

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

REPLY BRIEF OF INDUSTRIAL ENERGY USERS-OHIO

Samuel C. Randazzo (Counsel of Record)
Frank P. Darr
Joseph E. Olikier
Matthew R. Pritchard
MCNEES WALLACE & NURICK LLC
21 East State Street, 17TH Floor
Columbus, OH 43215
Telephone: (614) 469-8000
Telecopier: (614) 469-4653
sam@mwncmh.com
fdarr@mwncmh.com
joliker@mwncmh.com
mpritchard@mwncmh.com

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Attorneys for Industrial Energy Users-Ohio

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REPLY BRIEF OF INDUSTRIAL ENERGY USERS-OHIO

The initial briefs filed in this proceeding confirm that the recommendations set forth in Industrial Energy Users-Ohio's ("IEU-Ohio") Initial Brief are reasonable and should be adopted. Specifically, the initial briefs filed in this proceeding do not dispute that the energy-only auction will increase non-shopping customers' standard service offer ("SSO") rates unless the Public Utilities Commission of Ohio ("Commission") sets a reserve price for the energy-only auctions as recommended by IEU-Ohio. The initial briefs also demonstrate that Ohio Power Company's ("AEP-Ohio") request to continue its double-recovery of capacity costs through its proposed Fixed Cost Rider ("FCR") is unlawful and unreasonable. As discussed in more detail below, the Commission should adopt IEU-Ohio's reserve price and should deny AEP-Ohio's request to establish the FCR.

I. **THE COMMISSION SHOULD ESTABLISH A RESERVE PRICE FOR THE ENERGY-ONLY AUCTIONS**

As demonstrated in IEU-Ohio's Initial Brief, the Commission has a simple but significant decision to make in this proceeding. The Commission can either adopt the use of an auction reserve price as recommended by IEU-Ohio, the Office of the Ohio Consumers' Counsel ("OCC") and the Ohio Energy Group ("OEG"), or the Commission can allow the energy-only auctions to proceed without any limits on the clearing price. The undisputed evidence demonstrates that proceeding with the energy-only auctions as proposed by AEP-Ohio will result in significantly higher SSO rates. In fact, OCC/OEG witness Mr. Kollen estimated that AEP-Ohio's proposed energy-only auctions could increase non-shopping customers' rates by as much as \$211 million¹ over the remainder of AEP-Ohio's electric security plan ("ESP"). AEP-Ohio's Initial Brief as well as the Joint Initial Brief of Constellation NewEnergy, Inc. ("Constellation") and Exelon Generation Company, LLC ("Exelon") both implicitly recognize that AEP-Ohio's proposed energy-only auctions will result in higher SSO generation prices. Thus, it is beyond debate that without a reserve price for the upcoming energy-only auctions, SSO customers will face higher electricity generation prices, a result at odds with the Commission's expectation when it approved AEP-Ohio's current ESP.

To mitigate this outcome, AEP-Ohio proposes to subject individual SSO customer bills to the 12% rate cap previously approved by the Commission,² and defer

¹ Mr. Kollen's \$211 million harm included a projected \$47 million increase associated with the 10% energy-only auction (on an annualized basis for the 12 months ending June 1, 2014) and \$164 million for the 7 months ending December 2014. OCC/OEG Joint Ex. 1 at 3-4. As admitted by Mr. Kollen, the \$47 million figure was an annualized number and the actual harm will be less than \$47 million depending on when the 10% energy-only auction occurs. *Id.* at 4, n.1.

