] per year when the data centers are expanded to [redacted] However, the application does identify other riders (which may be approved in the future) as relating to energy supply, including "riders to support renewable energy, new or legacy gas/coal/nuclear generating plants or any other rider intended to provide generation services, rate stability in energy supply and/or fuel costs."[5] The per account, per month kWh usage cap would be applied to these riders, though they are not presently a part of AEP Ohio's current electric security plan. Examples of riders that would likely

[4] Application at ¶33 (Sept. 1, 2017).

[5] Applicant Schedule.

be subject to the KWh monthly usage cap (or not paid at all by the mercantile customer[6]) proposed in AEP Ohio's pending electric security plan are the Renewable Generation rider, the SmartCity rider, the Power Forward rider, and the Plugin Electric Vehicle tariff. If these riders are approved by the PUCO, and considered as "relating to energy supply," the mercantile customer monthly per account kWh usage cap will apply. AEP then can be expected to seek to collect the foregone revenues associated with the discount from other customers, including residential consumers.

The impact of these charges is unknown because the rider charges have not been established. Nonetheless, these eventual additional costs will increase the monetary benefits of the proposed economic development arrangement and will ultimately add to the charges customers must pay.

The third discount given to the mercantile customer under the application is that the mercantile customer does not have to pay charges under the Retail Stability Rider for deferred capacity costs. If the retail stability rider were applied to the mercantile customer, the mercantile customer would have paid approximately [redacted] per year (at full build-out of the [redacted] data centers). Without that collection from the mercantile customer, non-residential customers will have to pay their own share of the charge plus the mercantile customer's share.[7]

These particular costs to consumers should be quantified and considered as part of the PUCO's balancing of program benefits with all of the costs to be paid by customers to

[6] There is an Automaker credit tariff the mercantile customer would likely avoid.

[7] Application at 30, p. 49. Residential customers' share of the retail stability rider is capped at $43.7 million with the residual revenue requirement of the RSR ($344.3 million) collected from non-residential customers. See *In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company*, Case No. 10-2929-EL-UNC, Joint Stipulation and Recommendation at ¶A. 2. (Dec. 21, 2016). Thus, residential customers should not pick up the mercantile customer's share of the RSR.

their utility for economic development programs. As stated above, this recommendation applies to any applicant's proposal for economic development.

B. The PUCO should establish caps (limits) on what customers would be charged by their utility annually and in total to subsidize economic development programs.

Currently, AEP Ohio's Economic Development Cost Recovery Rider is set at 2.81125% of a customer's distribution charges.[8] For an average residential customer using 1,000 kWh per month, that charge equals roughly $0.75 per month.[9] The subsidy charges vary over time according to applications and PUCO approvals, and AEP Ohio has had much higher monthly charges to customers for economic development, at times.[10] That adds up to almost $12 million in economic development subsidies per year paid by AEP Ohio's residential customers. If this application is approved, the subsidies paid by residential customers will further increase. These subsidy charges, whether called delta revenue or something else, would further increase the rates paid by AEP's Ohio residential customers that are already amongst the highest in the state of Ohio, as well as the highest rates paid since 2011 by AEP customers in its 11-state service territory.[11]

For economic development applications, the PUCO should consistently impose an overall cap (limit) on what consumers could be charged by their utility to subsidize economic development programs. Doing so is consistent with the PUCO's practice of

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[8] Ohio Power Company Standard Tariffs 8th Revised Sheet No. 482-1.

[9] Ohio Power Company - Columbus Southern Power Rate Zone Bill Calculation Spreadsheet found at https://aepohio.com/account/bills/rates/aepohioratestariffsoh.aspx.

[10] As an example in the Ohio Power Company Tariffs issued on April 15, 2011 the Economic Development Cost Recovery Rider was set at 7.53678% of customers' distribution charges. This equated to $1.97 per month for a residential customer using 1,000 kWh.

[11] American Electric Power 2016 Fact Book presented at the 50th EEI Financial Conference November 6-9, 2016. http;//www.aep.com/investors/EventsPresentationsAnd Webcasts.

establishing a limit on what customers can be asked to pay in reasonable arrangement cases, given that customers have limited resources.[12] The appropriate overall charge cap for consumers should be established for each year of an individual program and for the total cost that can be charged over the entire program. And the caps should include all the utility subsidies available to an applicant that are paid by other consumers, including subsides such as those in this case that reflect usage discounts on certain tariffs and completely avoid other charges. Under this application, while there is a cap on the mercantile customer's usage for energy related charges, there lacks a corresponding protective cost cap for consumers who will be charged by AEP for the arrangement for ten years.

