**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
| --- | --- | --- |
| In the Matter of the Procurement of Standard Service Offer Generation as Part of the Fourth Electric Security Plan for Customers of Ohio Edison Company, the Cleveland Electric Illuminating Company, and The Toledo Edison Company.  In the Matter of the Procurement of Standard Service Offer Generation for Customers of the Dayton Power and Light Company.  In the Matter of the Procurement of Standard Service Offer Generation for Customers of Ohio Power Company. | )  )  )  )  )  )  )  )  )  )  )  )  ) | Case No. 16-776-EL-UNC  Case No. 17-957-EL-UNC  Case No. 17-2391-EL-UNC |
| In the Matter of the Procurement of Standard Service Offer Generation for Customers of Duke Energy Ohio, Inc. | )  )  ) | Case No. 18-6000-EL-UNC |

**APPLICATION FOR REHEARING**

**BY**

**THE OFFICE OF THE OHIO CONSUMERS’ COUNSEL**

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August 14, 2020 (willing to accept service by e-mail)

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**APPLICATION FOR REHEARING**

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Based primarily on the recommendation of Energy Harbor, Inc.—formerly known as FirstEnergy Solutions—the PUCO approved a process that changes how utilities run their standard service offer (“SSO”) auctions, but not in a good way. These auctions have been one of the few bright spots for electric consumers in Ohio because they allow customers the benefit of market competition and low prices for electric generation. Unfortunately for consumers, the PUCO’s July 17, 2020 Finding and Order (the “Order”) threatens to upend the SSO auction process by introducing additional uncertainty and risk into the process. That uncertainty and risk will likely result in higher prices for consumers.

The PUCO should modify the Order on rehearing. The PUCO should largely keep the current SSO auction process intact, where energy suppliers bid against each other to provide energy and capacity to SSO customers at market rates. Only a slight change to the SSO auction process is necessary (modifying near-term auctions to reflect known capacity prices in 2021 and 2022) to account for current uncertainty about when the next PJM Interconnection capacity auction (the Base Residual Auction) will take place. The PUCO has already addressed this issue by modifying the Fall 2020 and Spring 2021 SSO auctions to include only a 12-month energy and capacity product based on currently-known capacity prices for 2021 and 2022.[[1]](#footnote-2) Nothing further is required at this time.

Yet the PUCO went much further, introducing a new dual-auction process that is similar to the approach endorsed by Energy Harbor. It requires suppliers to offer capacity at a fixed price for a period of four years, which would extend beyond the term of electric utilities’ currently-approved electric security plans and any current capacity auction process administered by PJM. In this regard, the Order is unlawful and unreasonable.

On rehearing, the PUCO should modify the Order to eliminate the dual-auction process because it is unlawful and unreasonable in the following respects:

Assignment of Error 1: The PUCO erred by approving terms for SSO auctions that extend beyond the electric utilities’ currently-approved electric security plans, which violates R.C. 4928.143.

Assignment of Error 2: The PUCO erred because the record does not support the PUCO’s ruling, and the PUCO did not adequately justify its modification of prior orders, thus violating R.C. 4903.09 and Supreme Court of Ohio precedent.

Assignment of Error 3: The PUCO erred by amending the SSO auction process to add unnecessary complexity and uncertainty, thus threatening to increase prices for consumers who have historically benefitted from low, market-based SSO prices for electric generation service.

Respectfully submitted

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**MEMORANDUM IN SUPPORT OF APPLICATION FOR REHEARING**

**BY**

**THE OFFICE OF THE OHIO CONSUMERS’ COUNSEL**

The use of competitive bidding to obtain electricity from suppliers by utilities for their standard service offer customers has been one of the few bright spots of the SSO regulatory framework in Ohio. The competitive auction for SSO supply has worked well as demonstrated by the record low electricity prices in recent auctions and the steady decline in generation costs paid by SSO customers.[[2]](#footnote-3) Now, however, the PUCO is potentially upending that process by adopting a new process proposed by Energy Harbor f/k/a FirstEnergy Solutions. (FirstEnergy Solution is potentially embroiled in an alleged corrupt pay-to-play scandal never before seen in this state related to legislation (House Bill 6) that gave them more than $1 billion in subsidies, paid for by Ohioans).

