

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Columbus )	
Southern Power Company and Ohio Power Company )	
for Authority to Establish a Standard Service Offer )	Case No. 11-346-EL-SSO
Pursuant to § 4928.143, Ohio Rev. Code, in the Form )	Case No. 11-348-EL-SSO
of an Electric Security Plan. )	

In the Matter of the Application of Columbus )	
Southern Power Company and Ohio Power Company )	Case No. 11-349-EL-AAM
for Approval of Certain Accounting Authority. )	Case No. 11-350-EL-AAM

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**REPLY BRIEF OF  
THE OHIO HOSPITAL ASSOCIATION**

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**I. INTRODUCTION**

Ohio Hospital Association (“OHA”) filed its post hearing brief on June 29, 2012. Briefs also were filed by Columbus Southern Power Company and Ohio Power Company (collectively “AEP-Ohio” or “Companies”) and most of the intervenors including the Staff of the Public Utilities Commission of Ohio (“PUCO” or “Commission”).

Pursuant to the schedule set by the Attorney Examiners assigned to this matter, the OHA now submits this reply brief.

**II. ARGUMENT**

The position taken by the OHA in this proceeding, at least with respect to the core issues in the case – the capacity cost issue and the rate stability rider (“RSR”), has been to support the position of the Commission Staff. That position has been, simply put, that the proper capacity cost to be charged to CRES providers should be the prevailing RPM price, but if the Commission were to determine that AEP-Ohio should be permitted to charge a cost-based rate for capacity

under this ESP, then that cost-based rate, appropriately adjusted, should be \$146.41/MWD. In addition, while the Staff does not oppose in principle to the RSR, the Staff position was that if AEP-Ohio is permitted to recover its full cost of capacity, i.e., \$146.41, then there is no need to also provide AEP-Ohio with the financial support of the RSR.

With the Commission's July 2, 2012 Opinion and Order in Case No. 10-2929-EL-UNC (the "July 2, 2012 Order"), the complexion of this ESP case has been altered considerably. By directing AEP-Ohio to defer the difference between "the adjusted RPM rate currently in effect and AEP-Ohio's incurred capacity costs to the extent that such costs do not exceed the capacity charge approved today" the Commission ostensibly "balances the Commission's objectives and the interests of the many parties to this proceeding." July 2, 2012 Order at 33. This is a laudable objective to the extent that the Commission intends to order AEP-Ohio to charge CRES providers the prevailing RPM market-based rate in the context of this ESP case and presumably preserve and even enhance the opportunity to shop for all retail customers of AEP-Ohio. Further, to the Commission's credit, it essentially adopted its Staff's calculation the appropriate cost of AEP-Ohio's capacity, instead of accepting AEP-Ohio's desired rate of \$355/MWD. The OHA will not take issue with the reasonableness of the Commission's adjustment to the Staff's calculation to arrive at a cost of capacity of \$188.88/MWD, although the OHA does not support those adjustments.

But by directing AEP-Ohio to defer, indefinitely, the difference between the RPM market-based rate for capacity and AEP-Ohio's adjusted embedded cost, the Commission has created some intractable, apparently insurmountable problems for this ESP case.

The OHA cannot support the Commission's determination to allow AEP-Ohio to indefinitely defer the difference between the \$188.88/MWD cost of capacity and the prevailing

RPM market-based capacity rate unless and until, at a bare minimum, the precise amount, the duration and the ultimate amount of carrying charges associated with the deferrals is known. Without an understanding of these details, it appears beyond dispute that the terms of the ESP will not be more favorable in the aggregate than an MRO, and the plan, under any variation of the record now before the Commission cannot meet the statutory test.

The flaw in the Commission's laudable attempt to "split the baby" is that there is a significant risk that this attempt to appease both the CRES providers and AEP-Ohio may come at the complete expense of the customers who will pay for the deferrals being created.

As pointed out by several of the intervening parties, including the Commission Staff, regardless of how the capacity costs are calculated, the ESP as proposed by AEP-Ohio in this case does not meet the statutory requirements of Ohio Revised Code Section ("R.C.") 4928.143(C)(1). The OHA does not dispute that all other things being equal, the Commission has created an additional benefit by ordering AEP-Ohio to charge marketers the prevailing RPM market-based rate for capacity (presumably, this is the effect of the July 2, 2012 Order, although unstated). Unfortunately, the unknown costs created by the deferral of the difference between the RPM-based capacity rate and the cost-based rate unquestionably negates any benefit of the lower, market based capacity rates. From the perspective of customers, this would be a zero-sum proposition *even if no carrying costs were involved*. Customers might have lower market based electric rates available now, with the certainty that at some later point in time, they would pay higher electric bills in order to make up the amount of the deferral. But with the addition of carrying charges, this proposition becomes *much less than zero-sum*—now customers are paying for today's lower capacity costs as if using a credit card—buy now, but pay later, *with substantial interest*. The addition of carrying charges will outweigh any potential benefits to

consumers. In light of the creation of these carrying charges, there is no conceivable way that this ESP will meet the “more favorable in the aggregate” test as set forth in R.C. 4928.143(C)(1).

At this juncture, the OHA urges the Commission to reconsider its Order of July 2, 2012 in Case No. 10-2929-EL-UNC. But for the immediate in this case, the Commission should order AEP-Ohio to charge the prevailing RPM market-based capacity rate to CRES providers, while denying AEP-Ohio’s request for the RSR.

### **III. CONCLUSION**

For the reasons stated above, OHA requests that this Commission adopt the positions of OHA as set forth in its post hearing brief and on the issues set forth above.

Respectfully submitted on behalf of  
THE OHIO HOSPITAL ASSOCIATION



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## **CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing REPLY BRIEF was served upon the following parties of record via electronic mail this 9<sup>th</sup> day of July 2012.



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Summary: Reply Brief electronically filed by Teresa Orahod on behalf of Ohio Hospital Association