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.	)))))	Case No. 12-3254-EL-UNC

POST-HEARING BRIEF OF FIRSTENERGY SOLUTIONS CORP.

TABLE OF CONTENTS

I. INTRODUCTION 1

II. FES HAS PROVIDED THE ONLY PROPOSAL WHICH COMPLIES WITH THE PREVIOUS ORDERS OF THE COMMISSION 3

A. The Commission Has Made Clear That Customers Should Have Access To Market Prices And That Base Generation Rates Should Be Blended With Auction Results 3

B. The Commission Has Made Clear That Non-Shopping Customers Should Have Access To $188.88/MW-day Capacity Pricing 5

C. AEP Ohio's Proposal Fails To Incorporate The Commission's Orders Regarding Base Generation Rates And Capacity Pricing. 5

1. AEP Ohio Should Blend The Frozen Base Generation Rate With Auction Results. 6

2. AEP Ohio Should Provide Capacity At $188.88/MW-day. 9

D. The FES Blending Proposal Complies With The Commission's Orders And Avoids A Potentially Adverse Rate Impact On Customers. 9

III. AEP OHIO'S PROPOSAL TO SPLIT THE FAC AND CONTINUE THE FAC AFTER DECEMBER 31, 2014 SHOULD BE REJECTED. 11

IV. THE INTERVENOR PROPOSALS TO CAP THE AUCTION STARTING PRICE OR AUCTION RESULTS SHOULD BE REJECTED. 14

V. AUCTION RELATED ISSUES 16

VI. CONCLUSION 17

I. INTRODUCTION

There are two inescapable conclusions from the AEP ESP II Order[1] and Entry on Rehearing[2] which are relevant to this case. First, the Commission wanted AEP Ohio to transition to market based pricing. To do this, the Commission ordered AEP Ohio to increase its proposed 5% energy auction to a 10%, 60%, and 100% energy auction process.[3] On rehearing, the Commission explained further that "[t]he 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."[4] Therefore, there can be no doubt that the Commission intended AEP Ohio's SSO pricing to incorporate increasing percentages of market pricing over the transition period.

Second, the Commission wanted those market prices to actually benefit customers. The Commission found that the faster transition to market prices could create a quantitative benefit which "may well exceed the costs associated with the GRR and RSR."[5] The Commission provided further detail in its Entry on Rehearing, specifically holding that base generation rates should not be frozen through the auction process and that freezing base generation prices without blending them with the energy-only auctions would "preclude AEP-Ohio customers from realizing any potential savings that may result from the expanded energy auctions."[6] In the

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[1] Case No. 11-346-EL-SSO, *et al.*, Opinion and Order dated August 8, 2012 ("ESP Order").

[2] Case No. 11-346-EL-SSO, *et al.*, Entry on Rehearing dated January 30, 2013 ("Entry on Rehearing").

[3] ESP Order, pp. 39-40.

[4] Entry on Rehearing, pp. 36-37.

[5] ESP Order, p. 76.

[6] Entry on Rehearing, pp. 36-37.

words of the Commission, "[t]his is precisely the reason why the Commission expanded and accelerated the CBP in the first place."[7]

AEP Ohio's proposal incorporates market pricing, but does so only by blending the results of the energy-only auctions with the purported variable component of the current Fuel Adjustment Clause ("FAC"), while maintaining existing base generation pricing and the purported fixed component of the current FAC at current levels, which is contrary to the Commission's Entry on Rehearing. AEP Ohio's proposal is likely lead to price increases for customers despite historically low market prices, and therefore fails to provide non-shopping customers with the savings opportunities identified by the Commission.[8] AEP Ohio's proposal also ignores the express order of the Commission that a freeze of base generation rates by excluding them from the blending process for the auction results was "inappropriate" and contrary to the "entire crux" of the ESP Order.[9] The proposals from other intervenors are also flawed, though for a different reason. They attempt to avoid the risk of a price increase to customers by putting such restrictions on the market as would make it unlikely that any auction would succeed. This is contrary to the Commission's ESP Order, which sought to accelerate the transition to market.

