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 REPLY BRIEF OF FIRSTENERGY SOLUTIONS CORP.

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I. INTRODUCTION

AEP Ohio claims that the Commission did not intend for customer base generation rates to be blended with auction results until the 100% energy auction period commences, and argues that the Rate Stabilization Rider ("RSR") shows that the Commission intended base generation rates to remain frozen to protect AEP Ohio's financial integrity.[1] As shown through the plain text of the ESP Order,[2] AEP Ohio is wrong.

> AEP-Ohio will be permitted to collect its \$508 million RSR by a recovery amount of \$3.50/MWh, through May 31, 2014, and \$4/MWh between June 1, 2014 and May 31, 2015. **The upward adjustment by 50 cents to \$4/MWh reflects the Commission's modification to expedite the timing and percentage of the wholesale energy auction beginning on June 1, 2014.**[3]

As shown by this quote, the Commission anticipated that base generation rates would be phased out in conjunction with the auctions. To address this, the Commission granted AEP Ohio an upward adjustment in the RSR. As the Commission has already compensated AEP Ohio for the expedited auction schedule, AEP Ohio's proposed blending schedule should be rejected.

FES has offered the only proposal in this proceeding for blending auction results with existing generation rates which complies with all aspects of the ESP Order and Entry on Rehearing.[4] AEP Ohio's blending proposal does not properly transition to market-based pricing or provide a benefit to customers from that transition. Similarly, the proposals from IEU and OEG/OCC fail to follow the Commission's instruction to transition to market through wholesale auctions. These parties have offered various "work-around" solutions to meet their unique goals for this case, but each of those proposals fail to meet the Commission's twin goals of: (1)

[1] AEP Ohio Brief, pp. 15-21.

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

[3] ESP Order, p. 36 (emphasis added).

[4] Case No. 11-346-EL-SSO, *et al.*, Entry on Rehearing dated January 30, 2013 ("Entry on Rehearing") (collectively with the ESP Order the "Commission Orders").

providing customers with the opportunity to save money; and (2) transitioning AEP Ohio to market through competitive auctions in the short term. Therefore, the FES proposal should be accepted by the Commission as the only proposal to comply with all aspects of the Commission Orders.

II. THE FES BLENDING PROPOSAL SHOULD BE ACCEPTED

It is generally undisputed that the blending mechanism approved in this proceeding should have a positive impact on customers. FES witness Noewer calculated the difference between the AEP Ohio and FES proposals as $179.5 million, and AEP Ohio relied on Ms. Noewer's calculation in its brief.[5] The differences in the blending proposals of the parties are shown in 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 AEP Ohio blending proposal is contrary to the Commission's previous orders and should be rejected in favor of the FES proposal. One could argue that AEP Ohio is seeking a $180 million generation rate increase in this case by not following through on the Commission Orders.

A. The Commission Orders Support The FES Blending Proposal.

The Commission expressly rejected AEP Ohio's proposal to freeze base generation rates throughout the ESP term.[6] AEP Ohio admits that the Commission has spoken clearly on this

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[5] Noewer Direct, Attachment 2; AEP Ohio Post-Hearing Brief ("AEP Ohio Brief"), p. 23.

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

point, but argues that the Commission did not mean what it said, and that the entirety of the Commission Orders suggest that AEP Ohio's blending proposal be adopted instead.[7] Each of AEP Ohio's arguments is fatally flawed.

1. The Commission Did Not Guarantee AEP Ohio A Certain Level Of Base Generation Revenue.

AEP Ohio argues that the Commission Orders and Entry on Rehearing both repeatedly reference a freeze to base generation rates.[8] Based on this language, AEP Ohio apparently believes that the final amount charged to customers, not just the base generation rate charged to customers by AEP for the SSO load it serves, should remain frozen throughout the ESP period.[9] This is incorrect.

Under the FES proposal, AEP Ohio's historic base generation rate ($22.86/MWh) remains frozen throughout the ESP term for the portion of the SSO energy load which is actually supplied by AEP Ohio.[10] For example, in Auction Phase 1, 10% of the energy load provided by the market would be priced at the auction clearing price supported by $188.88/MW-day capacity, and then the remaining 90% would be priced at AEP Ohio's fuel costs plus its frozen historic base generation price of $22.86/MWh, with the two blended together to determine the amount to be billed to customers.[11] AEP Ohio understands this, as AEP Ohio's counsel questioned FES

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result from its expanded energy auctions. This is precisely the reason why the Commission expanded and accelerated the CBP in the first place.")

