

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission Review of)	
the Capacity Charges of Ohio Power)	Case No. 10-2929-EL-UNC
Company and Columbus Southern Power)	
Company.)	

**INTERSTATE GAS SUPPLY, INC'S MEMORANDUM CONTRA ALTERNATIVE
PROPOSAL SET FORTH IN AEP OHIO'S MOTION FOR RELIEF**

Pursuant to Ohio Administrative Code ("OAC") 4901-1-12, Interstate Gas Supply, Inc. ("IGS")¹ files this Memorandum Contra Alternative Proposal set forth in Ohio Power Company's and the Columbus Southern Power Company's ("AEP Ohio") Motion for Relief. In the Motion, AEP Ohio proffers two alternative proposals that would alter the way capacity costs are allocated to customers, pending resolution of the related ESP proceeding with which this case has been consolidated. For the reasons that follow, the alternative proposal described on page 15 of AEP's motion should be rejected. IGS does not object to the primary proposal addressed in the remainder of AEP Ohio's motion.

I. INTRODUCTION

The Commission's February 23, 2012 Entry on Rehearing rejected a Stipulation submitted by AEP and various other signatory parties in the ESP proceeding and cases consolidated therewith. What happens next is currently unknown. While IGS understands AEP Ohio's interest in financial certainty as the ESP proceeding develops, AEP Ohio's interest must be balanced with consumers' interests. Of utmost concern to consumers is clarity with respect to the availability of competitive market alternatives for generation. The State of Ohio's policy

¹ IGS filed a motion to intervene in these proceedings on February 28, 2012. Although the motion remains pending, for purposes of motion practice IGS is deemed a "party" under Rule 4901-1-12(E).

goal of transitioning to competitive electric markets is an interest that must be considered as well.

Of the two proposals described in AEP's motion, the primary "status quo approach" comes closest to striking an appropriate balance among the interests of AEP Ohio and consumers. This approach would reestablish the modified settlement provisions wherein CRES customers at or below a 21% shopping threshold for each of 3 customer classes (industrial, commercial, and residential) would receive RPM capacity rates. Shopping customers above this threshold would pay AEP Ohio's stipulated rate of \$255 MW day, which would mirror the rate applicable to non-shopping customers. The plan would also allow for aggregation customers approved on or before the November 8, 2011 ballots whose plans are implemented on or before December 31, 2012, to receive the RPM market based capacity rates *in addition* to the 21% residential capacity threshold. The status quo approach would essentially restore the capacity cost structure approved in the now-vacated December 14, 2012 Opinion and Order (as modified in the January 23, 2012 Entry) until the ESP proceeding is resolved.

While IGS believes in principle that capacity charges should be market-based, IGS also recognizes the need for a measured transition from a regulated to competitive paradigm. The AEP Ohio status quo proposal is a reasonable, pragmatic interim approach that would enable the parties to re-engage in constructive dialogue toward a more permanent solution that provides certainty for all stakeholders.

IGS does not support AEP Ohio's alternative "split-the-baby" approach, and neither should the Commission. The alternative proposal would allocate AEP Ohio's \$225/MW-Day capacity pricing to all customers that shop after February 23, 2012. The cost allocation proposed

in the alternative proposal is exceedingly distortive of the basic premise of market priced capacity and would immediately – perhaps permanently – stifle competition.

II. ARGUMENT

A. AEP Ohio's Status Quo Proposal is a Reasonable Interim Solution.

While there has been disagreement among the parties regarding various details of the settlement, the Commission's affirmation of its intent to pursue competitive markets has provided needed guidance to the parties through this process. The Commission is to be commended for its continued commitment to competitive electric markets in Ohio.² The Commission should continue to provide guidance to the parties in order to expediently bring this matter to an amicable conclusion.

As an interim measure, the status quo proposal would add certainty to a situation that currently is anything but. The proposal will give CRES suppliers more clarity in their own cost structure and the prices they can offer to customers. Residential customers will retain the ability to take advantage of competitive products. Customers will have the opportunity to benefit from savings offered by CRES suppliers.

While the status quo proposal is not perfect, it is unlikely that any interim method of capacity cost allocation will satisfy every party. The capacity cost allocation framework set forth by AEP was agreed to by most parties in the ESP proceeding, and the Commission itself was for it before it was against it. The Commission and stakeholders in this proceeding need not and should not re-invent the wheel.

In order for the status quo proposal to remain a viable interim solution, the RPM capacity allotments must be available to all customer classes equally. These protections are necessary to

² See Dec 14 Order at 63 ("The transition to competitive markets in just three and a half years, as opposed to over five years, is beneficial to ratepayers because customers will be able to shop for electric suppliers that may have lower rates than AEP-Ohio.")

ensure that a vibrant competitive market for residential customers develops, just as it developed for mercantile customers. AEP Ohio has suggested that aggregation loads continue to have a separate bucket for RPM priced capacity, excluding mercantile customers. IGS supports the separate categorization for aggregation customers and is comfortable with exclusion of mercantile customers as an interim approach. IGS suggests, however, that in the alternative the Commission consider not unilaterally determining the composition of the aggregation group. The Commission could instead implement a cap on the government aggregation load to which the RPM priced capacity applies, and defer the decision to include or exclude mercantile customers to the communities seeking to aggregate and instruct the communities to capture the decision in their plans of governance. This approach would allow aggregation groups to continue to receive the RPM price capacity and decide for themselves whether to include mercantile customers.

B. The Commission Should not Adopt a Proposal that Fails To Incorporate Competitive Market Alternatives

The state policy favoring competitive markets is predicated on market-based capacity charges. AEP Ohio's alternative interim proposal to charge *all* customers that shop after February 23, 2012 the \$255/MW-Day capacity price would unnecessarily and unlawfully stifle competition. Throughout the ESP proceeding, there has been a general consensus among stakeholders that AEP should transition to competition. A flat rate increase in capacity payments by all shopping customers would not serve this end, but instead be a roadblock to competitive markets. For these reasons the Commission should not adopt AEP's alternative proposal to raise the capacity costs on all customers that choose to shop after February 23, 2012.

III. CONCLUSION

For the reasons set forth above, IGS respectfully requests that the Commission deny authority for AEP Ohio to implement its alternative proposal.

Dated: March 1, 2012

Respectfully submitted,



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CERTIFICATE OF SERVICE

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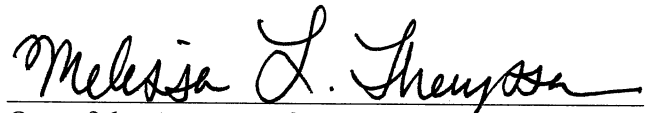
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Summary: Memorandum Contra Alternative Proposal Set Forth In AEP Ohio's Motion For Relief electronically filed by Ms. Melissa L. Thompson on behalf of Interstate Gas Supply, Inc.