

Re: Comments From City of Perrysburg--RTO Expense Surcharge

To Whom It May Concern:

The City of Perrysburg, Ohio, received FirstEnergy Solutions' (FES) letter regarding its intent to initiate a "Pass-Through Event" for the month of January 2014. Based on the information we have received on the issue, there does not appear to be any legal basis to increase charges against the City.

Under its agreement with the City, FES is permitted to pass along "new" charges. FES argues that the relevant costs (PJM charges) should be considered new charges.

But FES has itself acknowledged that it was subject to PJM charges in at least one previous year (2013), and it has presumably paid these charges in other years as well. So these are not new charges.

Based on FES's own statements, it has been subject to PJM charges in the past. Those charges—of some amount—are or should have been factored into the FES billing model, regardless the amount (which obviously may fluctuate from month to month or year to year, as do many of the underlying costs to supply electricity). Under the clear terms of the parties' agreement, there is no legitimate basis for passing the charges on to customers.

FES has also asserted that it must pass these charges along as a "pass-through" because otherwise it would need to factor the price into its bids and overall costs for its customers would be higher. However, as noted above these are not new charges. FES knew or should have known that it was subject to PJM charges of some amount, and it knew or should have known that the amount may change based on different conditions.

In putting together its bid proposal, it made a specific business decision on how to price the risk of increased PJM charges, just as it makes business decisions on how to price the risk of increased commodities costs or other costs that impact the overall cost of electricity. Its price to the City reflects

those predictive decisions, some of which are good and some of which may not be good.

By its own admission, a more conservative (and accurate) prediction on PJM costs would have increased its bid price. What FES now seeks is the opportunity to shift the risk of its bad predictions onto its customers, including the City of Perrysburg. This is neither permitted under the parties' agreement, nor fair to other electricity suppliers, some of whom may have done a better job of pricing the risk of PJM cost increases and whose bids were therefore higher and less attractive than those presented by FES.

The City has formally protested these charges pursuant to the terms of its agreement with FES. It has requested additional and specific information regarding these costs, and specifically how the amounts were determined, how these charges differ from charges already factored into the amount the City is paying, and any other basis on which these charges may qualify as a "Pass-Through Event."

To date, FES has provided no basis to distinguish the PJM charges for January 2014 from such charges for previous months (other than purely in amount).

For that matter, FES has provided no logical basis to distinguish the charges now at issue from other costs which may unexpectedly and sharply rise in the future.

If FES is allowed to pass along increased (rather than actually new) costs, there would appear to be no logical stopping point. Customers could be billed for the utility making a bad bet on commodities future, for new union contracts for utility employees, or even for severance packages for FES' senior executives that have been forced to resign. In short, contract pricing with FES would be useless, and consumers would always bear the full risk of a supplier's bad predictions while still being locked into long-term agreements.

That cannot be allowed. Moreover, and as noted above, FES cannot be allowed to unduly influence bidding by electricity suppliers by retroactively seeking a modification of its bid price based on its failure adequately to predict the change in PJM pricing over time.

The PUCO should refuse to permit FES to impose this unwarranted price increase, and protect the integrity of the parties' contract term and the integrity of electricity bidding and pricing.

Very Truly Yours,

Mathew Beredo
Director of Law—City of Perrysburg

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Summary: Comments Comments of the City of Perrysburg re: FES request for "Polar Vortex" charges electronically filed by Mr. Mathew B Beredo on behalf of City of Perrysburg and Mathew Beredo