



barriers may exist to a consumer's means to choose a retail electric service that meets their needs."<sup>2</sup>

Nucor appreciates the Commission's efforts to periodically reassess the functioning of the overall market and supply of retail electric service in the state. Nucor supports customers having the opportunity to choose the retail electric service that best serves their needs, and supports the Commission's efforts to identify and remove barriers to customer exercise of choice of retail supply to the extent such barriers exist. As part and parcel of this opportunity to choose the electric service that best suits the customer, Nucor also continues to strongly support reasonable and attractive standard service offer ("SSO") options as part of the mix of customer choices. Nucor has certainly found SSO service to be a valuable option to meet its supply needs.

As a result, in our view, it is important that in considering possible changes to the current system, the Commission also act to maintain and further enhance reasonable and attractive SSO options for customers who do not choose to seek a competitive retail supplier. S.B. 221 clearly recognized the fundamental value of SSO service, requiring that electric distribution utilities ("EDUs") have an SSO plan in place, and nothing has changed to suggest that these SSO rate options should be merely temporary or transitory. In fact, the unique features of SSOs can result in a retail electric product which is different from what can be obtained in the market, and which may better suit the needs of particular customers than shopping for generation supply in the market. For example, an SSO rate offering might provide a longer-term, more stable generation price compared to what can be obtained in the retail

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<sup>2</sup> December 12 Entry at 2.

competitive market, which is important for consumers that are risk adverse, or that require a degree of certainty in energy supply and pricing. Even if the SSO price is not necessarily lower than the market price at a given time, some customers might be willing to trade a lower generation price for longer-term price stability. SSO rate offerings also provide a structure through which the Commission and EDUs can work to achieve certain important policy goals, such as low-income assistance, promotion of renewable energy, energy efficiency and demand response, and economic development. In short, the goal should be to remove any barriers to customers who want to shop, while enhancing SSO service for those who do not.

Nucor's support for the continuation of the current retail electric service model where customers have a choice whether to shop in the market or to take service under an SSO rate plan should not be misconstrued as a belief on our part that everything is fine in the Ohio electric markets today. As the Commission recognizes in the December 12 Entry, Ohio EDUs and their customers face new challenges resulting from, among other things, new federal environmental regulations and generation retirements. As a customer of FirstEnergy, Nucor is well aware of the transmission constraints in the ATSI zone of PJM discussed in the entry, and the high capacity prices that have resulted from these constraints. The impacts of these high capacity prices have been seen in FirstEnergy's two most recent SSO auctions – the October 2012 auction produced a clearing price of \$60.89/MWh, and the January 2013 auction produced a clearing price of \$59.17/MWh. As the following table shows, these clearing prices were significantly higher than previous FirstEnergy SSO generation auctions:

<b>Table 1: FirstEnergy SSO Generation Auction Results</b>		
	<b>Price (per MWh)</b>	<b>Time Period Covered</b>
October 2010	\$54.55	6/1/11 – 5/31/12
	\$54.10	6/1/11 – 5/31/13
	\$56.58	6/1/11 – 5/31/14
January 2011	\$56.13	6/1/11 – 5/31/12
	\$54.92	6/1/11 – 5/31/13
	\$57.47	6/1/11 – 5/31/14
October 2011	\$52.83	6/1/12 – 5/31/14
January 2012	\$44.76	6/1/12 – 5/31/14
October 2012	\$60.89	6/1/13 – 5/31/16
January 2013	\$59.17	6/1/13 – 5/31/16

According to this data, the average price in the last two auctions increased by over 30% compared to the price in January 2012 – this increase is alarming and will place a substantial burden on retail customers of FirstEnergy. The prices are even more alarming if one considers that these high prices occurred despite a blending of prices in the auction designed to reduce price spikes in any single year. Specifically, the high prices from the last two auctions reflect a blend of prices including much lower capacity costs in the 2013/2014 and 2014/2015 capacity years with the very high capacity costs in 2015/2016, which indicates that generation prices for the 2015/2016 year alone would likely be much higher than the \$60/MWh range. This increase in generation price is a cause for grave concern among FirstEnergy’s customers, and should be for the Commission as well. We urge the Commission and FirstEnergy to consider and take all reasonable actions to reduce these capacity costs in future years.

