

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio)
Power Company for Authority to)
Establish a Standard Service Offer) Case No. 13-2385-EL-ORD
Pursuant to Section 4928.143, Revised)
Code, in the Form of an Electric)
Security Plan.)

In the Matter of the Application of Ohio)
Power Company for Approval of) Case No. 13-2386-EL-AAM
Certain Accounting Authority)

INITIAL POST-HEARING BRIEF OF IGS ENERGY

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I. INTRODUCTION

In this proceeding, the Ohio Power Company (“AEP” or “AEP Ohio”) filed an application for an Electric Security Plan (“ESP”) to establish its standard service offer (“SSO”) (“ESP Application”) for the period beginning June 2015. AEP states that its proposed SSO will give customers “a comparable price that they can use to compare information when determining whether to select an alternative supplier.”¹ Unfortunately (contrary to AEP’s claims) the SSO proposed by AEP is not comparable to the other products offered in Ohio’s competitive retail electric market.

As discussed in the testimony of Interstate Gas Supply, Inc. (“IGS” or “IGS Energy”) witness Matthew White, AEP’s SSO product is not comparable because it is given preferential regulatory treatment that is not afforded to other competitive retail electric products. This treatment includes: (1) utilizing AEP distribution rates to recover many of the costs required to support the SSO; (2) allowing the SSO to avoid numerous costs and regulatory requirements required of CRES products; and (3) assigning all customers to the SSO by default.²

In its testimony, IGS demonstrated that the current SSO product is not comparable, discriminates against shopping customers, and has restricted residential electric shopping in the AEP service territory, resulting in a less-engaged customer.³ IGS also presented evidence about the numerous electric products and services offered by CRES providers that have great potential to benefit electric customers; the favored

¹ ESP Application at 7.

² Direct Testimony of Matthew White at 5–10.

³ *Id.* at 8-12.

regulatory treatment afforded the SSO, however, has suppressed the development and limited the availability of these products and services to AEP customers.⁴

In the ESP Application, AEP also proposed a Power Purchase Agreement (“PPA”) Rider that would require all customers to guarantee cost recovery on AEP’s electric generation. AEP made this proposal despite that in its last ESP, the Commission ordered AEP to divest its electric generation in its entirety. As explained in IGS’s testimony, AEP’s PPA proposal would require all Ohio electric customers to bear the risk of AEP’s electric generation and otherwise increase electric costs on Ohio customers.⁵

To cure the flaws in AEP’s ESP Application, IGS has proposed a number of modifications that will improve Ohio’s retail electric markets. Those modifications include: (1) taking measures to ensure that the SSO is comparable to other retail electric products by either establishing a retail-price adder on the SSO or conducting a retail auction;⁶ (2) rejecting AEP’s PPA in its entirety;⁷ and (3) requiring AEP to implement supplier consolidated billing, which will enable CRES providers to offer a more diverse range of products and services to customers.⁸ The Commission should adopt IGS’s recommendations (as more fully discussed herein) which greatly benefit all Ohio electric customers.

Still, IGS supports several other AEP proposals that would benefit Ohio customers. Those measures include: (1) implementing the Basic Transmission Cost Rider (“BTCR”) to recover non-market-based transmission charges through a non-

⁴ *Id.* at 12–13.

⁵ Direct Testimony of Tim Hamilton at 5.

⁶ White Dir. at 14–22.

⁷ Hamilton Dir. at 3–5.

⁸ White Dir. at 22–24.

bypassable charge; (2) implementing a purchase of receivables (“POR”) program; and (3) discontinuing AEP’s time-of-use and stand-by service tariffs. These proposals are reasonable and should be approved.

Finally, the Commission should approve the customer referral program proposed by the Retail Energy Supply Association (“RESA”). Similar programs have successfully encouraged customer engagement in other states and thus should be implemented in Ohio.

II. ARGUMENT

A. AEP’s SSO Product Does Not Provide a Nondiscriminatory and Comparable Unbundled Rate.

Ohio Revised Code (“R.C.”) 4928.02(A) provides that it is the policy of this state to “[e]nsure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service. And R.C. 4928.02(B) provides that it is the policy of the State of Ohio to “[e]nsure the availability of *unbundled and comparable* retail electric service.” (Emphasis added.) Further, R.C. 4928.02(G) provides that it is the State policy to “[r]ecognize the continuing emergence of competitive electricity markets.” These policy statements are not idealistic or aspirational; R.C. 4928.06(A) provides that the Commission “*shall* ensure that [Ohio’s energy] policy . . . is effectuated.” (Emphasis added.)