Under the new process, customers could begin paying for capacity based on long-term, fixed prices offered by competitive suppliers. This long-term product increases risk (and consequently increases price) based on the inherent uncertainty in predicting future capacity prices. Thus, while the PUCO’s stated goal might be to “lock in” low prices, its chosen process will likely have the opposite result of locking in higher prices rather than letting the market dictate generation rates paid by consumers, as the General Assembly intended.

On rehearing, the PUCO should eliminate the “dual auction” approach found in paragraph 35 of the Order. The PUCO should continue with its plan for Fall 2020 and Spring 2021 auctions to proceed with a 12-month product only. Subsequent auctions will very likely take place after the next PJM base residual auction has occurred, at which point such auctions can continue to operate based on known capacity prices.

# i. ASSIGNMENTS OF ERROR

## Assignment of Error 1: The PUCO erred by approving terms for SSO auctions that extend beyond the electric utilities’ currently-approved electric security plans, which violates R.C. 4928.143.

As the Order acknowledges, the PUCO’s modified SSO auction process “extends beyond the terms of the EDUs’ existing [electric security plans].”[[3]](#footnote-4) For that very reason, the modified SSO auction process is unlawful. The Order’s auction process also extends beyond PJM’s traditional three-year out capacity auction method. SSO bidders, therefore, will be required to guess at what those future prices might be, even if PJM resumes its capacity auctions before the SSO auctions take place. This needless uncertainty will result in additional risk for SSO participants, which will almost certainly translate into higher prices for consumers. This is most likely the motivation for Energy Harbor’s proposal in this proceeding (*i.e*., more profits by charging higher prices to consumers).

It is well established that the PUCO is a creature of statute that can exercise only that authority granted to it by the Ohio General Assembly.[[4]](#footnote-5) The question then becomes what statute authorizes the PUCO to mandate an approach to SSO auctions, outside the parameters of an electric security plan application, that extends beyond the terms of the utilities’ currently-approved standard service offers. The PUCO cites no such statutory authority in the Order, instead attempting to justify its decision based on its assertion that doing so “will provide stability to customers by taking action to lock-in historically low prices observed in recent auctions and thereby attempt to manage price volatility risks.”[[5]](#footnote-6) But no statute authorizes the PUCO to take such action simply because the PUCO believes that it would provide stability.[[6]](#footnote-7)

Nor is any such authority found in R.C. Chapter 4928. Under R.C. 4928.141, electric utilities are required to provide a standard service offer under either a market rate offer (under R.C. 4928.142) or an electric security plan (under R.C. 4928.143). And notably, a standard service offer can *only* be approved as part of a market rate offer or electric security plan. R.C. 4928.141(A) provides that “[o]nly a standard service offer authorized in accordance with section 4928.142 or 4928.143 of the Revised Code, shall serve as the utility’s standard service offer for the purpose of compliance with this section; and that standard service offer shall serve as the utility’s default standard service offer for the purpose of section 4928.14 of the Revised Code.”

By approving standard service offer auction requirements that extend beyond the term of utilities’ current electric security plans, the PUCO has effectively approved a standard service offer that is *not* part of a market rate offer or an electric security plan. This violates the plain language of R.C. 4928.141(A) and thus is unlawful—the PUCO has no jurisdiction to approve the plan outside the confines of the law. Approval of a standard service offer must be explicitly tied to a market rate offer or an electric security plan. It was not here. The PUCO erred.

## Assignment of Error 2: The PUCO erred because the record does not support the PUCO’s ruling, and the PUCO did not adequately justify its modification of prior orders, thus violating R.C. 4903.09 and Supreme Court of Ohio precedent.

R.C. 4903.09 requires the PUCO to file “findings of fact and written opinions setting forth the reasons prompting the decisions arrived at, based upon said findings of fact.” R.C. 4903.09 “requires the commission to explain its decisions and identify in sufficient detail the record evidence upon which its orders are based.”[[7]](#footnote-8) Further, the PUCO “abuses its discretion if it decides an issue without adequate record support.”[[8]](#footnote-9)

The Supreme Court of Ohio long ago held that the PUCO must “respect its own precedents in its decisions to assure the predictability which is essential in all areas of law, including administrative law.”[[9]](#footnote-10) In that same decision, the Court noted, however, that the PUCO “should be willing to change its position when the need therefor is clear and it is shown that prior decisions are in error.”[[10]](#footnote-11) More recently, the Court has stated that the PUCO’s “modification power ... is not without limits.”[[11]](#footnote-12) When modifying prior orders, the PUCO must explain why it has changed course, and “the new course also must be substantively reasonable and lawful.”[[12]](#footnote-13)

Here, the new course is neither reasonable nor lawful.