Additionally, the PUCO should establish a limit on the total amount of money paid by all Ohio utility customers for all economic development resulting from requests to the PUCO for these discounts. The subsidies that consumers are asked to pay to electric utilities for all economic development should not exceed, in total, a certain low percentage of consumers' electric bills. This cap should be established by the PUCO in a PUCO-ordered investigation or a generic docket.

C. The PUCO should determine a reasonable sharing of the costs of economic development between AEP and its customers.

The PUCO's original policy for economic development, which dates back more than 30 years, included a sharing of delta revenues between utilities and consumers.[13]

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[12] See *In the Matter of the Application of Ormet Primary Aluminum Corporation for Approval of a Unique Arrangement with Ohio Power Company and Columbus Southern Power Company*, Case No. 09-119-EL-AEC, Opinion and Order at 10 (July 15, 2009).

[13] See *Ohio Electric Innovative Rates Program*, page 5 of 11 (June 28, 1983). (Attachment A).

Under that policy approach, the PUCO should provide for a reasonable split of the economic development costs between the utility and customers.

AEP is benefitting from the mercantile customer's expansion in the service territory through increased revenue from the new and existing data centers. Given this benefit, Ohio Power should not pass all costs resulting from this arrangement onto its customers. In the past the PUCO has held "that a 50/50 split properly recognizes that both the company and its customers benefit from the company's policy of providing economic incentive rates to certain customers to attract new business in the utility's service territory."[14] Furthermore, this 50/50 sharing of the delta revenue is consistent with other decisions that addressed the issue years ago.[15]

The PUCO's original policy complements the provisions in S.B. 221 that address economic development arrangements. S.B. 221 does allow a utility to seek to charge other customers for "revenues foregone" as a result of an economic development arrangement.[16] But the PUCO's rules,[17] along with the permissive statutory language,[18] make it clear that the collection of delta revenues from other customers is a matter within

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[14] *In the Matter of the Application of Columbus Southern Power Company for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Electric Service*, Case No. 91-418-EL-AIR. Opinion and Order at 110. (May 12, 1992).

[15] See *Ohio Edison Company*, Case No. 89-1001-EL-AIR, Opinion and Order at 40-41. (August 16, 1990), at 40-41 and *Cleveland Electric Illuminating Co.*, Case No. 88-170-EL-AIR, Opinion and Order at 18-19 (January 31, 1989).

[16] R.C. 4905.31(E).

[17] *In the Matter of the Application of Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code in the Form of an Electric Security Plan*, Case No. 08-935-EL-SSO.

[18] Under R.C. 4905.31(E) a utility is not prohibited from seeking an arrangement that includes a "financial device" that "may include a device to recover costs incurred in conjunction with any economic development and job retention program of the utility within its certified territory, including recovery of revenue foregone." The arrangement must then be approved by the PUCO and are subject to change, alteration, or modification by the Application.

the discretion of the PUCO.[19] Indeed, the PUCO acknowledged, in an appeal to the Ohio Supreme Court, that it can approve a unique arrangement without allowing the utility to collect any amount from other customers to pay the utility for lowering its rates to the mercantile customer.[20]

D. The PUCO should ensure public transparency and accountability exist for economic development programs, for Ohioans who pay subsidies to electric utilities for funding economic development rate discounts.

As a general proposition applicable to any economic development proposal, the Ohio public should have access to information about what they are subsidizing for economic development. In this regard, the Ohio Attorney General annually provides a reporting of the compliance of economic development awards given by the Ohio Development Services Agency. [21] This report publicly discloses the amount of grant awards, loan amounts, commitments, performance, and actions taken if the commitments are not reached. And, similar to what is reviewed in the annual report by the Attorney General for other Ohio economic development programs, there should be tracking of whether recipients of economic development funds are fulfilling their commitments to Ohioans for the advancement of economic development.

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[19] Ohio Admin. Code 4901:1-38-08(A)(1).

[20] See *In the Matter of the Application of Ormet Primary Aluminum Corporation for Approval of a Unique Arrangement with Ohio Power Company and Columbus Southern Power Company*, Supreme Ct. Case No. 09-2060, Brief of the Public Utilities at 12 (Mar. 3, 2010). "Appellant [CSP/OP] mistakenly believes that it is entitled to receive specific amounts from all customers, reasoning that money it doesn't get from one customer it must get from another. This is not now, and never was, the law. As discussed above, R.C. 4905.31 requires no adjustment at all."

