

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

REPLY COMMENTS OF FIRSTENERGY SOLUTIONS CORP.

I. INTRODUCTION

FirstEnergy Solutions Corp. (“FES”) submits these Reply Comments regarding Ohio Power Company’s (“AEP Ohio”) Application setting forth the proposed structure for the competitive bid processes required by the Commission’s August 8, 2012 Order approving with modifications AEP Ohio’s Electric Security Plan in Case No. 11-346-EL-SSO *et al.* (“ESP Order”). On March 4, 2013 FES, the Ohio Energy Group (“OEG”), the Ohio Consumers’ Counsel (“OCC”), and the Industrial Energy Users-Ohio (“IEU”) filed comments on AEP Ohio’s “Supplement” to its Application. Several items reflected in the comments of the other parties are of concern to FES, and accordingly FES submits these reply comments.

II. DISCUSSION

FES has serious concerns about the impact on competitive auctions that would result from both the OEG and the IEU proposals. Specifically, the proposals to cap the starting price of the descending clock auctions so that customers will not pay more than AEP Ohio’s fuel charge risks limiting supplier participation in the auctions such that there may be no auctions at all. Additionally FES continues to disagree with some of the

auction proposals advanced by the OCC. Finally, additional clarity is needed regarding the base generation rates charged to customers after the auctions have taken place.

A. IEU And OEG Proposals To Cap The Auction Starting Price Ignore Market Realities And Should Be Rejected.

IEU and OEG have proposed capping the starting price of the competitive auction. This proposal is flawed and should be rejected. The purpose of a competitive auction is to, among other things, provide customers with a transition from AEP Ohio's current non-market based rates to rates set by the competitive market. There is no justification for artificially limiting the results of this transition by imposing false and arbitrary restrictions on a competitive auction. Auction results should reflect the market prices at the time of the auction regardless of AEP Ohio's previous non-market based rates. FES therefore opposes any "cap" on the starting price for the auction which promises customers no increase in existing rates.

OEG attempts to justify its position by pointing to AEP Ohio's extremely above market capacity revenues and claiming that no margin on energy sales is appropriate.¹ While FES's position on AEP Ohio's capacity pricing is well known, OEG's position should be rejected. OEG claims that customers are entitled to the energy associated with AEP Ohio's capacity assets "with no risk premium or profit margin."² However, there is nothing in Ohio law which provides customers with the right to zero margin energy pricing in a competitive auction. Instead, this is merely an effort by OEG to obtain the

¹ See OEG Comments, pp. 4-5. IEU makes a similar argument. IEU Comments, p. 2.

² OEG Comments, p. 4. It is also worthwhile to note that OEG's calculation of the results of the FirstEnergy auctions is flawed. OEG Comments, p. 5. In addition to the components identified by OEG (capacity, marginal cost energy, risk premium, and supplier profit), the FirstEnergy auction also included other components, such as market-based ancillary charges. As a result, the OEG calculation is not reliable or accurate.

better of cost or market, and this proposal should be rejected as unwarranted under Ohio law and the ESP Order.

Capping the starting price of AEP Ohio's descending clock auction at AEP Ohio's fuel costs (or some other arbitrarily low value not based on market pricing) would ensure that other suppliers, who unlike AEP Ohio do not have access to above-market capacity payments, are not able to participate. Indeed if a cap is adopted, AEP Ohio may be the only bidder able to participate. Essentially the OEG and IEU proposals would erase any benefit of holding an auction at all, since consumers would not have any quicker access to today's historically low market prices and instead would continue to be supplied by AEP Ohio at (or below) its current fuel costs. Under the OEG and IEU proposals, not only would AEP Ohio's SSO customers be deprived of earlier access to market prices, they would be forced to pay for an auction process that is destined to fail. This would violate the clear direction of the Commission's order in AEP Ohio's most recent ESP case where the Commission recognized that there is a benefit to consumers in gaining earlier access to prices that reflect the competitive market.

