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October 12, 2007

Public Utilities Commission of Ohio
Docketing Division
180 East Broad Street, 13th Floor
Columbus, Ohio 43215-3793

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PUCO

Re: **NOAC Reply Comments**
Case Nos. 07-796-EL-ATA and 07-797-AAM

Dear Docketing Clerk:

Following this correspondence is a copy of NOAC's Reply Comments to be fax filed in the above captioned cases. Please file the attached immediately as today is the deadline for filing the enclosed. The original and ten (10) copies will be sent overnight to this same address for the completion of the filing process. Please retain the original and nine copies and send one file-stamped copy back to the undersigned in the self-addressed, stamped envelope that is provided.

If you have any questions concerning the attached/enclosed, please contact me immediately at (419) 213-4596 or (734) 497-3509. Thank you for your prompt attention to this matter.

Sincerely yours,

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the)	
Ohio Edison Company, The Cleveland)	
Electric Illuminating Company, and)	Case No. 07-796-EL-ATA
The Toledo Edison Company, for Approval)	Case No. 07-797-EL-AAM
Of a Competitive Bidding Process for)	
Standard Service Offer Electric Generation)	
Supply, Accounting Modifications Associated)	
With Reconciliation Mechanisms and Phase In,)	
And Tariffs for Generation Service.)	

**REPLY COMMENTS OF
THE CITIES OF MAUMEE, NORTHWOOD, OREGON,
PERRYSBURG, SYLVANIA AND TOLEDO,
THE VILLAGE OF HOLLAND,
THE BOARD OF TOWNSHIP TRUSTEES FOR LAKE TOWNSHIP, AND
THE BOARD OF COUNTY COMMISSIONERS, LUCAS COUNTY
(FOR THE UNINCORPORATED AREAS OF LUCAS COUNTY),
COLLECTIVELY REFERRED TO AS THE
NORTHWEST OHIO AGGREGATION COALITION ("NOAC").**

On July 10, 2007, FirstEnergy filed an Application for approval of a competitive bidding process for the provision of Standard Service Offer electric generation to FirstEnergy's retail electric customers beginning January 1, 2009. By entry dated August 16, 2007 (and modified further by a September 13, 2007 *nunc pro tunc* Entry) the Commission established a comment period and invited all interested persons and Commission Staff to file comments regarding FirstEnergy's Application by September 5, 2007, and September 21, 2007, respectively. The Member Communities of the

Northwest Ohio Aggregation Coalition¹ ("NOAC"), numerous other parties and Commission Staff all timely filed initial comments. All participating parties were also invited to file Reply Comments by October 12, 2007. NOAC appreciates the opportunity to provide comments in reply to the comments of other parties and Commission Staff, which are set forth below.

NOAC'S REPLY COMMENTS

A. There is Broad Support for NOAC's Initial Comment that the Supplier Participation Ceiling Invites Monopolistic Conduct and Should Be Revised.

In its original comments, NOAC opposed FirstEnergy's proposal to permit potential suppliers to bid up to seventy-five percent (75%) of the total supply to be auctioned. NOAC opposed this "ceiling" as *excessively high*, as *inviting price manipulation* by one or a very small number of suppliers and as *contrary to the objective of reducing non-competitive market pricing set forth in Governor Strickland's Plan on Energy, Jobs and Progress for Ohio.*² NOAC advocated a much more modest supplier participation ceiling.

NOAC's position is consistent with and supported by the position of numerous other parties. In fact, every other party that commented on this aspect of the Application also opposes the proposed ceiling as *excessively high*. The Cleveland Foundation, echoing NOAC's position in its comments, expressed concern "that this limit may be too

¹ The Northwest Ohio Aggregation Coalition is made up of nine individual communities within Northwest Ohio, who work cooperatively to secure the most reliable and lowest cost electric generation service for their nearly 150,000 residential households and small businesses. NOAC's nine coalition members, which are collectively referred to herein as "NOAC," are as follows: the Cities of Maumee, Northwood, Oregon, Perrysburg, Sylvania and Toledo; the Village of Holland; the Board of Township Trustees for Lake Township (Wood County); and the Board of County Commissioners for Lucas County, representing all the unincorporated areas of Lucas County, Ohio.

² Governor Strickland's Plan, entitled *Energy, Jobs and Progress for Ohio*, p.2.

high, which might lead to grossly anti-competitive results from the auction process” and suggested that “[t]his possibility would be mitigated, if not eliminated, if every power supplier were limited to providing a smaller proportion of the overall solicitation.” [The Cleveland Foundation Comments, p.2]. The Ohio Energy Group, relying on the definition of market power utilized by the FERC, suggested this ceiling be significantly lowered – closer to or below twenty percent (20%). [OEG Comments, pp.2, 7-8].

