BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of the Application for Approval of a Special Arrangement Agreement on behalf of Ohio Power Company and Solvay Specialty Polymers.	))))	Case No. 14-2296-EL-EEC

COMMENTS OF
THE OHIO MANUFACTURERS' ASSOCIATION ENERGY GROUP

I. INTRODUCTION

On December 22, 2014, Ohio Power Company (AEP or the Company) and Solvay Specialty Polymers (Solvay) filed a joint application (Application) for approval of a special arrangement wherein Solvay[1] has agreed to commit the resources from its planned combined heat and power (CHP) system to AEP for its compliance with the energy efficiency benchmarks set forth in Section 4928.66, Revised Code. The Ohio Manufacturers' Association Energy Group (OMAEG) offers the following comments on the Application.

II. COMMENTS

As detailed in the Application, Solvay has agreed to commit its "prospective planned CHP System electricity generation" to AEP's "energy efficiency and peak demand reduction requirements."[2] The prospective planned CHP System is described as a natural gas-fired cogeneration plant with an incremental capital cost of approximately $34 million.[3] The expected savings to Solvay over the 20-year life of the project amount to $6 million, net present value.[4] In

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[1] Solvay is a mercantile customer as defined in Section 4928.01(A)(19), Revised Code.

[2] See Application Exhibit 2 at Paragraph 1.

[3] Id. at Paragraphs 2, 3.

[4] Id. at Paragraphs 3, 4.

exchange for Solvay's commitment, AEP has committed to make annual incentive payments to Solvay for five years, beginning in 2015, at $0.005 per kWh.[5] Such incentive payments are estimated to amount to $289,025 per year, with the five-year total estimated at $1,445,125.[6]

AEP has requested that the Public Utilities Commission of Ohio (Commission) permit the Company to split the EE savings resulting from the project between 2015 and 2016. Further, AEP has requested that the Commission (1) affirm that the Company may collect shared savings as a result of this project;[7] (2) permit the Company to split the shared savings from the project between 2015 and 2016;[8] and (3) exempt twenty percent of the shared savings calculated from the project from the $20 million annual shared savings cap negotiated in Case No. 11-5568-EL-POR, thereby permitting the Company to collect shared savings above the $20 million threshold in 2015 and 2016.[9]

A. The incentive AEP has offered to Solvay is considerably lower than other national CHP program incentives, out of line with other incentives offered through the Company's Custom Program, and out of line with the incentive to be awarded to the Company.

1. AEP's Offered Incentive is Lower than, and Out-of-Line with, Utility CHP Program Incentives Nationally

A comparison of CHP program incentives for 12 states is shown infra in Figure 1. Many CHP programs across the nation incentivize projects on a per kW basis, or with a mix of kW and kWh-based incentives. Most programs additionally impose a cap on the total incentive a customer may receive from its CHP project. Figure 1.1 shows the nominal incentive for 12 different states, on a dollars per kWh basis (incorporating kW incentives and incentive caps),

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[5]Id. at Paragraph 13.

[6] Id.