[21] *2015 Report to the General Assembly: Award Recipient Compliance with State Awards for Economic Development*, http://www.ohioattorneygeneral.gov/Files/Publications-Files/Publications-for-Busienss/2015-Economic-Development-Report-FINAL-(11_23_15).aspx.

The Ohio Administrative Code, that the PUCO adopted, requires an annual report to be filed by customers served under a unique arrangement. The report is to display the value of any incentives and the impact on customers.[22] In the application, the mercantile customer proposes that the annual report be given only to the PUCO and the PUCO Staff.[23]

At a minimum, the PUCO should treat these reports similar to the annual reports in an earlier case where the PUCO ordered the reasonable arrangement reports to be released to the Ohio Consumers' Counsel.[24] The amount of delta revenue (subsidy paid by consumers) was made public by an applicant in a recent case.[25]

E. The PUCO has the flexibility, provided under its rules (Ohio Admin. Code 4901-1-38-09(B)), to charge the mercantile customer part or all of the incentives provided if the mercantile customer does not comply with eligibility criteria or the reporting requirements. This authority should not be taken away from the PUCO.

The economic development arrangement under review is proposed to last a long time --ten years. As part of the proposed arrangement, the mercantile customer proposes to create more than 25 new full-time or full-time equivalent jobs within three years.[26] The mercantile customer also commits to maintain its operations at the Ohio campuses

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[22] Ohio Admin. Code 4901:1-38-06 (A).

[23] See provision 8 of proposed contract.

[24] *In the Matter of the Application for Establishment of a Reasonable Arrangement between Eramet Marietta, Inc. and Columbus Southern Power Company*, Case No. 09-516-EL-AEC Entry at 8 (March 3, 2011).

[25] *In the Matter of the Application of the TimkenSteel Corporation for Approval of a Unique Arrangement for the TimkenSteel Corporations' Stark County Facilities*, Case No. 15-1857-EL-AEC, Opinion and Order at 8 (Dec. 12, 2015).

[26] Application at ¶38.

during the ten-year term of the arrangement.[27] These commitments are a criterion the PUCO requires for approving an economic development arrangement.[28]

Under the PUCO rules, if the mercantile customer fails to substantially comply with any of the criteria for eligibility (or the reporting requirements discussed earlier) the electric utility shall terminate the arrangement unless ordered by the PUCO.[29] The PUCO also has the authority to direct the electric utility to charge the customer for all or part of the incentives previously provided.[30] These rules ensure that customers who subsidize the incentives get the benefit of the bargain.

But under the proposed contract the mercantile customer can terminate the reasonable arrangement "without minimum monthly billing demand charges or other penalties."[31] This provision should be modified to allow the PUCO to exercise its discretion to take appropriate action if the mercantile customer fails to meet its commitments. Modification would be consistent with the PUCO's rules and would protect customers who fund the discount given to the mercantile customer.

III. CONCLUSION

The Ohio Consumers' Counsel appreciates this opportunity to comment. Our recommendations are directed to assisting the PUCO find the balance between the benefits of economic development and the costs (charges) to Ohioans who fund the economic development programs.

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[27] Id at 39.

[28] See Ohio Adm. Code 4901:1-38 -03(A)(2)(b).

[29] Ohio Adm. Code 4901:1-38-09(A).

[30] Id. at (B).

[31] Application at ¶19.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Comments (Public Version) have been served upon the below-named persons via electronic transmission this 21st day of September 2017.

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Attachment A

ATTACHMENT II

POLICY PRECEDENT FILE

TITLE Ohio Electric Innovative Rates Program — Page 1 of 11

Ohio Economic Recovery Initiatives — Approved by J. S. Marrows, M. R. Maze

Electric Rate Incentives — Date Effective 6 / 24/ 83

1.0 Staff Treatment	2.0 Legal Authority	3.0 Application Procedure
1.1 Current	2.1 Statute	3.1 Methodology
1.2 Alternative Approaches - Not Current Treatment	2.2 PUCO Rule	3.2 Adjustments
1.3 Rationale	2.3 Commission Orders	3.3 Staff Report Language
1.4 Background	2.4 Appellate Decisions	

1.0 STAFF TREATMENT

1.1 Current Staff Treatment

The Staff policy is to recommend Commission approval of reasonable utility proposals as short-term electric rate economic recovery incentives. Approved incentives are of two types:

- Individualized service and rate agreements between a utility and a customer, pursuant to Section 4905.31, Ohio Revised Code (Reasonable Arrangements Allowed; Variable Rate), and

- Modifications to tariff rate schedule provisions, providing for waiver of minimal bills pursuant to Section 4909.18 Ohio Revised Code (Application for Tariff Approval, Not for An Increase in Rates).

