BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

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

OHIO POWER COMPANY'S INITIAL BRIEF

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OHIO POWER COMPANY'S INITIAL BRIEF

BACKGROUND

On December 21, 2012, Ohio Power Company d/b/a AEP Ohio ("AEP Ohio" or the "Company") filed its Application to establish a competitive bidding process (CBP) for procurement of energy to support its standard service offer (SSO), following a stakeholder process to gather input regarding the Company's proposals. As authorized by the Attorney Examiner's January 31, 2013 Entry, the Company filed a Supplement to the Application on February 11, 2013, to further address retail rate issues and cost recovery issues related to the energy auctions consistent with the Commission's January 30, 2013 Entry on Rehearing in AEP Ohio's Electric Security Plan, Case Nos. 11-346-EL-SSO *et al* ("*ESP II*"). Certain parties filed initial comments; on March 14, 2013, the Company and three other parties filed reply comments; and on March 29, 2013, the Company filed sur-reply comments.

By Entry dated May 23, 2013, the Attorney Examiner found that, in light of disputes raised in the parties' comments regarding auction pricing and customer retail rates, an evidentiary hearing should be held. Accordingly, the Attorney Examiner established a June 14, 2013 deadline by which interested parties could file direct testimony and scheduled a hearing that was held on June 24 and 25 and July 15, 2013.

SUMMARY OF ARGUMENT

The Public Utilities Commission of Ohio ("Commission") should adopt without further modification AEP Ohio's Application and Supplement and the Company's proposals regarding its CBP set forth therein. The Company's proposals regarding the auction schedule, auction starting price, product definition, as well as its modified proposals regarding the use of cash as pre-bid security and the Master Energy Supply Agreements' (MESA) requirement of reconciliation to actual load, are straightforward, reasonable, and consistent with other utilities' Commission-approved CBPs.

The arguments and proposals raised by intervenors, including FirstEnergy Solutions Corp.'s (FES) argument regarding the MESA's independent credit threshold caps, The Office of the Ohio Consumers' Counsel's (OCC) arguments regarding AEP Ohio's recovery of its prudently-incurred auction costs, FES's proposals to reduce base generation rates and truncate the recovery of fixed costs of purchase power arrangements recovered through the proposed Fixed Cost Rider, and Constellation NewEnergy, Inc. and Exelon Generation LLC's (collectively, "Exelon") proposed crediting mechanism are not reasonable, would harm AEP Ohio and customers, and, in some cases, seek impermissibly to reargue issues previously litigated and decided in the *ESP II* case. For these reasons, the Commission should reject them.

Finally, the Company's proposals to mitigate customer rate impacts resulting from the auctions are reasonable and appropriate. The Commission should adopt them. Accordingly, AEP Ohio respectfully requests that the Commission approve without modification the Company's CBP proposals.

ARGUMENT

I. The Company's proposal for the Competitive Bid Process and auction, as amended and clarified, is reasonable and should be adopted without further modification.

AEP Ohio's Application and Supplement are the result of a lengthy stakeholder process. The proposals advanced by AEP Ohio are based on a straightforward and proven auction methodology. The rules and process proposed by AEP Ohio are consistent with those approved by the Commission for use by the FirstEnergy utilities and Duke Energy Ohio, though there are variations where a slightly different approach is justified given AEP Ohio's unique energy-only auctions. The terms and conditions in the Master Energy Supply Agreement, as well as the communication protocols and associated bidder rules, are reasonable and consistent with standard commercial practices in this context. Finally, AEP Ohio's proposal to retain NERA Economic Consulting (NERA) as the auction manager is reasonable and appropriate, as supported by Exhibit E to the Application and the testimony of Dr. LaCasse.

A. The Commission should approve the Company's proposed auction schedule without modification because it is reasonable, appropriately balances risks, and is designed to maximize auction participation and competition.

In its Application, AEP Ohio proposed to hold four auctions across three delivery periods according to the following auction schedule:

- A 10% energy auction with a delivery period beginning six months after the Commission issues final orders in the Company's *ESP II* and corporate separation cases and ending May 31, 2015.
- Two 25% energy auctions for a delivery period beginning June 1, 2014, and ending May 31, 2015. The first 25% auction will take place in January 2014, and the second 25% auction in March 2014.
- A 40% auction that will take place in June 2014 for a delivery period beginning January 1, 2015, and ending May 31, 2015.

(Ex. A to Application at 7; AEP Ohio Ex. 1 at 9, Ex. CL-2.) As the Company and its witness Dr. LaCasse have explained, AEP Ohio proposed the above schedule in order to diversify exposure to market prices and attract participation and competition in the initial 10% and two subsequent 25% auctions. (*See* AEP Ohio Reply Comments at 1-3; AEP Ohio Ex. 1 at 11.) AEP Ohio's proposal to conduct two 25% auctions for the same delivery period was made in order to layer in the larger tranche target procurement (50% of SSO load) and average out the variance in market prices during the two auctions. (AEP Ohio Reply Comments at 2.) AEP Ohio proposed to split the 50% of load for the June 2014-May 2015 delivery period in order to give its customers the benefit of varying market prices that almost assuredly will result from holding two separate auctions on separate days for the same delivery period. Because there is adequate lead time prior to the commencement of the June 2014 delivery period, it is possible for two substantial auctions of 25 tranches each to be conducted in January and March of 2014. (*Id.*)

In their Comments, FES and OCC criticize AEP Ohio's proposed auction schedule. FES argues that the Company's proposal for two 25% energy auctions for the June 2014-May 2015 delivery period "would jeopardize robust supplier participation and the heightened competition that comes with strong supplier participation." (FES Comments at 3.) According to FES, separating the June 2014 energy procurements into two auctions is likely to reduce suppliers' interest in participating in the CBPs because fewer tranches will be available for bidders in each auction. (*Id.*) OCC, by contrast, seeks to modify the Company's proposed structure and schedule for the energy auctions by holding three 20% auctions instead of two 25% auctions. (OCC Comments at 3-4.) It also argues that the delivery period of the first 10% energy auction should be shortened

from 22 months to 10 months. (*Id.*) Neither FES's nor OCC's proposed modifications will increase competition, and neither should be adopted.