At a time when customers should be enjoying the benefits of lower energy prices resulting from continued low natural gas prices, these benefits are being more than offset by increasing capacity costs. It should be noted that transmission constraints and associated high capacity costs are not the result of the current Ohio default service model, but are problems

that negatively impact SSO customers and shopping customers alike. As discussed below, to the extent the capacity costs can be mitigated, these benefits will also accrue to both shopping and non-shopping customers.

Against this backdrop, Nucor offers suggestions for how to address the challenges cited in the December 12 Entry as well as other ideas to improve the efficiency of the markets and lower costs to customers in response to the Commission's market design questions below.<sup>3</sup> As our responses reflect, it is not necessary to change the current S.B. 221 standard service offer paradigm to effect improvements that will benefit customers. We continue to support the current SSO structure since it ensures the continued availability of an EDU-provided electric rate plan, while allowing customers to shop in the markets if they wish. To the extent that the Commission discovers barriers or impediments to market access over the course of the proceeding, we urge the Commission to focus on remedies that are narrowly-tailored to address the specific circumstances, instead of on dramatic changes to the current SSO structure.

As part of these comments, we have also included a discussion of important components and possible improvements to SSO rate design (including time-of-use rates, interruptible rates, and properly designed demand charges), as well as legislative changes that could be considered to improve retail electric service in Ohio.

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<sup>3</sup> Nucor offers no responses to the Commission's corporate separation questions included in the December 12 entry at this time.

## II. RESPONSES TO SPECIFIC MARKET DESIGN QUESTIONS

- (a) **Does the existing retail electric service market design present barriers that prevent customers from obtaining, and suppliers from offering, benefits of a fully functional competitive retail electric service market? To the extent barriers exist, do they vary by customer class?**

Generally speaking, we do not believe that the current retail electric service market design results in any significant barriers that would prevent most customers from accessing a fully functional retail electric service market. As an example, FirstEnergy's Electric Security Plan ("ESP") (while it is the result of many compromises and can no doubt be improved in the future) includes few non-bypassable charges, and does not appear to put competitive suppliers at a substantial disadvantage or create barriers that would discourage most customers from shopping. While it might be the case that other EDU's have more restrictive SSO plans that make moving between the utility's SSO rate plan and the competitive market more difficult, if so, we suspect that such restrictions would be the result of the particular SSO plan and the issues could be remedied through revision to that plan. We simply do not see structural flaws in the current retail electric market design. The fact that FirstEnergy can offer an ESP with relatively few shopping restrictions and non-bypassable charges within the current S.B. 221 SSO structure demonstrates that the structure itself does not restrict, and, in fact, supports competition. Any restrictions or barriers to market access can and should be specifically addressed on a case by case basis in specific SSO proceedings.

- (b) **Does default service provide an unfair advantage to the incumbent provider and/or its generation affiliate(s)?**

We do not believe that the existence or general structure of current SSO service provides any unfair advantage to the incumbent. Focusing again on our supplier, FirstEnergy, it

does not appear that default service provides an unfair advantage to the incumbent provider or its generation affiliates. Under FirstEnergy's ESP, FirstEnergy conducts periodic auctions to procure generation for its SSO load. These auctions are open to competitive suppliers, including FirstEnergy's generation affiliate, FirstEnergy Solutions ("FES"). In the latest FirstEnergy ESP auction, as reported in Case No. 10-1284-EL-UNC, eleven registered bidders participated in the auction and there were four bidders who won tranches.<sup>4</sup> FES was one of the winning suppliers, but it won less than one-third of the available tranches (5 of 17).<sup>5</sup> The results from the previous SSO auction in October of 2012 were similar – ten suppliers participated in the auction, five suppliers were awarded tranches, and FES won less than a third of those tranches.<sup>6</sup>

These results are specific to FirstEnergy, but they again demonstrate that there is no structural problem in the retail markets or in the current default structure under S.B. 221 that necessarily results in an unfair advantage for an incumbent provider or its affiliates. In fact, in the case of an SSO plan that uses a competitive process to procure SSO generation supply (in addition to FirstEnergy, Duke and AEP now have such plans), the current default service model actively encourages competition by allowing CRES suppliers to compete to serve a slice of the utility's SSO load. This provides an enhanced business opportunity for competitive suppliers in Ohio compared to if these suppliers were limited to just competing for individual customers or municipal aggregation load.