² The 12% individual bill rate cap was established by the Commission in Case Nos. 11-346-EL-SSO, *et al.* (the "ESP II Case").

any revenue not collected from customers due to the 12% rate cap with interest for collection through a non-bypassable charge to be collected beginning in June 2015. Constellation/Exelon advocate an alternative mitigation strategy that would immediately implement the full SSO rate increase necessitated by AEP-Ohio's proposed energy-only auction, but credit the amount of revenue collected through the increased SSO generation prices against AEP-Ohio's deferred capacity compensation.³ FirstEnergy Solutions Corp. ("FES") does not advocate the use of either a rate cap or crediting mechanism, but asserts that if AEP-Ohio's base generation rates are blended with capacity priced at \$188.88/MW-day "the chance of a significant rate increase to customers" is reduced "by simply complying with the previous direction from the Commission."⁴

The SSO generation price increase mitigation strategies advocated by AEP-Ohio, Constellation/Exelon, and FES, however, fail to recognize that the Commission found that the energy-only auctions should produce significant benefits to customers.⁵ Specifically, the Commission held that the benefit from the energy-only auctions would mitigate the known rate increase associated with AEP-Ohio's Distribution Investment Rider ("DIR") (\$365.7 million⁶), gridSMART Rider (\$9.9 million⁷),

³ Exelon Ex. 1 at 4, 21.

⁴ FES Initial Brief at 15.

⁵ *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case Nos. 11-346-EL-SSO, *et al.*, Opinion and Order at 11, 39-40 (Aug. 8, 2012) (hereinafter "ESP II Case" or "ESP II Order", as appropriate); *ESP II Case*, Entry on Rehearing at 34-39 (Jan. 30, 2013).

⁶ ESP II Order at 42.

⁷ *In the Matter of the Application of Ohio Power Company to Update Its gridSMART Rider*, Case No. 13-0345-EL-RDR, Application at Attachment 1 (Feb. 2, 2013) (the \$9.9 million figure includes 2012 actual expenditures and 2013 projected expenditures).

and Enhanced Service Reliability Rider (“ESRR”) (\$113 million⁸).⁹ The Commission also held that the benefit from the energy-only auctions “may well exceed the costs associated with the GRR [\$8 million¹⁰] and RSR [\$388 million¹¹].”¹² While it appears unlikely that the energy-only auction results will offset the rate increase authorized in the *ESP II Case*, the only way to ensure the results of the energy-only auctions begin to mitigate the approximately \$1 billion revenue increase authorized by the Commission is through the use of an auction reserve price.

II. THE COMMISSION SHOULD DENY AEP-OHIO’S REQUEST FOR DOUBLE-RECOVERY OF THE CAPACITY COSTS EMBEDDED IN THE FUEL ADJUSTMENT CLAUSE (“FAC”) THROUGH ITS PROPOSED FCR

Additionally, as demonstrated in the initial briefs filed by IEU-Ohio and FES, the Commission should deny AEP-Ohio’s request to create a new rider, the FCR, which will allow AEP-Ohio to continue its double-recovery of certain capacity costs. As the record in this proceeding demonstrates, the fixed costs currently being recovered through the FAC, and which AEP-Ohio proposes to collect through the FCR, are embedded in the compensation AEP-Ohio receives for generation capacity service.¹³ Thus, AEP-Ohio’s capacity compensation already provides for recovery of these charges. Therefore, the Commission should not only deny AEP-Ohio’s request for the FCR, but should direct

⁸ *ESP II Case*, Direct Testimony of Thomas Kirkpatrick at 8 (Mar. 30, 2012)

⁹ *ESP II Order* at 75-76.

¹⁰ The Commission held that for purposes of the *ESP v. MRO* (market rate offer) test, the costs associated with the Generation Resource Rider (“GRR”) amounted to \$8 million; however, AEP-Ohio’s actual projected revenue requirement for the GRR was roughly \$357.2 million. *Id.* at 75; *ESP II Case*, Supplemental Direct Testimony of Phillip J. Nelson at Ex. PJN-5, page 2 (May 2, 2012).

¹¹ *ESP II Order* at 75. The Commission found that the quantifiable costs associated with the Retail Stability Rider (“RSR”), for purposes of the *ESP v. MRO* test, was only \$388 million; however, the true cost of the RSR is \$508 million.

¹² *Id.* at 76.