In addition to the policy flaws in OEG and IEU's proposals, accepting this proposal may lead to higher costs for customers. A non-market index cap may limit bidder participation in the auction, particularly if the starting price of the auction is set based on extremely expensive capacity and no risk premium or profit margin associated with energy prices. If bidders do not have at least the opportunity to earn a reasonable profit they may not incur the time or expense associated with participating in the auction process at all.

As attracting potential bidders is important in obtaining the lowest possible costs for customers, artificially capping the auction results may have the effect of actually increasing costs to customers. Rather than an artificial cap, the starting price of the auction should be calculated as is done in other successful market-based auctions. The auction manager should determinate a range of energy prices based on current prices and trends, and should then set the starting price to encourage bidder participation and a robust auction.

B. OCC's Proposals Regarding Auction Structure Should Be Rejected.

As described in detail in the initial FES comments in this case, FES proposes to modify the proposed second and third auctions and to maintain a consistent tranche size in order to encourage supplier participation in the auctions.³ OCC has proposed reducing the delivery period for the first auction from 22 months to 10 months, and has also proposed conducting three auctions rather than two auctions.⁴ For the reasons outlined in FES's initial comments, FES opposes both of these proposals. The best way to encourage bidder participation is to increase the number of and term of tranches available to bidders in an auction (which increases the chance of auction success for suppliers) and to limit the number of auctions (to reduce the supplier cost of participating in auctions). OCC's proposal runs contrary to those policy goals, and could lead to increased costs to customers.

³ FES Comments, pp. 2-3.

⁴ OCC Comments, p. 3.

C. Clarification of AEP Ohio's Proposal To Freeze Base Generation Rates Is Needed.

The ESP Order clearly states that base generation prices to customers are not frozen during the auction period.

“We find that AEP-Ohio's request to continue to freeze base generation rates through the auction process is inappropriate and should be rejected. The entire crux of the Opinion and Order was the value in providing customers with the opportunity to take advantage of market-based prices and the importance of establishing a competitive electric marketplace. AEP-Ohio's proposal is completely inconsistent with the Commission's mission and would preclude AEP-Ohio customers from realizing any potential savings that may result from its expanded energy auctions.”⁵

As is shown through this plain language, the Commission has ruled that base generation rates are intended to change based on auction results. However, AEP Ohio's Supplement creates doubt on this point. “During the delivery period for both the 10% and 60% energy auctions (i.e., through December 31, 2014), **current base generation rates would continue to be charged.**”⁶ (emphasis added). AEP Ohio then proposes a seemingly different system once 100% auctions are reached.⁷ As this language seems to contradict the Entry on Rehearing, it is unclear whether AEP Ohio is proposing that all base generation rates remain frozen, or if only the historic SSO base generation rates are to remain frozen and the auction results will flow through into the total base generation rate in accordance with the Entry on Rehearing.

In light of the confusion created by this portion of AEP Ohio's Supplement, the Commission should make clear in any order regarding this supplemental filing that its

⁵ Case No. 11-346, Entry on Rehearing dated January 30, 2013, p. 36.

⁶ AEP Ohio Supplement p. 5.

⁷ *Id.*

Entry on Rehearing stands. The ultimate generation prices charged to customers should fluctuate with auction results. To do otherwise would erase the benefits of customers gaining access to market pricing sooner, and would improperly contravene the Entry on Rehearing.

III. CONCLUSION

The Commission should not institute the auction starting price modifications proposed by OEG and IEU. The Commission should not alter the amount of load at auction into three auctions for 20% of its load nor should the Commission shorten the first auction period. These proposals by the other intervenors put the CBPs instituted by the ESP Order at risk because each will harm supplier participation and will prevent the benefits of competition from reaching all of AEP Ohio's customers. Finally, the Commission should clarify that its Entry on Rehearing stands, and base generation prices will fluctuate with auction results.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Reply Comments of FirstEnergy Solutions Corp.* were served this 14th day of March, 2013, via e-mail upon the parties below.

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Summary: Reply Comments of FirstEnergy Solutions Corp. electronically filed by Mr. Nathaniel Trevor Alexander on behalf of FirstEnergy Solutions Corp.