[7] AEP Ohio Brief, p. 15.

[8] AEP Ohio Brief, pp. 15, 18.

[9] AEP Ohio Brief, pp, 18-19. AEP Ohio argues that the final rate charged to customers, or the "overall base generation rate," should remain constant. FES argues that AEP Ohio's base generation rate for the load it serves should remain constant at $22.86/MWh, but the rate charged to customers should vary based on the percentage served by competitive auctions. *See* Noewer Direct, p. 9.

[10] Noewer Direct, Attachment 1.

[11] Noewer Direct, Attachment 1.

witness Noewer extensively on the FES blending proposal,[12] and cites a portion of this discussion in its brief.[13] Despite this understanding, AEP Ohio argues that the FES proposal does not freeze base generation rates, because the final amount of revenue AEP Ohio will receive from customers could be lower than the historic base generation rate if the auction results are blended with base generation rates.[14]

AEP Ohio's argument fails based on the plain terms of the Commission Orders. In the Commission Orders, the Commission repeatedly referenced a benefit to customers associated with the accelerated energy-only auction schedule. For example, in the Entry on Rehearing the Commission said:

> Further, the Commission reiterates that it is important for customers to be able to benefit from market-based prices while they are low, as evidenced by our decision to expand AEP-Ohio's slice-of-system auction, as well as accelerating the time frame for AEP-Ohio's energy auctions . . . .[15]

Similarly, the Commission held that:

> 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..[16]

Thus, the Commission believed that partial market-based pricing starting June 1, 2014 would result in a benefit to customers that could exceed $396 million.[17] As shown by these statements, the Commission wanted customers to receive significant benefits from the energy-only auctions.

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[12] *See* Tr. Vol. II, pp. 354-59.

[13] AEP Ohio Brief, p. 19, fn. 4.

[14] AEP Ohio Brief, pp. 15-18.

[15] Entry on Rehearing, p. 35.

[16] ESP Order, p. 76.

[17] The Commission separately estimated the costs associated with the GRR and RSR as $8 million and $388 million, respectively. ESP Order, p. 75.

If AEP Ohio's proposal were accepted, it is unlikely that customers would see any benefit from the accelerated auctions. AEP Ohio's proposal is plainly inconsistent with the Commission Orders when read as a whole.

There is no dispute that the Commission ordered a freeze to AEP Ohio's base generation rates for the energy load that is supplied by AEP Ohio.[18] However, the Commission also clearly intended that AEP Ohio's customers benefit from this rate freeze and the accelerated auctions. The FES proposal freezes base generation rates while benefiting customers. Under the FES proposal, AEP Ohio's historic base generation rate will remain frozen throughout the ESP term for the energy load supplied by AEP Ohio and will be blended with capacity priced at \$188.88/MW-day to determine, in part, the final amount billed to customers, which provides customers with the chance to benefit from today's low rates. As it is clear that the Commission intended the accelerated energy-only auctions and the base generation rate freeze to benefit customers, the only reasonable mechanism for implementing the Commission Orders is the FES blending proposal.

2. The Commission Orders Rejected Freezing Base Generation Rates Through the Auction Process.

The Commission has already considered, and rejected, AEP Ohio's request to freeze base generation rates throughout the auction process.

> 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

[18] *See* AEP Ohio Brief, p. 18.

> auctions. This is precisely the reason why the Commission expanded and accelerated the CBP in the first place.[19]

AEP Ohio attempts to avoid this plain language by claiming that this portion of the Commission's holding applies only to the period from January 1, 2015 through May 31, 2015.[20] AEP Ohio is incorrect, as the Commission did not limit its holding to this period only. To the contrary, in this section the Commission was addressing AEP Ohio's request that base generation rates remain frozen throughout the entire term of the ESP regardless of the results of the auction:

> AEP-Ohio requests a 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.[21]

As shown by this language, the Commission was considering whether or not it should freeze base generation rates for "the entire term of the ESP, including," not limited to, the period from January 1, 2015 through May 31, 2015. Therefore, there is no textual support for AEP Ohio's overly restrictive interpretation of the Entry on Rehearing.

