

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio)
Power Company to Establish a)
Competitive Bidding Process for)
Procurement of Energy to Support its)
Standard Service Offer.)

**COMMENTS
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

I. INTRODUCTION

An upcoming auction for AEP Ohio will provide its standard-offer customers a slight benefit from the current low market prices for energy, when a mere 10% of the energy AEP Ohio needs to sell to customers will be procured. This auction was arranged in the decision¹ of the Public Utilities Commission of Ohio (“Commission” or “PUCO”) regarding the electric security plan that AEP Ohio proposed, a plan that will otherwise cost consumers dearly in non-market charges.² This auction is the first of three auctions that AEP Ohio will hold over the next two years. OCC hereby comments on the proposed structure of the auction, for ensuring a fair outcome for consumers.

These auctions will provide an increasing amount of energy to serve standard-offer customers. The residential customers of this Utility make up approximately 40% of the standard-offer customers. Making sure the competitive bid process is correctly

¹ *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 11-346-EL-SSO, Opinion and Order (Aug. 8, 2012).

² And AEP’s plan appears to have prompted requests for substantial non-market charges by Duke Energy and Dayton Power & Light. See *In the Matter of The Application of the Dayton Power and Light Company for Approval of its Market Rate Offer*, Case No. 12-426-EL-SSO; *In the Matter of the Application of Duke Energy Ohio, Inc. for the Establishment of a Charge Pursuant to Revised Code Section 4909.18*, Case No. 12-2400-EL-UNC.

structured is important because it will affect standard-offer rates paid by these residential customers.

The competitive bid process should be structured in a way to encourage robust bidding for the auction, thereby increasing the likelihood of obtaining reasonably priced electric service for customers, a policy of the State under R.C. 4928.02(A). OCC's comments are geared toward encouraging robust bidding for the auction, and yet protecting customers from being saddled with costs that conflict with the goals of ensuring reasonably priced electric service.

II. COMMENTS

A. Cost Recovery

In the Supplement to its Application (p. 2), AEP Ohio proposes to collect from standard service offer ("standard-offer") customers "prudently incurred costs of conducting the energy auctions," including "costs of default and contingency plans associated with the energy supply contracts" and "balancing charges incurred in administering the energy supply contracts." The Commission should direct AEP Ohio to identify (and justify): (1) what types of costs would be included in these two cost categories; (2) how such costs would arise in the course of administering the energy auctions; and (3) the basis for charging such costs to standard-offer customers, rather than to competitive bid process ("CBP") suppliers.

OCC objects, in particular, to AEP Ohio's proposal to collect "balancing charges" from standard-offer customers. "Balancing charges," as used in wholesale power markets, typically refers to charges for any deviations between day-ahead scheduled load and actual real-time load, priced at the real-time locational marginal price ("LMP"). It is

not reasonable or appropriate for standard-offer customers to bear the cost risk associated with such load deviations. Instead, as is typical for contracts with standard-offer suppliers in other jurisdictions, the Master Energy Supply Agreement should require the supplier to bear all costs associated with real-time balancing.

B. Term Structure and Auction Timing³

OCC recommends the following changes to the proposal regarding product terms and auction timing:

- For the first auction in June of 2013, solicit ten tranches of a 10-month product with a delivery period from August of 2013 through May of 2014, rather than the proposed 22-month product with a delivery period from August of 2013 through May of 2015.
- Conduct three auctions to solicit 60 tranches of a 12-month product with a delivery period from June of 2014 through May of 2015, instead of two auctions for 50 tranches as proposed by AEP Ohio.

The term structure and auction timing under this modified structure would be as follows:

Product Type	Auction Timing	Tranches	8/2013-5/2014	6/2014-5/2015
10-Month	June 2013	10		
12-Month	November 2013	20		
12-Month	January 2014	20		
12-Month	March 2014	20		
5-Month	June 2014	40		

This modified structure offers a couple of advantages. First, this modified structure unbundles the 22-month product (8/2013-5/2015) proposed by AEP Ohio into a 10-month portion (8/2013-5/2014) and a 12-month portion (6/2014-5/2015). By procuring the 12-month portion at a later date, the modified structure reduces the time

³ These comments are slightly modified from the version provided during the stakeholder process to reflect differences in the timing of the first auction between AEP Ohio's proposal during the stakeholder process and the final proposal in the CBP application.

between procurement and start of delivery for that 6/2014-5/2015 portion of the 22-month product proposed by AEP Ohio. Reducing the time between procurement and delivery for this 12-month portion should reduce load and price uncertainty, and thus reduce risk premiums assessed by bidders when they bid on this portion as a separate 12-month product. In other words, OCC's proposed approach should save money for consumers.

Second, with only ten tranches on offer in the June 2013 auction, bidding may not be robust enough to support competitive pricing for a 22-month product, especially given the delivery risk for the longer-term product noted above. Shortening the term of the product to ten months may increase bidder interest and promote competitive pricing, or at least limit the damage to consumers from inefficient pricing.

C. Auction Process⁴

AEP Ohio proposes that the PUCO be permitted to reject the results of an auction only in the event that: (1) the Auction Manager determined that auction rules were not followed; (2) the auction was under-subscribed; (3) there were fewer than four bidders; or (4) one bidder won more than 80% of the available tranches.

OCC recommends that the Commission be given greater discretion to reject winning price offers that are not competitive or reasonably consistent with current market pricing for energy and will result in standard-offer customers paying more than they otherwise would have paid under AEP Ohio's fuel adjustment clause rates. Doing so would be consistent with the provisions of the Code that are geared toward ensuring reasonably priced electric service to customers in the state.

⁴ These comments were also provided during the stakeholder process.

III. CONCLUSION

OCC appreciates the opportunity to submit comments to assist the Commission in its review of AEP Ohio's competitive bid process. OCC's comments present modifications to the bid process proposed by AEP Ohio. These changes would increase the likelihood that residential customers will be able to fully benefit from AEP Ohio's transition to competitively bid standard-offer rates.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Comments by the Office of the Ohio Consumers' Counsel was served on the persons stated below via electronic service this 4th day of March 2013.

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Summary: Comments Comments by the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Grady, Maureen R. Ms.