In its ESP Application, AEP claims that its proposed SSO is an unbundled price comparable to other products in the market. The evidence, however, demonstrates that the AEP SSO product is anything but comparable or unbundled.

First, AEP’s SSO has not been fully unbundled. Significant costs that are required to support SSO generation service are not allocated to the SSO. Rather, the

SSO is subsidized by AEP's distribution ratepayers. The SSO is supported by AEP employees, AEP overhead, and AEP infrastructure—the costs of which are all recovered through distribution rates.⁹ AEP is also able to recover significant legal and compliance expense required to support the SSO through distribution rates.¹⁰

These costs are not insignificant. As IGS witness White noted, “you can't just snap your fingers and electricity appears. . . . [CRES providers] spend significant dollars doing services to make a retail product available in the market”¹¹ AEP incurs the same, or similar, expenses to make the SSO product available.¹² Yet AEP does *not* recover these costs from SSO customers. AEP witness Rousch testified on cross-examination that the applicable SSO riders do not recover significant costs required to make the SSO available, including call-center costs, legal and regulatory expenses, IT costs, office space, and other employee time and expense.¹³

Not only does the SSO remain an unbundled rate, it is not comparable to other retail products in the market. All customers who have neither affirmatively chosen a competitive supplier nor been switched to a competitive supplier via an opt-out community aggregation remain on the SSO product.¹⁴ Further, all customers that enroll in AEP distribution service *must* enroll in the SSO generation service for a period of time before even being allowed to switch to a competitive supplier.¹⁵ No other competitive retail product is given this advantage.

⁹ White Dir. at 19.

¹⁰ Transcript Volume VII, Pg. 1807.

¹¹ *Id.*

¹² *See id.* at 1807–08.

¹³ Transcript Volume III, Pg. 909–12

¹⁴ White Dir. at 6.

¹⁵ *Id.* at 7

This unearned advantage allows the SSO product to artificially retain disproportionate market share. Customers are by default enrolled in the SSO, whereas CRES providers must obtain affirmative consent to enroll customers. And affirmative consent does not come cheap, but comes at a significant cost—all of which the SSO is able to avoid.¹⁶

Finally, the SSO avoids significant regulatory and compliance requirements that all other providers of competitive products and services must follow (and price in). These include the requirements to: (1) enter into a contract with customers; (2) verify customer enrollments; (3) send notices to customers of enrollment and pricing changes; (4) pay switching fees each time customers switch to a CRES product; and (5) retain records of customer communications.¹⁷ Compliance is a significant cost to CRES providers, which the SSO product either avoids¹⁸ or recovers through distribution rates.¹⁹

Moreover, by allowing AEP to recover significant SSO-related costs through distribution rates paid by all customers, the SSO discriminates against shopping customers.

In sum, the SSO rate proposed by AEP is a non-comparable, subsidized price that enjoys favored regulatory treatment and thus is out of step with state policy.

¹⁶ *Id.*

¹⁷ *Id.* at 7–8.

¹⁸ *Id.* at 8.

¹⁹ See Transcript Volume VII, Pg. 1807.

1. Allowing the SSO to Be a Non-Comparable and Bundled Price Has Harmed Competition and Customers.

Granting favored regulatory treatment to the SSO product has serious consequences for the competitive market and customers. The greatest of these is the failure of a robust retail electric market to develop (particularly for the residential class).

The strongest evidence of the lack of a fully competitive retail electric market in AEP's service territory is limited customer engagement. In his testimony, IGS witness White explained that 73% of residential electric customers in the AEP service territory still receive service on the SSO.²⁰ Further, many of the 27% of customers that migrated away from the SSO have done so because of opt-out aggregation.²¹ Therefore, as Mr. White explained, of the dozens of retail products available to customers in the AEP service territory, one retail product (the SSO) contains a disproportionately high share of the market (73%)—despite the fact that a large majority of retail projects available in the market *are offered at a lower price* than the SSO.²² Although market concentration alone is not the only indication of a competitive market, taken in concert with the barriers to entry already discussed, it clearly indicates a concern.