FES's criticism of AEP Ohio's proposal to conduct two 25% energy auctions for the June 2014-May 2015 delivery period is ironic because that approach was based on the FirstEnergy ("FE") operating companies' layering model, which the Commission recently approved. *See* Case No. 12-1230-EL-SSO, Opinion and Order (July 18, 2012). Moreover, the argument by FES and its witness Noewer that holding one auction with a tranche target of 50% will increase auction participation and competition (FES Comments at 3; FES Ex. 7 at 15) is unsupported by any evidence. In fact, the structure and results of recent auctions in Ohio belie that contention. All of FirstEnergy's auctions to date have had a tranche target of less than 25% (in fact, the greatest number of tranches from any of FE's auctions was 17%). Although Duke's initial auction had a tranche target of 34%, its subsequent auctions have had a tranche limit of less than 25% (the greatest number of tranches resulting from Duke's auctions is 17%). (*See* AEP Ohio Reply Comments at 2.) Additionally, as Company witness LaCasse explained, FES's proposal is unattractive because it would expose customers to a single day's market conditions for 50% of the Company's SSO energy load. (AEP Ohio Ex. 1 at 11.) That proposal risks auction results that are higher than would otherwise be the case due to temporary market fluctuations.

OCC's proposals are also flawed and should not be adopted. Although OCC's proposal to hold three 20% auctions instead of two 25% auctions provides greater diversification to market conditions for customers, the proposal is unattractive because it would reduce the number of tranches in each auction, thus possibly discouraging

participation by bidders, and it would drive up SSO customers' administrative costs of procuring supply. (*See id.*)

OCC's proposal to shorten the delivery period for the initial 10% auction also should be disregarded. OCC argues that shortening the delivery period would yield lower prices for customers, but OCC has offered no evidence or other support for that claim. Moreover, the Company has demonstrated that reducing the delivery period for this relatively small portion of its load would make the product less appealing to bidders, thus reducing demand and potentially driving the resulting price up. (*Id.*) AEP Ohio believes that using the longer delivery period will make the initial auction product more appealing, potentially yield participation by more bidders and, by extension, provide for more competition to drive down prices for customers. The reason for the Company's belief is simple: although 10 tranches represent a relatively small quantity, the energy volume associated with these tranches is more than double when the term is twenty-two months as opposed to ten months. (*See* AEP Ohio Reply Comments at 3.) "FES agrees that the 22 month term will result in the greatest number of interested bidders." (FES Ex. 7 at 14.) Exelon also opposes OCC's proposal to shorten the initial auction's delivery period. (Exelon Reply Comments at 3-4.) OCC itself has recognized that it will be challenging to attract a robust group of bidders for the initial 10% auction, even under the terms that AEP Ohio proposed (OCC Comments at 4); the Commission should decline to modify the 10% auction in any way that would increase that challenge.

B. The Commission should adopt AEP Ohio's proposals regarding auction starting prices and reject intervenors' proposals.

As Company witness LaCasse explained in her direct testimony, AEP Ohio's Application proposes that the Auction Manager will determine minimum and maximum

starting prices for the product in each of AEP Ohio's four proposed auctions, which the Auction Manager will set "with reference to market prices, but at a level high enough to attract bidders to the auction and attract robust excess supply at the start of the auction." (AEP Ohio Ex. 1 at 4; *see also* Ex. A to Application at 4.) Competition among the bidders during the auction will then drive the auction price down to a level that is consistent with the prevailing market conditions. (AEP Ohio Ex. 1 at 4.) Dr. LaCasse explained in detail why the design of the descending clock auctions, and the fact that the amount of competition in the later stages of the auction depends on the amount of initial competition, make it important for the Company to attract robust excess supply in the first round of each auction through the setting of an appropriate starting price. (*Id.* at 5.) Both FES and Exelon support the Company's auction starting price proposal. (*See* FES Reply Comments at 4; Exelon Reply Comments at 2.)

In their Comments, both Ohio Energy Group (OEG) and Industrial Energy Users-Ohio (IEU) suggest that the bid opening price should be set at the Fuel Adjustment Clause (FAC) rate rather than left to the Auction Manager's determination. (OEG Comments at 3-7; IEU Comments at 1-2.) OCC also maintains, though framed as advocating additional Commission discretion to reject auction results, that customers should not end up "paying more than they otherwise would have paid under AEP Ohio's fuel adjustment clause rates." (OCC Comments at 4.) The Commission should reject these proposals to use the FAC as a bid opening price for a number of reasons. First, setting the bid opening price based on the FAC – whether the entire FAC or just the portion attributable to energy – would be arbitrary. As AEP Ohio witness LaCasse explained, the auction starting price should be designed to attract the necessary initial

bidder participation and supply required in order for an auction to be successful and reflect market conditions. (AEP Ohio Ex. 1 at 7-8.) The current FAC rates have no bearing on whether an auction produces competitive clearing prices. Moreover, establishing a starting price based on the existing FAC rate would interfere with the competitive markets and could cause the energy auctions to fail.

Additionally, the benefits of auction pricing are not dependent upon their temporary relation to legacy SSO rates. Tying auction starting prices to the current FAC rates would hamper the move to a competitive market for electricity in AEP Ohio's service territory. OCC previously argued that the Commission's approval of auction rates should be dependent upon their relation to legacy SSO rates, and the Commission rejected that argument:

> [T]his Commission understands the importance of customers being able to take advantage of market-based prices and the benefits of developing a healthy competitive market, thus we reject OCC's arguments, as slowing the movement to competitive auctions would ultimately harm residential customers by precluding them from enjoying any benefits from competition.

ESP II, Opinion and Order at 39 (Aug. 8, 2012). The Commission has also rejected a similar argument on this point by OEG. *See ESP II*, Entry on Rehearing at 35 (Jan. 30, 2013).

As AEP Ohio has previously explained, and as other interested parties have recognized, in proposing market prices resulting from the energy auctions, the Commission and the Company are fulfilling the General Assembly's plan for transitioning to a fully competitive SSO environment. That path is not conditioned on temporary or short-term market results – it is a permanent goal. The Commission should again reject the position that auction results should only be accepted if they beat a certain

temporary price; that approach does not constitute true market pricing. Concerns regarding the impact of auction results on customer rates should be addressed within the context of setting the rates after the auction price is established, not by changing the auction design. (*See* AEP Ohio Ex. 1 at 8.) Accordingly, OEG's, IEU's, and OCC's proposals regarding auction starting prices should be rejected.

C. The Commission should accept AEP Ohio's product definition as proposed and reject OEG's and FES's proposed modifications thereto.