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<sup>4</sup> Case No. 10-1284-EL-UNC, Letter from CRA International to FirstEnergy Regarding Notification of CBP Auction Results at 3-4 (January 23, 2013).

<sup>5</sup> *Id.* at 4.

<sup>6</sup> Case No. 10-1284-EL-UNC, Letter from CRA International to FirstEnergy Regarding Notification of CBP Auction Results at 3-4 (November 14, 2012).

While there do not appear to be any general structural flaws in the current default service model impeding competition, if the Commission had concerns in a particular case about an incumbent provider's affiliate having an unfair advantage, the Commission could always take targeted steps to address those specific concerns. For example, if the Commission were concerned about an incumbent EDU having an unfair advantage in an SSO auction, the Commission could adopt a cap on the amount of load a single supplier can win in the auction. This targeted approach would be far preferable to the Commission making broad changes to the current SSO structure or rules.

**(c) Should default service continue in its current form?**

Yes. As discussed above, SSO service as currently configured is very important to customers, provides a crucial safety net, and works well. Absent a compelling reason to change, the status quo should be maintained. As noted earlier and in response to question (d) below, there are few barriers to customers who wish to shop for generation supply and customers are shopping in large numbers in Ohio. To the extent inadequate market access or barriers to access are found to exist in the case of particular utilities, the Commission should address those barriers on a case-by-case basis.

**(d) Does Ohio's current default service model impede competition, raise barriers, or otherwise prevent customers from choosing electricity products and services tailored to their individual needs?**

No. The dramatically increased shopping level of EDU customers over the past several years demonstrates that most customers have the ability to shop, and that many customers are taking advantage of shopping opportunities throughout the state. The following table

summarizes the switch rates across all customer classes for each Ohio EDU, as of December 31, 2012:

<b>EDU</b>	<b>Switch Rate (by Total Sales in MWh)</b>
Cleveland Electric Illuminating Co.	85.31%
Duke Energy Ohio	73.14%
AEP – Ohio	46.45%
Dayton Power and Light Co.	61.97%
Ohio Edison Co.	77.33%
Toledo Edison Co.	77.38%

It is noteworthy that even with such large levels of shopping, for each EDU there is still a significant level of sales being made by the EDU itself under its SSO. This shows that while the current default service model is not an impediment to competition, it provides a utility-offered rate option that is attractive and suits the needs of certain customers better than shopping for a supplier. In other words, generation supply through competitive suppliers and through an EDU’s SSO rate offering are options that can (and do) successfully exist side by side under S.B. 221’s current SSO structure.

**(e) Should Ohio continue a hybrid model that includes an ESP and MRO option?**

Yes, Ohio should continue the current hybrid model that includes both ESP and MRO standard service offer options. To date, only ESPs have been approved for Ohio EDUs, even though several utilities have proposed MROs. From a customer’s perspective, the ESP model has many advantages, not least of which is the ability of the Commission to exercise more

<sup>7</sup> Summary of Switch Rates from EDUs to CRES Providers in Terms of Sales for the Month Ending December 31, 2012 (MWh), available at: <<http://www.puco.ohio.gov/puco/index.cfm/industry-information/statistical-reports/electric-customer-choice-switch-rates/>>.

regulatory oversight over an ESP than over an MRO. ESPs have promoted administrative efficiency by providing a forum to bargain and resolve numerous distinct issues that might otherwise have had to be resolved in numerous separate dockets. For example, the stipulation in FirstEnergy's second ESP case addressed and resolved several issues associated with the merger of FirstEnergy and Allegheny Energy, and FirstEnergy's move from Midwest ISO to PJM. Also, as noted above, ESPs have been used by the Commission and EDUs to advance important policy goals, such as low-income assistance, promotion of energy efficiency and demand response, and economic development.