FirstEnergy Solutions Corp. ("FES") is the only party to this proceeding who has offered a proposal which both incorporates a transition to market and makes it possible for customers to benefit from the accelerated auctions ordered by the Commission. FES's auction blending proposal would allow the market to work as anticipated by the Commission by blending the sum of 100% of the bundled FAC and current base generation rates with the sum of energy-only

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[7] Entry on Rehearing, p. 37.

[8] Tr. Vol. II, pp. 370-71; Noewer Direct, p. 18.

[9] Entry on Rehearing, p. 37.

auction results and Commission authorized $188.88/MW-day for capacity.[10] FES estimates this blending proposal would save customers approximately $180 million compared to AEP Ohio's proposal. FES's proposal is the only proposal in this case which addresses all of the Commission's orders and goals, and so it should be adopted by the Commission.

II. FES HAS PROVIDED THE ONLY PROPOSAL WHICH COMPLIES WITH THE PREVIOUS ORDERS OF THE COMMISSION.

A. The Commission Has Made Clear That Customers Should Have Access To Market Prices And That Base Generation Rates Should Be Blended With Auction Results.

In response to AEP Ohio's proposed 5% energy-only auction in its ESP Application, the Commission made clear that it wanted AEP Ohio's non-shopping customers to have faster access to market prices.

> ...[W]e find that increasing the percentage to a 10 percent slice-of-system auction will facilitate a smoother transition to a full energy auction...**Based on the importance of customers having access to market-based prices** and ensuring an expeditious transition to a full energy auction, in addition to making the modified ESP more favorable than the results that would otherwise apply under section 4928.142, Revised Code...we direct AEP-Ohio to conduct an energy auction for delivery commencing on June 1, 2014, for 60 percent of its load, and delivery commencing on January 1, 2015, for the remainder of AEP-Ohio's energy load.[11]

The Commission dramatically increased AEP Ohio's proposed energy-only auction because it wanted customers to have access to market-based prices quickly.

The Commission's explanation for expanding the energy-only auction load was compelling, and showed how the Commission evaluated competing claims regarding AEP Ohio's transition to market, AEP Ohio's financial integrity, and the ESP v. MRO test.

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[10] The Commission previously determined in Case No. 10-2929-EL-UNC that AEP Ohio's cost of capacity during the transition period is something other than market pricing, namely, $188.88/MW-day.

[11] ESP Order, pp. 39-40 (emphasis added).

> Further, the acceleration to 60 percent of AEP-Ohio's energy-only auction by June 1, 2014, not only enables customers to take advantage of market-based prices, but **also creates a qualitative benefit which, while not yet quantifiable, may well exceed the costs associated with the GRR and RSR.**[12]

The Commission's plan was clear. It provided AEP Ohio with additional funds through the RSR, while at the same time ordering AEP Ohio to transition to market more rapidly than proposed by AEP Ohio. This provided not only a qualitative benefit of a faster transition to market, but also a potential quantifiable benefit to customers when the results of the energy auction process flowed through to customers.

Despite the express language in the Commission's Order, AEP Ohio's Application for Rehearing asked that the Commission clarify that base generation rates should remain frozen in a manner that did not take the auction blending process into account.[13] The Commission emphatically rejected this request.

> 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. This is precisely the reason why the Commission expanded and accelerated the CBP in the first place.**[14]

The Commission specifically rejected AEP Ohio's request to keep base generation rates frozen without accounting for the energy auction process. The Commission recognized that keeping

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[12] ESP Order, p. 76 (emphasis added).

[13] Direct Testimony of Sharon L. Noewer, FES Ex. 7 ("Noewer Direct"), p. 6 (citing Case No. 11-346-EL-SSO *et al.*, AEP Ohio Application for Rehearing filed September 7, 2012, pp. 8-16).

[14] Entry on Rehearing, pp. 36-37 (emphasis added).

base generation rates frozen in this manner would preclude AEP Ohio's customers from realizing any potential savings associated with the expanded energy auctions.

