**BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of Ohio Power Company to Amend Its Supplier Coordination Tariff and Related Contracts. | ))) | Case No. 13-729-EL-ATA |

**BORDER ENERGY ELECTRIC SERVICES, INC.’S COMMENTS ON
OHIO POWER COMPANY’S PROPOSED AMENDED SUPPLIER
COORDINATION TARIFF AND RELATED CONTRACTS**

 Border Energy Electric Services, Inc. (“Border”) respectfully submits its comments regarding the Ohio Power Company’s (“AEP Ohio”) application to amend its supplier coordination tariff and related contracts (the “Application”) pursuant to the schedule set forth in the Commission’s June 5, 2013 Entry in this case (“Entry”).

 Border’s primary concern is with AEP Ohio’s proposed changes to the collateralization requirements for CRES providers. Border addresses this issue, as well as other concerns it has with the Application, below.

**AEP Ohio’s Proposed Collateralization Requirement**

AEP Ohio proposes the following “calculation of capacity obligation” for CRES providers:

CRES Provider capacity obligations shall be calculated according to the AEP-Ohio CRES Capacity Obligation Calculation Process, which shall be posted on the Company’s website.

(Redlined Original Sheet 103-33D, No. 4 (Exhibit B-2 to the Application).) The proposed capacity obligation agreement is attached as Exhibit A. Border has reviewed the document at length and has made several attempts to work with AEP Ohio to resolve its issues regarding collateral requirements.

Specifically, AEP Ohio proposes that “the CRES shall post and maintain throughout the Agreement adequate Performance Assurance in the amount equal to the sum of ninety (90) days of the CRES’s peak Capacity Obligation times the AEP Ohio FRR Capacity Rate.” (*See* Ex. A at 8.) AEP Ohio currently bills capacity through PJM on a monthly basis. To date, AEP Ohio has not had collateral to cover any of this exposure; they have simply ignored it. Therefore, any amount of collateral is an increase for all CRES providers from the current requirement.

Border does not oppose AEP Ohio’s efforts to collateralize its risk. However, AEP Ohio’s proposed requirement is overly burdensome and could be viewed as an artificial barrier to entry. There are much more reasonable ways of accomplishing AEP Ohio’s goal to minimize its risk than requiring ninety-days’ collateral. For example, AEP Ohio can significantly reduce its risk to CRES providers by shortening timeline for capacity collections. Instead of having PJM collect capacity payments from CRES providers on a monthly basis, AEP Ohio could have PJM change the collection process to a weekly process. Border understands that this is the process used by other companies including Duke Energy of Ohio, Dayton Power and Light, and the First Energy Utilities. Shortening the collection cycle would reduce AEP Ohio’s outstanding risk on average from forty-eight days to sixteen days instantly, while also greatly reducing the amount of collateral that CRES providers have to give to AEP Ohio. Given a standard timeline and remediation period, the amount of collateral required would be 20 days.

But even if AEP insists upon a 30-day collection cycle for capacity is required, ninety days of collateral is still too aggressive in light of the risk that AEP Ohio faces. PJM has well-established payment and operating procedures to assure payment is made on a timely basis. Assuming a 31 day month, the maximum exposure AEP Ohio would face to a defaulting CRES provider is no more than 50 days. This is calculated as follows: 31 days in the month, plus a 9-day billing window (assumes a holiday in the billing window), plus 10 days for collection (assumes the bill would be due the following week since the holiday pushed off the due date and cure period for non-payment), totaling 50 days. Border would even agree to a 60-day collateral requirement to build in a buffer to account for unforeseen circumstances. However, anything more than 60 days is unnecessary.

Finally, AEP Ohio could mitigate its risk without placing such a significant burden on CRES providers by allowing PJM to handle the credit requirements for capacity as it does for Duke and Dayton Power and Light. PJM has well-established protocols and procedures to protect its members. Having PJM handle the credit requirements would also give CRES providers consistency in collateral requirements.

**Proposed Ongoing Credit Calculation**

On the Redline Original Sheet 103-38D, under “ongoing credit calculation,” AEP Ohio’s proposed formula is inconsistent with both how AEP Ohio currently calculates this requirement and with a modified calculation that Border and AEP Ohio have mutually worked toward. The proposed formula is also overly burdensome to CRES Providers.

AEP Ohio currently uses a rolling two-month average to calculate the energy usage component of the credit calculation, which accounts for seasonal fluctuations in the level of exposure, it also will account for the CRES Provider’s increasing or decreasing load and respective exposure. AEP Ohio proposes calculating the collateral requirement by:

multiplying CRES Provider’s actual highest monthly energy usage over a rolling twelve (12) month period times the price set at the next July forward index price, as established by a generally accepted industry price index for wholesale power deliver to the Company’s load zone[.]”