The Order violates R.C. 4903.09 because there is insufficient record evidence to support the PUCO’s substantial change to the SSO auction process. And it violates Supreme Court precedent because the PUCO’s new course of action is substantively unreasonable and unlawful.

For each of Ohio’s electric distribution utilities, the PUCO has previously approved an SSO auction process under each of the utilities’ filed and approved electric security plans. Those plans are the sole avenue for suppliers to establish a standard service offer. The current SSO auctions with a combination of one-year, two-year, and three-year delivery periods have already been approved and are providing certain price stability and supply reliability for customers and, at the same time, reflect the changing market prices and expectations. And as mentioned earlier, these delivery periods are within the existing parameters for PJM’s traditional administration of the Base Residual Auction for capacity, thereby reducing risk for SSO auction participants—which translates into lower prices for consumers.

These auction processes were approved in heavily-litigated, heavily-vetted electric security plan cases, often involving dozens of parties, long negotiations, numerous witnesses, hearings, and extensive briefing. These cases have not always resulted in good results for consumers overall, but the SSO auction processes have worked well for consumers. Those processes have been refined over a number of years to reach their current form. Low wholesale market prices resulting from competition are intended to result in lower SSO prices for consumers. The current uncertainty regarding PJM’s capacity auctions aside, there is simply no indication that the SSO auction process is ripe for substantial change.

Yet now, the Order seeks to radically change the way in which SSO prices are set without a single witness testifying, without a hearing, and without the development of any factual record whatsoever. The PUCO’s chosen approach is not supported by *any* of the electric distribution utilities, *any* of the parties representing customers (residential or otherwise), or the PUCO Staff. Instead, the Order appears to be based exclusively on the recommendations in comments filed by Energy Harbor, LLC (formerly known as FirstEnergy Solutions)[[13]](#footnote-14)—the entity that owns two nuclear power plants that received a bailout under House Bill 6 and which are the subject of an ongoing major political and legal scandal in Ohio.[[14]](#footnote-15)

There is virtually no evidence that Ohio’s SSO auction process needs to be overhauled. Indeed, there is no *record* evidence whatsoever because the PUCO did not hold a hearing and did not allow parties to file testimony or cross examine witnesses. In support of the new SSO procedure, the PUCO cites two factors: uncertainty regarding when PJM’s future capacity auctions will occur, and “low wholesale market energy prices” in recent auctions.[[15]](#footnote-16) But neither of these factors sufficiently explains why the PUCO would dispose of the current SSO auction process in favor of Energy Harbor’s preferred approach.

First, uncertainty regarding PJM’s capacity auctions can be handled in the short term by proceeding with auctions for 12-month products only based on 2021/2022 capacity prices, which are already known. The Order acknowledges this by requiring Fall 2020 and Spring 2021 auctions to do precisely this.

Second, issues regarding PJM’s capacity auctions are likely to be resolved in time for Fall 2021 SSO auctions. By Fall 2021, PJM will very likely have held at least the base residual auction for 2022/2023, so the Fall 2021 SSO auctions can proceed in a similar fashion, with suppliers offering a product based on known capacity products.

Third, “low wholesale market energy prices” cannot explain the PUCO’s deviation from the current process to the new Energy Harbor process. When wholesale prices are low, that informs participants in the SSO auctions and results in lower SSO prices paid by consumers. The current mechanism already accounts for fluctuations in wholesale market prices because bidders take those prices into account when offering into the SSO auctions. There is no support for the PUCO’s claim that low wholesale prices have “changed the circumstances under which the EDUs’ ESPs were originally approved.”[[16]](#footnote-17) Further, the electric distribution utilities’ current SSO auction processes were all approved in the past four years (2016 for FirstEnergy,[[17]](#footnote-18) 2018 for AEP,[[18]](#footnote-19) 2018 for Duke,[[19]](#footnote-20) and 2019 for DP&L[[20]](#footnote-21)), when wholesale prices were already low. Thus, there is no factual basis for the PUCO’s conclusion that low wholesale prices are a new development in comparison to the approval of electric utilities’ current SSO auction processes.

While it is true that under certain circumstances, the PUCO may modify past orders, this is not one of those circumstances. The PUCO failed to adequately explain the basis for its modifications and what little factual record there is in this case (comments but no testimony or hearing) does not support a radical change in the electric distribution utilities tried-and-true SSO auction process. Thus, the Order violates R.C. 4903.09 and Supreme Court of Ohio precedent, and it should be modified on rehearing.