B. The Commission Has Made Clear That Non-Shopping Customers Should Have Access To $188.88/MW-day Capacity Pricing

In addition to addressing how auction results were to be blended with current generation rates, the Commission also addressed capacity pricing during the ESP term. In its Application for Rehearing, AEP Ohio asked the Commission to "directly confirm that the SCM [state compensation mechanism] adopted in the 10-2929 docket has no application to the energy auctions in this ESP or to SSO customer rates in general because the SCM only applied to capacity pricing in support of shopping customers served by CRES providers."[15] Again, the Commission rejected AEP Ohio's proposal, stating:

> The Commission finds that AEP-Ohio's application for rehearing should be denied...In light of the Commission's decision in the Capacity Case, which determined $188.88 per MW-day would allow AEP-Ohio to recover its embedded capacity costs without overcharging customers, it would be unreasonable for us to permit AEP-Ohio to recover an amount higher than its cost of service.[16]

The Commission was once again very clear. AEP Ohio is obligated to provide $188.88/MW-day capacity to the load associated with the energy-only auctions, because to do otherwise would "permit AEP-Ohio to recover an amount higher than its cost of service."[17]

C. AEP Ohio's Proposal Fails To Incorporate The Commission's Orders Regarding Base Generation Rates And Capacity Pricing.

Despite the clear direction from the Commission on base generation rates and appropriate capacity pricing, AEP Ohio has proposed a freeze of base generation rates regardless of the

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[15] AEP Ohio Application for Rehearing, p. 18.

[16] Entry on Rehearing, p. 37.

[17] Entry on Rehearing, p. 37.

auction results and to continue charging non-shopping customers more than $300/MW-day for capacity.

The chart from FES witness Noewer's testimony, which AEP Ohio admits is a fair reflection of its proposal,[18] shows the differences between the AEP Ohio and FES auction blending proposals.[19] It also shows that AEP Ohio proposes to freeze base generation rates by excluding them from the blending process (contrary to the Commission's orders) and to deny non-shopping customers $188.88/MW-day capacity until January 1, 2015.

Component	Auction Phase 1		Auction Phase 2		Auction Phase 3	
	AEP	FES	AEP	FES	AEP	FES
Base Generation	100%	90%	100%	40%	0%	0%
Auction Purchase Component	10%	10%	60%	60%	100%	100%
Capacity at $188.88/MW-Day	0%	10%	0%	60%	100%	100%
FAC Energy (Variable) Component	90%	90%	40%	40%	0%	0%
FAC Non-Energy (Fixed) Component	100%	90%	100%	40%	100%	0%
Auction Cost Component	100%	100%	100%	100%	100%	100%

1. AEP Ohio Should Blend The Frozen Base Generation Rate With Auction Results.

The first significant difference shown by this chart relates to AEP Ohio's base generation charge. AEP Ohio proposes that the base generation charge remain set at current levels outside of the blending process until 100% of the load is served through the energy-only auction, or January 1, 2015. Rather than blending its current base generation charge with the $188.88/MW-day capacity pricing associated with the auction results, AEP Ohio proposes to blend the auction results with the variable portion of the FAC only. AEP Ohio claims that its energy costs are recovered exclusively through the variable portion of the FAC,[20] and therefore no reduction in base generation rates is appropriate.

[18] Tr. Vol. I, p. 87.

[19] Noewer Direct, p. 9.

[20] Tr. Vol. I, p. 89.

AEP Ohio's proposal to keep base generation rates constant through January 1, 2015 for 100% of SSO load and adjust only the variable component of the FAC is directly contrary to both the ESP Order and the Entry on Rehearing. AEP Ohio specifically requested that the Commission approve a freeze to base generation prices in spite of the auction process, and the Commission explicitly rejected this proposal. The Commission found AEP Ohio's proposal "completely inconsistent with the Commission's mission" and that it would "preclude AEP Ohio customers from realizing any potential savings that may result from the expanded energy auctions."[21] As the Commission specifically considered whether base generation rates should be excluded from the auction blending process, and rejected AEP Ohio's position, AEP Ohio's proposal should be rejected as being inconsistent with the previous orders of the Commission.

In addition to being contrary to Commission orders, the treatment of base generation rates in AEP Ohio's proposal also defies logic and would provide a windfall to AEP Ohio. AEP Ohio claims that its current base generation rates include: (1) capacity; (2) CAT tax; (3) uncollectible expense for certain costs; and (4) a return on equity.[22] AEP Ohio equates its current base generation rate at $314/MW-day[23], or approximately $22.50/MWh. By comparison, the Commission authorized cost of capacity of $188.88/MW-day, which includes a return on equity, is equivalent to approximately $13.50/MWh.[24] Therefore, through its current base generation rates AEP Ohio is recovering $9/MWh for CAT tax, uncollectibles, and an additional return on equity over and above the return on equity already provided in the $188.88/MW-day capacity pricing determined by the Commission.