The concerns of all the commenting parties is well summarized by NOPEC and OP&E, wherein they note that “[a] market design allowing FES to have 75% of the wholesale, and, in turn, retail generation market of its affiliate utilities’ service territories as proposed in the Application would perpetuate the current lack of effective competition,” would be “inconsistent with both SB3 as it now exists and the Governor’s proposed hybrid electricity plan,” and would render “the auction nothing more than a method by which the Companies’ affiliates will maximize profits at customers’ expense.” [NOPEC Comments, p.4; OP&E Comments, p.5]. For these reasons, the participation ceiling of supply bidders at the auction should be *significantly lowered* to a level that will not allow market dominance, price manipulation and monopolistic behavior.

**B. There Is Broad Support for NOAC’s Original Comment
That the Load Class Approach Should Be Chosen
Over the Slice of the System Approach.**

NOAC’s second original comment indicated that the Load Class approach set forth in FirstEnergy’s Application was preferable to the Slice of the System approach for several reasons, chief among these were its pricing superiority, transparency and non-malleability. Almost all parties stating a preference for one of the approaches agreed with NOAC that the Load Class approach is preferable.

NOPEC advocated the Load Class approach because it “better reflects the actual market for each of the residential, small commercial and large commercial loads of the Companies” and because its “[p]rice signals more closely reflect cost of service.” [NOPEC Comments, p.4]. Integrys Energy Services, Inc. similarly commented that the Load Class approach “lets bidders value the relative cost difference of supplying generation to the different classes [producing] a more accurate, and equitable allocation of cost among the customer classes as well as reducing the overall costs.” [Integrys Energy Services, Inc.’s Motion to Intervene and Preliminary Comments, p.7]. Integrys pointed to an additional benefit of the Load Class approach: “[i]t creates more auctions, each requiring a smaller dedication of generation capacity, [which] should increase the number of bidders and lower the closing price.” [*Id.*].

OPAE’s comments, while also stating the above cited benefits of the Load Class approach, noted one additional and paramount benefit over the Slice of the System approach: “[g]iven the differences in usage and in rate design among the various classes, bidding by customer class might attract more and better offers [and] *would also insure that residential customers no longer subsidize large customers.*” [OPAE Comments, p.8 (emphasis added)]. This last point by OPAE is stated even more forcefully by The Cleveland Foundation in support of selecting the Load Class approach:

TCF recommends that PUCO adopt the so-called ‘load class’ approach. This is because we believe that the long-run interests of all parties are best served when the price signals observed by customers most closely conform to the true costs of service for those customers. *The ‘slice of the system’ approach perpetuates cross-subsidization between customer classes, which introduces economic distortions that over time create wasteful inefficiencies in the marketplace.*

[The Cleveland Foundation’s Comments, p.3 (emphasis added)].

Indeed, the apparently sole benefit cited by even the proponents of the Slice of the System approach is that it allows and even encourages manipulation of the auction results through the use of a price matrix designed to provide one class of consumers subsidization at the expense of other load classes. That this is the intended outcome can be readily gleaned not only from the face of FirstEnergy's Application itself but from the ever so politely stated admission of its sole proponent among the commenting parties, the OEG, when it states that the Load Class approach "unduly limits the Commission's flexibility in allocating rates to customer classes based upon traditional allocation methods." [OEG Comments, p.9]. In other words, the Slice of the System approach is desirable because it provides for price manipulation, distortion and preference for some favored few at the expense of many other traditionally burdened consumers.

Manipulation and purposeful price distortion have no place in what purports to be an "open market" auction process. Allowing such manipulation will: discriminate against the offerings of CRES suppliers [Direct Energy Services, LLC's Comments, p.19]; hinder retail competition [Constellation NewEnergy, Inc.'s Comments, p.9]; prevent commercial customers like schools and universities from buying generation at market [Strategic Energy, LLC's Comments, p.7]; and continue and promote non-competitive market pricing in direct violation of Governor Strickland's objective of competitive market pricing set forth in his recent Plan. [*Energy, Jobs and Progress for Ohio*, p.2].

Given the benefits of the Load Class approach and the price distortion intentions embedded within the Slice of the System approach – which makes it unjust, unreasonable, discriminatory and unlawful – the proper choice between these two alternatives is manifest. If the auction is held, the Load Class approach should be used.

**C. There Is No Opposition to NOAC's Original Comment That
the Anti-Aggregation Provision Involving
Discounted Street Lighting Is Baseless and Should Be Removed.**

NOAC's third original comment is that FirstEnergy's Application singles out opt-out governmental aggregation for discrimination, providing that any community which has even a single electric account served through its opt-out aggregation program will be ineligible to receive discounted street lighting provided for in the Application. While some parties question whether or not street lighting should receive any special rate at all, no one has advocated that governmental aggregation communities should be discriminated against in accessing this special rate. NOPEC notes that this anti-governmental opt-out aggregation provision is "unreasonable" [NOPEC Comments, p.8], and the Office of the Ohio Consumer's Counsel decries it as "discouraging opt-out aggregation and providing incentives to governmental entities to not aggregate." [OCC Comments, p.11].