In addition to lacking record support, AEP Ohio's reading of this portion of the Entry on Rehearing simply does not make sense. Even AEP Ohio acknowledges that the Commission determined that the base generation rates should fluctuate with auction results after January 1, 2015. The Commission's reasons for doing so were clear, as a freeze of base generation rates was contrary to the "entire crux" of the ESP Order and would "preclude AEP-Ohio customers from realizing any potential savings that may result from its expanded energy auctions."[22] Based on these justifications, there is no reason to treat 2015 differently from prior years. If it is

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

[20] AEP Ohio Brief, p. 16.

[21] Entry on Rehearing, p. 36 (emphasis added).

[22] Entry on Rehearing, p. 36. Notably, the Commission's reference is to "auctions" and to the "accelerated" CBP scheduled for 2014, not simply to the 100% energy-only auction in 2015.

appropriate to blend the auction results in 2015 to give customers the chance at potential savings, it is appropriate to blend the auction results prior to 2015. Not doing so would "preclude AEP-Ohio customers from realizing any potential savings that may result from its expanded energy auctions."[23]

3. The Commission's RSR Calculation Is Irrelevant To This Determination.

AEP Ohio argues that the RSR is relevant to determining the Commission's intended auction blending plan, since the Commission found that the RSR "allows AEP Ohio to maintain frozen base generation rates and an accelerated auction process."[24] AEP Ohio claims that this connection between the RSR and competitive auctions means that: (1) base generation rates should remain frozen through the auction process regardless of auction results; and (2) the Commission's calculation of the RSR amount was based on the assumption that base generation rates would remain frozen.[25] AEP Ohio is wrong on both counts.

First, as discussed above, the FES proposal keeps AEP Ohio's base generation rates frozen for the portion of the energy load served by AEP Ohio. If auction prices are not blended with historic base generation rates then customers would be unlikely to see any benefit associated with the accelerated auctions, contrary to the "entire crux" of the ESP Order. As this was the Commission's stated intent in ordering the accelerated auction schedule, AEP Ohio's argument fails.

Second, contrary to AEP Ohio's claim in its brief,[26] AEP Ohio Ex. 6 does not confirm that the RSR assumes base generation rates would be frozen at current levels, with no impact

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[23] Entry on Rehearing, p. 36.

[24] AEP Ohio Brief, p. 18 (quoting ESP Order, p. 35).

[25] AEP Ohio Brief, p. 18.

[26] AEP Ohio Brief, p. 18.

from the accelerated auctions. AEP Ohio had ample opportunity to provide testimony regarding the Commission's RSR calculation, but AEP Ohio opted instead to attempt to support its theory of how the calculation was performed by having FES witness Noewer confirm its validity as shown on AEP Ohio Ex. 6. But she was unable to do so given the lack of any foundation laid for this exhibit by AEP Ohio.[27] "I don't know, Mr. Nourse. I really don't know," is not evidence confirming AEP Ohio's theory.[28] In fact, Ms. Noewer cast doubt upon the underlying basis for AEP Ohio Ex. 6, and the Commission's RSR calculation on page 35 of the ESP Order, when she pointed out that the Commission's assumed shopping percentage of 52 percent for the first year of the ESP was, in actuality, overstated.[29]

Moreover, the calculations referenced in AEP Ohio Ex. 6 do not accurately reflect the Commission's expectations of the level of generation revenue that would result from the ESP, as modified by the Commission. The Commission's discussion of the appropriate amount of RSR revenues begins at page 34 of the ESP Order. The Commission begins its calculation by starting with AEP Ohio witness Allen's generation revenue estimates, which did not incorporate the accelerated auction schedule created by the Commission in that same ESP Order.[30] The Commission calculated the RSR amount based on Mr. Allen's calculations before making some additional adjustments needed to account for anticipated switching and the results of the AEP Ohio Capacity Case.[31] The initial result is a $508 million subsidy designed to give AEP Ohio an opportunity to achieve a $826 million per year revenue target.[32] However, the Commission

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[27] Tr. Vol. II, pp. 361-67.

[28] *See* Tr. Vol. II, p. 366.