AEP Ohio has proposed that its CBP procure a product consisting of load-following, energy-only tranches. (AEP Ohio Ex. 1 at 6.) After the initial 10% energy auction, each tranche will represent a fixed percentage of the Company's SSO energy load, which is expected to remain at 1% but may be increased to foster bidder interest. (*Id.* at 9; Ex. A to Application at 2.) In their initial comments, OEG and FES each propose to modify the Company's proposed product definition. OEG argues that the Company's auctions should be held on a separate rate zone basis because the "price to beat" for energy is different in the Ohio Power Company and Columbus Southern Power Company rate zones. (OEG Comments at 7-8.) FES seeks to modify the Company's proposal and eliminate the Auction Manager's flexibility to adjust the tranche size as necessary, claiming that that flexibility will cause bidder confusion and make the auction less attractive to them. (FES Comments at 3-4.) Both proposals are without merit and should be disregarded.

With regard to OEG's proposal, there is no reason to artificially separate the procurement of energy for the two rate zones when the power would all be delivered to the AEP Ohio zone and have no real price difference. The only reason the rate zones

continue to exist post-merger is to allow for a transitional unification of the legacy rates. Moreover, as Exelon pointed out in its reply comments, there has been no evidence in this proceeding that a bidder's bid would differ appreciably between the rate zones. (*See* Exelon Reply Comments at 4.) Thus, separating the product into two simultaneous auctions would not yield any value but, rather, would needlessly drive up administrative costs.

FES's proposal to eliminate the Auction Manager's discretion to make reasonable modifications to the tranche size in the second, third, and fourth auctions is based on unrealistic concerns and would harm the auctions' likelihood of success. As Dr. LaCasse explained in her direct testimony, the discretion to increase the tranche size is useful and would encourage sustained interest in the auction if there is significant migration. (AEP Ohio Ex. 1 at 12.) Because bidders do not bid on the percentage of load in a vacuum but based on the actual load expected to be served, their interest will wane if it is too small. (*Id.*) The flexibility to adjust the tranche size through the Auction Manager's discretion would be exercised based on the Auction Manager's extensive experience and would only be done in order to maintain bidder interest in the auction. Bidders would be advised of any change in advance of the deadline to qualify for the auction. If the tranche size were changed, winning bidders from prior auctions would in no way be affected as the total volume procured would not be changed. Moreover, commissions in other jurisdictions have approved similar mechanisms without problem. (*Id.*) Thus, FES's concern about bidden confusion is misplaced and should be disregarded.

D. The Commission should modify AEP Ohio's CBP Rules to reflect that a bidder may use cash as pre-bid security and modify the MESA to require a reconciliation to actual load.

As the Company explained in its reply comments, it has re-examined its administrative capabilities in light of FES's proposal (*see* FES Comments at 3-4) that bidders be permitted to use cash as pre-bid security in addition to being permitted to offer a letter of credit. (AEP Ohio Reply Comments at 6.) It has also determined that it can accommodate Exelon's proposal (*see* Exelon Comments at 2-3) to change the MESA to require settlement based on a reconciliation to actual, rather than estimated, load. (AEP Ohio Reply Comments at 7.) Accordingly, AEP Ohio agrees to modify §IV.2.8 of the CBP Rules to reflect that cash may be used as pre-bid security and accepts the definitional changes proposed in Exelon's initial comments.

E. The Commission should reject FES's proposal to eliminate or increase the independent credit threshold caps set forth in the MESA.

AEP Ohio's proposed MESA includes an Independent Credit Threshold ("ICT") Cap of $3,000,000 for a BB+/Ba1/BB+ rating, $1,500,000 for a BB/Ba2/BB rating, and $0 for a BB-/Ba3/BB- and below rating. (Ex. B. to Application at 19.) In its initial comments, FES proposes to modify the credit requirements set forth in the MESA to either eliminate the ICT Caps or to increase them. (FES Comments at 4-5.) Specifically, FES recommends that, if the ICT Caps are not eliminated entirely, they be raised for entities rated BB- to BB+. (*Id.* at 4.) Although FES argues that raising or eliminating the caps will increase supplier participation, encouraging suppliers with lower credit ratings to participate in the auctions without sufficient credit protection is not a good thing. (*See* AEP Ohio Ex. 1 at 13.) AEP Ohio's proposal is specifically designed to place reasonable limits on the amount of credit accepted below investment grade in order to reduce the risk

exposure and resulting cost of supplier default, which would be borne by all retail customers. (*Id.*) Moreover, AEP Ohio's proposal is identical to the credit limits that the Commission previously approved for Duke Energy Ohio, which FES endorsed. Accordingly, the Company requests that the Commission approve the ICT Caps as proposed and without modification.

F. The Commission should reject OCC's challenge regarding AEP Ohio's recovery of prudently-incurred auction costs.

In the Supplement to its Application, AEP Ohio proposed to collect from SSO customers its prudently-incurred costs of conducting the energy auctions, including auction manager and consultant fees, stakeholder process incidental expenses, costs of default and contingency plans associated with the energy supply contracts entered into as a result of the auctions, balancing charges incurred in administering the energy supply contracts, and the Company's incremental internal expenses incurred in conducting the auctions. (Supplement to Application at 2-3.) OCC challenges AEP Ohio's proposal to recover its costs of default and contingency plans and balancing charges related to the energy supply contracts. (OCC Comments at 2.) Specifically, OCC asks the Commission to direct AEP Ohio to "identify (and justify)" the types, origins, and basis for charging such costs. (*Id.*)

OCC's request is unreasonable because it is not presently possible for AEP Ohio to identify each and every cost to be recovered. Certain potential costs like contingency plans involving the default of a supplier cannot be known in advance but must be provided for categorically. Moreover, imposing such a requirement on AEP Ohio would inappropriately disadvantage it because such a requirement has not been imposed upon any other EDU conducting SSO auctions in Ohio. The costs that the Company can

currently identify have been estimated and included in Exhibit H to the Supplement to AEP Ohio's Application. Further, AEP Ohio is perplexed by OCC's specific objection to balancing charges, which are a normal part of participating in the PJM market and currently borne by retail customers. AEP Ohio has not asked for anything new in its Supplement; rather, all it seeks is recovery of its prudently-incurred auction costs. The Commission should approve the Company's recovery of those costs and disregard OCC's unfounded challenges thereto.