## Assignment of Error 3: The PUCO erred by amending the SSO auction process to add unnecessary complexity and uncertainty, thus threatening to increase prices for consumers who have historically benefitted from low, market-based SSO prices for electric generation service.

More than 20 years ago, the Ohio General Assembly passed Senate Bill 3, setting Ohio on a path to a market-based approach to electricity generation. Today, one of the best results of that decision for consumers is the availability of auction-based, market prices for generation resulting from standard service offer auctions. In these auctions, suppliers compete with each other to provide the best prices for consumers. The Order threatens to upend this process by adding unnecessary uncertainty and thereby risk and higher prices for consumers.

The PUCO is rightfully concerned by PJM’s recent inability to perform its capacity auctions as a result of uncertainty and inaction at FERC. At the same time, the most recent Base Residual Auction procured capacity for 2021/2022.[[21]](#footnote-22) Thus, capacity prices are known for the next two years. The PUCO acknowledged this in its Order by providing that Fall 2020 and Spring 2021 SSO auctions can proceed with a full-requirements (*i.e.*, energy and capacity) 12-month product. By using a 12-month product, SSO auction bidders can bid based on the known capacity prices for 2021 and 2022. The Order’s decision to use a 12-month product for Fall 2020 and Spring 2021 SSO auctions makes sense.

For future SSO auctions (starting in Fall 2021), however, the Order requires electric utilities to use a “dual auction.”[[22]](#footnote-23) In one part of the dual auction, suppliers will offer a full requirements product (energy and capacity). The Order requires such offers to use June 2021 capacity prices as a “proxy” price, and then there will be a true up when the actual capacity prices are known.[[23]](#footnote-24) This process appears to be similar to the one proposed by FirstEnergy in its comments. It differs from the PUCO Staff’s and OCC’s preferred option of using a zero-proxy price instead of a proxy price based on June 2021 capacity prices. But generally, this approach also minimizes risk for consumers because it guarantees that they will pay the actual known capacity prices that result from future PJM Base Residual Auctions. It would also have the effect of reducing the risk imposed on bidders (because there is no uncertainty about capacity prices), and lower risk generally means lower prices.

The second part of the dual auction, however, requires suppliers to offer energy and capacity separately. It appears that bidders would be required to offer a fixed capacity price for a period of four years.[[24]](#footnote-25) The problem with this approach is that it introduces unnecessary uncertainty into the process. While it might be true that capacity prices are currently low, requiring bidders to offer a fixed capacity price for four years introduces new risks to the bidding process. A bidder faced with the uncertainty of future capacity prices will increase its bid to account for that risk—they will not simply assume that capacity prices will remain low and bid the current capacity price. As history has shown, capacity prices are volatile.[[25]](#footnote-26) Over a four-year period, bidders might expect similar volatility and increase their bids to account for this uncertainty. That risk would be shared by consumers who would pay higher SSO rates.

Another problem with this approach is that it is likely to be wholly unnecessary. While PJM’s recent Base Residual Auctions have been delayed, it is unlikely that they will continue to be delayed beyond Fall 2021. As the Order acknowledges, the Fall 2020 and Spring 2021 SSO auctions can proceed with auctions for a full requirements 12-month product based on known capacity prices. The PUCO’s new dual-auction process would not be implemented until Fall 2021. By that time, it is likely that the next base residual auction will have taken place and the capacity prices applicable to the Fall 2021 auction will be known. Thus, the Fall 2021 auctions should be able to proceed based on known capacity prices without the need for a proxy price and without the need for a separate, long-term capacity product.

Finally, the PUCO’s dual-auction process is vague in that it provides no details on how the PUCO will decide to implement a bid or not. The Order states that the two auctions “will run simultaneously” and that the PUCO “will select the bid to be implemented or reject the results of both auctions.”[[26]](#footnote-27) But the Order says nothing about what factors the PUCO will consider or how it will evaluate the various competing bids. This additional uncertainty from the PUCO’s chosen approach is unreasonable.

