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Via E-File

December 1, 2014

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: Case Nos. 14-1186-EL-RDR

Dear Sir/Madam:

Please find attached the COMMENTS OF THE OHIO ENERGY GROUP for filing in the above-referenced matter.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,

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Jody Kyler Cohn, Esq.
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Encl.
Cc: Certificate of Service
Greta See, Esq.
Sarah Parrot, Esq.

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**

COMMENTS OF THE
THE OHIO ENERGY GROUP

The Ohio Energy Group ("OEG") hereby submits these Comments in response to the July 8, 2014 Application filed by Ohio Power Company ("AEP Ohio" or "Company") in the above-captioned proceeding. In its Application, AEP Ohio proposes to continue the $4/MWh Retail Stability Rider ("RSR") beyond May 31, 2015 in order to recover the Fixed Resource Requirement ("FRR") capacity costs deferred as a result of the Commission's July 2, 2012 Opinion and Order in Case No. 10-2929-EL-UNC ("Capacity Case Order").[1] OEG's recommendations with respect to AEP Ohio's proposal are set forth below.

I. If the Commission Approves AEP Ohio's Proposal to Continue the Retail Stability Rider, Then Beginning June 1, 2015 It Should Modify the Way That Retail Stability Rider Costs Are Allocated to and Recovered from Business Customers.

If AEP Ohio's proposal in this proceeding is approved, 100% of the costs recovered through the RSR as of June 1, 2015 would be capacity costs. Consequently, those RSR costs should be allocated among the business customer rate schedules on the basis of demand and should be recovered from those rate schedules through a demand charge when possible. Such an approach properly recognizes cost-of-service differentials and is consistent with principles of cost causation. OEG proposes no change to the RSR allocation and collection methodology for the residential or small service classes. Our proposal is also revenue-neutral to AEP Ohio.

[1] Application at 3.

In AEP Ohio's previous ESP case,[2] the Commission approved the Company's proposal to establish the RSR, finding that it "promotes stable retail electric service prices and ensures customer certainty regarding retail electric service."[3] The level of revenue that AEP Ohio could collect through the RSR over the ESP period - $508 million - was calculated to help the Company meet an $826 million annual revenue target after taking into account four factors: retail non-fuel generation revenues, competitive retail electric service capacity revenues, auction capacity revenues, and a credit for shopped load.[4] The RSR revenue requirement is currently allocated to and collected from customers in AEP Ohio's service territory through a two-step process. In the first step, the RSR costs are allocated on the basis of demand (using the 5 CP method) among four broad categories of customers: 1) residential; 2) small general service (rate schedules GS-1 and FL); 3) lighting (rate schedules AL/OL and SL); and 4) business (rate schedules GS-2, GS-3, GS-4, SBS, EHG, EHS, and SS).[5] In the second step, AEP Ohio collects the RSR costs from these four broad categories of customers through an energy charge.[6]

While the current RSR allocation and collection approach may have been appropriate during the ESP period, continuing that approach beyond May 31, 2015 is unreasonable. During the ESP period, the RSR charge collected a host of various items, which included energy and capacity costs. In contrast, beginning June 1, 2015, 100% of the costs collected through the RSR would be capacity costs incurred by AEP Ohio to provide FRR service from August 8, 2012 through May 31, 2015. Those capacity costs stem from Commission's Capacity Case Order, which established a "state compensation mechanism" for AEP Ohio's FRR capacity service under which the Company would defer the difference between a cost-based capacity rate of $188.88/MW-day and the adjusted PJM RPM capacity rates in effect from August 8, 2012 through May 31, 2015. AEP Ohio now seeks to collect all of those deferred FRR capacity costs through the RSR charge beginning June 1, 2015. Accordingly, given that 100% of the deferred costs collected through the RSR as of June 1, 2015 would be specifically related to providing capacity service, cost causation principles dictate that those costs should be allocated and recovered on the basis of demand. Consequently, AEP Ohio's current RSR allocation and collection approach for business customers should be modified if the RSR is approved to continue beyond May 31, 2015.

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[2] Case No. 11-346-EL-SSO ("ESP II").

[3] ESP II, Opinion & Order (August 8, 2012) ("ESP II Order") at 31.

[4] Id. at 34-35.

[5] Direct Testimony of David M. Roush, ESP II Case (March 30, 2012) at 12:14-16; Exhibit DMR-3.

[6] Direct Testimony of David M. Roush, ESP II Case (March 30, 2012) at 12:18-20; Exhibit DMR-3.

Beginning June 1, 2015, the RSR costs should be allocated to and recovered as follows: First, AEP Ohio should continue to allocate the total RSR revenue requirement between the four broad categories of customers on a 5 CP basis, and it should continue RSR recovery from the residential and small service classes exactly as it does now. Second, AEP Ohio should further allocate the RSR costs assigned to the business rate schedules (e.g. GS-2, GS-3, GS-4, etc.) on a demand basis (using the PJM 5 Peak Load Contribution method). Finally, AEP Ohio should collect the RSR costs from the demand-billed business rate schedules through a demand charge.