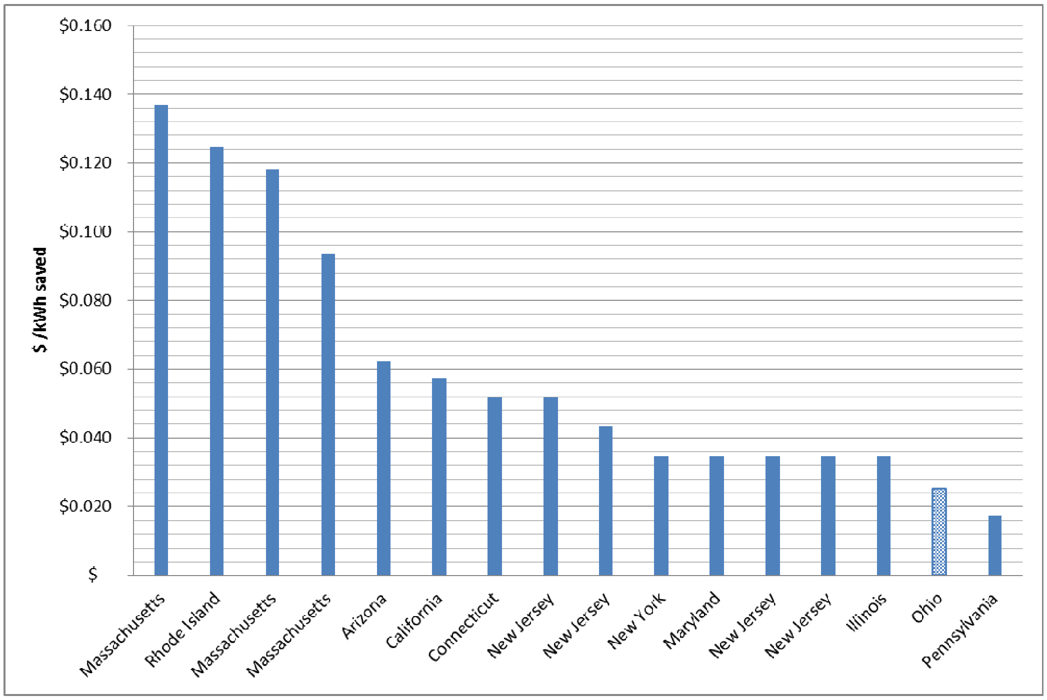
[7]Application at 7.

[8] Id.

[9]Id. at 8.

for a project with the same kW and kWh savings as the Solvay CHP project. Noticeably, AEP's proposed incentive renders Ohio CHP incentives out of line with those offered in nearly every other state.

Figure 1.1: CHP Project Incentives for Similarly-Sized Projects on a $/kWh Basis[10]



[10]For values included in Figure 1.1, see the following:
https://www.nationalgridus.com/non_html/DG_CHP_Seminar.pdf (Rhode Island);
http://www.masssave.com/~/media/Files/Business/Applications-and-Rebate-Forms/A-Guide-to-Submitting-CHP-Applications-for-Incentives-in-Massachusetts.pdf (Massachusetts);
http://www.energizect.com/businesses/programs/Combined-Heat-Power (Connecticut);
http://www.swgasliving.com/sites/default/files/F915-09%20Arizona%20Smarter%20Greener%20Better%20Distributed%20Generation%20Program%20Rebate%20Application%20_0.pdf(Arizona);https://www.nyserda.ny.gov/Funding-Opportunities/Current-Funding-Opportunities/PON-2701-Combined-Heat-and-Power-Performance-Program (New York);
http://www.bgesmartenergy.com/chp, https://cienergyefficiency.delmarva.com/CombinedHeat.aspx (Maryland);
http://www.illinois.gov/dceo/whyillinois/KeyIndustries/Energy/Documents/Final_RFA%20CHP%20Guidelines%207-7-14.pdf (Illinois); https://www.pplelectric.com/save-energy-and-money/rebates-and-discounts/business-and-nonprofit/custom-rebates.aspx (Pennsylvania).

This result suggests that, if approved without modification, the incentive AEP has proposed could set an expectation for CHP-related incentives in Ohio at a level lower than what is typically needed for CHP projects to develop robustly.

Although Solvay has agreed to the $0.005/kWh incentive proposed by AEP, the fact that consideration of the applicable incentive for commitment of CHP EE resources is an issue of first impression for the Commission warrants serious deliberation about the appropriate incentive level for CHP systems in Ohio generally. Because the level of incentive agreed upon by Solvay and AEP is far below that offered in other similarly situated states, OMAEG requests that the Commission order an increased incentive of $0.007/kWh saved, over the five-year term of the arrangement, such that the incentive expectation in Ohio is commensurate with that available in Illinois, New Jersey, Maryland, and New York. Adopting an incentive level of $0.007/kWh saved for CHP savings would yield more robust CHP development in Ohio. Otherwise, the low incentive may set an expectation that chills further development of CHP projects in AEP's territory and throughout Ohio.