[21] Entry on Rehearing, pp. 36-37.

[22] Tr. Vol. I, pp. 88-89.

[23] Tr. Vol. I, p. 912.

[24] Tr. Vol. I, p. 93. See also Roush Direct, pp. 6-7.

Based on AEP Ohio's own testimony, there is no justification for a $9/MWh spread to account for CAT tax, uncollectibles, and an additional return on equity. The CAT tax rate is .26%, and other utilities include a CAT gross up when translating auction results into retail rates.[25] AEP Ohio witness Roush was unable to estimate AEP Ohio's uncollectible expense, but admitted that other utilities account for this expense in their riders and that a similar rider would address AEP Ohio's concern about uncollectible recovery.[26] Regardless, witness Roush's testimony confirms that CAT tax and uncollectibles account for a very small portion of the $9/MWh spread between capacity costs and current base generation rates. Therefore, the vast majority of the $9/MWh spread provides an additional return on equity for AEP Ohio over and above that included in the $188.88/MW-day capacity pricing calculated by the Commission.

In light of AEP Ohio's own testimony regarding this huge difference, AEP Ohio's claim that base generation rates should remain frozen outside of the blending process through January 1, 2015 simply does not make sense. The Commission has already determined that AEP Ohio's actual cost of capacity (including a return on equity) is $188.88/MW-day, or 40% less than current base generation rates.[27] There is simply no reason to allow AEP Ohio to collect the equivalent of $314/MW-day for capacity for the auction portion when the Commission has already determined the appropriate capacity price. AEP Ohio should not be permitted to keep the $9/MWh windfall between its cost to provide capacity and its current base generation rate when the energy to serve this load is being provided by the market.

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[25] Tr. Vol. I, p. 90.

[26] Tr. Vol. I, p. 91. FES does not oppose AEP Ohio's recovery for uncollectibles in the same manner as is recovered by other Ohio EDU's.

[27] Tr. Vol. I, p. 92.

2. AEP Ohio Should Provide Capacity At $188.88/MW-day.

AEP Ohio proposes to charge all non-shopping customers its current base generation rate to recover capacity costs through January 1, 2015, rather than the $188.88/MW-day identified by the Commission. As a result of AEP Ohio's blending proposal, SSO customers will not receive the relative benefit of $188.88/MW-day capacity pricing for any portion of their load until January 1, 2015.[28] As discussed above, the Commission has already rejected AEP Ohio's position on this point, finding that "it would be unreasonable for us to permit AEP-Ohio to recover an amount [for capacity] higher than its cost of service."[29]

Once again, in addition to being contrary to the Commission's ESP orders AEP Ohio's proposal simply does not make sense. AEP Ohio has admitted that its current generation rate approximately equals capacity priced at $314/MW-day.[30] There is no reason for the load associated with the energy-only auctions to have capacity priced at $314/MW-day, particularly when the Commission has already determined that AEP Ohio's cost of capacity is $188.88/MW-day. The better solution, which is consistent with the Commission's Entry on Rehearing, not to mention with common sense, is to price capacity used to serve the energy-only auctions at $188.88/MW-day. Otherwise, non-shopping customers will receive no benefit from $188.88/MW-day capacity pricing until January 1, 2015.[31]

D. The FES Blending Proposal Complies With The Commission's Orders And Avoids A Potentially Adverse Rate Impact On Customers.

It is clear from the referenced Commission decisions that the Commission intended to accelerate AEP Ohio's transition to market. From a rate blending perspective, the only way to

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[28] Tr. Vol. I, p. 87.

[29] Entry on Rehearing, p. 37.

[30] Tr. Vol. I, p. 92.

[31] Noewer Direct, p. 8.

interpret this directive is that current retail pricing for generation service should first be frozen and then blended with increasing percentages of market-based pricing for generation service to establish the rates that non-shopping customers will pay for generation service through the transition period.[32] The FES rate blending proposal does this.