Customers are the parties harmed the most by the failure to develop a robust competitive *retail* electric market. It is unfortunate enough that AEP customers continued to miss out on savings opportunities due to limited migration away from the SSO. But the greatest harm caused by the current SSO structure is the hindrance of a developed market for a diverse range of products and services.²³ As Mr. White

²⁰ White Dir. at 8.

²¹ Id at 8–9 (61% of the residential migration in Ohio is attributable to aggregation).

²² See *id.* at 11 (“ . . . it is unfortunate that many SSO customers have paid a higher price for electricity when there are other lower cost[] alternatives in the market . . . ”).

²³ *Id.* at 12.

explained, “products offered in the AEP market are largely commodity products only, and the innovative products that require higher fixed capital costs have been inhibited due to the current AEP SSO rate structure.”²⁴

IGS witness Evan Wilson discussed products that currently are available to customers in other markets, such as time-of-use rate offerings, residential demand response, and residential peak shaving.²⁵ Further, witness White explained that in Texas, where retail competition is more robust, there are many more value-added products and services to residential customers, including “electricity bundled with solar installation, electricity bundled with smart thermostat installation, electricity bundled with renewable energy, energy efficiency and demand response products, and time of-use rates to name a few.”²⁶

Unfortunately, such products and services have trouble gaining a foothold in markets where customers are disengaged. In Ohio, only a limited number of customers actually view the competitive CRES products as a viable option in light of the regulatory bias in favor of the SSO product.²⁷ As witness White explained, “CRES suppliers focus resources in markets which are the most viable. If a default rate is given an anti-competitive advantage in the market, creating a barrier for CRES suppliers to gain market share (such as the case in AEP service territory), CRES suppliers will be less likely to invest resources in developing new products/services for the specific market.”²⁸

²⁴ *Id.*

²⁵ Direct Testimony of Evan Wilson at 4.

²⁶ White Dir. at 13.

²⁷ See *id.* at 9–10.

²⁸ *Id.* at 12.

2. Utilizing a Wholesale Auction to Procure SSO Load Will Not Solve the Problem of Limited Customer Engagement.

AEP proposed that with the beginning of the ESP period, it will begin procuring the entire SSO load via a wholesale auction.²⁹ In AEP's last ESP case, the Commission set the stage for a market-based SSO by ordering AEP to divest its electric generation assets in their entirety.³⁰ While the Commission should be commended for taking the important step of transitioning the SSO to a market-based electric rate that reflects the costs of providing *wholesale* electric service, the SSO proposed by AEP still has the same attributes that hinder customer engagement in the *retail* electric market. Thus, even after the transition to wholesale auctions, AEP's proposed SSO still enjoys a regulatory bias that incentivizes customers *not* to engage in the retail electric market.

In fact, as the SSO rate reflects wholesale market prices, it becomes even more imperative that the SSO be a comparable and unbundled rate. As witness White testified, "CRES suppliers also offer market reflective rates, thus AEP's SSO rate will be similar to CRES supplier's rates . . . except for one very important distinction—the AEP SSO rate will still receive the favored regulatory treatment in the market place"³¹ Mr. White explained that "[t]his favored regulatory treatment of the SSO rate will exacerbate the inequities and disadvantages flowing to all other competitive products in the market when the SSO rate is market based like all other products."³²

²⁹ ESP Application at 7.

³⁰ *In re the Application of Columbus Southern Power Company and Ohio Power Company*, Case No. 11-346-EL-SSO *etc.*, Opin. and Ord. ("AEP ESP II Order") at 59 (Aug. 8, 2012).

³¹ White Dir. at 13.

³² *Id.* at 14.

B. IGS’s Proposed Modifications to the SSO Will Lessen the Regulatory Bias in Favor of the SSO Product and Improve the Competitive Landscape in the Retail Electric Market.

R.C. 4928.141 provides that “an electric distribution utility shall provide consumers, on a *comparable and nondiscriminatory basis* . . . a standard service offer.” (Emphasis added.) Further, R.C. 4928.143(B)(2) does not limit what may be included in an ESP, but rather gives the Commission discretion to establish an SSO.³³ Finally, R.C. 4928.02 states that it is the policy of the State to “[r]ecognize the continuing emergence of competitive electricity markets through the development and implementation of *flexible regulatory treatment*.” (Emphasis added.) In short, Ohio’s statutory framework does not require AEP’s SSO to be set by a wholesale auction. Rather, Ohio law gives the Commission great discretion to set AEP’s SSO rate to ensure that the SSO is *comparable and nondiscriminatory*.