Border believes that calculating the collateral requirement based upon the assumption that all energy usage is at peak hours is an unfair assumption. Border suggests modifying the calculation to allocate energy usage between peak and off-peak hours, applying the respective next July forward index prices to the usage.

Border also requests more transparency in what is deemed “generally accepted industry price index.” Border suggests that AEP Ohio use a mid-market price set by three independent brokers.

**Consolidated Billing**

On the Redline Original Sheet 103-49D, under “consolidated billing by the company,” AEP Ohio proposes splitting costs of billing customers with the CRES providers. Border would like to see a break out of the costs and additional clarity as to how AEP Ohio intends to implement such cost splitting. This is a notable change because these are new charges that CRES providers will have to factor into the cost of serving customers. To the extent the costs are significant, they should be phased in over time.

**Terminating Consolidated and Rate Ready Billing**

On the Redline Original Sheet 103-54D, AEP Ohio proposes that it be allowed to terminate consolidated and rate ready billing with thirty days’ written notice. The termination provisions is silent as to whether AEP Ohio must give a reason for the termination. While Border does not oppose AEP having the right to terminate consolidated and rate ready billing under certain circumstances, it believes that AEP Ohio should be required to provide verifiable reasons in writing for the termination. CRES providers rely on these services to support their customers and would need more than thirty days to prepare for such a major change. Border, therefore suggests that, if AEP Ohio intends to abandon these services, it be required to justify its abandonment to the Commission before any change can be made.

**Reimbursement For Charges Collected**

On the Redline Original Sheet 103-57D, No. 6, AEP Ohio proposes the following modification to the reimbursement timeline:

The Company shall reimburse the CRES Provider for all charges collected on behalf of the CRES Provider within three (3) business days following receipt of the customer's payment, ***when possible, but at least every two weeks***.”

(emphasis added).

Border strongly opposes this change because it impacts the suppliers dramatically with respect to running and funding their businesses. AEP Ohio’s proposed reimbursement time-frame represents a major shift from the current requirement that all payments be remitted with three business days. Cash flow is critical to CRES providers. The Application would make such timely reimbursement optional, effectively extending the reimbursement period by eleven days, thereby allowing AEP Ohio to significantly reduce payments to suppliers.

Border would not oppose a provision allowing AEP Ohio to delay payment outside of the normal payment structure in certain situations. However, these delays should be few and far between, and the general rule should be that reimbursements must be made within three business days.

**Retaining Customer Payment Where CRES Provider Defaults**

On the redline Original Sheet 103-61D, AEP Ohio has inserted the following provisions regarding defaults by CRES providers:

If the customer’s CRES Provider defaults, the Company reserves the right to retain payments collected from the customer and to apply such payments to the Company’s charges.

AEP Ohio moved this provision from another section of the original agreement. Border initially thought that this clause was initially used to securitize AEP Ohio’s risk for capacity in the past as it was not captured anywhere else. However, based upon the newly-proposed collateral requirements for both capacity and energy, this clause is unnecessary. For instance, this clause gives AEP Ohio the right to all of the money it collects from the CRES customers in the event of a CRES default. But AEP Ohio is already requiring CRES providers to collateralize their obligations so that it can recoup these same costs in case the CRES defaults. AEP Ohio cannot have it both ways – either it asks for collateral from the CRES providers, or it has the right to the customer payment in the event of a default. Allowing AEP Ohio both mechanisms to collect should a CRES provider default would significantly over collateralize AEP Ohio’s risk.

The partial payment priorities of this section also need to be updated to reflect the Commission’s Orders involving payment arrangements.

**Ability To Declare An Event of Default**

On the redline Original Sheet 103-62D, number seven, AEP Ohio has inserted the following provision allowing it to declare an event of default if:

The CRES Provider misuses the Company Consolidated and Bill-Ready Billing option by incorrectly using the name of the Company or the name of one of the Company’s affiliates in a charge description or otherwise using this billing option in a misleading or defamatory manner.

This is too broad a power to give to AEP Ohio without Commission oversight. Border does not contest that AEP Ohio should be given recourse to declare an event of default should a CRES provider misuse the consolidated and bill ready option, including using it in a misleading or defamatory manner. However, given the serious implications of an event of default, and the inherently subjective nature of determining what qualifies as misleading or defamatory, Border requests that AEP Ohio submit the issue to the Commission for ruling before it can declare an event of default.

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Border appreciates the opportunity to comment on Application and respectfully urges the Commission to adopt Border’s suggested revisions thereto or ask AEP Ohio to address Border’s concerns in a revised Application.

Dated: July 8, 2013

**BORDER ENERGY ELECTRIC SERVICES, INC.**

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