

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Joint Application)
of Ohio Power Company and)
Solvay Specialty Polymers for Approval)
of a Special Arrangement Agreement)

Case No. 14-2296-EL-EEC

In the Matter of the Joint Application)
of Ohio Power Company and)
Kraton Polymers U.S. LLC for Approval)
of a Special Arrangement Agreement)

Case No. 14-2304-EL-EEC

REPLY COMMENTS OF INDUSTRIAL ENERGY USERS-OHIO

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ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO

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I. INTRODUCTION

On December 22, 2014, Ohio Power Company (“AEP-Ohio”), Solvay Specialty Polymers (“Solvay”), and Kraton Polymers U.S. LLC (“Kraton”) filed Joint Applications for approval of special arrangements by which Solvay and Kraton would commit the energy efficiency and peak demand reduction (“EE/PDR”) attributes of their combined heat and power (“CHP”) projects to AEP-Ohio in exchange for commitment payments. AEP-Ohio also sought to amend its current portfolio plan to permit it to increase the amount it may bill and collect for shared savings.

As set out in Comments and Objections filed January 12, 2015 and a letter filed with the Public Utilities Commission of Ohio (“Commission”) on April 13, 2015, Industrial Energy Users-Ohio (“IEU-Ohio”) is supportive of the commitment of the EE/PDR attributes and commitment payments for which authorization is sought if the Commission finds that approval of those parts of the applications will reduce the

EE/PDR portfolio mandate compliance costs recoverable from customers. IEU-Ohio, however, does not support AEP-Ohio's recommendation that it be permitted to increase the amount it may collect from customers for shared savings because AEP-Ohio's proposal is neither lawful nor reasonable.¹

In response to an Entry permitting additional comments, several parties filed Initial Comments on April 13, 2015. Comments filed by the Ohio Environmental Council, Natural Resources Defense Council, Environmental Law & Policy Center, and Environmental Defense Fund ("Environmental Advocates") and Ohio Manufacturers' Association Energy Group ("OMAEG") recommend the Commission require AEP-Ohio to put forth a plan to qualify CHP projects as a capacity resource so that the energy efficiency attributes may be bid into the PJM Interconnection L.L.C. ("PJM") capacity market.² They argue that CHP represents a lower cost capacity resource and that bidding the energy efficiency attributes would likely have the effect of suppressing the price of capacity resources in the PJM auctions.³

The Commission should reject the recommendation of the Environmental Advocates and OMAEG for two reasons. First, the proposal would reduce the incentive for customers to develop CHP projects. Second, the recommendation would upset the expectation of the parties based upon the Commission's prior decision to leave energy

¹ See, e.g., Objection and Comments of Industrial Energy Users-Ohio to Joint Application for Approval of a Special Arrangement Agreement Between Ohio Power Company and Kraton Polymers U.S. LLC at 3-6 (Jan. 12, 2015).

² Comments on the Special Arrangement Agreement by the Ohio Environmental Council, Natural Resources Defense Council, Environmental Law and Policy Center, and Environmental Defense Fund at 8-9 (Apr. 13, 2015) ("Comments of Environmental Advocates"); Comments of the Ohio Manufacturers' Association Energy Group at 13-14 (Apr. 13, 2015) ("OMAEG Comments")

³ Comments of Environmental Advocates at 9; OMAEG Comments at 13.

efficiency attributes with mercantile customers that self-develop energy efficiency projects.

II. THE RECOMMENDATION THAT AEP-OHIO DEVELOP A PLAN TO BID THE ENERGY EFFICIENCY ATTRIBUTES OF THE CHP PROJECTS INTO THE PJM CAPACITY AUCTIONS WOULD REDUCE THE INCENTIVE TO PURSUE COST-EFFECTIVE CHP PROJECTS AND IS NOT SUPPORTED BY COMMISSION PRECEDENT