Rather than introducing the unnecessarily complex dual auction, the PUCO should instead (i) implement its proposed plan for a 12-month product for Fall 2020 and Spring 2021 SSO auctions, and (ii) plan to proceed with Fall 2021 SSO auctions and beyond based on the results of future base residual auction results, just as it has in the past. If base residual auctions continue to be delayed such that Fall 2021 SSO auctions cannot proceed based on known capacity prices (which is unlikely in the first place), then the PUCO’s plan to use the June 2021 capacity price as a proxy is reasonable and should be adopted. That proxy price can be adjusted accordingly (*i.e*. up or down) after actual prices are known. There is simply no need for the alternative approach of an auction involving long-term, fixed capacity prices.

# II. CONCLUSION

The Order is unlawful and unreasonable. There is no basis for the PUCO to dramatically alter Ohio’s competitive SSO auctions. Customers have benefitted from the market-based approach to SSO auctions, and they should continue to do so without the unnecessary modifications set forth in the Order.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that a copy of this Application for Rehearing was served on the persons stated below via electronic transmission, this 14th day of August 2020.

*/s/ Christopher Healey*

Christopher Healey

Assistant Consumers’ Counsel

The PUCO’s e-filing system will electronically serve notice of the filing of this document on the following parties:

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1. *See* Order ¶ 35. [↑](#footnote-ref-2)
2. *See, e.g.,* <https://www.legislature.ohio.gov/download?key=8111&format=pdf>. Specifically, the PJM Wholesale rate has declined from approximately $0.08/kWh in 2008 to approximately $0.05/kWh in 2016. [↑](#footnote-ref-3)
3. Order ¶ 37. [↑](#footnote-ref-4)
4. *Disc. Cellular, Inc. v. PUCO*, 112 Ohio St.3d 360, 373 (2007) (“The PUCO, as a creature of statute, has no authority to act beyond its statutory powers.”). [↑](#footnote-ref-5)
5. Order ¶ 37. [↑](#footnote-ref-6)
6. *See, e.g.*, *Time Warner v. PUC*, 75 Ohio St.3d 229, 241, 661 N.E.2d 1097 (striking down PUCO order as beyond PUCO authority even though it was founded in sound public policy). [↑](#footnote-ref-7)
7. *In re Ohio Edison Co.*, 158 Ohio St.3d 27, 37 (2019) (Donnelly, dissenting in part and concurring in judgment only) (citing *MCI Telecommunications Corp. v. PUCO*, 32 Ohio St.3d 306, 311-12 (1987). [↑](#footnote-ref-8)
8. *Id.* [↑](#footnote-ref-9)
9. *Cleveland Elec. Illuminating Co. v. PUCO*, 42 Ohio St.2d 403, 431 (1975). [↑](#footnote-ref-10)
10. *Id.* [↑](#footnote-ref-11)
11. *In re Ohio Power Co.*, 144 Ohio St.3d 1, 5 (2015). [↑](#footnote-ref-12)
12. *Id.* at 5 (quoting *In re Application of Columbus S. Power Co.*, 128 Ohio St.3d 512 (2011)). [↑](#footnote-ref-13)
13. *See* Comments of Energy Harbor LLC at 2-3 (Apr. 16, 2020). [↑](#footnote-ref-14)
14. *See* <https://www.dispatch.com/news/20200802/how-fbi-says-larry-householder-plotted-return-to-power-with-utility-companyrsquos-support>*.* [↑](#footnote-ref-15)
15. Order ¶ 34. [↑](#footnote-ref-16)
16. Order ¶ 34. [↑](#footnote-ref-17)
17. Case No. 14-1297-EL-SSO, Opinion & Order (Mar. 31, 2016). [↑](#footnote-ref-18)
18. Case No. 16-1852-EL-SSO, Opinion & Order (Apr. 25, 2018). [↑](#footnote-ref-19)
19. Case No. 17-1263-EL-SSO, Opinion & Order (Dec. 19, 2018). [↑](#footnote-ref-20)
20. Case No. 08-1094-EL-SSO, Second Finding & Order (Dec. 18, 2019) (continuing DP&L’s current SSO auction process after DP&L withdrew its third electric security plan and reverted to its first electric security plan). [↑](#footnote-ref-21)
21. *See* <https://www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2021-2022/2021-2022-base-residual-auction-report.ashx>. [↑](#footnote-ref-22)
22. Order ¶ 35. [↑](#footnote-ref-23)
23. Order ¶ 35. [↑](#footnote-ref-24)
24. Order ¶ 35. [↑](#footnote-ref-25)
25. *See* <https://www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/rpm-auctions-resource-clearing-price-summary.ashx?la=en>. [↑](#footnote-ref-26)
26. Order ¶ 35. [↑](#footnote-ref-27)