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 Pursuant to §4928.143, Revised Code, in the Form of an Electric Security Plan	)))))	Case No. 13-2385-EL-SSO
In the Matter of the Application of Ohio Power Company for Approval of Certain Accounting Authority	)))	Case No. 13-2386-EL-AAM

REPLY BRIEF OF THE KROGER CO.

Mark S. Yurick (0039176) (Counsel of Record)
Direct Dial: (614) 334-7197
Email: myurick@taftlaw.com
Zachary D. Kravitz (0084238)
Direct Dial: (614) 334-6117
Email: zkravitz@taftlaw.com
Taft Stettinius & Hollister, LLP
65 E. State Street, Suite 1000
Columbus, OH 43215-3413
(614) 221-2838 – Telephone
(614) 221-2007 – Facsimile

Steven T. Nourse
Email: stnourse@aep.com
Matthew Satterwhite
Email: mjsatterwhite@aep.com
American Electric Power Corporation
1 Riverside Plaza, 29th Floor
Columbus, OH 43215
(614) 716-1608 – Telephone
(614) 716-2950 – Facsimile

August 8, 2014

Table of Contents

I. ARGUMENT.

A. Purchased Power Adjustment Rider.

As noted in Ohio Power Company's (the "Company") Initial Post –Hearing brief[1], the Company proposes a non-bypassable PPA Rider that would recover the net difference between the revenues from the sale of its Ohio Valley Electric Corporation ("OVEC") entitlement into the PJM market less all costs associated with the entitlement. None of the capacity or energy associated with the OVEC entitlement will be bid into the Company's auction to procure power and energy for SSO customers. Id. The Company claims that this PPA Rider will "allow Customers to take advantage of market opportunities while providing added price stability." Id., at 24.

The PPA Rider proposal must be rejected, or at least modified by the Commission. The PPA Rider does not merely allow shopping customers to take advantage of market opportunities. Rather, the PPA Rider forces shopping customers to insure the Company's sale of its OVEC entitlement into the PJM market does not result in a loss. The PPA Rider as proposed is clearly not optional. Rather, as a non-bypasssable rider it is mandatory for all customers to pay the difference between the PJM price of the OVEC entitlement and the costs associated with the entitlement should the costs exceed the price. Further, the PPA Rider does not provide added price stability for shopping customers. Customers who have chosen to obtain their generation from a CRES supplier will be required to pay unknown and unknowable costs associated with the Company's investment in OVEC. For customers that have obtained fixed price electric service from a CRES, the PPA Rider will cause the prices to become less stable. The PPA Rider fluctuates depending upon both the cost associated with the entitlement

[1] Company's Initial Post -Hearing Brief filed July 24, 2014 at 23-24.

31607252.1

and the market price obtained by the Company for the sale of the Company's legacy OVEC entitlement into the PJM market in the future. The PPA Rider as proposed would also make shopping customers responsible for the Company's legacy generation costs long after the period for transition cost recovery has ended. The recovery of these costs by the Company would be incremental to the capacity costs that all customers, including shopping customers, continue to pay through the RSR. Shopping customers in particular should not be forced to pay both their CRES provider and the Company for generation related costs. If the Commission approves some form of PPA Rider, the Rider should be modified to make it a bypassable rider, not payable by those customers who choose to obtain generation service from a CRES provider.

Further, the Company repeatedly refers to Rider PPA as a "hedge." Generally, a hedge is a precautionary measure taken to manage the downside risk of a speculative investment by investing in an additional or companion offsetting investment. In order to be effective, the companion investment should offset or reduce the risk of potential losses by varying in opposition to the investment being "hedged." While the Company has asserted repeatedly that, for example, "[the] PPA Rider is designed to stabilize rates for all customers by providing a hedge against market volatility,"[2] the Company is not able to explain how forcing all customers to share in the potential gains and losses on its OVEC entitlement in the PJM market will "offset" the risk of generation prices generally rising. The Company appears to ignore the fact that the price to be obtained on the PJM market and the price to be paid for generation generally will most likely vary in the same direction, rather than in an opposing or offsetting fashion. In fact, the PPA Rider does not constitute a "hedge." Rather, the PPA Rider solely serves the Company's interest in

[2] Ohio Power Company's Initial Post-Hearing Brief, at 145.

protecting itself from potential downward pricing trends in the PJM market, or rising costs associated with the Company's legacy OVEC entitlement, or both. Since the PPA Rider merely forces all customers, including shopping customers, to insure against the Company's potential exposure to cost increases or declining prices related to the Company's continued ownership of its legacy OVEC entitlement, Rider PPA should at the very least be modified to exclude shopping customers. Shopping customers should be provided the freedom to obtain generation service from a CRES without providing price security for the Company on its legacy OVEC entitlement.