[29] Tr. Vol. II, p. 363.

[30] ESP Order, p. 34.

[31] ESP Order, pp. 34-35 (referencing Case No. 10-2929-EL-UNC ("AEP Ohio Capacity Case")).

[32] ESP Order, pp. 32-35.

made clear that it was not guaranteeing this revenue or any particular rate of return.[33] Actual generation revenue results could be higher or lower, and are likely higher in the short-term given the lower-than-forecast switching numbers. In addition, the Commission increased the RSR amount from $3.50/MWh to $4/MWh starting June 1, 2014 to account specifically for "the Commission's modification to expedite the timing and percentage of the wholesale energy auction beginning on June 1, 2014."[34] In making this adjustment, the Commission compensated for the expected decline in revenues that AEP Ohio now wrongly claims it was guaranteed would not occur. Therefore, AEP Ohio's RSR calculation has no bearing on the appropriate blending proposal to use in this case.

Indeed, the revenue estimates shown in AEP Ohio's Ex. 6 actually refute AEP Ohio's position. Even AEP Ohio acknowledges that base generation prices will be reduced from $22.86/MWh to $13.50/MWh starting in 2015.[35] Despite all parties' agreement that 2015 prices will fall, AEP Ohio Ex. 6 (which AEP Ohio claims reflects the Commission's RSR calculation) assumes that the AEP Ohio historic base generation price will be $22.86/MWh throughout the ESP term, including in Planning Year 2014/2015.[36] As this is clearly inconsistent with the Entry on Rehearing relating to 2015 pricing, there is no reason to read the remainder of AEP Ohio's RSR calculation as being meaningful regarding the appropriate auction blending mechanism used by AEP Ohio.

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[33] *Id.*

[34] ESP Order, p. 36.

[35] AEP Ohio Brief, p. 16, n. 2; Roush Direct, pp. 6-7. Ms. Noewer estimated the base generation rate will fall to $13.12/MWh. Noewer Direct, Att. 1.

[36] AEP Ohio Ex. 6.

4. AEP Ohio's Rate Blending Plan Could Have A Significant Negative Impact On Customers.

AEP Ohio claims that its rate blending plan should be accepted, despite its failure to satisfy the Commission's policy objectives set in the Commission Orders, due to several mitigation measures which AEP Ohio recommends.[37] Some of these "rate mitigation" proposals are required by the ESP Order, and others are unnecessary if the FES blending proposal is adopted.

AEP Ohio claims that customers will receive an overall base generation rate decrease in 2015 when historic base generation rates are replaced by capacity at $188.88/MW-day.[38] This rate decrease would potentially offset some of the rate increase associated with comparing auction results to the Auction Phase-in Rider ("APR") rate under AEP Ohio's blending proposal.[39] This argument doesn't make sense. AEP Ohio acknowledges that auction prices may be higher than the APR starting in 2014, but doesn't propose mitigating this rate impact until 2015. This means that customers would not see any "rate mitigation" until the 100% energy-only auction. Under the FES blending proposal, capacity at AEP Ohio's cost of $188.88/MW-day supports the energy procured starting with Auction Phase 1, which acts to mitigate customer rate impacts immediately. There is no reason to raise customer prices in the short term only to then partially mitigate that rate impact over a later five-month period.

AEP Ohio also argues that the Commission should expand the 12% rate cap to include FAC rates.[40] Once again, there is no need for such a complicated solution. AEP Ohio's blending proposal is not consistent with the Commission Orders. The FES proposal is. If the FES

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[37] AEP Ohio Brief, pp. 29-32.

[38] AEP Ohio Brief, p. 29.

[39] AEP Ohio Brief, p. 29.

[40] AEP Ohio Brief, p. 30.

proposal is adopted, there is no need to adopt a rate cap to protect non-shopping customers, because they will actually have the chance to access lower market prices immediately. Therefore, AEP Ohio's proposed rate cap should be rejected in favor of the FES blending proposal.

B. Base Generation Rates Should Be Blended With Auction Results.

AEP Ohio claims that it is appropriate to incorporate auction results through the FAC because "there is no basis for concluding that base generation rates reflect energy-related costs or should fluctuate based on the energy auction process."[41] AEP Ohio also claims that FES is equating the base generation price with the wholesale cost of capacity determined in the AEP Ohio Capacity Case.[42] AEP Ohio has not accurately stated the FES position.