¹³ IEU-Ohio Initial Brief at 9-11 (Aug. 16, 2013); FES Initial Brief at 11-14 (Aug. 16, 2013); Tr. Vol. I at 98-101.

the auditor in AEP-Ohio's FAC audit proceeding to determine the magnitude of AEP-Ohio's double-recovery and credit any double-recovered amounts back to customers.

III. CONCLUSION

Accordingly, the Commission should adopt a reserve price for AEP-Ohio's energy-only auctions specific to the Columbus Southern Power Company and Ohio Power Company rate zones equal to the expected full FAC rate for each zone and should deny AEP-Ohio's request to create the FCR.

Respectfully submitted,

/s/ Matthew R. Pritchard
Samuel C. Randazzo (Counsel of Record)
Frank P. Darr
Joseph E. Olikier
Matthew R. Pritchard
MCNEES WALLACE & NURICK LLC
21 East State Street, 17TH Floor
Columbus, OH 43215
Telephone: (614) 469-8000
Telecopier: (614) 469-4653
sam@mwncmh.com
fdarr@mwncmh.com
joliker@mwncmh.com
mpritchard@mwncmh.com

Attorneys for Industrial Energy Users-Ohio

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Reply Brief of Industrial Energy Users-Ohio* was served upon the following parties of record this 30th day of August 2013 via hand-delivery, electronic transmission, or first class mail, U.S. postage prepaid.

/s/ Matthew R. Pritchard

Matthew R. Pritchard

Steven T. Nourse
AMERICAN ELECTRIC POWER SERVICE
CORPORATION
1 Riverside Plaza, 29th Floor
Columbus, OH 43215
stnourse@aep.com

ON BEHALF OF OHIO POWER COMPANY

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
dboehm@BKLawfirm.com
mkurtz@BKLawfirm.com
jkylercohn@BKLawfirm.com

ON BEHALF OF THE OHIO ENERGY GROUP

Bruce J. Weston
Ohio Consumers' Counsel
Maureen R. Grady
Assistant Consumers' Counsel
OFFICE OF THE OHIO CONSUMERS' COUNSEL
10 West Broad Street, Suite 1800
Columbus, OH 43215-3485
grady@occ.state.oh.us

**ON BEHALF OF THE OFFICE OF THE OHIO
CONSUMERS' COUNSEL**

Mark A. Hayden
FIRSTENERGY SERVICE COMPANY
76 South Main Street
Akron, OH 44308
haydenm@firstenergycorp.com

James F. Lang
N. Trevor Alexander
CALFEE, HALTER & GRISWOLD LLP
The Calfee Building
1405 East Sixth Street
Cleveland, OH 44114
jlang@calfee.com
tallexander@calfee.com

**ON BEHALF OF FIRSTENERGY SOLUTIONS
CORP.**

M. Howard Petricoff
Stephen M. Howard
VORYS, SATER, SEYMOUR AND PEASE LLP
52 E. Gay Street
Columbus, OH 43215
mhpeticoff@vorys.com
smhoward@vorys.com

David I. Fein
Vice President, State Government Affairs-
East
EXELON CORPORATION
10 South Dearborn Street, 47th Floor
Chicago, IL 60603
David.Fein@exeloncorp.com

Cynthia Brady
Assistant General Counsel
EXELON BUSINESS SERVICES COMPANY
4300 Winfield Road
Warrenville, IL 60555
Cynthia.Brady@Constellation.com

**ON BEHALF OF EXELON GENERATION
COMPANY, LLC AND CONSTELLATION
NEWENERGY, INC.**

Stephen Reilly
Assistant Attorney General
Attorney General's Office
Public Utilities Section
180 E. Broad Street, 6th Floor
Columbus, OH 43215
stephen.reilly@puc.state.oh.us

**ON BEHALF OF THE STAFF OF THE PUBLIC
UTILITIES COMMISSION OF OHIO**

Sarah Parrot
Jonathan Tauber
Public Utilities Commission of Ohio
180 East Broad Street, 12th Floor
Columbus, OH 43215
sarah.parrot@puc.state.oh.us
jonathan.tauber@puc.state.oh.us

ATTORNEY EXAMINERS

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