OEG's recommended modifications to the RSR allocation and collection approach beginning June 1, 2015 are summarized in the chart below:

Rate Schedule(s)	Recommended Modification to RSR Allocation/Collection Approach
Residential	No Change
GS-1, FL	No Change
AL/OL, SL	No Change
GS-2, GS-3, GS-4, SBS, EHG, EHS, SS	Allocate RSR costs among each rate schedule on a 5 PLC basis; Recover costs through demand charge if rate schedule is demand-billed

OEG's recommended approach will have no impact on residential, small general service, or lighting customers. Our recommendation is also revenue-neutral to AEP Ohio. However, adoption of OEG's approach is necessary to properly recognize cost-of-service differentials within the business customer rate schedules and to uphold principles of cost causation.

II. If the Commission Determines That Retail Stability Rider Costs Should Be Allocated Among Customer Classes Based Upon Shopping Statistics, Then the Commission Should Require AEP Ohio to Treat Reasonable Arrangements Customers as a Separate Class for Purposes of Cost Allocation in Order to Ensure Proportionate Treatment for Those Customers.

One proposal raised in AEP Ohio's previous ESP case was that the deferred capacity costs resulting from the Capacity Case Order should be allocated to the customer classes based upon that each class' share of shopping kWh sales.[7] The Commission rejected this argument.[8] However, it is possible that parties will seek to resurrect

[7] ESP II Order at 30; ESP II Case, Entry on Rehearing (January 30, 2013)("ESP II Rehearing Entry") at 25.
[8] ESP II Order at 37; ESP II Rehearing Entry at 25-26.

that allocation argument in this proceeding. If the Commission changes its mind with respect to that argument and adopts such an allocation for the deferred capacity costs at issue in this proceeding, then the Commission should require AEP Ohio to treat customers with approved reasonable arrangements as a separate class for purposes of the RSR cost allocation. This will ensure that reasonable arrangement customers pay only their proportionate share of the RSR costs without unfairly subsidizing other business customers. Forcing reasonable arrangement customers to pay a disproportionate share of RSR costs beginning June 1, 2015 could frustrate the economic development objectives behind their reasonable arrangements.

In an ideal world, each customer in AEP Ohio's service territory (including tens of thousands of non-shopping residential customers) would be required to pay only the deferred capacity costs actually caused by that customer's choice to shop during the capacity deferral period. If a customer did not shop during the capacity deferral period, then they would not be required to pay any of AEP Ohio's proposed RSR charge beginning June 1, 2015. But a requirement that AEP Ohio determine each and every customer in its service territory who shopped during the capacity deferral period and allocate to that customer only the RSR costs actually caused by that customer would be very difficult, if not impossible, to administer. However, it is much simpler to achieve this result when examining a narrow category of customers, such as reasonable arrangement customers whose accounts can be tracked easily. The Commission has already determined that these customers should be treated differently than others when it determined that reasonable arrangements with the utility were necessary and appropriate in the first place. It therefore makes sense for AEP Ohio to continue to treat those reasonable arrangement customers as distinct by making them a separate class for purposes of RSR cost allocation beginning June 1, 2015.

Under OEG's proposal, AEP Ohio would examine whether any of its customers with approved reasonable arrangements shopped during the capacity deferral period. If a particular reasonable arrangement customer did not shop during the capacity deferral period, then that reasonable arrangement customer would not be allocated any RSR costs beginning June 1, 2015. However, if a reasonable arrangement customer did shop during the capacity deferral period, then that customer would pay precisely the amount of RSR costs that it caused AEP Ohio to incur back to the Company beginning June 1, 2015. For example, if a reasonable arrangement customer's decision to shop during the capacity deferral period caused AEP Ohio to incur $3 million in deferred capacity costs, then the reasonable arrangement customer would be required to pay $3 million in deferred capacity costs back to AEP Ohio with interest through the RSR charge beginning June 1, 2015.

Reasonable arrangement customers have carefully-negotiated contracts with AEP Ohio for good reason. Energy-intensive reasonable arrangement customers such as TimkenSteel are trade-exposed, with both national and international competition. Such customers must maintain their competitiveness and consequently, cannot afford to pay disproportionate charges to a utility. Hence, it is important that reasonable arrangement customers be allocated only the portion of RSR costs that they actually caused during the capacity deferral period. Forcing such customers to pay a disproportionate share of RSR costs caused by other business customers would undermine the economic development objectives behind their reasonable arrangements. Therefore, if the Commission determines that the RSR should be allocated to customer classes beginning June 1, 2015 based upon shopping statistics, the Commission should require AEP Ohio to treat customers with approved reasonable arrangements as a separate customer class for purposes of allocating the RSR costs.

Respectfully submitted,

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December 1, 2014

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CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail (when available) or ordinary mail, unless otherwise noted, this 1st day of December, 2014 to the following:

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