

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's Review )  
of Customer Rate Impacts from Ohio ) Case No. 13-1530-EL-UNC  
Power Company's Transition to Market )  
Based Rates. )

FINDING AND ORDER

The Commission finds:

- (1) By Opinion and Order issued August 8, 2012, the Commission modified and approved an application for an electric security plan (ESP) filed by Ohio Power Company (AEP-Ohio) in *In the Matter of the Application of 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 No. 11-346-EL-SSO (ESP II), et al. The Opinion and Order as approved, directed the attorney examiners to establish a new docket within 90 days from the order and issue an entry establishing a procedural schedule to allow Staff and any interested party to consider means to mitigate any potential adverse rate impacts from the shift to market based rates.
- (2) On January 30, 2013, the Commission issued its entry on rehearing in the ESP II case.
- (3) On March 27, 2013, the Commission issued its second entry on rehearing in the ESP II case.
- (4) By entry issue June 27, 2013, the attorney examiner established a comment process encouraging interested parties to file comments on items, including, but not limited to: cross subsidies among tariff classes; phase-outs of historic rate design mechanisms; methodologies to transition to market based rates; and potential impacts on high winter usage customers.
- (5) On various dates, motions to intervene in this proceeding were filed by Ohio Energy Group (OEG) and the Ohio Consumers' Counsel (OCC). No memoranda contra were filed. Upon consideration of the motions to intervene, the

Commission finds that the motions to intervene are reasonable and should be granted.

- (6) Timely initial comments were filed by: FirstEnergy Solutions Corp. (FES), Industrial Energy Users-Ohio (IEU-Ohio), IGS Energy (IGS), AEP Ohio, and Staff. Reply comments were docketed by IEU-Ohio, IGS, OCC, AEP-Ohio, OEG, and the Retail Energy Supply Association (RESA).
- (7) In its initial comments, AEP Ohio indicates that several proposals to address and mitigate any rate impacts were advanced by AEP Ohio witness David Roush's testimony in *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 (CBP). AEP Ohio explains that its proposal in the CBP case would allow for base generation rates to decrease beginning in January 2015, which, in conjunction with the 100 percent energy only auction for which delivery will commence in January 2015, could mitigate any potential rate increases that may occur in the energy portion of customers' electricity bills. AEP Ohio points out that separate rate zones can be maintained for Ohio Power Company and Columbus Southern Power Company, which would avoid the rate impact of both rate zones being flash cut to an auction price. These two factors, AEP Ohio maintains, adequately address the phase-out of historic rate design mechanisms and the elimination of cross subsidies amongst rate classes. (AEP Comments at 3-4.)

In addition, AEP Ohio proposes expanding the 12 percent rate impact cap to include any potential energy auction impacts. AEP Ohio believes that the rate impact cap will insulate customers from any auction related rate impacts as well as any increase in fuel rates for the remainder of the ESP. The expansion of the rate impact cap, AEP Ohio suggests, would strike a reasonable balance by allowing the energy market to remain undisturbed and triggers a regulatory solution only if necessary. AEP Ohio believes that the rate impact cap expansion would be practical and efficient. AEP Ohio notes that it has already developed the systems necessary to implement the cap and can readily

adapt the system to capture auction rate impacts. (AEP Ohio Comments at 4-6.)

- (8) IEU-Ohio attests that it is not possible to identify means to mitigate any potential adverse rate impacts because the extent and nature of potential rate impacts are presently unknown. IEU-Ohio suggests that in evaluating resolutions, there be an explicit bias for market-based means, explaining that aggregation and competitive sourcing of generation could work to mitigate adverse rate impacts. Consistent with the policies in Section 4928.02, Revised Code, IEU-Ohio believes that pro-competitive, market-based approaches must be applied when they can effectively and lawfully serve the public interest. (IEU-Ohio Comments at 5-7.)
- (9) IGS claims that the Commission can address rate mitigation concerns by having AEP Ohio conduct a retail auction to serve its entire standard service offer (SSO) load. A retail auction, IGS explains, would accomplish the Commission's goal of transitioning to fully competitive markets and allow for all funds generated by the retail auctions to pay down the deferral mechanism that was detailed in the ESP II case. IGS reasons that its retail auction proposal is consistent with the ESP II order and is permissible under Section 4928.143, Revised Code, as there is no mandate that a wholesale auction be used to establish a SSO. (IGS Comments at 3-10.)
- (10) OCC remarks that it is unable to provide meaningful comments regarding the customer impact of any new rate design because AEP Ohio has yet to present any detailed analysis on the impact of auction prices on customer class rates and bills. Therefore, OCC requests that the Commission order AEP Ohio to provide detailed total bill analyses for each rate schedule, estimated competitive-bid prices for future auctions, and an explanation on the proposed manner in which auction prices will be translated into retail rates. In addition, OCC proposes that a procedural schedule be established in order to consider these matters, including a discovery period of 120 days. (OCC Comments at 4-8.)