II. FES's attempt to re-litigate issues decided in the Electric Security Plan should be rejected.

The Company has proposed to unbundle the FAC for each rate zone into separate Energy (Variable) and Non-Energy (Fixed) components. (*See* Supplement to Application at 3-5.) The unbundled Energy (Variable) component can then be blended with the clearing prices from the energy-only auctions in order to produce a retail SSO energy rate that reflects the appropriate combination of AEP Ohio's energy costs. (*Id.* at 3.) The Company proposes to include the unbundled Non-Energy (Fixed) component of the FAC in the new Fixed Cost Rider (FCR). (*Id.* at 4.)[1]

The Company has proposed that the FCR would apply through the end of the ESP term, May 31, 2015. (*Id.*) The FCR should continue to be charged through the ESP term because the fixed costs it recovers, which include demand charges for certain FERC-approved purchased power arrangements, are not diminished or otherwise affected by

[1] Alternatively, the Commission simply could allow the FAC to continue functioning during the ESP term as it has for several years (including recovery of fixed costs), except that the price of energy procured through the auctions will displace the portion of FAC charges assigned to load that will be served by the energy auctions. As AEP Ohio witness Roush acknowledged in testimony and illustrated through Exhibit DMR-1, these goals can be achieved through a single rider without establishment of the separate Fixed Cost Rider and Auction Phase-In Rider. (AEP Ohio Ex. 2 at 7 and Exhibit DMR-1.)

procurement of energy through the CBP auction process. (*Id.* at 4-5.) Accordingly, it would be inappropriate to eliminate recovery of such fixed costs in conjunction with the energy auctions. The Company has proposed to continue charging the Fixed Cost Rider rates for January through May 2015 based on December 2014 cost levels. (*Id.* at 5.)

In addition, the Company proposes to continue to charge current base generation rates for all SSO sales during the delivery period for both the 10% and 60% energy-only auctions (*i.e.*, through December 31, 2014). (*Id.* at 5-6.) In accordance with the January 30, 2013 Energy on Rehearing in the *ESP II* proceeding, base generation rates during the 100% energy auction delivery period (*i.e*., January through May 2015) would be adjusted downward to $188.88/MW-day, which is the level of the capacity price charged to CRES providers.

FES has criticized both AEP Ohio's proposal for freezing its base generation rates through December 31, 2014, and its proposal for recovering the costs of purchased power demand charges through the FCR through May 31, 2015. FES proposes instead that, in addition to reducing base generation rates for all SSO customers to $188.88/MW-day for the January 1 through May 31, 2015 period, AEP Ohio should "blend" $188.88/MW-day capacity with base generation service priced at the current rate in proportion to the amount of energy procured for SSO customers through the 10% and 60% energy-only auctions. (FES Ex. 7 at 8-9.) Similarly, FES recommends that the fixed purchase power costs recovered through the FCR should be incrementally reduced to zero for portions of the SSO load corresponding to the 10%, 60%, and 100% portions of the energy-only auctions. (*See id.* at 4-11 and, in particular, the Table at the bottom of page 9.)

FES's "blending" proposals conflict with the Commission's August 8, 2012, Opinion and Order and January 30, 2013, Entry on Rehearing in the *ESP II* proceeding. In addition, they would undermine the Retail Stability Rider (RSR) mechanism that the Commission established through its *ESP II* orders in order to protect the Company from undue financial harm. As a result, they would lead to the very financial harm that the balance struck by the Commission in *ESP II* was designed to avoid. Moreover, they are fundamentally unfair. FES's proposals should be rejected.

A. The proposal advanced by FES to decrease base generation rates in conjunction with the energy auctions prior to January 2015 must be rejected.

In its reply comments, FES advocates (at 6) that "generation prices charged to customers should fluctuate with auction results." Similarly, in direct testimony by its witness Ms. Noewer, FES quotes an isolated passage from the January 30, 2013 Entry on Rehearing in *ESP II* and ignores the context of the language, as well as other repeated statements that support AEP Ohio's reading of the clear intent. When one appropriately reviews the entirety of that decision, it is clear that the Commission adopted frozen base generation rates for AEP Ohio during the term of its ESP, except for the final five months when the Company will procure 100% of its SSO energy requirements from an external auction.

FES appears to particularly rely on the Commission's finding that "AEP Ohio's request to continue to freeze base generation rates through the auction process is inappropriate and should be rejected." *See ESP II*, Entry on Rehearing at 36. That holding, of course, must be examined in light of the issue being addressed in that part of the rehearing decision. FES's improper attempt to ignore the narrow scope of the holding

on page 36 conflicts with the language of the decision and is otherwise inappropriate as it would cause substantial financial harm to AEP Ohio.[2] FES's novel interpretation of the *ESP II* Entry on Rehearing is misguided and incorrect. As discussed below, FES's position directly conflicts with the actual language and structure of the *ESP II* Opinion and Order and Entry on Rehearing – and there are additional reasons why the position must be rejected as well.

First, the scope of the holding being reached in the quoted language addressed a narrower issue that AEP Ohio raised on rehearing. As described at the top of the same page in the decision, the language quoted by FES in its reply comments is the portion of the order where the Commission was addressing AEP Ohio's requested "modification to provide that, in light of the acceleration of AEP Ohio's proposed CBP, base generation rates will be frozen *throughout the entire term of the ESP, including the first five months after the January 1, 2015, 100 percent energy auction*." *ESP II*, Entry on Rehearing at 36 (emphasis added). The Commission further explained in the same paragraph at the top of same page that "AEP Ohio believes *it would be unreasonable to adjust the SSO base generation rates for the first five months of 2015*, as proposed in AEP Ohio's application, in light of the substantial modifications made by the Commission …" *Id*. (emphasis added, footnote omitted). It is clear in that context that the holding that FES quotes was only addressing base generation rates during the last five months of the ESP term,

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[2] Of course, AEP Ohio fully intends to implement the Commission's actual holding in this regard, as explicitly stated in its Supplement filed in this case (at 5-6): "In accordance with the *ESP II* Rehearing Order, base generation rates during the 100% energy auction delivery period (*i.e.*, January through May 2015) would be adjusted to reflect capacity costs of $188.88/MW-day."

January through May of 2015.[3] The Commission's subsequent shorthand use of the phrase "through the auction process" in its holding is synonymous with the Commission's own more detailed description (listed two paragraphs prior to that) of AEP Ohio's proposal to freeze base generation rates "throughout the entire term of the ESP, including the first five months after the January 1, 2015, 100 percent energy auction."