Such discrimination against opt-out governmental aggregation is not only baseless and unlawful, but it is also directly contrary to the unmistakable statement by Governor Strickland in his Plan, wherein he made it a point to state that "[t]he Administration supports continuation of municipal opt-out aggregation." [*Energy, Jobs and Progress for Ohio*, p.7]. This provision of FirstEnergy's Application should be stricken.

**D. NOAC Joins In the Comments of Others
Opposing the Inclusion of Non-Bypassable Charges.**

In its initial comments, the Ohio Energy Group stated that the Commission should not approve any non-bypassable riders. In its original Comments, the OEG stated:

The market rate for generation service is high enough without the Commission erecting the additional barrier of non-bypassable riders. The fact that the proposed Revenue Variance Rider has nothing to do with

distribution service makes the non-bypassability of this rider all the more egregious. The Company's proposed non-bypassable Revenue Variance Rider should be rejected.

[OEG Comments, p.11.]

NOPEC also opposes the inclusion of any non-bypassable charges in the Revenue Variance Rider, stating: "NOPEC believes that all charges contained in any revenue variance rider associated with an SSO should be bypassable by a shopping customer served by a governmental aggregation." [NOPEC Comments, p.5].

NOAC agrees with NOPEC and the OEG that any charges included in a revenue variance rider should be fully bypassable. The failure of shopping to be more robust during the market development period and currently under the RSP/RCP is due in no small measure to the anti-competitive, anti-consumer choice, price-distorting layering of non-bypassable charges into the unbundled rates. Ohio's residential and small commercial electric users should not be subjected to a continuation of this anti-competitive, non-bypassable fee regime. NOAC agrees with NOPEC that a governmental opt-out shopping consumer should be allowed to fully avoid ALL generation related charges, fees and riders, as set forth in the outline of "avoidable charges" contained in NOPEC's original comments. [NOPEC Comments, p.5].

**E. NOAC Joins In the Comments of Others
Opposing FirstEnergy's Recovery from Consumers
of Fifty Percent of the CEI Special Contract Delta Revenues.**

In their original comments, OCC, NOPEC, OPAE and OEM all opposed the provision of FirstEnergy's Application by which FirstEnergy seeks to recover fifty percent (50%) of the delta generation revenue subsidy for CEI special contract customers whose contracts extend beyond January 1, 2009. This provision of the Application is as

brazen as it is baseless. As OEG stated in its comments: “[t]he Company has already been paid for the CEI contract extensions in the RCP case – [i]t should not be paid here again.” [OEG Comments, p.10]. And as NOPEC rightly notes: “FirstEnergy’s shareholders must bear the risk from under-recovery in these special contracts.” [NOPEC Comments, pp.8-9]. Such recovery would amount to nothing more than a “preferential and discriminatory subsidy” in violation of recent Supreme Court decisions [OCC Comments, pp.12-13; OP&E Comments, pp.9-10]. This provision of the Application should be summarily stricken in its entirety.

**F. NOAC Joins In the Comments of NOPEC
Concerning Correction of Barriers to Market Entry
Contained In FirstEnergy’s Current Tariffs.**

In its original comments, NOPEC also provided discussion concerning several provisions in FirstEnergy’s tariffs that inhibit consumer choice by erecting barriers to market entry. NOPEC specifically mentions switching fees discriminatory toward opt-out governmental aggregations, notification requirements limiting prompt residential and small commercial switching, payment and bad debt provisions that would become discriminatory against CRES suppliers upon approval of the Application, and other choice and competition-limiting tariff provisions. [NOPEC Comments, pp.6-7]. NOAC joins with NOPEC in encouraging the Commission to analyze these issues and to modify FirstEnergy’s tariffs accordingly, consistent with advancing competition and consumer choice.

CONCLUSION

The member communities of NOAC believe in free, fair and open competition that empowers consumers with real choice. We are pleased that our three original comments have found favor with, and support by, so many other commenting parties and are also pleased to have provided support herein for several additional points raised in other parties' original comments. The changes advocated herein, if adopted and incorporated into a final auction framework, would provide a better chance of meeting the auction's objective of promoting open competition and consumer choice. NOAC advocates that the Commission make the necessary changes and choices discussed herein and in our original comments to protect consumer choice and to ensure the equal footing Governor Strickland has pronounced consumers entitled to in these types of matters.³

³ *Energy, Jobs and Progress for Ohio*, p.7 ("Principle Four: Customers deserve equal footing with utilities").

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Reply Comments of The Northwest Ohio Aggregation Coalition has been served upon the counsel listed below via regular U.S. Mail, first-class, postage prepaid, this 12th day of October, 2007.



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