- (11) FES advises that because AEP Ohio's base generation rates are essentially black box rates and have no relationship to market-based rates, current inter-class subsidies may cause many of AEP Ohio's customers to experience rate shock upon the movement to full market based pricing. FES advocates that its blending proposal that was advanced in the CBP proceeding would gradually eliminate intra-zonal relationships through the blending process. Consistent with its testimony in the CBP case, FES proposes that base generation rates be frozen at current levels and then blended with the increasing percentage of market energy and capacity in accordance with the state compensation mechanism, allowing customers to realize the benefits associated with market-based pricing. FES opines that no additional mechanisms would be necessary to transition to market-based rates if its proposal in the CBP case is adopted. (FES Comments at 3-9.)
- (12) Staff expresses concern that there may be unknown impacts resulting from AEP Ohio's transition towards market based rates and asks that the Commission direct AEP Ohio to provide additional information for Staff to review. Specifically, Staff seeks a description of the expected rate design for each class of customers, including potential bill impacts. Further, Staff requests that AEP Ohio provide options to mitigate any adverse impacts resulting from the expected rate design. (Staff Comments at 1-3.)
- (13) In its reply comments, OEG stresses that that the Commission can protect customers from adverse rate impacts by establishing a reserve price for AEP Ohio's energy auctions, which OEG and OCC suggested in the CBP proceeding. OEG offers support for FES's recommendations of allocating the energy costs resulting from the energy auctions, as well as incorporating the state compensation mechanism price of \$188.88/MW-day into AEP Ohio's retail rates. In addition, OEG suggests holding separate energy-only auctions for the Columbus Southern Power and Ohio Power rate zones in order to prevent unreasonable increases to customers within Ohio Power's rate zone. (OEG Reply Comments at 1-4.)

- (14) OCC urges the Commission to reject AEP Ohio's position that customer rate impacts beyond June 1, 2015, are outside the scope of this proceeding, as the Commission did not indicate that this proceeding was intended to only address rate impacts from the energy-only auctions. Further, OCC recommends that the Commission reject AEP Ohio's request to utilize the rate impact cap to capture any rate increases that may occur as a result of market-based prices. OCC predicts that the adoption of AEP Ohio's recommendation may lead a higher deferral amount and *increased carrying charges*. In addition, OCC argues that IGS's proposal exceeds the scope of this proceeding and should be rejected. Finally, OCC states that, while FES's proposal may warrant consideration, it is premature and should be considered after AEP Ohio submits a rate design proposal in this proceeding. (OCC Reply Comments at 3-8.)
- (15) In its reply comments, IGS reiterates its proposition that a retail auction allows for a SSO that easily translates into retail electric rates. IGS provides that AEP Ohio's rate impact proposal is contrary to state policy, noting that it artificially suppresses the SSO price while increasing prices for shopping customers. (IGS Reply Comments at 2-5.)
- (16) IEU-Ohio contends that AEP Ohio's comments indicate that the establishment of the post ESP II generation prices have not been resolved and will not be resolved until after AEP Ohio presents its next rate plan. If the Commission adopts Staff's recommendation, IEU suggests that the scope of this proceeding be broadened to collect data including typical bill formats for both shopping and non-shopping customers. (IEU-Ohio Reply Comments at 9-11.)
- (17) RESA agrees with Staff and OCC, noting that additional information and proposals from AEP Ohio, including a description of the expected rate design for each customer class, would be beneficial to determine how to mitigate any potential rate impacts. Further, RESA recommends that the Commission order AEP Ohio to prepare rate charts that apply the allocation process used by Duke Energy Ohio in conducting its auctions. In addition, RESA encourages the elimination of cross-subsidies among tariff classes, and

doubts that AEP Ohio's proposal to expand the customer rate impact cap will effectively mitigate any rate changes that may occur as a result of the energy-only auctions. (RESA Reply Comments at 2-4.)