FES acknowledges that AEP Ohio's historic base generation rate is not cost-based. As discussed in detail in the FES Brief at pp. 7-8, AEP Ohio claims that its historic base generation rates include: (1) capacity; (2) the Commercial Activity Tax ("CAT"); (3) uncollectible expense for certain costs; and (4) a return on equity.[43] If AEP Ohio's testimony is correct, then AEP Ohio is recovering \$9/MWh for CAT, 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 to reflect the entirety of AEP Ohio's capacity costs.[44] FES does not seek to change this \$9/MWh margin for the energy load served by AEP Ohio through its frozen base generation rates, but instead seeks only to incorporate cost-based capacity for the portion of the load served by the market. If SSO energy load is served by the market, there is no reason to

[41] AEP Ohio Brief, p. 20.

[42] AEP Ohio Brief, p. 20.

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

[44] FES Brief, p. 7. The difference of \$9/MWh is calculated by comparing the current base generation rate of \$22.50/MWh to AEP Ohio's proposed base generation rate for January 2015 through May 2015 of \$13.50/MWh, which is equivalent to \$188.88/MW-day.

provide AEP Ohio with this $9/MWh margin, regardless of how AEP Ohio wants to classify its energy costs in this proceeding. The market will be serving this portion of AEP Ohio's non-shopping load, and the capacity that supports that same load should thus be priced at market, or in the alternative in this case, at AEP Ohio's actual cost as determined by the Commission. As the Commission has stated, "it would be unreasonable for us to permit AEP-Ohio to recover an amount higher than its cost of service."[45] The Commission also previously determined that the use of $188.88/MW-day "allows for AEP-Ohio to be adequately compensated."[46] FES's proposal allows AEP Ohio to more than fully recover its costs[47] instead of limiting AEP Ohio to the market pricing that FES and other generation owners receive for capacity.

Thus, FES's proposal permits AEP Ohio to recover fully its capacity costs, including a return on equity, through the $188.88/MW-day capacity pricing supporting the 10%, 60% and 100% energy auctions. As discussed in the FES Brief at p. 8, AEP Ohio can recover the relatively small amount of CAT and uncollectible expenses through a separate rider in the same manner as other Ohio utilities.

C. AEP Ohio's Blending Proposal Would Lead To A Double Recovery Under The Fixed Cost Rider.

As discussed in the FES Brief at pp. 12-14, all of the capacity costs proposed to be included in the Fixed Cost Rider ("FCR") were also included in the Commission's cost-based capacity calculation of $188.88/MW-day. Therefore, FES has proposed a blending mechanism which reduces the total FAC based on the amount of load provided by the energy-only auction and replaces the total FAC, including the purported "fixed" portion that AEP proposed to be

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[45] Entry on Rehearing, p. 37.

[46] Entry on Rehearing, p. 37.

[47] AEP Ohio will be recovering more than its cost of capacity for that portion of its load which is priced at historic base generation rates.

recovered through the new FCR, with $188.88/MW-day capacity. This would ensure AEP Ohio is adequately compensated for all of its capacity costs, including those costs it proposes to include in the FCR.

Despite extensive discussion of this issue at hearing, AEP Ohio did not address the double-recovery issue in its brief. Instead, AEP Ohio ignores this issue, and argues that nothing in the ESP Order addressed the FAC rate through the blending process.[48] This is incorrect, as the Commission expressly adopted AEP Ohio's proposal to terminate the FAC as of January 1, 2015.[49] Moreover, it is unclear why AEP Ohio believes this is relevant. The Commission did not decide how the auction blending would take place in the ESP proceeding. Instead, it left that determination to this case. The ESP Order did not create a double-recovery for AEP Ohio for these costs. A double recovery would only be created if AEP Ohio's flawed blending proposal were accepted. Therefore, the Commission's failure to address FAC blending in the ESP Order is irrelevant.

Similarly, AEP Ohio argues that "any disallowance of cost recovery of these FERC-approved contracts would unlawfully trap costs in violation of federal law."[50] However, for this argument to be relevant AEP Ohio must establish that it is being denied recovery of these costs. As the FCR costs are included in the $188.88/MW-day cost-based capacity rate and FES proposes to compensate AEP Ohio at this rate,[51] there are no trapped costs to support any such claim by AEP Ohio.

