

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio)
Power Company to Establish a) Case No. 12-3254-EL-UNC
Competitive Bidding Process for)
Procurement of Energy to Support its)
Standard Service Offer.)

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

An upcoming auction for AEP Ohio is intended to provide its standard-offer customers a slight benefit from the current AEP Ohio standard-offer rate. The auction will allow a mere 10% of the energy AEP Ohio needs to sell to customers to be procured from today's low market prices for energy. 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. This auction is the first of three auctions that AEP Ohio will hold over the next two years.

Parties, including OCC, filed comments in this proceeding. These reply comments will briefly touch upon those comments, and suggest ways for the PUCO to extend protections to customers through the auction structuring.

OCC supports OEG's recommendation to set the starting price for the energy-only auction for each AEP-Ohio rate zone at the energy/variable component of the fuel adjustment clause ("FAC" or "fuel adjustment clause rate") that customers would

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).*

otherwise pay. See OEG Comments at 2. OEG estimates that the harm to customers (on the 10% energy only auction) could be \$25 million if the Commission does not establish the starting price for the energy-only auction at the current fuel rate that standard service offer (“SSO“ or “standard service”) customers would otherwise pay. OEG Comments at 5. OEG estimates that the harm to customers could increase to \$150 million in the final year of the ESP when 60% only auctions are held. OEG Comments at 5. This harm would result for customers because the marginal cost of energy component, the risk premium, and supplier profit--the bulk of the clearing price for energy and capacity- is likely to be above the FAC rates currently being paid. OEG bases its assumption on the results of the October 23, 2012 FirstEnergy auction, where the clearing price for energy and capacity was \$60.89/MWh, with approximately \$15/MWh attributable to capacity. OCC Witness Wallach likewise testified at the AEP Ohio ESP hearing that customers would be harmed by these energy only auctions.²

Competition just for the sake of competition is not good public policy. Competition is the means to the end of reasonably priced electric service per R.C. 4928.02(A). If auctions for standard service were held at 100% competitively bid standard service, then Ohio customers would likely see the benefits of the low electricity market rates that are currently observed in the PJM region. But, despite years of transition since S.B. 3 in 1999, AEP Ohio’s approved plan still falls way short of giving customers the full benefit of low market prices today. Instead, AEP Ohio’s plan features energy only auctions for slivers of power and little upside for customers. And AEP Ohio customers are paying dearly, in the form of a retail stability rider, for

² See OCC Witness Wallach Testimony at 10-16 (May 4, 2012), Case No. 11-346-EL-SSO.

AEP Ohio's transition to competition. It will be unfair to deny consumers the full benefit of low market prices now but to give AEP Ohio the benefit of charging customers for potentially higher market prices later, if that is the result of the current plan.

The notion of a bid cap at the fuel rate would be a means of assuring some consumer protection during the transition to 100% competitively bid auctions for standard service. Doing so will assist the Commission in carrying out the policy of the state to ensure that reasonably priced retail electric service is available to customers in the state. See R.C. 4928.02(A). Additionally, this would be consistent with the stated directive of the PUCO to allow consideration of any "means to mitigate any potential adverse rate impacts for customers upon rates being set by auction."³

OCC also supports the comments of OEG and FES that oppose the unbundling of the fuel adjustment clause. Unbundling of the fuel adjustment clause may allow AEP Ohio to collect more than its fully embedded cost of capacity which the PUCO determined was \$188/MW-day.⁴ FES Comments at (D). This would be contrary to the PUCO's Opinion and Order in the AEP Ohio Capacity Case⁵ and would impair the PUCO's ability to ensure reasonably priced electric retail service to customers in this State, a policy objective under R.C. 4928.02(A).

³ *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 at 16 (Aug. 8, 2012).

⁴ *In the Matter of the Application of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company*, Case No. 10-2929-EL-UNC, Opinion and Order at 35 (July 2, 2012).

⁵Id.

OCC opposes FES's proposal to procure the 60% portion in one auction, rather than two auctions as proposed by AEP Ohio. (FES Comments at (A)). Procuring a sizeable portion of the load at one time is not advisable especially if the prices may be very high that particular bid day. With two auctions, there will be some protection by cost averaging.

OCC's comments and reply comments present modifications to the bid process proposed by AEP Ohio. These changes would increase the likelihood that residential customers will be able to benefit from AEP Ohio's long transition to competitively bid standard-offer rates. The Commission should adopt these recommendations.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Reply Comments by the Office of the Ohio Consumers' Counsel was served on the persons stated below via electronic service this 14th day of March 2013.

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