Therefore, consistent with Ohio law, IGS recommends that the Commission modify the ESP Application to reduce its anti-competitive effects.³⁴ Recognizing that Ohio is transitioning to fully competitive markets, witness White proposed two alternative modifications to AEP’s SSO, either of which, if adopted, would create an SSO product that is more unbundled and comparable than the SSO proposed by AEP. Witness White recommended that the Commission adopt one of these options: (1) either assess a fee to the wholesale suppliers of the SSO auction (designed to recover the costs that are required to make the SSO available) that would then be returned to all distribution ratepayers;³⁵ or (2) conduct a retail auction to procure AEP’s SSO default

³³ R.C. 4928.143(B)(2) provides that an ESP “may provide for or include, without limitation”

³⁴ See White Dir. at 14–22.

³⁵ *Id.* at 18–22.

load rather than a wholesale auction.³⁶ Either would further the requirement that AEP offer a comparable, nondiscriminatory, and unbundled SSO price.

1. Applying a Retail Price Adjustment to SSO Suppliers Would Make the SSO a More Comparable Price.

In his testimony, witness White recommended “that the Commission apply a retail price adjustment (‘RPA’) to the wholesale suppliers that supply AEP’s SSO load so that the SSO product is more reflective of the true costs to provide retail electric service in AEP’s service territory.”³⁷ The RPA would be “a fee charged to wholesale suppliers of the SSO product which reflects the costs avoided by the SSO product due to the current favorable regulatory treatment of the SSO product.”³⁸ The money generated from the charge would be returned to all AEP distribution ratepayers.³⁹

Witness White testified that a RPA is necessary because there are significant costs required to provide SSO generation service that are not currently being recovered through the SSO rate.⁴⁰ Those costs include legal expenses incurred to establish the SSO price; an allocation of AEP employee costs for the time AEP employees work to make the SSO rate available to customers; AEP infrastructure costs, including IT costs used to support the SSO and SSO customers; customer call center costs incurred when customers inquire about their SSO generation service; and allocation of a portion of overhead expense, because the SSO could not be made available to customers without the use of AEP’s overhead.⁴¹

³⁶ *Id.* at 14–18.

³⁷ *Id.* at 18.

³⁸ *Id.* at 19.

³⁹ *Id.* at 22.

⁴⁰ *Id.* at 20–21.

⁴¹ *Id.* at 19–20.

Mr. White testified that CRES suppliers incur all of these costs to make generation service available to their customers.⁴² The SSO incurs the same or similar costs, but those costs are not recovered through SSO charges, but through AEP's distribution rates.⁴³

Mr. White testified that the RPA should also include avoided costs.⁴⁴ Ohio law requires that the SSO price be a comparable price to other competitive products in the market.⁴⁵ In order for the SSO to be a comparable price in the market, it must reflect all of the costs required to offer competitive retail electric service. Those costs include the costs that CRES providers must incur to comply with Ohio's rules and regulations including contract requirements, notice requirements, verification requirements and customer switching fees.⁴⁶ In order for the SSO product to be a "comparable product" the SSO should either have to comply with the same rules that CRES products comply with, or at a minimum, the cost of compliance should be reflected in the SSO price.

The RPA proposed by IGS is also revenue neutral in that Mr. White does not recommend pulling costs out of distribution rates.⁴⁷ Rather, Mr. White proposes that the Commission establish a proceeding to determine all of (1) the actual costs recovered through distribution rates that are required to support the SSO, and (2) the avoided costs that SSO generation suppliers avoid but all other suppliers must incur to offer a retail electric product.⁴⁸ Once those costs are calculated, the Commission should

⁴² *Id.* at 20.

⁴³ Transcript Volume VII, Pg. 1807–08.

⁴⁴ White Dir. at 20–21.

⁴⁵ See R.C. 4928.141(A) ("an electric distribution utility shall provide consumers, on a comparable and nondiscriminatory basis . . . a standard service offer of all competitive retail electric services . . .").