In the case of FirstEnergy, its current ESP model has been developed over several years and several different proceedings involving litigation and earnest negotiations among FirstEnergy and various stakeholders. The efforts of these various parties, along with the guidance of the Commission, have produced a reasonably stable and largely successful ESP model. For businesses like Nucor, stability is a key feature in any utility rate structure, even though we recognize that a stable rate structure does not necessarily translate into stable electric rates (as evidenced by the capacity cost discussion in the introduction to these comments). While there are certainly improvements that can be made to FirstEnergy's ESP, we believe that the framework of the current ESP provides a good basic model for an SSO plan that should be continued for FirstEnergy going forward.

Although the Commission has never approved an MRO, as they have evolved, the ESP plans offered by the Ohio EDUs have come to incorporate the main feature of an MRO – the acquisition of SSO generation supply through a competitive process. The FirstEnergy utilities were the first EDUs to incorporate a competitive bid process for SSO supply into their ESP, but

Duke and AEP have recently followed suit. As a result, most ESP plans currently in effect are hybrids in and of themselves, incorporating the best features of the both ESP and MRO options.

Given how the ESP model has evolved, an argument could be made that a separate MRO option is no longer necessary. However, keeping with the “if it is not broken, don’t fix it” theme in our responses to the questions on the current default service model, we do not recommend dramatic changes to S.B. 221 to eliminate the MRO option. We do note, however, that the requirement under the current law that once an MRO is approved an EDU cannot thereafter propose an ESP is a cause for concern, given the greater regulatory oversight an ESP has been understood to provide. We strongly recommend that the Commission continue to carefully scrutinize any MRO proposal, and to recognize that under the current law, once an MRO has been approved, there is no going back. Accordingly, the Commission should continue to favor ESPs.

**(f) How can Ohio’s electric default service model be improved to remove barriers to achieve a properly functioning and robust competitive retail electric service electricity market?**

No broad, structural changes to the default service model appear to be necessary at this time. As noted in response to questions (b) and (c) above, to the extent the Commission finds barriers to competitive retail markets in the case of particular EDUs, the Commission has the tools to remove or otherwise address these barriers on a case by case basis in each utility’s SSO proceedings.

**(g) Are there additional market design changes that should be implemented to eliminate any status quo bias benefit for default service?**

As discussed throughout these comments, customers currently have adequate market access and opportunity to pick their supplier. Accordingly, no structural market design changes

are necessary or should be made to eliminate any status quo bias in favor of default service. The current state of the market counsels for restraint – the real danger would be to institute some form of drastic change to the market design to combat any (real or imagined) status quo bias in favor of default service, such as assigning customers to competitive suppliers, rather than having the utility’s SSO serve as the default service. As discussed above, stability (and regulatory certainty) is a key for many customers. Ohio markets have been opened to competition for several years, and a number of active and successful CRES suppliers are currently operating in the markets. Consumers have sufficient experience at this point to switch suppliers, and CRES suppliers do not appear to be having difficulty developing retail electric service options to compete with EDU standard service offers.

**(h) What modifications are needed to the existing default service model to remove any inherent procurement (or other cost) advantages for the utility?**

As noted in Nucor’s responses to earlier questions, we are not aware of any modifications that need to be made to the existing default service model at this time. As an aside, we believe that the primary focus of the Commission should be on enhancing customer benefits and assuring reasonable rates and service, with eliminating advantages or disadvantages for incumbents or competitors respectively as secondary considerations.

**(i) What changes can the Commission implement on its own under the existing default service model to improve the current state of retail electric service competition in Ohio?**

We are not aware of any changes to the default service model in general that are necessary at this time. The Commission already has the authority to review procurement results under the existing default service model and to take appropriate remedial action if the process appears to favor affiliates or yields otherwise non-competitive results.

**(j) What legislative changes, if any, including changes to the current default service model, are necessary to better support a fully workable and competitive retail electric service market?**

Nucor is of the view that no legislative changes to the current standard service offer statutes (particularly Sections 4928.141, 4928.142, and 4928.143, Ohio Revised Code) are necessary at this time. However, potential changes to other parts of the statute put in place under S.B. 221, in particular the statutes addressing the energy efficiency mandates, should be considered if necessary to make overall electric prices more competitive in Ohio in light of the experience of Ohio EDUs and their customers over the past several years.