A Commission requirement to put forth a plan to bid the energy efficiency benefits of CHP projects raises the potential of reducing the value of the Solvay and Kraton projects and related projects to customers seeking to pursue CHP projects. As the agreement of the parties indicates, the customers seek to reduce the energy services purchased from either AEP-Ohio or a certified retail electric service ("CRES") provider. If AEP-Ohio is required to put forth a plan to bid some or all EE/PDR attributes of these projects into the PJM capacity market, a portion of that capacity resource, if it is cleared the PJM auctions as a demand resource,⁴ may be added back to the customers' peak load contribution.⁵ The effect of the add-back requirement would reduce the benefits of the CHP program by potentially increasing the customer's cost of capacity for its remaining load. Thus, a requirement to bid the load reductions of the customers could cause both Kraton and Solvay to pay higher capacity cost payments, but require AEP-Ohio to retain the PJM capacity resource payments as an offset to the costs of the commitment payments being recommended as part of the reasonable arrangement. By reducing the value of CHP projects, the recommendation of the

⁴ IEU-Ohio takes no position on whether a CHP project is a capacity resource under PJM rules.

⁵ Actual emergency and pre-emergency load response and economic load response reductions for load management resources are added back for the purpose of calculating peak load for capacity for the following delivery year under certain circumstances. PJM Manual 19 at 24, viewed at <http://pjm.com/documents/manuals.aspx>.

Environmental Advocates and OMAEG would reduce the incentive for customers to pursue them.

If the EE/PDR attributes of the CHP projects were bid as energy efficiency capacity resources, the attributes would not be subject to add-back. Even if there is no potential add-back, there is also no guarantee that requiring AEP-Ohio to bid the capacity associated with the CHP projects into PJM's capacity auctions would result in a lowering of prices to other customers. PJM would adjust the scaling factors to increase the price of capacity resources to assure that PJM recovers the full cost of capacity including the EE/PDR attributes cleared in the capacity auctions as energy efficiency resources.⁶ Thus, a requirement that AEP-Ohio provide a plan to bid the EE/PDR attributes of the CHP projects could lead to an increased price of capacity resources that will be borne by customers.

In addition to being unreasonable, the recommendation of the Environmental Advocates and OMAEG to require AEP-Ohio to propose a plan to bid the EE/PDR attributes of the projects into the capacity auctions is inconsistent with customer expectations established by prior Commission orders. The Commission has previously refused to require customers to transfer ownership of energy efficiency attributes to an electric distribution utility ("EDU") that also is securing shared savings under its portfolio plan.⁷ Under those circumstances, the Commission concluded "that mercantile customers may seek an exemption [from the EE/PDR Rider], without being required to

⁶ PJM Manual 18, Section 5.8 viewed at <http://pjm.com/documents/manuals.aspx>.

⁷ *In the Matter of the Application of The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Plans for 2013 Through 2015*, Case Nos. 12-2190-EL-POR, *et al.*, Entry on Rehearing at 10-12 (July 17, 2013).

transfer ownership of energy attributes.”⁸ The customers in these cases provided the resources to initiate the CHP projects, and AEP-Ohio is currently permitted to seek to recover shared savings. Because the circumstances the Commission has previously recognized as grounds for allowing the customer to decide on whether to bid the attributes into the PJM market are the same here as in the prior case, the Commission should not direct that customers must transfer ownership of the energy efficiency attributes to AEP-Ohio so that they may be bid into the PJM capacity market.

III. **CONCLUSION**

For the reasons discussed in IEU-Ohio’s Objection and Comments filed on January 12, 2015, its letter filed April 13, 2015, and these Reply Comments, the Commission should approve the commitment of the energy efficiency and peak demand reduction attributes and commitment payments if the commitment payments provide a lower cost alternative for the EDU’s compliance with portfolio mandates. The Commission, however, should reject AEP-Ohio’s request to increase its compensation for shared savings and the recommendation of the Environmental Advocates and OMAEG to require AEP-Ohio to develop a plan to bid the energy efficiency attributes of the CHP projects into PJM’s capacity market.

Respectfully submitted,

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⁸ *Id.* at 11.

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CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Reply Comments of Industrial Energy Users-Ohio* was sent by, or on behalf of, the undersigned counsel for IEU-Ohio to the following parties of record this 27th day of April 2015, via electronic transmission.

/s/ Frank P. Darr

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