⁴⁶ White Dir. at 19–20.

⁴⁷ *Id.* at 21.

⁴⁸ *Id.* at 21–22.

assess the RPA to SSO suppliers in the amount of those costs, and return all the money collected from the fee to all AEP distribution customers.⁴⁹

2. Conducting a Retail Auction to Procure SSO Load Will Make the SSO a More Comparable Price.

An alternative mechanism to make the SSO more comparable is to conduct a retail auction to procure the SSO instead of a wholesale auction.⁵⁰ Mr. White explained that in “a retail auction CRES suppliers would bid for the right to serve SSO customers directly.”⁵¹ As further explained, “the auction itself would be a one-time ascending clock auction held before the beginning of the next ESP period (June 1, 2015). The auction would start at a set price per customer (say \$50 per customer) (‘Per Customer Price’) . . . CRESs would then bid on the Per Customer Price that the CRES would be willing serve an SSO customer.”⁵²

After the retail auction is conducted, the winning CRES supplier would directly serve the SSO customer until the SSO customer affirmatively decided to leave the SSO product.⁵³ The price paid by customers receiving SSO service in the retail auction would be established in a Commission proceeding before the SSO period begins. The price paid for SSO service would be a price designed to reflect the true cost of providing retail electric service in the market.⁵⁴

Mr. White also proposed a number of consumer protection measures to ensure that SSO customers served via a retail auction receive a fair and transparent price. Those include the following: (1) the SSO would not contain cancellation fees; (2) the

⁴⁹ *Id.*

⁵⁰ *Id.* at 14–18.

⁵¹ *Id.* at 15.

⁵² *Id.*

⁵³ *Id.* at 14.

⁵⁴ *See id.* at 15–16.

SSO price would be published in the publically available PUCO Apples-to-Apples site; and (3) any time the SSO price changed, customers would receive direct written notice of the price change with their new price and information on how to shop for another electric product.⁵⁵ In fact, current SSO customers do not receive notice when their SSO price changes—so a retail auction would be more transparent than AEP’s current SSO.

Finally, the retail auction proposed by IGS would generate a significant amount of revenue. In the last ESP proceeding, the Commission authorized AEP to recover deferral revenues beginning the next ESP period.⁵⁶ Mr. White proposed that “the money raised from the SSO auction should be first used to pay down any deferrals that all AEP distribution customers must begin paying once the new ESP period begins. . . . The auction would likely raise a significant amount of money—possibly enough to pay down the AEP deferrals in their entirety.”⁵⁷

The retail auction proposed by IGS is also permissible under Ohio law. R.C. 4928.141 requires that an SSO be made available to customers, but as already discussed, the law also allows the Commission discretion to determine how that SSO is offered. In AEP’s last ESP proceeding, Commission implemented a wholesale auction where competitive suppliers serve the generation load of SSO customers.⁵⁸ A retail auction thus is the next logical step and is consistent with the State’s policy of recognizing “the continuing emergence of competitive electricity markets through the development and implementation of *flexible regulatory treatment*.”⁵⁹

⁵⁵ *Id.* at 16–17.

⁵⁶ AEP ESP II Order at 35–36.

⁵⁷ White Dir. at 16.

⁵⁸ AEP ESP II Order at 39–40.

⁵⁹ R.C. 4928.02(G) (emphasis added).

3. Either or Both of the Modifications Proposed to AEP's SSO Are Authorized Under Ohio Law, Will Further the Policy of the State of Ohio, and Will Benefit Customers.

The evidence demonstrates that the SSO proposed by AEP is not a comparable and unbundled price available in the market. It is the Commission's duty to effectuate Ohio law and ensure that the policy of the State of Ohio is followed. As such, the Commission should modify AEP's ESP Application to ensure that the SSO proposed by AEP is more consistent with Ohio law and the policy of the State of Ohio. Implementing either, or both, of IGS's proposed modifications to AEP's SSO would help to accomplish this directive.

A retail auction or an RPA as proposed by IGS would (1) maintain the SSO as an option for customers, (2) create an SSO that is more reflective and comparable to a retail product in the market, and (3) create more transparency with respect to the SSO product and pricing. All of these attributes will make AEP's SSO more consistent with Ohio law.