Staff recommended rate incentives apply to customers with the following characteristics:

- New customers and corresponding new load, which otherwise would not have occurred, resulting in marginal revenue, not otherwise received, or

- Existing customers with load which otherwise would not have occurred, resulting in marginal revenue, not otherwise received, or

- Maintenance of existing customers and load which otherwise would be lost.

1.2 Alternative Approaches - Not Current Treatment

Alternative treatment of the unrecovered cost of service, resulting from sales attrition, is to allocate it among all classes of customer rates.

1.3 Rationale

The Electric Economic Recovery Rate Program is designed only to recapture sales attrition, incrementally improve efficiency of use of existing facilities and thereby contribute to the maintenance of all customer class rate levels.

POLICY PRECEDENT FILE

T [illegible] [illegible] [illegible] Program Page 2 of 11

Orig [illegible] Approved by [illegible]

E [illegible] Date Effective [illegible]

1.0 Staff Treatment
1.1 Current
1.2 Alternative Approaches - Not Current Treatment
1.3 Rationale
1.4 Background

2.0 Legal Authority
2.1 Statute
2.2 PUCO Rule
2.3 Commission Orders
2.4 Appellate Decisions

3.0 Applied Treatment
3.1 Methodology
3.2 Adjustments
3.3 Staff Report Language

Significant [illegible] industrial and commercial [illegible] occurred from 1975, [illegible] [illegible] of [illegible] reduced the efficiency of existing [illegible] and [illegible] factor by [illegible] [illegible] on the [illegible] [illegible] [illegible] of [illegible] [illegible] [illegible] [illegible] cost of service and [illegible] of existing [illegible] [illegible] customer [illegible]

1.4 History [illegible]

I [illegible] [illegible] [illegible] load [illegible] for the [illegible] [illegible] [illegible] 1983 [illegible] [illegible] [illegible] [illegible] June [illegible] to the Commission [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] recovery [illegible] [illegible] production.

PUBLIC DOCUMENT FILE

TITLE Ohio Electric Innovative Rates Program — Page 3 of 11

Ohio Economic Recovery Initiatives — Approved by J. O. Herrick, D. H. Hess

Electric Rate Incentives — Date Effective 6 / 26/ 83

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2.0 LEGAL AUTHORITY

2.1 Statute

Applicable Sections: 4905.31 O.R.C., 4909.18 O.R.C .

Section 4905.31 O.R.C. specifies that a public utility may enter into any reasonable arrangement with its customers providing for any financial service that may be practicable or advantageous to the parties interested. No such arrangement is lawful unless it is filed with and approved by the PUCO and under the supervision and regulation of the Commission. The Ohio Electric Innovative Rates Program, with the authority of 4905.31, is not violative of O.R.C. 4905.32, which prohibits a public utility from furnishing free service or service for less than actual cost.

Section 4909.18, O.R.C., requires a public utility desirous of modifying any existing rates to file a written application with the PUCO according to the specifications under that and other applicable statutes.

2.2 PUCO Rule - None Specifically Applicable

2.3 Commission Orders

The Opinion & Order issued by the Commission for the consolidated cases 83-134Z-EL-ATA/83-1383-WE-ATA, comments on 4905.31 O.R.C. as follows:

> "Thus ... arrangements must be reviewed and approved by the Commission before it becomes effective so as to ensure that it is just and reasonable and to ensure that it will not adversely affect the balance of the company's customers."

The Commission also recognized that "so long as the company does not provide this service at a loss, it is better off with some revenue than it is with no revenue, the situation which would obtain if a given customer was not on the system at all. In general, the balance of the company's customers benefit from this maximization of revenues, for it tends to forestall the company's next general rate application."