Statutory revisions to the energy efficiency requirements under Section 4928.66, Ohio Revised Code, should be considered to limit the potential impact of these costs on Ohio retail customers, particularly large industrial customers. Unlike the 3% cap on alternative/renewable energy costs under Section 4928.64(C)(3), there is currently no statutory limit on energy efficiency costs under Section 4928.66 to protect customers from excessive costs of these programs. Most utility energy efficiency programs are ill-suited for large industrial customers, who often have unique manufacturing processes that do not lend themselves to utility programs, yet due to the very large energy consumption of these customers, they end up bearing a large portion of the costs of these programs.

States have taken various approaches to addressing the participation and cost responsibility of large industrial customers in their energy efficiency portfolio requirements. Some states simply do not include industrial customers in their portfolios – no specific programs are designed for industrial customers, and those customers do not bear the cost of the programs. Other states have very simple opt-out provisions for large industrial customers,

whereby the customers simply has to inform the utility that it does not wish to participate in the utility's programs, and the customer is not required to bear the costs of the utility's portfolio. Still other states have more complex opt-out mechanisms, whereby the customer has to demonstrate that it has implemented its own programs in order to be exempt from the costs of the utility's energy efficiency portfolio. Unfortunately, Ohio falls in this last category. Ohio has a complex opt-out mechanism for large industrial customers, the details and requirements of which have been debated before the Commission for years (and are still being debated today).<sup>8</sup>

The high cost of utility energy efficiency program portfolios and the complexity involved in opting out of cost responsibility for a utility's energy efficiency programs puts Ohio at a disadvantage in attracting and retaining large industrial customers as compared to states with less onerous energy efficiency requirements. This problem could be solved with a modification to Section 4928.66 to exempt industrial customers from cost responsibility for a utility's energy efficiency portfolio, or a much simpler, less bureaucratic, out-out mechanism for industrial customers who do not wish to participate in the utility's programs. Another option would be to incorporate a reasonable limit on the level of energy efficiency program costs an individual customer has to bear.

Unlike other aspects of the retail electricity markets, such as the cost of generation, the energy efficiency mandates of S.B. 221 is an area over which the Legislature and the Commission can exercise a significant degree of control. The inclusion of these mandates in S.B. 221 was a policy decision, and it is reasonable for the Legislature and the Commission to re-

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<sup>8</sup> See *generally*, In the Matter of the Mercantile Customer Pilot Program for Integration of Customer Energy Efficiency or Peak-Demand Reduction Programs, Case No. 10-834-EL-POR.

examine these requirements in light of the experience of the past several years to see if there are areas for improvement. The recommendations discussed above would put the energy efficiency mandates of S.B. 221 on firmer ground by reducing the likelihood of severe and disparate rate increases for customers resulting from these requirements.

- (k) What potential barriers, if any, are being created by the implementation of a provider's smart meter plans? Should CRES suppliers be permitted to deploy smart meters to customers? Should the Commission consider standardizing installations to promote data availability and access?**

Nucor takes no position on this question at this time, but reserves its right to file reply comments responding to other parties comments on this question.

- (l) Should the Commission consider standardized billing for electric utilities?**

Nucor takes no position on this question at this time, but reserves its right to file reply comments responding to other parties comments on this question.

- (m) Do third party providers of energy efficiency products, renewable, demand response or other alternative energy products have adequate market access? If not, how could this be enhanced?**

As a large industrial customer, Nucor is aware of the presence of curtailment service providers ("CSPs") in Ohio. These companies do not appear to have difficulty getting access to the market. Since many CSPs compete to provide services across entire RTO markets, like PJM, they often have advantages due to the breadth of their activities in the wholesale market and their relationships with Ohio customers' operations in other states. CSPs perform an important function for those customers that desire a competitive demand response aggregator and intermediary between customers with demand response capabilities and the RTO markets. CSPs should continue to have access to retail customers, and shopping and SSO customers alike

should have the opportunity to work with CSPs to maximize the value and costs savings customers can achieve through their demand response capabilities.