Further, both the RPA and the retail auction would generate significant revenues from SSO suppliers by effectively charging those suppliers for the value they get for being able to serve a retail customer. With both of IGS's proposals, IGS recommends returning 100% of the dollars generated for the charges to SSO suppliers *to all AEP customers*.⁶⁰ IGS's proposed modifications, thus, could help pay down the deferrals customers will soon be facing.⁶¹ And any other money generated in excess of the deferrals would be returned to all customers.⁶²

⁶⁰ See White Dir. at 16, 22.

⁶¹ *Id.*

⁶² *Id.*

Most importantly, IGS's proposed modifications to the SSO will encourage customer engagement in the retail electric market. The Ohio legislature chose a policy to encourage competition, wisely recognizing that competitive markets encourage innovation and efficiency in the retail electric market, benefiting all customers. This efficiency and innovation, however, is greatly restricted if customers do not actually engage the market. IGS presented evidence that the products and services that arise out of a robust retail electric market have great potential to transform the way electric customers use and consume energy for the better. Thus, by approving either, or both, of IGS's proposed modifications, the Commission will take Ohio's electric markets one step closer to this transformation.

C. The Power Purchase Agreement Rider

AEP proposed authorization of a PPA Rider that would allow AEP to recover its costs of the Ohio Valley Electric Cooperative ("OVEC"), net of generation sales from the units, through a non-bypassable charge paid for by all AEP ratepayers.⁶³ The "cost" allocated to the OVEC (and to AEP as an owner of OVEC) would also contain a rate of return for AEP based on the value of the OVEC generation assets and AEP's cost of capital.⁶⁴ AEP also proposed that under the PPA Rider mechanism, AEP would have the ability to petition the Commission to allow for the recovery of other generation assets.⁶⁵

1. The Commission Should Reject the PPA Rider.

As explained by IGS witness Tim Hamilton, "while AEP claims that the purpose of the PPA is to hedge against market volatility, the actual function of the PPA is to

⁶³ ESP Application at 8.

⁶⁴ Hamilton Dir. at 3-4.

⁶⁵ ESP Application at 8.

insulate AEP from the risk of the market and ensure that it achieves adequate compensation to protect its investment in OVEC.”⁶⁶ But insulating AEP shareholders from the risk of market volatility is not a legitimate rationale for approving the PPA Rider. As Mr. Hamilton correctly concluded, “AEP’s purchased power contract with OVEC contravenes state policy and mimics the type of regulatory framework that the General Assembly left behind when it passed Senate Bill 3.”⁶⁷

Moreover, the evidence showed that allowing AEP to recover the costs of OVEC does very little to hedge Ohio customers electric prices or otherwise protect against price volatility. First, the PPA allows AEP to recover the cost of OVEC, but certain costs components of OVEC are variable costs, including fuel costs, O&M costs, and other environmental costs that may arise.⁶⁸ Additionally, since the charge (or credit) of the PPA rider is contingent on the price AEP receives from the OVEC electricity in the wholesale market, and wholesale market prices vary, the PPA rider will vary as well.⁶⁹

Rather than protect against volatility, the PPA rider merely imposes a different type of volatility on AEP customers. It is not possible to eliminate volatility in retail electric prices indefinitely, regardless of whether retail prices are cost-of-service based or market-based. If the cost components required to provide electric service (e.g. fuel costs, steel, land, environmental regulation) rise, retail prices will ultimately rise as well. AEP knows this, and this is why AEP is attempting to shift the risk of market volatility on

⁶⁶ Hamilton Dir. at 5–6.

⁶⁷ *Id.* at 5–6.

⁶⁸ Direct Testimony of Kevin Murray at 26

⁶⁹ See Direct Testimony of William Allen at 11 (“*If* market prices remain low . . . the PPA rider would be a net charge to customers and *if* market prices increase over the remainder of the ESP period the PPA rider could be a net credit to customers.”) (emphasis added); see also Transcript Volume II, Pg. 572 (referring to the forecasted results of the proposed PPA, Company witness Allen testified that “[v]olatility in prices would change these results.”).

AEP ratepayers by proposing the PPA. Accordingly, the Commission should reject AEP's PPA proposal.

