

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 R.C.)	Case No. 13-2385-EL-SSO
4928.143, in the Form of an Electric)	
Security Plan.)	

In the Matter of the Application of Ohio)	
Power Company for Approval of Certain)	Case No. 13-2386-EL-AAM
Accounting Authority.)	

**OHIO POWER COMPANY’S REPLY TO THE OBJECTION OF THE
OHIO ENERGY GROUP**

On February 25, 2015, the Commission issued its Opinion and Order in this proceeding (Opinion and Order). Ohio Power Company (AEP Ohio) filed its compliance tariffs on April 24, 2015 to comply with the Opinion and Order. On May 8, 2015, the Ohio Energy Group (OEG) filed an objection concerning one sentence contained in AEP Ohio’s compliance tariff for the IRP Rider. In particular, OEG objects to the offset to the IRP credit of \$8.21/kW-month provided to eligible customers – the offset imputes revenue to IRP customers based on the PJM capacity auction rate. OEG’s objection is without merit and lacks support in sound regulatory policy. While it is obvious that OEG’s main goal is to capture even more benefit for its members than the IRP Rider (as proposed) will already provide, achieving that insular goal would come at the expense of other ratepayers and would be premised on an ill-conceived policy with perverse incentives.

In its Opinion and Order, the Commission provided with respect to the IRP Rider that “AEP Ohio should also bid the additional capacity resources associated with the IRP-D into

PJM's base residual auctions held during the ESP term, with any resulting revenues credited back to customers through the EE/PDR rider.” (*ESP III*, Opinion and Order at 40.) AEP Ohio raised practical and logistical issues concerning the Opinion and Order’s IRP ruling in its Application for Rehearing. The Company noted that the PJM auctions covering the ESP III term had already occurred and some customer have registered and cleared interruptible load resources while others have not. So the Opinion and Order’s directive for AEP Ohio to bid interruptible customer resources into the PJM auctions was impractical and incomplete without further clarification.

Consequently, AEP Ohio recommended on rehearing that the \$8.21/kW-month IRP credit be offset by a revenue imputation based on PJM auction-clearing price – equal in quantity to the amount of capacity participating in the IRP Rider. In other words, if a customer is paid \$8.21 for 100,000 kW, then the same 100,000 kW would be used to compute the PJM revenue offset. Consistent with that pending request – and having no practical alternative – AEP Ohio filed its IRP compliance tariff reflecting the imputed revenue offset provision, pending the outcome of the rehearing request. OEG could have registered its objection to AEP Ohio’s proposed approach by filing a response to the Company’s rehearing and its objection now arguably constitutes an untimely memo contra to the Company’s rehearing; thus, the argument could be rejected for that reason. But if the Commission does address the merits of OEG’s objection, it should reject the objection as being misguided and over-reaching.

Imputing PJM auction revenue to IRP customers – regardless of whether they have bid their capacity into PJM auctions or cleared at the current auction price – is a fair and reasonable result. Except for a few reasonable arrangement customers, demand response customers in AEP Ohio’s service territory have and continue to participate in PJM demand response programs directly or through a third-party curtailment service provider (CSP), not through AEP Ohio. As

such, participation in the PJM auctions and maximizing their revenue from PJM is normal, ongoing behavior for IRP customers and their CSPs. Without an imputed revenue offset, IRP customers would have no incentive to continue to bid their capacity into future PJM auctions or to do so in a manner that clears the auction. Further, the \$8.21/kW-month credit is already quite generous and provides compensation to interruptible customers at a level equivalent to approximately \$270/MW-day, which is significant. Even with the revenue offset of approximately \$136/MW-day in 2015/2016, the net credit funded by other AEP Ohio customers directly will still be approximately \$134/MW-day. So even if the customer was not able to maximize the payments it receives from PJM, adding the \$134/MW-day payment from the Company to any level of revenues from PJM is still quite beneficial. Moreover, it would be impractical and administratively burdensome for the Company to have to track down and monitor the extent of each customer's specific amount of auction revenue actually received from PJM. Finally and perhaps most important from a fairness standpoint, permitting IRP customers to receive the full \$8.21/kW-month credit regardless of their efforts to participate or clear in the PJM auctions would impose a significant burden on other customers who pay to fund the \$8.21 credit. Returning to the example of a 100,000 kW customer, at \$8.21/kW-month, the customer would be paid approximately \$0.8 million per month before the offset and approximately \$0.4 million per month after the offset. Even if the customer's actions in the PJM auction resulted in the customer only receiving one-half of the full level of the PJM credit from its CSP, the customer would still receive \$0.2 million from their CSP (as they would have before the Commission's Order with respect to the Company's IRP Rider) and an additional \$0.4 million from the Company under the IRP Rider.

If the Commission agrees with OEG's logic, however, that only actual revenue received from PJM should be credited, then the Company submits that only that corresponding amount of capacity in kW that clears the PJM auction should be permitted to qualify for the \$8.21/kW-month credit under the IRP Rider. In other words, if the revenue offset is going to be limited to the amount of capacity that actually clears the PJM auction, then so too should the \$8.21/kW-month credit be similarly limited to the same kW level. Doing as OEG proposes would create a mismatch and results in an unfair burden on other customers. Rather, the Company's IRP Rider compliance tariff was fair, practical and reasonable to participating and non-participating customers.

CONCLUSION

AEP Ohio believes its compliance tariff is consistent with the intent of the Opinion and Order. But the Company did file an application for rehearing to try and get clarification on this point. And the Company explicitly noted the issue in its cover letter when filing the compliance tariff. In any case, the Commission should adopt the IRP Rider as proposed in the Company's compliance tariff filing.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of *Ohio Power Company's Reply* upon counsel for all other parties of record in this case, on this 12th day of May, 2015.

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Summary: Reply to the Objection of the Ohio Energy Group electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company