The FES blending proposal incorporates all aspects of the Commission's Order and Entry on Rehearing. Specifically, the FES proposal complies with the Commission's directive that base generation rates be frozen while proportionally blending in the auction results from each period using the $188.88/MW-day capacity pricing as capacity support for the auction portions. The FES proposal also complies with the Commission's direction that capacity at $188.88/MW-day be provided to auction load.[33] For example, in Auction Phase 1, AEP Ohio's blended SSO rate would be calculated as the sum of 90% of the base generation rate, 90% of the total FAC, 10% of the auction purchase component, and 10% capacity at $188.88/MW-day. This is shown in more detail on the chart below.

Component	Auction Phase 1		Auction Phase 2		Auction Phase 3	
	AEP	FES	AEP	FES	AEP	FES
Base Generation	100%	90%	100%	40%	0%	0%
Auction Purchase Component	10%	10%	60%	60%	100%	100%
Capacity at $188.88/MW-Day	0%	10%	0%	60%	100%	100%
FAC Energy (Variable) Component	90%	90%	40%	40%	0%	0%
FAC Non-Energy (Fixed) Component	100%	90%	100%	40%	100%	0%
Auction Cost Component	100%	100%	100%	100%	100%	100%

The FES proposal complies with the Commission's directive to allow "customers to take advantage of market-based prices,"[34] and with the Commission's determination on rehearing that

[32] Noewer Direct, p. 8.

[33] Entry on Rehearing, p. 37 ("In light of the Commission's decision in the Capacity Case, which determined $188.88 per MW-day would allow AEP Ohio to recover its embedded capacity costs without overcharging customers, it would be unreasonable for us to permit AEP Ohio to recover an amount higher than its cost of service.").

[34] ESP Order, pp. 39-40.

base generation rates should not be frozen through the auction process.[35] The FES proposal is also fair to AEP Ohio, as it provides AEP Ohio with capacity revenue at $188.88/MW-day, which already includes a return on equity, for the capacity support provided to auction load.

The logic of the FES proposal becomes clear when the potential impacts on customers are examined. FES witness Noewer's Attachments 1 and 2 used numbers provided by AEP Ohio to compare the potential results under the AEP Ohio and FES proposed blending mechanisms. Even assuming, as AEP Ohio did in its Supplemental Application in this case, that the auction result equaled the variable portion of the FAC (which is optimistic),[36] under AEP Ohio's proposed blending mechanism customers would pay $179.5 million more than they would under the FES proposal.[37] Based on the assumptions in this example, there is a potentially huge adverse impact to customers if AEP Ohio's proposal is accepted. Therefore, FES respectfully requests that its rate blending proposal be accepted.

III. AEP OHIO'S PROPOSAL TO SPLIT THE FAC AND CONTINUE THE FAC AFTER DECEMBER 31, 2014 SHOULD BE REJECTED.

AEP Ohio has proposed to split its current FAC into the Fixed Cost Rider ("FCR") for non-energy ("fixed") costs and the Auction Phase-In Rider ("APR")[38] for energy ("variable") costs, both of which will continue through May 31, 2015.[39] While AEP Ohio will adjust the base generation rates from January 1 through May 31, 2015 "to reflect capacity costs of

[35] Entry on Rehearing, pp. 36-37.

[36] Tr. Vol. II, pp. 370-71; Noewer Direct, p. 18.

[37] Noewer Direct, Attachment 2.

[38] The proposed APR would also be used to recover the purchased power associated with the auctions, and the associated costs of conducting the auction. *See* Roush Direct, Exhibit DMR-1.

[39] Supplement to Application, pp. 3-6.

$188.88/MW-day,"[40] it would continue to recover the FCR based on December 2014 cost levels during this time period.

AEP Ohio's proposal to split the FAC should be rejected, as it could lead to a significant double-recovery of capacity costs for AEP Ohio. As discussed in detail above, AEP Ohio seeks to recover for its capacity through base generation rates of $314/MW-day in Auction Phases 1 and 2, and then at $188.88/MW-day in Auction Phase 3. FES proposes a blending of current base generation pricing with $188.88/MW-day capacity pricing over this period. Despite the fact under either proposal AEP Ohio will recover its capacity costs through these capacity charges, AEP Ohio seeks 100% recovery of the FCR through May 31, 2015.[41] This is improper, because <u>all of the costs included in the proposed FCR were also included in the $188.88/MW-day Commission authorized capacity price calculation</u>.