2. If the Commission Approves Rider PPA, It Should Limit AEP's Cost Recovery to OVEC.

As noted above, there are sound legal and policy reasons to reject AEP's PPA Rider proposal. Nevertheless, at a minimum, if the Commission approves the PPA Rider, it should be limited only to generation assets that AEP Ohio holds within its distribution company.⁷⁰ And since AEP has already divested its electric generation assets, except for OVEC, then the PPA Rider should be limited to recovery on just the OVEC assets.⁷¹

The Commission should not allow AEP to recover costs of generation assets that were otherwise deemed competitive and transferred to a competitive affiliate. Allowing AEP's affiliated company to receive cost recovery on generation assets, while not affording that same right to other competitive generation in the market, would equate to an anti-competitive advantage that contravenes Ohio's pro-competition electric policy and its corporate-separation statutes. As witness Hamilton testified, "AEP's generation should be required to stand on its own, just like all other generation in the market. . . . [A]llowing certain generating units (AEP's) to receive guaranteed recovery of costs from all AEP ratepayers would harm all other generators that do not get guaranteed cost recovery."⁷²

⁷⁰ Hamilton Dir. at 6.

⁷¹ *Id.*

⁷² Hamilton Dir. at 4.

D. The Commission Should Order AEP to Implement Supplier Consolidated Billing.

IGS also proposed in its testimony that AEP's ESP Application be modified to require AEP to offer supplier consolidated billing to CRES suppliers. As Mr. White testified, with supplier consolidated billing CRES suppliers purchase the receivables for the EDU distribution charges and then the CRES suppliers would be responsible for billing and collecting all of the charges (distribution and generation) from the customer.⁷³ As Mr. White point outs "[g]eneration charges already represent a greater portion of the customer's electric bill" thus it makes sense for the generation supplier to be the billing and collecting agent.⁷⁴

Mr. White explains supplier consolidated billing enables "CRES providers to offer electric customers a broader range of products and services." Further, supplier consolidated billing would not require distribution customers to pay for upgrades to expand AEP's ability to bill for a diverse range of products and services.⁷⁵ As Mr. White notes, "granting customers billing flexibility and multiple billing options is extremely important if additional products and services are to develop in the competitive market."⁷⁶ He further explains, "[a]s product offerings evolve, it is quite possible in the not-too-distant future, that the commodity will be just one of many features customers receive with their energy service from CRES providers. Billing flexibility, thus, needs to be given to CRES suppliers in order to make these products available to customers."⁷⁷

⁷³ White Dir. at 22.

⁷⁴ *Id.* at 22–23.

⁷⁵ *Id.*

⁷⁶ *Id.* at 23.

⁷⁷ *Id.*

Further, all of the consumer protection statutes and billing requirements would still be in place with the adoption of supplier consolidated billing. Non-commodity charges could not trigger disconnect and CRES suppliers would have to abide by the same billing rules and billing format as AEP is required to today.⁷⁸

In short, with the adoption of supplier consolidated billing, the Commission will be taking an important step to ensure that customers are able to receive the diverse range of electric products and services that bring value to customers.

E. The Commission Should Approve the Basic Transmission Cost Rider.

AEP also requests approval of its BTCR, which would collect basic transmission costs through a non-bypassable rider.⁷⁹ As explained by AEP witness Andrea Moore, basic transmission costs include Network Integration Transmission Service (“NITS”), Transmission Enhancement charges, Reactive Supply and Voltage Control, Transmission Owner Scheduling, System Control, and Dispatch Service and Point-to-Point Revenues.⁸⁰

The Commission should approve AEP’s request for Rider BTCR. RESA witness Lael Campbell testified that the charges that would be recovered through Rider BTCR are non-market-based charges, meaning that these charges are simply pass-through costs for services performed by PJM that all customers must pay.⁸¹ CRES suppliers have no ability to effect or manage these PJM costs, nor do they have the ability to hedge these costs for customers.⁸²

⁷⁸ *Id.* at 23–24.

⁷⁹ ESP Application at 12.

⁸⁰ Direct Testimony of Andrea Moore at 8.

⁸¹ Direct Testimony of Lael E. Campbell at 28.

