

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

**In the Matter of the Application of)
Ohio Power Company to Adopt a)
Final Implementation Plan for the)
Retail Stability Rider)**

Case No. 14-1186-EL-RDR

INITIAL COMMENTS OF THE KROGER CO.

I. INTRODUCTION

On July 8, 2014, Ohio Power Company (“AEP Ohio” or “the Company”) filed an application (“Application”) seeking approval of the continuation of its Retail Stability Rider (“RSR”) for the purpose of collecting deferred capacity costs and carrying charges, beginning on June 1, 2015 and continuing for approximately thirty-two months.¹ The Commission’s July 2, 2012 order in Case No. 10-2929-EL-UNC (the “Capacity Case”) authorized AEP Ohio to defer incurred capacity costs not recovered from CRES providers (who are charged a PJM RPM-based rate), subject to a total capacity cost limitation of \$188.88/MW-day. That order also authorized AEP Ohio to collect carrying charges at its long-term cost of debt on the deferred balance.²

The Commission’s ESP II Decision in Case No. 11-346-EL-SSO adopted the RSR to collect a non-fuel generation revenue target, and established an RSR recovery amount of \$3.50 per MWh through May 31, 2014, and \$4 per MWh between June 1, 2014 and May 31, 2015.

¹ Application at paragraph 4.

² Case No. 10-2929-EL-UNC, July 2, 2012 Opinion and Order at 23-24 and 33.

The ESP II Decision specified that \$1.00 per MWh of the RSR recovery amount was to be allocated to the capacity cost deferral recovery.³

In the instant Application, AEP Ohio proposes that the RSR continue past May 31, 2015 for the sole purpose of collecting the capacity deferrals and applicable carrying charges, calculated at 5.34% annually. According to the Application, continuation of the current \$4 per MWh RSR recovery amount starting on June 1, 2015 will recover these deferred costs over a period of approximately thirty-two months.⁴

II. INITIAL COMMENTS

A. **If The Commission Approves Continuation Of The RSR Past May 31, 2015, The RSR Rate Design Should Be Converted From An Energy Charge Into A Demand Charge For Demand-Billed Classes, That Is, Those Customers In The “GS-2/3/4, SBS, EHG, EHS, SS” Grouping Of Customers.**

The RSR was established to recover non-fuel generation revenues, and the costs AEP proposes to collect are deferred capacity costs incurred by AEP, but not collected from CRES providers.⁵ Per the RSR cost allocation method adopted in the ESP II proceeding, RSR costs are allocated using a 5 Coincident Peak Demand allocator to four broad classes: (1) Residential; (2) GS-1, FL; (3) GS-2/3/4, SBS, EHG, EHS, SS; and (4) AL/OL, SL.⁶ It is indisputable that RSR costs are capacity-related costs that are allocated to classes on the basis of demand.

Recovering capacity costs, including deferral based on capacity costs, exclusively through an energy charge from demand-billed customers is poor rate design

³ Case No. 11-346-EL-SSO et al., August 8, 2012 Opinion and Order at 36.

⁴ Application at 3.

⁵ Application at paragraphs 1-4.

⁶ See Case No. 11-346-EL-SSO, Direct Testimony of David M Roush, p. 12, lines 14-18 for a description of this allocation method, and Exhibit DMR-3 for an illustration. Note that because the fourth grouping consists exclusively of lighting rate schedules, they are allocated none of the RSR costs using the 5 CP allocator.

and is unreasonable. Although pursuant to AEP's methodology the capacity costs are reasonably allocated to the customer groupings on the basis of demand, the mismatch between capacity cost allocation and rate design in this situation results in unwarranted subsidies among customers *within* the "GS-2/3/4, SBS, EHG, EHS, SS" grouping, as customers within these customer classes with relatively high load factors are forced to pay for a portion of the 5 CP capacity costs attributable to lower-load factor customers within the grouping.

It is a fundamental tenet of ratemaking that if costs are *allocated* on the basis of demand, then they should be *recovered* on that same basis, i.e. through a demand charge, to the greatest extent practicable. A rate design that recovers capacity costs through an energy charge unreasonably and unnecessarily shifts the burden of cost recovery among customers. Whereas for some customer classes, demand charges cannot be levied because individual customers do not have demand meters, that is simply not the case for medium and large non-residential customers included in the "GS-2/3/4, SBS, EHG, EHS, SS" grouping. The vast majority of the sales to customers within this customer group are to customers with demand meters; thus, there is no reasonable basis for failing to properly align costs and charges for this group.⁷

In its Entry on Rehearing in the ESP II case, the Commission rejected Kroger's argument that recovering the RSR through a demand charge was appropriate since the recovery of capacity costs with a demand charge would cause an "undue burden" for smaller commercial and industrial customers.⁸ However, the *size* of the customer is completely irrelevant for purposes of recovering the RSR through a demand charge.

⁷ For the relatively small number of customers in this grouping that are not demand-billed, continuing to recover RSR costs through an energy charge would be appropriate.

⁸ Case No. 11-346-EL-SSO, January 30, 2013 Entry on Rehearing at 25.

Admittedly, recovering deferred capacity costs incurred by AEP, but not collected from CRES providers through a demand charge would recover a relatively greater proportion of these costs from *lower-load factor* customers. However, modifying the rate design of RSR to be a demand charge, as proposed by Kroger, does not cause an undue burden for lower-load factor customers. This method, which follows the most basic ratemaking tenets of aligning costs with recovery for those costs, merely assigns lower-load factor customers their fair and appropriate pro rata share of demand costs allocated to their particular class. Recovery of deferred capacity costs through a demand charge sends the proper price signal and eliminates an inequitable subsidy running from higher-load factor customers, like Kroger, to lower-load factor customers within a given rate class. It requires lower-load factor customers to pay their fair share of incurred capacity costs, based on AEP's allocation method. While this may be a burden to lower-load factor customers, it cannot be said to be unfair or "undue." Lower-load factor customers must only pay their fair and equitable share of incurred demand costs, absent a subsidy from higher-load factor customers.

The current RSR for customers in the "GS-2/3/4, SBS, EHG, EHS, SS" grouping, which is an energy charge, is \$0.0033897 per kWh. If this energy charge is converted to a demand charge, Kroger estimates that the demand based RSR charge would be approximately \$1.48 per kW-month, based on the relationship between energy and demand billing determinants in AEP Ohio's most recent distribution rate case, Case No. 11-351-EL-AIR. In order to fairly recover capacity costs incurred by AEP, but not recovered from CRES providers, Kroger recommends that the recommended change in rate design of RSR from an energy charge to a demand charge, for demand metered

customers, take effect on June 1, 2015, if the RSR is continued, with the final rate determined through a compliance filing by the Company.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing *Initial Comments of The Kroger Co.* was served this 1st day of December, 2014 upon the following via electronic mail.

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Summary: Comments of The Kroger Company electronically filed by Mark Yurick on behalf of The Kroger Company