Second, in the order's short discussion of these issues, there are at least three *additional* references indicating that the Commission's holding was limited in scope (beyond the two references on Page 36 that were just discussed): (1) page 37, lines 17-18 (referencing the Company's application, where a January 2015 base generation adjustment was proposed, as an additional basis supporting its holding); (2) page 37, line 26 (indicating that the Commission was addressing "the cost of capacity for non-shopping customers beginning January 1, 2015"); and (3) page 37, lines 36-37 (indicating that it need not address DER/DECAM's argument "for the limited purpose of the January 1, 2015, energy only auction"). All of these references reinforce that the scope of the discussion was base generation rates during the period from January through May of 2015. Indeed, the only place the January 2015 reference was <u>not</u> explicitly stated is the sentence selectively quoted by FES in its reply comments. As explained above, even that reference clearly applies only to the January 2015 energy auction period as well when considered in its obvious context. Thus, this section of the order was deliberate and

[3] As a related matter, the page 36 holding's phrase "*continue* to freeze base generation rates through the auction process" incorporates the concept that the base generation rate freeze would be in place leading up to the January 2015 100% energy auction, which also supports AEP Ohio's understanding of the ruling applying to the continuation of the base rate freeze through the final five months of the ESP term.

consistent in providing that the only departure from the base generation rate freeze would be during the January through May 2015 delivery period of the 100% energy auction.

Third, other parts of the *ESP II* Entry on Rehearing also confirm the same manifest interpretation. Just a few pages earlier, the Commission characterized the ESP's frozen base generation rates as being a central feature and a significant benefit to SSO customers. Indeed, on page 33 of the Entry on Rehearing, the Commission found that "the frozen base generation rates amount to a reasonably priced, stable alternative that will remain available for all customers who choose not to shop." This finding would not make sense if FES is correct that base generation rates are to fluctuate throughout the ESP term based on the numerous energy auctions being conducted pursuant to the Commission's directives.

Similarly, at page 35 of its Opinion and Order approving the modified *ESP II*, the Commission found that the RSR mechanism "allows AEP-Ohio to maintain frozen base generation rates and an accelerated auction process . . . ." Thus, in that single short phrase the Commission confirmed that the accelerated auction process that it had adopted would be implemented *while keeping base generation rates frozen*. AEP Ohio Ex. 6, which was introduced during the cross-examination of FES witness Noewer, confirmed that the RSR that the Commission adopted in that modified *ESP II* Order was developed based on the assumption that base generation rates would be frozen at their current levels during the course of the delivery periods for the 10% and 60% energy-only auctions. (Tr. Vol. II at 359-367.) Even FES witness Noewer ultimately conceded that FES's blending proposal reduces the base generation rate at the point when deliveries pursuant to the

10% energy-only auction begins.[4] In short, under FES's blending proposal, base generation rates are not kept frozen during the accelerated auction process; rather, they are unfrozen as soon as the accelerated auction process starts. This result could not be more diametrically opposed to the language and clear intent of the modified *ESP II* Opinion and Order.

Fourth, the Commission did not incorporate sweeping base generation rate reductions advocated by FES into either its MRO test analysis or its development of the RSR in the *ESP II* proceeding. Indeed, AEP Ohio Ex. 6 demonstrates that the Commission relied upon the current base generation rate of $22.86/MWh, without any blending such as that which FES contends the Commission's orders require, to develop the RSR. In sum, both the specific holding on page 36 of the Entry on Rehearing and the entireties of that order and the Opinion and Order make clear that the Commission was only departing from the base generation rate freeze for the final five months of the ESP term, during the period when 100% of SSO energy will be procured externally through an auction.

In addition to lacking support in the language and structure of the *ESP II* Opinion and Order and Entry on Rehearing, FES's position that base generation rates should fluctuate with the energy auctions is unreasonable and lacks a basis in the record. AEP

[4] Although Ms. Noewer attempted, in a tortured fashion, to maintain the fiction that blending the reduced capacity price ($188.88/MW-day) with SSO generation service priced at the current base generation rate ($22.86/MWh) would somehow maintain frozen base generation rates, she ultimately agreed that the "overall" base generation rate, *i.e.*, the modified base generation rate, would be reduced to $20.57/MWh as soon as blending began after the first auction: "If you look at my Attachment 1, that first blending approach, the price for auction Phase I for the base generation for the base generation line is 90 percent, so its 20.57. So it shows you there the combined freezing the generation, base generation, at 22.86, combined with the auction blending will reduce the overall base generation component to 20.57." (Tr. Vol. II at 355.)

Ohio's proposal is to unbundle the FAC into energy and non-energy components and combine the energy component with the prices that result from the energy auctions. As AEP Ohio witness Roush testified, there is no basis for concluding that base generation rates reflect energy-related costs or should fluctuate based on the energy auction process. (AEP Ohio Ex. 2 at 4.)

FES's proposals appear to be based on a false premise that the Company's retail base generation service is equivalent to wholesale capacity service and that the rate for the former should be equivalent to the cost-based price for the latter, which the Commission determined to be $188.88/MW-day in the 10-2929 case. That is simply not the case, as the Commission recently explained in the *ESP II* proceeding. In the *ESP II* Entry on Rehearing, at 32-33, the Commission addressed and rejected OCC/APJN's argument that frozen base generation rates provide no benefit to customers in light of potentially lower market rates and, therefore, that the Company's base generation rates should be unbundled to reflect the $188.88/MW-day capacity rate in order to prevent discriminatory pricing. In the course of doing rejecting that argument, the Commission specifically found that "AEP Ohio is not offering discriminatory rates between its non-shopping customers and those customers who shop, as AEP-Ohio provides different services to the shopping and non-shopping customers. . . . AEP-Ohio provides capacity service to CRES providers, and provides a bundled generation service to its SSO customers." *Id.* at 33. Thus, because the Company's retail base generation service is not equivalent to its wholesale capacity service, it would be unreasonable to require the frozen base generation rates to fluctuate prior to the delivery period for the 100% energy auction.

Rather than accommodating FES's improper agenda, the Commission should confirm that the only reasonable interpretation of the *ESP II* Rehearing Order is that base generation rates remain frozen through 2014 and only need to fluctuate during the delivery period for the 100% energy auction (*i.e.*, January through May 2015).