- (18) *FES restates its belief that AEP Ohio's proposal to freeze base generation rates without blending them with the state compensation mechanism is inconsistent with the Commission's ESP II order and adds that the Commission should reject AEP Ohio's mitigation proposal to maintain separate FAC rate zones. However, FES agrees with AEP Ohio's proposal to expand the rate impact cap, but believes that the portion of the deferral that would be created as a result of the energy auction results should be bypassable. Regarding OCC's initial comments to maintain the existing rate structure to avoid disparate rate impacts, FES states that this suggestion would not facilitate a smooth transition to market based pricing for AEP Ohio's customers. (FES Reply Comments at 2-4.)*
- (19) In its reply comments, AEP Ohio initially notes that issues presented for decision in the CBP case should moot or modify most of the issues raised by parties in this proceeding. While Staff and OCC request additional information and process in this matter, AEP Ohio thinks that this is unnecessary, particularly in light of the issue overlap between this proceeding and the CBP case. Nonetheless, AEP Ohio offers that it is amenable to working with Staff to provide additional information as needed, and would agree to file such information within 60 days in order to assist the Commission. AEP Ohio repeats that its rate impact proposal remains a viable solution to the Commission, and urges the Commission to avoid opening up issues already decided in the ESP II proceeding, including IGS's retail auction proposal. In addition, AEP Ohio states that FES's blending proposals should not be addressed in this docket since it is limited to the consideration of revenue-neutral solutions. (AEP Ohio Reply Comments at 2-9.)
- (20) The Commission finds that, in light of our affirmation of blending AEP Ohio's base generation rates with market based energy rates in the CBP case, many issues raised by

parties in this matter have been thoroughly and adequately addressed in the CBP case. We note that by allowing the base generation rates to incrementally reflect market-based prices, any historic, non-market based subsidies are being gradually phased out, allowing customer rates to more closely align with market based rates.

- (21) Turning to AEP Ohio's proposal to expand the customer rate impact cap, we find that AEP Ohio's proposal should be rejected. AEP Ohio's proposal not only exceeds the scope of the rate impact mechanism that was explicitly limited in scope in the ESP II proceeding, but also it fails to address our concerns about the cross subsidies amongst tariff classes. In addition, we think that the expansion of the rate impact cap would ignore the problems associated with AEP Ohio's historic, non-market based rate design.

Likewise, we find that IGS's proposal to establish a retail auction should be rejected, as it treads beyond the narrow scope of this case. Despite the Commission approving the energy of slice-of-system auction format in the ESP II order, IGS proposes a completely new auction process that amounts to a collateral attack on the Commission's ESP II order. The more appropriate avenue for IGS to again advocate for its proposal would have been on rehearing in the ESP II case. Accordingly, IGS's proposal should be denied.

- (22) Finally, although we are confident that our order in the CBP case addresses most of our initial concerns on the transition towards market-based pricing, we agree with Staff, OCC, and RESA that additional information is necessary to ensure customers are prepared for any changes that may occur as a result of market based pricing, particularly AEP Ohio's winter usage customers. Currently, there is not enough information for the Commission to properly determine a means to mitigate any rate impacts that these winter usage customers may face. Therefore, within sixty days from the date of this finding and order, AEP Ohio should file the following items in this docket:

- (a) A description of the expected rate design for each customer class, including winter residential customers, for auction based rates. This description should include a comparison between the expected market based design with the current rate design, and identify and areas where there may be potential adverse impacts for customers.
- (b) Schedules for each customer class that identify billing determinants, which should be broken down by applicable rate blocks and seasons. AEP Ohio should include the current and proposed rates and revenues, as well as any resulting increases or decreases.
- (c) Provide potential rate impacts for each customer class as a result of the implemented auction format in the CBP proceeding, representing all customer sizes and load factors.
- (d) Identify any options that would mitigate adverse impacts that may result from implementing the CBP auction retail rate design.

In addition, prior to filing these items, AEP Ohio shall consult with Staff to confirm the appropriate format and data inputs for each item. Further we note that, as OCC points out, the scope of this docket is not merely limited to the ESP II energy auctions; rather, as the case caption indicates, it is to consider rate impacts from market based rates, including potential market rate impacts beyond May 31, 2015. Accordingly, we anticipate that AEP Ohio shall docket information reflecting the expansive nature of this docket.

- (23) All interested parties may, within thirty days from the date in which AEP Ohio docket additional information for our consideration, file comments on AEP Ohio's findings and conclusions.



It is, therefore,

ORDERED, That the motions to intervene filed by OEG and OCC be granted. It is, further,

ORDERED, That Staff's motion for the extension of the deadlines for filing comments is reasonable and should be granted. It is, further,


ORDERED, That the procedural schedule set forth in finding (22) be adopted. It is, further,

ORDERED, That a copy of this finding and order be served upon all parties and other interested persons of record in this case.

THE PUBLIC UTILITIES COMMISSION OF OHIO

  
Todd A. Snitchler, Chairman

  
Steven D. Lesser

  
Lynn Slaby

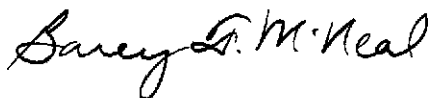
  
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JJT/sc

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**NOV 13 2013**

  
Barcy F. McNeal

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Secretary