2. AEP's proposed CHP incentive is lower than, and out of line with, the incentives typically offered through the Company's Custom Program.

AEP has qualified Solvay's prospective planned CHP system as a project for which an incentive is available pursuant to the Company's Custom Program. AEP's Custom Program standard offer incentivizes efficiency projects at $0.08/kWh saved, all up front in the first year the savings occur. This incentive level is considerably higher than the $0.025/kWh saved ($0.005/kWh saved for 5 years) that AEP is offering to Solvay under the terms outlined in the Application. OMAEG is cognizant that the Custom Program presently has a $25,000 incentive cap per project, and that for projects to exceed this cap, they must typically be bid into the Bid4Efficiency auction program. OMAEG is further aware that the auction program typically results in higher rebate projects clearing at lower $/kWh incentives than the $0.08 /kWh standard offer. Although Solvay has agreed to the incentive AEP has offered for commitment of the CHP system's generation to the Company, however, the incentive level to which Solvay has agreed is not commensurate with the incentive level awarded under AEP's other programs. There is a significant likelihood that permitting an insufficient incentive for CHP systems to be established in this case may likewise establish an expectation of low CHP incentive levels in future cases. Such an outcome would chill further development of CHP projects in AEP's territory and throughout Ohio, and deprive Ohio of the myriad benefits associated with CHP systems.

3. The incentive AEP has offered to Solvay out of line with its own incentive and reasoning.

AEP has requested that the Commission permit 20% of the shared savings that the Company would collect pursuant to approval of this project to exceed the stipulated cap on shared savings.[11] AEP lists the total shared savings it would collect pursuant to this project to be $6,293,625.[12] The total incentive it is offering to Solvay is $1,445,125.[13] Ratepayers will receive a net-benefit of $48.4 million over 20 years, according to the Application,[14] minus the collective $7.7 million in incentives for the manufacturer and the utility. While the savings to ratepayers are well in excess of the costs, this does not wholly detract from the mismatch between the shared savings incentive that accrues to the electric distribution utility as a result of the arrangement and the far lower incentive paid to the customer committing the savings.

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[11] OMAEG offers its comments on the legality of AEP exceeding the previously-established shared savings cap in Section II.C, infra.

[12] Application Exhibit 3.

[13] Application Exhibit 2, Paragraph 13.

[14] See Application Exhibits 4a and 4b.

AEP argues that allowing it to exceed its shared savings cap would "encourage the Company to pursue" additional CHP opportunities with its customers.[15] AEP thus explicitly acknowledges that incentives motivate and make a difference in the Company's decision to develop CHP. Of course, this same logic applies to a customer that hosts a CHP system and pays for the vast majority of its capital costs. As discussed previously, AEP's offered incentive is low in comparison to other utility CHP programs, and to its own programs. It does not follow that offering AEP incentives in excess of previously agreed up thresholds, but offering customers hosting CHP systems incentives at levels lower than what is typically needed for CHP projects to develop robustly, would produce more CHP projects in Ohio. For this reason, OMAEG requests that the Commission increase the CHP project incentive to $0.007/kWh saved from the currently offered $0.005/kWh saved. This adjustment would increase the total 5-year incentive to $0.035/kWh saved, which is commensurate with the incentives offered by Illinois, New Jersey, Maryland, and New York. Because it is still unclear whether incentives awarded at a level of $0.035/kWh saved will appropriately incentivize manufacturers to implement CHP projects, OMAEG also recommends that the Commission schedule a technical workshop in 12 months to evaluate the incentive mechanism.

4. AEP Has Not Offered an Action Plan to Have the CHP Capacity Reduction Counted for its Capacity Bid at PJM

According to the Application, the Solvay CHP system will result in a permanent demand reduction of 7.2 MW and 57,805 MWh/year in energy savings.[16] The energy and demand reduction from this project will likely displace other sources of EE from smaller custom and prescriptive projects. A key component of AEP's approved EE portfolio is the requirement to bid

[15] See Application at 8.