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TITLE Ohio Electric Innovative Rates Program — Page 4 of 11

Ohio Economic Recovery Initiatives — Approved by J. B. Barrett, D. E. Hess

Electric Rate Incentives — Date Effective 6 / 24/ 83

1.0 Staff Treatment	2.0 Legal Authority	3.0 Applied Treatment
1.1 Current	2.1 Statute	3.1 Methodology
1.2 Alternative Approaches - Not Current Treatment	2.2 Rule/Rule	3.2 Adjustments
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Although the Commission denied CEI's request to amend its filed schedules for electric service and steam service in this case, it did so because:

1. CEI wished to provide electric and steam service to certain customers without regard to cost of service considerations in order to be competitive with other energy sources (possibly causing the existing customers to subsidize this service).

2. CEI wished to use its own discretion for each individual case, violative of O.R.C. §4905.31 and §4905.16.

2.4 Appellate Decisions - None Specifically Applicable

POLICY PRECEDENT FILE

TITLE Ohio Electric Innovative Rates Program — Page 6 of 11

Ohio Economic Recovery Initiatives — Approved by J. D. Bertram, D. K. Mann

Electric Rate Incentives — Date Effective 6/30/83

1.0 Staff Treatment	2.0 Legal Authority	3.0 Applied Treatment
1.1 Current	2.1 Statute	3.1 Methodology
1.2 Alternative Approaches - Not Current Treatment	2.2 PUCO Rule	3.2 Adjustments
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3.0 APPLIED TREATMENT

3.1 Methodology

Staff determines reasonable incentive rate proposals based on a combination of the following criteria:

- The term of the rate initiative is short-term; i.e. five years.
- The short run marginal revenue derived from application of the rate incentive is greater than the short run marginal cost of providing the service.
- The rate incentive applies primarily to increases in usage and load from that which occurred on a historical, or base level.
- Incremental usage and load occurs in combination with increased short-term customer production, and corresponding increases employment and local economic activity.
- The proposing utility reasonably satisfies utility specific regulatory reporting requirements for identifying and quantifying the short-term effects of the specific proposed initiative.
- The application of a rate incentive does not discriminate against other customers and does not adversely affect other customer services and rates.
- The rate initiative, terms and conditions of the proposal are understandable and is administratively convenient to apply.

3.2 Adjustments

Appropriate treatment of the Economic Recovery Rate contract customers will require modification of traditional cost of service methodology and rate treatment. In order that all customers receive benefits and that no customers be adversely affected, it is necessary to distinctly identify the special contract customers as a separate rate class. The creation of a separate customer class will assure equitable treatment for all ratepayers.

POLICY PRECEDENT FILE

TITLE Ohio Electric Innovative Rates Program Page 6 of 11

Ohio Economic Recovery Initiatives Approved by J. D. [illegible], [illegible]

Electric Rate Incentives Date Effective 6 / 20/ 83

1.0 Staff Treatment	2.0 Legal Authority	3.0 Applied Treatment
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Special attention is directed towards treatment of the revenue difference between that actually recovered under the Economic Recovery Rate and what would have been recovered had the sales been made at the applicable standard rate. This difference is the "Delta Revenue".

If not recovered, this "Delta Revenue" would constitute a shortfall, or deficiency, in the utility's proposed or Commission authorized revenue. There are a number of methods by which the deficiency could be recovered.

Staff recommends that the Economic Recovery Rate Program contract revenue deficiency be recovered on a shared or "split" basis; a portion to be recovered by the general customers and the remainder contributed by the utility. In the Staff's opinion, it is equitable that both the benefits and the costs of economic recovery be distributed to both customers and the company. The short run marginal sales in revenue from the Economic Recovery Rate Program contracts are a benefit to both the general ratepayers and the utility. The additional sales and revenue help to utilize the system more efficiently, provide increased coverage of fixed costs, incrementally improve the utility's operating income and result in a lesser cost of service by reducing the level of capacity which otherwise would be allocated to all customer classes.

The following chart is a hypothetical example to show the magnitude of revenue and deficiency under the Economic Recovery Rate Program contracts compared to the otherwise applicable tariffed rate revenue.

ECONOMIC RECOVERY RATE PROGRAM CONTRACT COMPARISONS*

	Average Tariffed Rates	Average Contract Rates	Contract Revenue Deficiency
Revenue	$ [illegible]	$ [illegible]	$ [illegible]
Rate Base	$1,[illegible]	$1,[illegible]	N.A.
Operating Income	$ [illegible]	$ [illegible]	$ [illegible]
Rate of Return	[illegible]%	[illegible]%	[illegible]%

* This example is not reflective of any tax effects.