B. AEP Ohio's FCR for recovery of fixed costs should be approved as being reasonable because those costs have long been recovered through the FAC and FES's objection to continued recovery conflicts with the *ESP II* decision to continue the FAC as is.

Nor is there any basis in the modified *ESP II*'s orders for concluding that the fixed cost of purchase power arrangements recovered through the FCR should be incrementally reduced to zero for portions of the SSO load corresponding to the 10%, 60%, and 100% portions of the energy-only auctions. In its modified *ESP II* Opinion and Order, at pages 16-18, the Commission continued the FAC mechanism established in the prior ESP without modifying the type of costs that have long been recovered under the FAC, including the demand charges associated with purchased power contracts. AEP Ohio witness Roush explained that these costs have always been bypassable and would continue to be avoidable for customers that elect to take service from a CRES provider. However, these non-energy costs primarily relate to FERC-approved contractual commitments by the Company to purchase power from Ohio Valley Electric Cooperative and AEP Generating Company (Lawrenceburg Generating Plant) which are used to fulfill the Company's obligations to provide an SSO to non-shopping customers and should continue to be collected from non-shopping customers. These costs are not part of the Company's base generation rates, have been recognized as prudent costs to be collected from customers through the FAC, and are actual costs incurred by the Company that are passed through to customers without any return for the Company. (AEP Ohio Ex. 7 at 8-

9.) Arguments, like those advanced by FES witness Noewer, that recovery of any portion of these costs should be disallowed, are inconsistent with the Commission's *ESP II* decision that authorized the continuation of the FAC.

In addition, any disallowance of cost recovery of these FERC-approved contracts would unlawfully trap costs in violation of federal law. *Nantahala Power and Light v. Thorburg*, 476 U.S. 953 (1986) and *Mississippi Power v. Moore*, 487 U.S. 354 (1988). In *Nantahala*, the Court established that:

> The filed rate doctrine ensures that sellers of wholesale power governed by FERC can recover the costs incurred by their payment of just and reasonable FERC-set rates. When FERC sets a rate between a seller of power and a wholesaler-as-buyer, a State may not exercise its undoubted jurisdiction over retail sales to prevent the wholesaler-as-seller from recovering the costs of paying the FERC-approved rate. [Citations omitted.] Such a "trapping" of costs is prohibited.

Id. at 970. *See also Mississippi Power*, 487 U.S. at 372.

Moreover, FES' proposal is inconsistent with the basic nature of the energy-only auctions approved in the ESP II orders. The *ESP II* decision made it clear that AEP Ohio would conduct energy-only auctions during the ESP term; winning bidders in those auctions will neither provide capacity to, nor obtain capacity from, AEP Ohio. (*See* AEP Ohio Ex. 1 at 6.) The product procured through the energy-only auction, therefore, is equivalent to the variable energy portion of the FAC. As a consequence, the fact that energy auctions will be conducted for increasing portions of the SSO energy supply during the ESP term does not mean that the Company should discontinue recovery of non-energy costs that have historically been recovered through the FAC.

For these reasons, FES's contention that fixed costs of purchase power arrangements recovered through the FCR should be incrementally reduced to zero for portions of the SSO load corresponding to the 10%, 60%, and 100% portions of the energy-only auctions should be rejected.

C. The substantial adverse financial impacts of FES's proposals on AEP Ohio provide additional reasons to reject FES's proposals.

The impacts on AEP Ohio of each of FES's rate reducing proposals are very substantial and provide additional reasons not to adopt FES's proposals. By FES witness Noewer's own estimate, the proposal to substitute and "blend" base generation service priced at $188.88 for the 10% and 60% energy-only auction load, together with elimination of recovery of the portion of fixed costs of purchased power arrangements associated with the 10%, 60%, and 100% energy-only auctions would reduce AEP Ohio's revenues by $180 million. (*See* FES Ex. 7, Attachment 2.)

Based on Ms. Noewer's estimates, during the 10% auction period, the FES blending proposal would reduce base generation revenues by nearly $2 million/month.[5] The adverse impact escalates dramatically as soon as the 60% auction takes effect, increasing AEP Ohio's revenue losses to a rate of nearly $12 million/month.[6]

[5] According to Ms. Noewer's calculations in her Attachment 2, during the 8-month period of auction phase 1, the FCR and base generation rate (BGR) should be reduced by a total of $1.37/MWh, composed of 10% of the full $4/MWh FCR rate, or $.40/Mwh, and the remainder of the $1.37/MWh, or $.97/MWh, as the reduction to the BGR. On a monthly basis during the first phase of auctions, the revenue impacts, based upon the values Ms. Noewer calculated in Attachment 2, would be (($.97/$1.37) x $22, 240,452)/8 months, or $1,968,280/month, for the BGR – or nearly $ 2 million/month.

[6] During the 7-month period of auction phase 2, Ms. Noewer's recommendations would increase the monthly revenue impacts on BGR six-fold, to $11, 809,689 – or nearly $12 million/month.

The financial damage to AEP Ohio from FES's proposal to incrementally eliminate FCR revenue as the auctions progress is also very substantial. Revenue losses begin at roughly $.8 million/month with the 10% auction, escalate to nearly $5 million/month as soon as the impacts of the 60% auction take hold, and further increase to $8 million/month during the term of the 100% energy-only auction.[7]

These very substantial adverse revenue impacts conflict with the purpose of the modified *ESP II* Orders that the Commission carefully crafted to provide for an accelerated transition to a fully competitive market structure for the Company while maintaining its financial stability. In particular these proposals, if adopted, would undermine the RSR, the very mechanism that the Commission crafted to strike that balance and carry out the purpose of its modified *ESP II* decision.

III. Exelon's proposed crediting mechanism should be rejected.

Exelon opposes the proposals by OEG and IEU to establish a reserve price cap at the FAC rate for the energy-only auctions. Exelon witness Dr. Lesser contends that "establish[ing] a maximum auction price at the FAC [will not] promote the Commission's goal of establishing fully competitive electric markets." (Exelon Ex. 1 at 13.) As an alternative to the reserve price cap proposals that OEG and IEU have offered, Dr. Lesser proposes a "crediting mechanism" that would offset amounts by which the price of the auctioned energy load exceed the FAC rate against the capacity costs that the

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[7] During the 8-month period of auction phase 1, the monthly impact of Ms. Noewer's recommendations on FCR revenues would be (($.40/$1.37) x $22, 240,452)/8 months, or $811,777/month. During the 7 months of auction phase 2, the impact increases six-fold to $4,870,662/month, and for the 5 months of auction phase 3 it increases 10-fold to $8,117,770/month.