[16] Application Exhibit 3.

a percentage of the resulting permanent demand reduction into PJM's capacity auctions. Bidding the permanent demand reduction into PJM's capacity auctions has two important effects for manufacturers and other consumers. First, PJM pays for this resource at the auction clearing price the same as it would any other capacity resource. Table 1 shows the eligible delivery years for which the Solvay CHP project would qualify, the base residual auction (BRA) clearing price, and an estimate of the resulting revenue potential.

Table 1: BRA Revenue Potential for 7.2 MW of Capacity

Delivery year	BRA Clearing Price ($/MW-Day)	Revenue Potential Estimate
2015/16	$ 136.00	$ 357,408
2016/17	$ 59.37	$ 156,024
2017/18	$ 120.00	$ 315,360
2018/19	TBD	TBD
Total		$ 828,792

Second, EE capacity is typically bid into PJM auctions at a lower cost than other capacity resources, which results in Demand Reduction Induced Price Effect (DRIPE), meaning price suppression. The resulting price suppression creates cost savings for all of Ohio's ratepayers, which should be factored into the total system cost savings calculated in the Utility Cost Test, which in turn affects a utility's claim on shared savings.

CHP projects produce a behind-the-meter reduction in demand, the same as many other EE projects. However, CHP is not currently qualified as an eligible EE technology at PJM. This is an obvious oversight by PJM; nonetheless, it is incumbent upon AEP to produce a plan to approach PJM and request that it allow inclusion of CHP demand reduction among its EE capacity resources. If responsibility for bidding the CHP capacity resource into PJM resided with the Solvay, the ownership of the capacity reduction would likely also have remained with the

Solvay. By extension, the application AEP has submitted would be classified as a mercantile self-direct application, on which AEP may not collect shared savings. However, because AEP has qualified this application as part of its Custom Program, and has requested to collect shared savings, it is thus responsible for producing a viable plan for PJM to make this CHP project eligible as an energy efficiency project.

5. AEP is not lawfully permitted to recover a shared savings incentive that exceeds the shared savings cap agreed to in the Company's portfolio program.

AEP has requested that twenty percent of the shared savings incentive resulting from the CHP project be exempt from the shared savings cap approved in Case No. 11-5568-EL-POR.[17] The Commission's analysis of this request turns upon its interpretation of the Application in the context of S.B. 310, which was approved on September 12, 2014. Pursuant to the language of Section 7(B) of S.B. 310, prior to January 1, 2017, the Commission shall not take any action with regard to any portfolio plan or application regarding a portfolio plan, except those actions expressly authorized or required by Section 6(B) of S.B. 310, and actions necessary to administer the implementation of existing portfolio plans. The portfolio plan approved in Case No. 11-5568-EL-POR is AEP's currently-effective plan; it will be in effect until the end of 2016, pursuant to Section 6(D) of S.B. 310, unless the plan is amended in compliance with Section 6(B).

AEP's currently approved portfolio plan establishes a shared savings cap of $20 million annually on an after-tax basis.[18] A decision on the pertinent question presented in the Application, i.e., whether AEP will be permitted to exceed its shared savings cap in years 2015 and 2016, will not affect the implementation of its current portfolio plan, as its current plan is

[17] Application at 8.

[18] See *In the Matter of the Applications of Columbus Southern Power Company and Ohio Power Company for Approval of their Program Portfolio Plans and Request for Expedited Consideration*, Case No. 11-5568-EL-POR, et al., Opinion and Order at 8, 17 (March 21, 2012).

fully implemented and approved for use through 2016. As such, a determination on the Company's ability to exceed the shared savings caps included in its approved shared savings programs in 2015 and 2016 is not in any way necessary to administer the implementation of AEP's existing portfolio plan.