At hearing, FES showed how the FCR costs were included in the $188.88/MW-day calculation. In brief, AEP Ohio's Supplemental Application, Exhibit F, identified the items to be included in the FCR.[42] As acknowledged by AEP Ohio in a discovery response,[43] and again at hearing, each of the items proposed to be included in the FCR reference a capacity-related charge included FERC Account 555.[44] In the AEP Ohio capacity case, Case No. 10-2929-EL-UNC,

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[40] Supplement, pp. 5-6.

[41] Tr. Vol. I, p. 87.

[42] Tr. Vol. I, p. 97.

[43] FES Ex. 2.

[44] Tr. Vol. I, p. 97

("Q. And each of these line items references a capacity-related charge?

A. That's correct.

Q. And each of these line items would be included in FERC account 555.

A. That's correct.")

AEP Ohio presented the testimony of Dr. Pearce to calculate its proposed formula rate.[45] As shown through FES Ex. 3, Dr. Pearce included purchased power costs from FERC Account 555 into AEP Ohio's formula capacity rate.[46] AEP Ohio witness Roush acknowledged that all six line items proposed to be included in the FCR had been included in AEP Ohio's proposed formula rate.[47]

In light of AEP Ohio's admission that each of the six line items at issue were included in its formula rate, AEP Ohio has argued that the FCR should nevertheless be adopted because the Commission did not adopt its formula rate as proposed.[48] In other words, since AEP Ohio did not receive \$355/MW-day capacity, what it included in its formula rate is irrelevant. This argument fails because the Commission did not adjust this portion of AEP Ohio's formula rate in the 10-2929 proceeding, and in fact relied on this portion of AEP Ohio's formula rate when calculating the \$188.88/MW-day capacity price. Nothing in the 10-2929 Order adjusted Dr. Pearce's FERC Account 555 inputs to the formula rate.[49] Instead, in that order the Commission took issue with AEP Ohio's proposed energy credit and made significant adjustments to that energy credit based on the calculations of a Staff witness.[50] As the Commission did not adjust this portion of AEP Ohio's formula rate, the same costs proposed to be included in the FCR were already considered in the Commission's \$188.88/MW-day capacity cost calculation. Therefore,

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[45] Tr. Vol. I, p. 99.

[46] P. KDP-4, p. 14, line 11.

[47] Tr. Vol. I, pp. 101-02 ("I can't say that with a hundred percent certainty, but it appears that they were all included in the company's proposed calculation which wasn't ultimately adopted.")

[48] Tr. Vol. I, p. 102.

[49] *See* Case No. 10-2929-EL-UNC, Opinion and Order dated July 2, 2012 ("10-2929 Order").

[50] 10-2929 Order, pp. 33-35 (adopting AEP Ohio rate as modified by Staff to account for Staff's adjustments to the proposed energy credit). Nothing in the 10-2929 Order indicates that Staff adjusted AEP Ohio's formula rate for the capacity costs included in FERC Account 555.

there is no justification for allowing AEP Ohio to recover the same capacity costs through the $188.88/MW-day charge and through the FCR.

In addition to the double-recovery issue, AEP Ohio should not receive a fuel charge of any sort after December 31, 2014. In its ESP Application, AEP Ohio proposed to terminate the FAC as of December 31, 2014.[51] It is still logical to terminate the FAC on December 31, 2014, because starting in 2015, 100% of AEP Ohio's energy load will be procured through an energy-only auction. There is no reason to permit AEP Ohio to recover any sort of FAC when it is recovering 100% of its energy costs through the auction process and is recovering capacity costs through the $188.88/MW-day capacity charge.

Despite FES's general opposition to AEP Ohio's proposed FAC split and capacity cost recovery proposal, there is one portion of the proposed blending methodology which FES does not oppose. AEP Ohio proposes to recover the administrative costs of conducting an auction through its new APR. FES supports AEP Ohio's recovery of these administrative costs, and would support AEP Ohio's recovery of these costs through a separate rider.[52]

IV. THE INTERVENOR PROPOSALS TO CAP THE AUCTION STARTING PRICE OR AUCTION RESULTS SHOULD BE REJECTED.

Some intervenors in this proceeding, such as OEG and IEU-Ohio, have proposed that the Commission cap either the auction starting price or otherwise limit the results of the auction to ensure that customers do not see a price increase as a result of the competitive auction process. In light of AEP Ohio's blending proposal, it is understandable that customer groups would be concerned about the possibility of significant rate increases resulting from the auction process.