Company is deferring for future recovery as a result of the Commission's decision in the Capacity Case. (*Id.* at 20-23.)

Dr. Lesser notes that in the Capacity Case, the Commission authorized AEP Ohio to create a regulatory asset equal to the difference between the cost of capacity, which the Commission determined to be $188.88/MW-day, and the prevailing PJM RPM capacity prices. The regulatory asset is to be recovered through a nonbypassable charge from all AEP Ohio customers. (*Id*. at 21.) Under Dr. Lesser's proposal, the crediting mechanism would be applied against that regulatory asset, as follows: If the SSO energy-only auction clearing price is greater than the variable component of the FAC, then the Company would reduce the deferred capacity costs of the regulatory asset by an amount equal to the difference between that auction price and the FAC applicable to the non-auctioned SSO load, multiplied by the SSO load served by auction suppliers. (*Id*.)

The Commission should not adopt Dr. Lesser's crediting mechanism proposal. It is fundamentally flawed in a number of ways that make it inappropriate at best and impossible to implement at worst. First, the proposal requires a comparison of the auction clearing price to the FAC. However, the auction clearing price and the current FAC are not directly comparable. (AEP Ohio Ex. 7 at 2.) On the one hand, the variable component of the FAC price is retrospective, based on costs previously incurred to purchase fuel and other consumables. On the other hand, the energy-only auction price is prospective, based on forward projections of suppliers regarding the future costs of energy supplied during the auction delivery period. Notably, even Dr. Lesser agrees that "the results of a competitive SSO auction are completely different than AEP Ohio's variable [*i.e.*, FAC energy-related] costs." (Exelon Ex. 1 at 12; Tr. Vol. II at 275-276

(agreeing that the statement that "the results of a competitive SSO energy auction are completely different from AEP Ohio's variable costs" is "an accurate summary"); Tr. Vol. II at 277 ("AEP's FAC, its variable costs under schedule F of its application are different than the results of a competitive auction.").)

Second, once 100% of the non-shopping customer energy is auctioned for January through May 2015, no variable FAC costs will exist to make the comparison required by Exelon witness Dr. Lesser's proposal. To the extent his proposal relates only to the period through the end of 2014, it is flawed for the other reasons provided herein. (*Id.*)

Third, even if there were variable FAC costs during the entire period, it would not be the appropriate comparative value. The FAC is generally based upon economic dispatch, wherein the lowest cost generation is allocated to meet customer load. Therefore the resources displaced by auction purchases, like traditional economic market purchases, would be the higher cost resources. Any such comparison should be to the actual resources displaced which, by definition, would be at a higher cost than the FAC. *(Id.*)

Fourth, Dr. Lesser's proposal assumes that all freed up resources will be sold. This unsupported assumption is not a given. During low cost and/or off-peak hours the freed up energy may not be sold. (*Id.*)

Fifth, Dr. Lesser's proposal assumes that the auction clearing price is the same as the price that the freed up resources will receive. (Tr. Vol. II at 280 ("I'm essentially making that simplifying assumption" that "all the same megawatt-hours that were sold in the auction can be sold at the exact same price in the market for the same period[.]").) While that might be the case to the extent that the freed up resources (through AEP

Ohio's Genco affiliate) participate in and win tranches in the auction, that is not a given for any tranches, let alone all of the tranches. Indeed, it cannot be the case for the entirety of the freed up resources since there is a limitation on the percentage of tranches won by any one bidder as part of the proposed rules for AEP Ohio's energy-only auctions. (*Id.*)

Sixth, Dr. Lesser's proposal assumes that if the AEP Genco wins any tranches, their winning bid will be supported by the same physical assets that currently support AEP Ohio's SSO. In reality, a winning bid may be supported by financial transactions or market purchases that would not produce the same margins being assumed by Dr. Lesser. (*Id.*)

Seventh, Dr. Lesser's proposal arithmetically appears to be an unjustified transfer of funds from non-shopping customers to all customers. (*Id.*) The portion of the energy-only auction price that exceeds the FAC rate is paid only by non-shopping customers. However, under Dr. Lesser's proposal the credit that results from that payment by non-shopping customers ends up benefiting all customers by reducing the future nonbypassable charge that will be applicable to both shopping and non-shopping customers. (Tr. Vol. II at 257-258.)

Eighth, Dr. Lesser's proposal arithmetically appears to be a transfer of funds from a corporately-separate generation affiliate to the regulated wires company. (*Id.*) Dr. Lesser's criticism, which underlies his crediting mechanism proposal, appears to be that, if the auction price clears above the FAC rate, AEP Genco will get a windfall equal to the total auctioned MWh times the amount that the auction price clears above the FAC rate. The impact of the proposed crediting mechanism is that any revenue that the corporately-

separate generation affiliate earns above the FAC rate, either by winning tranches in the auction or selling into the market, would be transferred to the EDU (AEP Ohio) to write down its regulatory asset.

Lastly, during cross examination in the 10-2929 case, Staff witness Medine acknowledged that implied margins from sales to all non-shopping customers already were included in her proposed energy credit. The pertinent excerpt from Volume X of the 10-2929 hearing transcript, along with Staff witness Medine's Exhibit ESM-1 and AEP Ohio Ex. 132 which were discussed and admitted in conjunction with Ms. Medine's cross examination in this regard, are attached to Mr. Roush's rebuttal testimony as Exhibit DMR-R1. Moreover, Staff's proposed energy credit, adjusted downward by $5/MW-day, was used by the Commission to establish the $188.88/MW-day capacity charge for shopping customers. *See*, Case No. 10-2929-EL-UNC, Opinion and Order at 34-35. In short, Dr. Lesser's crediting mechanism double counts OSS margins because the margins were already deducted once, as an energy credit that offset generation asset costs, when the Commission determined the $188.88/MW-day capacity price. It would be inappropriate to use them a second time as a credit in the manner Dr. Lesser proposes.

For all of these reasons, the crediting mechanism supported by Dr. Lesser that Exelon recommends, should be rejected.

IV. AEP Ohio's rate mitigation proposals are reasonable and should be adopted.

AEP Ohio witness Roush also addressed rate impact matters related to the energy-only auctions. Mr. Roush's direct testimony, AEP Ohio Ex. 2, offered three distinct rate mitigation proposals to address and mitigate the potential impacts of rates being set by auction during the ESP. Each of these proposals is discussed below.