The remaining exception provides that in relation to a portfolio plan or an application regarding a portfolio plan, the Commission may take those actions that are expressly authorized or required by Section 6. Pursuant to Section 6(B), an EDU may amend its plan, provided that it adheres to the conditions set forth therein. AEP contends that "nothing in [its] Application should be construed as an amendment."[19] However, AEP seeks Commission approval in its Application to deviate from the terms of current portfolio plan and exceed the shared savings caps established therein. The shared savings caps represent bargained-for provisions of the stipulation negotiated between AEP and numerous other parties that the Commission ultimately approved in Case No. 11-5568-EL-POR. Any request to exceed those caps is appropriately construed as an attempt to amend the provisions of the portfolio plan, thereby triggering the conditions for amending a portfolio plan under Section 6(B) of S.B. 310. As mentioned previously, the Application was filed on December 22, 2014. As such, it was not filed within thirty days of the effective date of S.B. 310. Given that the Application was not timely filed as an amendment, AEP must necessarily continue to implement its portfolio plan, with no amendments, through 2016. By extension, therefore, the Commission may not lawfully permit AEP to recover a percentage of its shared savings outside of the shared savings incentive caps established in its approved, effective portfolio plan.

[19] Application at 9.

III. CONCLUSION

OMAEG is a supporter of customer-sited CHP systems, and of Governor Kasich's initiatives to increase the deployment of CHP in the state of Ohio. OMAEG believes that for robust implementation of CHP technologies to occur, manufacturers must receive fair incentives. The incentive AEP has offered in the Application under consideration by the Commission is too low, is out of line with the incentives offered by other electric distribution utilities for CHP resources nationwide, and does not reflect the incentive levels traditionally applied to AEP's own Custom Programs. Accordingly, OMAEG requests that the Commission increase the incentive to $0.007/kWh saved, to be applied during the five-year term of the arrangement, which would result in an incentive level of $0.035/kWh saved for the arrangement term. This incentive rate would match those of Illinois, New Jersey, Maryland, and New York. An incentive rate of $0.007/kWh saved for five years will still result in lower program costs and savings to AEP's ratepayers, as the CHP project savings will displace custom project savings which are incentivized at $0.08/kWh saved. OMAEG further requests that the Commission revisit the $0.007/kWh saved incentive mechanism within 12 months of issuing its determination in the above-captioned case by scheduling a technical workshop designed to determine if this incentive design is effective at stimulating CHP development.

Further, OMAEG respectfully requests that the Commission deny AEP's request to recover shared savings in 2015 and 2016 in excess of the caps incorporated in the Company's approved portfolio program. As demonstrated above, a determination on the Company's ability to exceed the shared savings caps included in its approved shared savings programs in 2015 and 2016 is not necessary to administer the implementation of AEP's existing portfolio plan. Further, AEP's request to exceed the Commission-approved shared savings caps should be construed as an attempt to amend the provisions of the portfolio plan, regardless of the Company's contention. Because the amendment was not timely, it should be dismissed by the Commission.

Finally, AEP has not included in its Application a plan for incorporating the capacity reduction from CHP into the Company's EE capacity resource bid into PJM's capacity auctions. As discussed above, the PJM capacity revenue potential associated with the proposed CHP system more than exceeds the amount necessary to cover the incentive increase proposed by OMAEG. OMAEG respectfully submits that the remainder of the PJM payment should be passed through to customers in order to lower program costs. It is AEP's obligation to submit to PJM a proposal to include CHP in its EE resource bid. In the event that AEP does not propose a plan to include the CHP capacity reduction in its PJM bid, a domino effect results: the capacity reduction rights will revert to the CHP host; the project will be defined as a self-direct mercantile project, not a custom project; and AEP will, therefore, not be able to collect shared savings on the project.[20] Because AEP has filed its Application as a custom project and requested to the opportunity to earn a shared savings incentive pursuant to the same, OMAEG requests that the Commission direct AEP to develop a plan to include the CHP capacity in its PJM bid, in concert with the AEP EE collaborative.

[20] See *In the Matter of the Applications of Columbus Southern Power Company and Ohio Power Company for Approval of their Program Portfolio Plans and Request for Expedited Consideration*, Case No. 11-5568-EL-POR, et al., Opinion and Order at 9 (March 21, 2012) ("the Companies will not receive any shared savings for the Self Direct program").

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served upon the following parties via electronic mail on February 2, 2015.

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