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[51] Noewer Direct, p. 12 (citing AEP Ohio ESP, Direct Testimony of Philip J. Nelson, p. 17).

[52] Noewer Direct, p. 13.

However, these proposals are not consistent with the Commission's ordered acceleration of the move to market and will undermine the auction process entirely.

As stated previously, the Commission Order and Entry on Rehearing both emphasized the importance of AEP Ohio's transition to market. The proposals from the other intervenors are not consistent with these portions of the Commission's orders. Instead, these intervenors seek the lower of cost or market, which is not consistent with the orders of the Commission.

In addition to being inconsistent with the Commission's previous orders, the proposals from IEU and OEG will undermine the auctions entirely.[53] An artificially low auction starting price or a maximum auction result set at AEP Ohio's variable FAC rate is likely to suppress bidder interest and stifle competition.[54] Bidders are not likely to participate in the auction if the auction starting price is arbitrarily set at an artificially very low rate. Similarly, bidders are unlikely to participate in an auction where the winning bids are required to beat AEP Ohio's current variable FAC rate.

The better way to address pricing concerns is to adopt FES's blending proposal. FES's proposal reduces the chance of a significant rate increase to customers by simply complying with the previous direction from the Commission. By freezing the base generation rate and proportionally blending in the auction results and the $188.88/MW-day capacity pricing, the chance of a significant rate increase to customers is lowered significantly. More importantly, adopting the FES proposal will allow the competitive market to operate as intended and consistent with the Commission's goal of transitioning AEP Ohio to market in a timely manner.

[53] Noewer Direct, p. 16.

[54] Noewer Direct, pp. 16-18.

V. AUCTION RELATED ISSUES

FES reached a stipulation with AEP Ohio relating to the testimony of AEP Ohio witness LaCasse. By agreement between FES and AEP Ohio, several important questions and answers were added to Dr. LaCasse's testimony, and merit some brief discussion below.

AEP Ohio has proposed that the auction manager be provided with the discretion to modify the tranche size from the 1% which has become the norm in Ohio if there is a significant load reduction in the future.[55] Dr. LaCasse agreed that the decision to adjust tranche size should be made in consultation with Staff, and that AEP Ohio should not have any role in determining whether the tranche size should be adjusted or in establishing the new tranche size.[56] Dr. LaCasse also agreed that one of her discovery responses was still accurate, which states that

> (a) The discretion for the auction manager to increase the tranche size would be based upon the auction manager's extensive knowledge in this area and would only be done to maintain bidder interest in the auction. No analysis has been done at this time to estimate the maximum percentage the tranche size may increase. The tranche size will be provided to the bidders no later than eight (8) days prior to the Part 1 Date, as set forth in Exhibit A to the Company's Application.[57]

In light of the agreement between FES and AEP Ohio on these points, in order to avoid any potential future confusion FES requests that the Commission make clear in its order that: (1) tranche size should only be modified if the load reduction is significant and an increase is necessary to attract bidder interest; (2) the auction manager's decision to adjust tranche size should be made in consultation with Staff; (3) AEP Ohio should have no role in the decision to adjust tranche size; and (4) any adjustment in tranche size should be provided to bidders no later than eight (8) days prior to the Part 1 Date, as set forth in Exhibit A to AEP Ohio's Application.

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[55] Tr. Vol. I, p. 16.

[56] Tr. Vol. I, p. 16.

[57] FES Ex. 1.

VI. CONCLUSION

FES respectfully requests that the FES proposed auction blending mechanism be adopted, that AEP Ohio's proposed split and continuation of the FAC be rejected, that the other intervenor proposals to cap or limit the energy auction be rejected, and that the stipulated testimony from Dr. LaCasse be incorporated into the Commission's Order.

Dated: August 16, 2013

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Post Hearing Brief Of FirstEnergy Solutions Corp.* was served this 16th day of August, 2013, via e-mail upon the parties below.

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