B. Distribution Rates / Distribution Investment Rider

The Company repeatedly refers to distribution rate cases as a "slow turtle dinosaur" method of determining adequate returns on distribution investment. The Company would obviously prefer the alternative method of collecting all costs associated with distribution investment through a rider mechanism. While requiring an electric distribution company to file a distribution rate case in order to raise distribution rates may be old fashioned from the Company's viewpoint, there are substantial benefits to relying upon time-honored and established methods of setting distribution rates, especially since distribution rate cases tend to protect distribution customers from paying for imprudent or unnecessary distribution investments.

As noted in the Initial Post Hearing Brief of The Kroger Co., DIR charges to customers are projected to increase dramatically, nearly tripling from $86 million in 2012 to $247 million in 2018. The Company proposes to introduce new riders to recover other as yet undetermined distribution-related costs.

The Commission should reject the Company's proposed "modern" approach to recovering all incremental distribution-related costs through ceaseless hurried increases in the DIR and the constant addition of new distribution riders. It is understandable given the dizzying trajectory of proposed DIR cost recovery proposed by the Company that the Company would seek to avoid the scrutiny inherent in the "slow turtle dinosaur" established mechanisms for setting fair and adequate distribution rates. However, time spent protecting customers from imprudent, unnecessary or unsupportable distribution cost increases is never time wasted. The Company should not be encouraged to raise rates as quickly as possible, without regard to protecting distribution customers.

Utilities are entitled to recover their prudently-incurred costs, and distribution customers are entitled to protection from unreasonable or imprudent investments. Rather than relying on continuous increases in the DIR and the introduction of new distribution riders, incremental distribution costs that AEP wishes to recover in this proceeding are best considered in the overall context of the utilities' total distribution revenues, expenses, and return on distribution rate base. The traditional forum for such consideration is a distribution rate case, and though it may be old-fashioned, a distribution rate case better balances the competing interests of allowing recovery of prudently incurred costs with the interests of distribution customers in being protected from imprudent or unreasonable charges.

II. SUMMARY.

The Commission should reject the Company's PPA Rider proposal. Adoption of the PPA Rider would force shopping customers to insure the Company's investment in its legacy OVEC assets long after the period allowed by law for transition cost recovery has past. If the Commission approves any form of PPA Rider, it should modify the Company's proposal to make the PPA bypassable.

The Commission should also reject the Company's proposed approach to recovering incremental distribution-related costs through continued increases in the DIR and the addition of new distribution riders. Costs that AEP wishes to recover through these Rider proposals are best considered in the context of a traditional distribution rate case.

Respectfully Submitted,

Mark S. Yurick, Esq. (0039176)
E-Mail: myurick@cwslaw.com
Direct Dial: (614) 334-7197
Taft, Stettinius & Hollister LLP
65 East State Street, Suite 1000
Columbus, Ohio 43215-4213
Telephone: (614) 221-2838
Facsimile: (614) 221-2007

Attorneys for The Kroger Co.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing *Reply Brief of The Kroger Company* was served this 8th day of August, 2014 upon the following via electronic mail.

haydenm@firstenergycorp.com jmcdermott@firstenergycorp.com scasto@firstenergycorp.com	whitt@whitt-sturtevant.com campbell@whitt-sturtevant.com williams@whitt-sturtevant.com
stnourse@aep.com mjsatterwhite@aep.com sasloan@aep.com dclark1@aep.com	sam@mwncmh.com fdarr@mwncmh.com joliker@mwncmh.com mpritchard@mwncmh.com
thomas.mcnamee@puc.state.oh.us William.wright@puc.state.oh.us Tammy.turkenton@puc.state.oh.us Barb.bossart@puc.state.oh.us David.lipthratt@puc.state.oh.us Katie.stenman@puc.state.oh.us Werner.margard@puc.state.oh.us devin.parram@puc.state.oh.us dorris.mccarter@puc.state.oh.us Jodi.bair@puc.state.oh.us	dconway@porterwright.com philip.sineneng@thompsonhine.com stephanie.chmiel@thompsonhine.com grady@occ.state.oh.us edmund.berger@occ.ohio.gov joseph.serio@occ.ohio.gov gary.a.jeffries@dom.com ricks@ohanet.org gpoulos@enernoc.com jfinigan@edf.org
vparisi@igsenergy.com lfriedeman@igsenergy.com mswhite@igsenergy.com	dboehm@bkllawfirm.com mkurtz@bkllawfirm.com jkylercohn@bkllawfirm.com
cloucas@ohiopartners.org cmooney@ohiopartners.org	bojko@carpenterlipps.com mohler@carpenterlipps.com
tobrien@bricker.com dborchers@bricker.com tsiwo@bricker.com	tshadick@spilmanlaw.com lhawrot@spilmanlaw.com dwilliamson@spilmanlaw.com
glpetrucci@vorys.com mhpetricoff@vorys.com	barthroyer@alo.com rocco.d'ascenzo@duke-energy.com

Stephen.chriss@walmart.com jfinnigan@edf.org plee@oslsa.org swilliams@nrdc.org	joseph.clark@directenergy.com judi.sobecki@aes.com msmalz@ohiopovertylaw.org nmcdaniel@elpc.org

Mark S. Yurick