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[48] AEP Ohio Brief, p, 21.

[49] ESP Order, p. 16 ("As a component of the modified ESP, AEP-Ohio proposes that as of January 1, 2015, all energy and capacity to serve the Company's SSO load be supplied by auction, whereupon the FAC mechanism will no longer be necessary."); Direct Testimony of Philip J. Nelson, p. 17.

[50] AEP Ohio Brief, p. 22.

[51] This is the **minimum** capacity rate compensating AEP Ohio. Under the FES blending proposal AEP Ohio would be compensated at its historic generation price for load it serves, which equates to $314/MW-day capacity pricing.

Finally, AEP Ohio argues that it has historically recovered some capacity costs through the FAC, and that the energy-only auction should not affect "non-energy costs that have historically been recovered through the FAC."[52] Once again, AEP Ohio is living in the past. While in the past it may have made sense for these costs to be recovered through the FAC, AEP Ohio has now been ordered to transition towards the competitive market. AEP Ohio is not entitled to recover the same costs twice, and permitting AEP Ohio to recover a cost-based capacity rate while also recovering the same capacity costs through the FAC is simply improper. This issue was never before the Commission in the past because AEP Ohio served all non-shopping energy load, and did not have a cost-based capacity rate. Now that AEP Ohio has been ordered to transition to market, the Commission should ensure that AEP Ohio does not double recover under cost-based rates.

D. AEP Ohio's Financial Impact Claims Are Unsupported And Irrelevant.

AEP Ohio includes a discussion of the alleged impact of the FES blending proposal, eventually agreeing with FES witness Noewer's calculated $180 million difference between the FES and AEP Ohio proposals.[53] AEP Ohio claims that this revenue difference would "conflict with the purpose of the modified ESP II Orders" and would "undermine the RSR."[54]

This argument is flawed and unsupported. The $180 million calculation merely reflects the difference between the FES and AEP Ohio blending proposals. There is no evidence that the Commission intended the AEP Ohio blending proposal to be accepted, so this is not a $180 million revenue reduction to AEP Ohio. There is no reason to believe that the Commission did

Tr. Vol. I, p. 912. AEP Ohio would only receive $188.88/MW-day capacity pricing for all its load after January 1, 2015. Prior to January 1, 2015 AEP Ohio would receive a blend between $314/MW-day and $188.88/MW-day.

[52] AEP Ohio Brief, p. 22.

[53] AEP Ohio Brief, pp. 23-24.

[54] AEP Ohio Brief, p. 24.

not intend to adopt the FES blending proposal when crafting the ESP Order. Indeed, the Commission believed that the accelerated auctions could result in customer benefits that exceeded $396 million – more than double what FES and AEP Ohio now estimate would result from FES's blending proposal.[55] Additionally, the Commission Orders indicate that the Commission granted AEP Ohio the RSR in part to mitigate the impact of transitioning to the market. For example, in the Entry on Rehearing the Commission stated that "AEP-Ohio's fear of adverse financial impacts is unfounded, as the RSR will in part ensure AEP-Ohio has sufficient funds to efficiently maintain its operations."[56] As the Commission intended the RSR to ensure AEP Ohio's financial integrity, there is no reason to provide AEP Ohio with an additional $180 million not intended by the Commission Orders.

In addition to being contrary to the Commission Orders, AEP Ohio's argument lacks record support. AEP Ohio has not introduced any evidence that it needs this additional revenue to ensure its financial integrity. Instead, the only evidence presented by AEP Ohio is that the FES proposal would provide it with $180 million less than it is requesting in this case. One could easily argue that AEP Ohio is seeking a $180 million generation rate increase in this case by not blending the auction results consistent with the Commission Orders. AEP Ohio has not made a valid financial integrity claim, and its unhappiness with FES's blending proposal is not a valid reason to saddle customers with an alternative blending proposal that conflicts with the Commission Orders.

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[55] *See* ESP Order, p. 75.

[56] Entry on Rehearing, p. 37 (discussing AEP Ohio's claim of potential financial harm associated with the failure to freeze base generation rates).