POLICY PRECEDENT FILE

Ohio Electric Innovative Rates Program — Page 7 of 11

Ohio Economic Recovery Initiatives — Approved by J. D. Serrone, D. H. Maas

Electric Rate Incentives — Date Effective 6 / 20/ 83

1.0 Staff Treatment	2.0 Legal Authority	3.0 Applied Treatment
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1.3 Rationale	2.3 Commission Orders	3.3 Staff Report Language
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The Economic Recovery Rate Program contracts earned a 3.8% rate of return compared with the tariffed schedule rates (13.8%), resulting in a revenue deficiency of $100 in the form of operating income. The operating income deficiency should be distributed among the individual class rates and the utility as a contribution to the economic recovery effort. Staff recommends that half of the deficiency be borne by the utility as its contribution and half of the revenue deficiency be distributed to customers in accordance with the Staff recommended interclass revenue distribution. The following chart shows a hypothetical example of the manner in which the Economic Recovery Rate Program contract revenue deficiency should be recovered.

ECONOMIC RECOVERY RATE PROGRAM DEFICIENCY RECOVERY

	Residential	General Service	Other	Utility	Total
Revenue	$ 4,000	$3,000	$3,000	N.A.	$10,000
Percent Revenue	40%	30%	30%	N.A.	100%
Economic Recovery Rate Program Contributions	$ 20.00	$15.00	$15.00	$50.00	$ 100

3.3 Staff Report Language

The Economic Recovery Rate Program is designed such that each contract is evaluated separately. The individual utilities are providing information on a contract by contract basis. The review process by the Staff is evolutionary. The following is an excerpt from a recent Staff Report. This information must be looked upon as specifically tailored to Ohio Edison Company and its contract customers. Subsequent Staff Report language may be modified to appropriately address existing circumstances.

POLICY PROCEDURE FILE

TITLE Ohio Electric Innovative Rates Program Page 8 of 11

Ohio Economic Recovery Initiatives Approved by J. U. Harvey, D. H. Hite

Electric Rate Incentives Date Effective 6 / 20 / 83

1.0 Staff Treatment	2.0 Legal Authority	3.0 Applied Treatment
1.1 Current	2.1 Statute	3.1 Methodology
1.2 Alternative Approaches - Not Current Treatment	2.2 PUCO Rule	3.2 Adjustments
1.3 Rationale	2.3 Commission Orders	3.3 Staff Report Language
1.4 Background	2.4 Appellate Decisions	

Ohio Electric Innovative Rate Programs - Ohio Edison Company
Case No. 84-1369-EL-AIR

On September 29, 1983, Staff issued its document entitled "Ohio Electric Innovative Rate Programs". The document represents an effort on the part of the Commission to separate the topics of rate levels from rate design in order to better understand utility pricing policies, philosophies and related operations. The study was prepared by the Staff and representatives of the state's investor-owned electric utilities. The participants met regularly over the course of fifteen months during 1982 and 1983 with the intention of elaborating on specific rate design objectives and activities which are conducted to support and encourage innovations. The resulting report was directed at initiating a better structure for identifying innovative rate opportunities.

Staff finds that the individual electric utility submittals to the Innovative Rate Program are beneficial to the Staff and Commission. Utility statements of rate design philosophy, policies, objectives and corresponding implementation activities provide an additional basis for better evaluating specific utility rates and rate schedule proposals. In the Staff's opinion, utility rationale of this nature should be relatively consistent with respect to desired longer term achievements and may add elements of integrity and credibility to rate proposals beyond that which may exist in case specific applications. Such a presentation by the utility may help to minimize the resources required by the Staff and Commission to evaluate rate proposals. Also, Staff finds that the Innovative Rate Document could provide a basis for establishing an additional level of utility accountability, particularly with respect to authorized innovations.

Continued emphasis should be placed on promoting economic efficiencies. This can be achieved by promoting the use of the product (electricity) which will create increases in revenues and lessen the need for continual rate increase requests. It must be stressed that the goal is to more efficiently utilize existing facilities rather than creating a worse situation whereby additional facilities will need to be built to overcome a deteriorating system load factor.