First, Mr. Roush pointed out that the overall base generation rate decrease anticipated in January 2015 under the ESP could be in the $9/MWh range, equating to approximately $10 savings per month for residential customers using 1,000 kWh of electricity per month. (AEP Ohio Ex. 2 at 7.) That reduction would be coincident with the period when 100% of SSO energy requirements will be procured through the auction, which itself might otherwise potentially cause the energy portion of customers' electricity bills to increase. As Mr. Roush testified, the combination of these two factors "would be a reasonable transition step towards the expected rates based entirely upon a full requirements auction beginning in June of 2015." (*Id.*) The same can be said of the larger phase in plan for energy-only auctions adopted by the Commission, since the auction clearing prices (which may be higher than the variable portion of the Company's FAC costs during the same period) would be blended with non-auction energy costs over a period of time in increasing proportions. In other words, this gradualism concept is the natural result of the Commission's decision to incorporate the energy-only auctions in increasing proportions (*i.e.*, 10%, 60% and 100%) over the term of the ESP.

Second, Mr. Roush recommended in the CBP case that the separate OPCo and CSP rate zones be maintained for the FAC through December 2014, leading up to the 100% energy auction in January 2015. (AEP Ohio Ex. 2 at 9-10.) Specifically, the current differentiation between the rate zones would be maintained during this period, in order to avoid the rate impact of both rate zones being flash-cut to a uniform auction price. (Tr. Vol. I at 111-117.) These first two rate mitigation solutions adequately address the phase-out of historic rate design mechanisms and the elimination of cross subsidies that may exist between the rate classes.

Last but certainly not least, Mr. Roush recommended that the Commission expand the 12% rate cap adopted in the *ESP II* decision to include the energy auction rate impacts. (AEP Ohio Ex. 2 at 11.) To be clear, the 12% rate cap would work the same way it does to the rate impacts currently encompassed: any amounts over the cap would be deferred and collected from all customers, inclusive of carrying charges. *See ESP II*, Entry on Rehearing at 40 (Jan. 30, 2013).) As Mr. Roush clarified during cross examination, the mechanics of the proposal are to measure the auction phase-in rider and fixed cost rider relative to the June 2013 FAC rates. (Tr. Vol. I at 160.) Thus, customers would be insulated from significant rate impacts associated not only with the clearing prices for the energy-only auctions, but also from increases in fuel rates during the remainder of the ESP term. It is this third and primary recommendation of AEP Ohio that addresses potential auction rate impacts and provides an adequate transition to market rates during the ESP term.

As Mr. Roush testified, using the 12% rate cap "would further address the concerns raised by the parties with respect to the auction results and is consistent with the Commission's desire to maintain protection for customers from any unforeseen risks that may arise from a developing competitive market, as expressed by the Commission on page 11 of the January 30, 2013 Entry on Rehearing in the Company's ESP." (AEP Ohio Ex. 2 at 11.) The passage from the ESP rehearing decision referenced by Mr. Roush's testimony stated as follows:

> [C]ustomers still maintain protection from any unforeseen risks that may arise from a developing competitive market by having a reasonably priced SSO plan that caps rate increases at 12 percent. In approving the modified ESP, *we struck a balance that guarantees reasonably priced electricity while allowing the markets to develop and*

> *customers to see future opportunities to lower their electric costs*. The General Assembly has vested the Commission with discretion to make these types of decisions by allowing us to view the entire picture, in the aggregate, as to what the effects of the modified ESP would be, going beyond just the dollars and cents aspect of it.

ESP II, Entry on Rehearing at 11 (Jan. 30, 2013) (emphasis added). Thus, as a general matter, the Commission's adoption of the 12% rate cap strikes a balance between transitioning to market rates and ensuring there are no adverse rate impacts. Of course, as it stands now, the FAC is outside the operation of the 12% rate cap. *Id.* at 40.

Adopting AEP Ohio's recommendation to incorporate the impacts of setting rates by auction into the existing 12% rate cap is reasonable and logical. In addition to striking a reasonable balance during the transition period, expanding the rate cap to cover auction impacts would implement an auction rate impact solution that is only triggered if necessary. Nobody knows what the clearing prices will be for the energy auctions and designing elaborate solutions in anticipation of certain clearing prices might end up being misguided and unnecessary. Further, if certain customer groups have specific impacts associated with the auction – such as high winter usage customers – they would be protected by the rate cap while other customers that do not need to be protected would not. As was brought out through discovery responses and cross examination, the rate impacts estimated using certain assumptions and applying the 12% rate cap were projected to be within a reasonable range for all customers. (IEU Ex. 2, AEP Ohio response to FES INT-3-003; IEU Exs. 3-6, attachments to FES INT-3-003; Tr. Vol. I at 157-186.)

While other parties may propose more elaborate solutions based on certain assumptions about expected auction clearing prices (all of which are speculative), the

simple elegance of the rate cap solution is that it utilizes an existing rate impact threshold determined by the Commission to strike a reasonable balance between moving toward market rates and the long-term benefits to be enjoyed by customers while recognizing the short-term potential need to mitigate rate impacts during the transition period. AEP Ohio recognizes that the clearing prices for the energy auctions may come in higher than the Company's internal variable energy costs, but that contingency should only be mitigated if it creates a significant rate impact. The rate cap solution is only triggered if the rate impact concerns actually materialize and will not operate if the significant rate impacts do not occur. Stated differently, incorporating the impacts of setting rate by auction into the 12% rate cap would rely on the market in the first instance and trigger a regulatory solution only as needed.

Finally in this regard, using the rate cap is practical and efficient. The Company has already developed the systems needed to implement the 12% rate cap and those can be readily adapted to capture the auction rate impacts. By contrast, other rate restructuring solutions may be relatively complex or difficult to administer. Thus, in addition to being simple and effective, the rate cap solution is practical and efficient.

CONCLUSION

For the foregoing reasons, the Commission should grant the relief sought in AEP Ohio's Application and Supplement, as clarified and explained in the Company's written and oral testimony.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served upon the parties of record in this proceeding by electronic service this 16th day of August, 2013.

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This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

8/16/2013 3:51:06 PM

in

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

Summary: Brief Ohio Power Company's Initial Brief electronically filed by Ms. Christen M. Blend on behalf of Ohio Power Company and Mr. Steven. T. Nourse