III. THE IEU/OEG/OCC PROPOSALS TO CAP THE AUCTION PRICING SHOULD BE REJECTED.

IEU, OEG, and OCC ("Customer Groups") are rightfully concerned about the pricing impact AEP Ohio's proposal could have on customers. The Customer Groups correctly state that the energy-only auctions were "established to provide benefits, not harm, to the Company's non-shopping customers."[57] FES is sympathetic to these concerns, but the proposals from the Customer Groups to cap the auction starting price or to provide customers with the better of cost or market should be rejected.

As discussed in the FES Brief, placing a bid cap or reserve price restriction on the market would undermine the auction process and could delay AEP Ohio's actual transition to market.[58] The Commission Orders made clear that the Commission wanted AEP Ohio to transition to market-based pricing as quickly as possible. "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."[59] The Customer Groups incorrectly claim that this transition to market is met even if so many restrictions are in place that the auction fails entirely. "Even if setting the reserve price for AEP Ohio's upcoming 'energy-only' auctions at the FAC rates customers would otherwise would pay **results in no winning bidders, this outcome would still be competitive**."[60] This is not correct. If the auction process fails entirely, customers would trade a short-term gain for a long-term loss (AEP Ohio's continued failure to transition to the competitive market). This is not competitive, and is not what the Commission intended when ordering AEP Ohio to accelerate its transition to market.

[57] OEG/OCC Brief, p. 12.

[58] FES Brief, p. 15.

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

[60] OEG/OCC Brief, p. 12 (emphasis added).

In addition to being contrary to the spirit of the Commission Orders, the Customer Groups' proposals are also contrary to the plain instructions in the Commission Orders. The Commission Orders both repeatedly make clear that the Commission intends AEP Ohio to conduct energy-only auctions for increasing percentages of non-shopping load. The Customer Groups never explain how the Commission could grant their proposed restrictions on these auctions without running directly afoul of the Commission's instructions to transition to competition. Therefore, the Customer Groups' proposals should be rejected as inconsistent with the Commission Orders.

Fortunately, the Commission is not required to compare short-term customer gain with long-term policy goals in this case. The FES blending proposal permits both a transition to competition and short-term customer gain. Therefore, the Customer Groups' proposals should be rejected and the FES blending proposal accepted.

IV. AUCTION RELATED ISSUES

AEP Ohio's brief includes a discussion of several auction related issues. Each of these issues has been resolved from FES's perspective, but will be discussed briefly below for the reference of the Commission.

A. Number of Auctions

As explained in the FES Comments at p. 3, AEP Ohio proposes to conduct two energy auctions for the June 2014-May 2015 delivery period. FES proposed that these auctions be combined into one auction to attract bidder interest, because the more load included in an auction the greater likelihood of bidder participation.[61] FES withdrew this portion of FES witness Noewer's testimony at hearing, and agrees with AEP Ohio's proposed auction schedule.

[61] FES Comments, p. 3.

As explained in AEP Ohio's Brief, OCC has proposed to split the two auctions proposed by AEP Ohio into three auctions.[62] FES agrees with AEP Ohio that splitting the auctions as proposed by OCC would reduce bidder participation and drive up administrative costs, and should therefore be rejected.[63]

B. Tranche Size Adjustments

AEP Ohio's Brief also included a discussion regarding whether or not it was appropriate for the auction manager to adjust tranche size to attract bidder interest.[64] As discussed in the FES Brief at p. 16, and agreed to by AEP Ohio witness LaCasse, FES requests the following clarifications regarding the adjustments to tranche size: (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. With these clarifications, FES does not contest AEP Ohio's proposal.

C. Cash As Pre-Bid Security

In response to the FES initial comments, AEP Ohio's brief suggests that cash should be an acceptable form of pre-bid security.[65] FES agrees that AEP Ohio's CBP Rules should be modified to incorporate this change.

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[62] AEP Ohio Brief, p. 4.

[63] AEP Ohio Brief, pp. 5-6.

[64] AEP Ohio Brief, p. 10.

[65] AEP Ohio Brief, p. 11.

V. 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 30, 2013

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Post Hearing Reply Brief Of FirstEnergy Solutions Corp.* was served this 30th day of August, 2013, via e-mail upon the parties below.

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