While CSPs should have full access to retail customers (and vice-versa), the Commission also should continue to support robust interruptible rates and other peak demand reduction programs offered by utilities through their SSOs. These programs serve to enhance the options available to customers and to ensure that utilities meet their peak demand reduction obligations under Ohio law. The Commission has consistently approved interruptible rates as part of utility SSO rate plans and has recognized the benefits such rates provide to all customers. For example, in FirstEnergy's most recent ESP case, the Commission stated that interruptible rates "tend to lower SSO generation prices as well as promote both economic development and compliance with the peak demand reduction provisions of Section 4928.66, Revised Code."<sup>9</sup> Utility-provided interruptible rates secure important benefits and are unique both in structure and in purpose from other products available in the markets.

We believe that it is in the public interest for all customers to have access to both utility-offered interruptible and other DSM products and CSP-offered products. Going forward, the Commission should ensure that customers (whether shopping or SSO customers) have as much freedom as possible to choose between SSO interruptible rates and other DSM products and the products offered by CSPs.

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<sup>9</sup> In the Matter of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Case No. 12-1230-EL-SSO, Second Entry on Rehearing at 14 (January 30, 2013).

**(n) Does an electric utility have an obligation to control the size and shape of its native load so as to improve energy prices and reduce capacity costs?**

The very first policy goal listed in Section 4928.02 is to “[e]nsure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory and reasonably priced retail electric service.” Utilities should make every effort (through, for example, rate designs that send accurate price signals to customers) to improve energy prices and reduce capacity costs in order to ensure the availability of reasonably priced electric service through their SSO rate plans.

One way a utility can shape its native load is through properly designed time-of-use pricing.<sup>10</sup> By designing rates that increase during the times when it is more expensive to produce energy, customers will be given price signals to shift their electric usage to lower-cost periods. There are many different ways to design time-of-use rates. For example, a time-of-use rate could be designed with two seasonal periods (summer and winter), or three seasonal periods (summer, winter and shoulder periods). Another approach would be to have several different time-of-day rates, with an on-peak and off-peak period, or with additional time periods added in. A more advanced approach with more accurate price signals would be to combine seasonal with time-of-day periods. To its credit, FirstEnergy has had time-of-use pricing options available under its SSO rates for several years.<sup>11</sup> The Commission should

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<sup>10</sup> For a more detailed discussion of Nucor’s time-of-use rate design recommendations, please see In the Matter of the Commission’s Review of Time-Differentiated and Dynamic Pricing Options for Retail Electric Services, Case No. 12-150-EL-COI, Comments of Nucor Steel Marion, Inc. (April 11, 2012).

<sup>11</sup> In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of an Experimental Critical Peak Pricing Rider, a Revised Generation Service Rider Which Includes a Time-of-Day Option, and an Experimental Real Time Pricing Rider, Case No. 09-541-EL-ATA, Finding and Order (January 20, 2010).

encourage EDUs to at least retain, and hopefully improve upon, their current time-of-use rate options.

In order to be effective, the price differential between the peak and off-peak periods must be large enough to encourage customers to shift to off-peak periods. If designed properly, time-of-use rates can and should indirectly produce lower SSO generation prices, since potential generation suppliers will know customers have strong incentives to move their usage to off-peak periods, which should enable suppliers to make lower bids. Another more direct way to ensure that the effects of time-differentiated rates are reflected in SSO generation auction results is to acquire generation on a time-of-use basis. For example, for an EDU that has time-of-use rates with two time periods (an on-peak and an off-peak period), the SSO auction would essentially seek two products – an on-peak product and a less expensive off-peak product – instead of one. These auction results would then be converted into separate on-peak and off-peak rates.