⁸² *Id.*

As Mr. Campbell explains, “excluding those costs and charges from the supplier and collecting the charges via a non-bypassable rider benefits Ohio customers, because, instead of paying an up-front risk premium for a charge that may never occur, both shopping and non-shopping customers will be charged equitably as the non-market-based charges actually occur.”⁸³ Further, as noted by AEP witness Moore, recovering these charges through a non-bypassable rider is consistent with the way the Commission has treated non-market-based charges for other electric utilities in Ohio.⁸⁴ The Commission has approved similar riders for FirstEnergy Ohio, Duke Energy Ohio and Dayton Power & Light in previous ESP proceedings. Accordingly, the Commission should approve Rider BTCR as proposed by AEP.

F. The Commission Should Approve the Bad Debt Rider and Purchase of Receivables Program.

In this proceeding AEP has proposed implementing a bad debt rider and a purchase of receivables (“POR”) program.⁸⁵ As mentioned in the testimony of AEP witness Stacey Gabbard, a POR program encourages CRES suppliers to enter into the market in all customer classes.⁸⁶ Further, a POR program enables customers to deal with just one entity throughout the credit and collections process.⁸⁷ IGS supported and advocated for a POR program in AEP’s last ESP and still believes that a POR program will benefit customers.

A bad debt rider is also the best way to recover uncollectible expense from a POR program. AEP already recovers uncollectible expense from SSO generation

⁸³ *Id.* at 29.

⁸⁴ Moore Dir. at 8.

⁸⁵ ESP Application at 14.

⁸⁶ Direct Testimony of Stacey Gabbard at 4.

⁸⁷ *Id.* at 5.

customers through distribution rates.⁸⁸ Currently, all AEP distribution customers (including shopping customers) pay the cost of the SSO generation uncollectible expense.⁸⁹ This is just another example of how distribution rates are utilized to support the SSO generation service. It is more reasonable to collect the uncollectible expense from all generation customers (SSO and shopping) and recover that expense from all customers equally through a bad debt rider as proposed by AEP.

IGS would like to note that a POR and supplier consolidated program could be implemented concurrently. For example, for those CRES suppliers that wish to only bill commodity charges, then a POR program with utility consolidated billing may be a more appropriate option. For CRES suppliers that wish to bill for a more diverse range of product and service options, then supplier consolidated billing would be more appropriate. Accordingly, both programs could complement each other and will facilitate the development of a robust competitive retail electric market.

G. The Commission Should Discontinue AEP Schedule Standby Service and Time-of-Use Tariffs.

In its application, AEP proposes to eliminate certain tariffs including its Standby Service (“SBS”) and Time-of-Use (“TOU”) tariffs.⁹⁰ As AEP witness Gary Spitznogle notes, “CRES providers are better positioned to offer innovative generation service rate offerings than AEP Ohio.”⁹¹

IGS agrees with AEP’s recommendation. The SBS tariff restricts the development of distributed generation, and thus, in light of AEP’s transition to market-based rates, the SBS tariff is no longer appropriate. Further, AEP’s TOU tariff will

⁸⁸ Gabbard Dir. at 6–8.

⁸⁹ *Id.*

⁹⁰ ESP Application at 9.

⁹¹ Direct Testimony of Gary Spitznogle at 12.

restrict the development of TOU products and services made available by CRES providers, and thus it is reasonable to eliminate it.

H. The Commission Should Approve RESA's Market Energy Program.

In the testimony of Dwayne Pickett, RESA proposed a customer referral program (Market Energy Program or "MEP"). Under Mr. Pickett's MEP proposal, customers calling into AEP inquiring about electric generation service will be referred to a program in which CRES providers will begin serving those electric customers that agree to the program for an interim period of six months.⁹² After the interim period customers will receive notice that the program is terminating and have the opportunity to switch to another offer in the market (including the SSO), without a cancellation fee.⁹³

As already noted, the current SSO structure restricts customer engagement (particularly among the residential class). A referral program, thus, would encourage customers to engage in the competitive market and is consistent with Ohio's policy to promote competitive markets.⁹⁴ Further, as Mr. Pickett points out in his testimony, a referral program similar to the MEP has been very successful in Pennsylvania at encouraging customers to engage in the competitive retail electric market.⁹⁵ Accordingly, Mr. Pickett's proposal is reasonable and should be approved.

III. CONCLUSION

IGS respectfully requests that the Commission adopt the proposals and modifications described above.

⁹² Direct Testimony of Dwayne Pickett at 4–5.

⁹³ *Id.* at 5.

⁹⁴ See R.C. 4928.02(C).

⁹⁵ Pickett Dir. at 8.

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