Staff recommended in Case No. 83-1130-EL-AIR that within forty-five days subsequent to the issuance of the Commission's Opinion and Order, the Applicant submit to the Staff a document updating and revising the contents of its

POLICY PRECEDENT FILE

TITLE Ohio Electric Innovative Rates Program — Page 5 of 11

Ohio Economic Recovery Initiatives — Approved by J. D. Harrman, D. D. Mann

Electric Rate Incentives — Date Effective 5 / 20/ 82

1.0 Staff Treatment	2.0 Legal Authority	3.0 Rational Treatment
1.1 Current	2.1 Statute	3.1 Methodology
1.2 Alternative Approaches or Not Current Treatment	2.2 PUCO Rule	3.2 Adjustments
1.3 Rationale	2.3 Commission Orders	3.3 Staff Report Language
1.4 Background	2.4 Appellate Decisions	

Electric Innovative Rate Program. Applicant submitted the requested information after the filing of the above case, in the format requested. Applicant also appropriately filed the up-date to incorporate any additions or revisions which included the Special Arrangements for Economic Development Program (SAED).

The SAED Program incorporates limited term billing demand discounts, as an incentive to new industrial customers to locate in Applicant's service area, and also encourages existing customers to expand their operations. In both instances exist the possibility for new or retained jobs in addition to increased revenue from sales.

Applicant has filed with the Commission, on a case by case basis, Applications for Special Arrangements for Economic Development approval. Applicant is actively encouraging industrial load growth by this program to better utilize the capital investment in plant facilities and to add jobs in its service territory.

Staff believes that Applicant, prudently, is attempting to better its financial position and also the economic well-being of its customers by offering programs that will encourage the recovery of revenue from investment in plant, thereby bringing stability to its service area.

Staff finds that in each SAED filing, Applicant represented to the Commission that the approval would not operate to the detriment of any of its customers. In the instant case, Applicant did not consider the annualized impact of the loads of the customers (SAED) coming on line nor did Applicant introduce the revenue effect experienced by Applicant through the demand discount incentive. Staff has found in its investigation that, to date, the SAED customers coming on Applicant's system represent a load addition of less than 2/10 of 1% relative to total system load.

In answer to Staff's Data Request, Applicant stated that "all demand and kwh data in the (instant) case has been projected without regard to these programs". Applicant will propose a methodology to adjust for and appropriately split benefits when they experience a significant impact.

POLICY PRECEDENT FILE

TITLE Ohio Electric Innovative Rates Program — Page 10 of 11

Ohio Economic Recovery Initiatives — Approved by J. W. Bertram, B. K. Mann

Electric Rate Incentives — Date Effective 6 / 29/ 83

1.0 Staff Treatment	2.0 Legal Authority	3.0 Applied Instruments
1.1 Current	2.1 Statute	3.1 Mandatory
1.2 Alternative Approaches - Not Current Treatment	2.2 PUCO Rule	3.2 Adjustments
1.3 Rationale	2.3 Commission Orders	3.3 Staff Report Language
1.4 Background	2.4 Appellate Decisions	

Staff recommends that, within 90 days subsequent to the issuance of the Commission's Opinion and Order, the Commision order Applicant to submit to the Staff a report demonstrating the following:

(1) All probable benefits, direct and indirect, to each specific customer class.

(2) All possible detriments, direct and indirect, to each specific customer class.

(3) A case study of an actual SAEB customer, measuring and detailing, with specificity, the revenue and expense differences between the regular rate and SAEB rate and the effect it has on the following:

(a) Applicant's corporate structure

(i) Financial

(ii) Production and reserve balances

(iii) Transmission and distribution systems

(b) Inter class effect

(c) Intra class effect

(d) Jurisdictional service area economic impact study demonstrating the effect on, but not limited to, the following:

(i) Company revenue and expense

(ii) Property tax base

(iii) New Jobs

(iv) New housing starts

(v) Support systems (i.e., new commercial development)

(vi) Other

(4) Case studies of various load levels (i.e., 2kW, 10kW, 100kW, 200kW) employing the average load factor for the LS-Large Customer Class, and, where appropriate, using the data developed in No. 3 above as a model.

(5) Specifically detail the criteria upon which Applicant will determine if the revenue and expense effect is significant enough to apply a methodology of treatment.

(6) Applicant's methodology(ies) for treatment of the revenue and expense effect, caused by the program, in future rates cases.

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Summary: Comments Public Comments by The Office of the Ohio Consumers' Counsel electronically filed by Ms. Jamie Williams on behalf of Willis, Maureen Mrs.