It should be noted that time-of-use rates are not synonymous with real-time pricing rates. Real-time pricing rates typically vary by the hour, reflecting hourly wholesale market prices. While these rates certainly provide more accurate price signals than typical average costs rates and might be ideal for some customers, the volatility of such rates make them unattractive for many customers. Well-designed time-of-use rates, on the other hand, provide more accurate price signals to encourage customers to shift usage away from high-cost times periods, while still providing a reasonable degree of rate stability. We support the availability of a real-time pricing option for customers that are interested in such pricing, and believe that the most effective way for real-time pricing to be provided through an SSO offer would be for a

supplier (and the EDU) to simply agree to pass the hourly locational marginal price through to the customer (that customer would then be removed from the rest of the SSO load). However, real-time pricing should not be considered a substitute for well designed time-of-use rates, and real-time pricing should not be made mandatory, or the only default service option, for any customers.

Another important way to control the size and shape of an EDU's load is through the use of capacity or demand charges that are based on coincident peak demands or demands measured during narrowly-defined peak periods. Allocating generation and transmission capacity costs among customer classes based on coincident peak demand recognizes time-of-use characteristics of the customer classes at the cost allocation level. To ensure that a precise price signal reaches the customer, however, EDUs should go a step further and recover these capacity costs based on the customer's demand at the time of the system peak demand (the customer's coincident peak demand), rather than based on the customer's non-coincident peak demand. As an alternative to coincident peak pricing, customers could be billed based on their peak demand in a reasonably narrow on-peak period. Under this approach, the customer would only be charged for demand-related costs based on the peak demand in the on-peak hours, but would be able to operate in off-peak hours without concern about incurring additional demand-related costs over and above those incurred in the on-peak period. The more narrowly constrained the demand measurement period, the more effective this type of rate is (customers respond best to the most precise price signals). This form of demand billing, together with well-designed time-of-use energy charges, would send a strong price signal for customers to shift their usage to off-peak times, which would help improve an EDU's overall

SSO load shape. Designing demand charges in this way would also provide an ancillary economic development/job retention benefit for businesses whose operations lend themselves to responding to peak pricing.

It is also important for utilities to take all reasonable steps they can to reduce capacity costs. As discussed in the December 12 Entry and the introduction to these comments, the transmission constraints in the ATSI zone lead to high capacity prices in the May 2012 ATSI base residual auction ("BRA"), which in turn resulted in high generation prices in the last two FirstEnergy SSO generation auctions. In addition to reducing their overall peak demands through the demand billing approach discussed above, another action utilities can take to mitigate capacity costs is to bid their available energy efficiency and demand response resources into the PJM capacity auctions (both the BRAs and the supplemental capacity auctions).

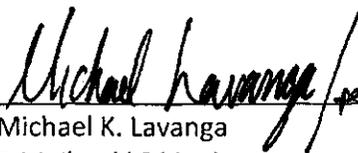
In order to ensure that utilities can bid their interruptible load into the BRAs, utilities should develop ways to address the timing mismatch issues between the BRAs and the three-year SSO plans that include interruptible rates. Utilities should bid interruptible load into the BRAs based on the utility's reasonable and prudent forecast of the amount of interruptible load that will be available if the utility's interruptible rates are extended into the next ESP. Under these circumstances, so long as utility's efforts to acquire sufficient interruptible load are prudent, the Commission should hold the utility harmless in the event that the full amount of interruptible load is not available in the delivery year. This position was articulated by Nucor in

more detail in the recent FirstEnergy 2013-15 Energy Efficiency/Peak Demand Reduction portfolio proceeding.<sup>12</sup>

### III. CONCLUSION

Nucor respectfully requests the Commission to consider these comments as the Commission continues its examination of issues in this proceeding.

Respectfully submitted,

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<sup>12</sup> See Case No. 12-2190-EL-POR et al, In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Portfolio Plans for 2013 through 2015, Initial Brief by Nucor Steel Marion, Inc. at 20-24 (November 20, 2012).

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following parties of record as a courtesy, via U.S. Mail postage prepaid, express mail, hand delivery, or electronic transmission on March 1, 2013.

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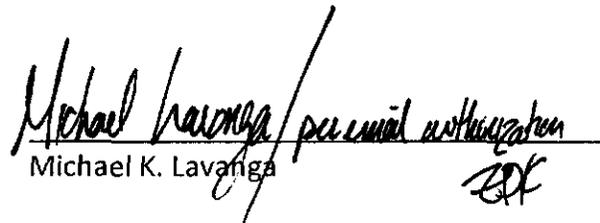
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