BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application Seeking Approval of Ohio Power Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Rider	)	Case No. 14-1693-EL-RDR
In the Matter of the Application of Ohio Power Company for Approval of Certain Accounting Authority	)	Case No. 14-1694-EL-AAM

BUCKEYE POWER, INC.'S POST-HEARING BRIEF

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INTRODUCTION

In Ohio Power Company's ("AEP Ohio's") ESP III case (PUCO Case No. 13-2385-EL-SSO), the Commission approved the concept and legality of a power purchase agreement ("PPA") rider ("PPA Rider") but did not approve the inclusion in the PPA Rider of AEP Ohio's Ohio Valley Electric Corporation ("OVEC") PPA rights and obligations under the OVEC Inter-Company Power Agreement ("ICPA") as AEP Ohio had requested. Instead, the Commission established a zero (0) placeholder value for the PPA Rider. In its Opinion and Order in AEP Ohio's ESP III case, the Commission set forth a number of factors that the Commission would consider in deciding whether future PPA Rider proposals would be in the public interest.

In this case, in its amended application filed after the Commission's decision in AEP Ohio's ESP III case, AEP Ohio seeks the Commission's approval to enter into a PPA with its affiliate, AEP Generation Resources Inc. ("AEPGR"), relating to certain generating units owned by AEPGR, including Unit No. 1 at the Cardinal Generating Station ("Cardinal Station") and AEPGR's rights and obligations under the related Cardinal Station Agreement ("CSA"). AEP Ohio also seeks the Commission's approval for inclusion in the PPA Rider of the net financial impacts of: the affiliate PPA; and AEP Ohio's entitlement to a portion of the electrical output of generating units owned by OVEC under another PPA, the OVEC ICPA.

On December 14, 2015, AEP Ohio, Buckeye, Commission Staff, Sierra Club, Ohio Energy Group and various other parties to this case signed a Joint Stipulation and Recommendation (the "Stipulation"), which AEP Ohio filed with the Commission in this docket (Joint Exhibit 1). The Stipulation attempts to address the concerns and factors identified by the Commission, as well as the concerns of Commission Staff, the Sierra Club, Ohio Energy Group, and the other various parties to the case who either signed the Stipulation or agreed not to oppose it.[1]

In this brief, Buckeye Power, Inc. ("Buckeye") addresses some, but not all, of the factors identified by the Commission for consideration in deciding whether to approve AEP Ohio's entry into the PPA and whether to include the proposed generating units in the PPA Rider, including grid reliability, supply diversity, and price/cost. In addition, Buckeye identifies for the Commission concerns that Buckeye has regarding the potential for negative impacts, specific to Buckeye and its members, if the PPA Rider proposal (as modified by the Stipulation) is not approved (and if AEP Ohio or AEPGR sells or retires OVEC's Clifty Creek and Kyger Creek units and Cardinal Station Unit No. 1). As shown below, disapproval could negatively impact Buckeye due to its joint ownership with AEP Ohio of OVEC and with AEPGR of the Cardinal Station.[2]

Buckeye supports AEP Ohio's proposed affiliate PPA and the inclusion of the affiliate PPA and the OVEC ICPA in the PPA Rider for two overarching reasons: (I) Buckeye agrees with AEP Ohio's well-supported position that the affiliate PPA and the PPA Rider advance rate stability, promote electric system reliability, and are economically beneficial to Ohio's economy, by relying on a strategy of owned-generation resources, traditional cost-of-service rate-making principles, and a long-term focus on affordability and reliability, all of which are consistent with Buckeye's own business model; and (II) approval of the PPA and the PPA Rider will avoid a potential immediate sale or retirement of the PPA Rider generating units, including OVEC's Kyger Creek and Clifty Creek units, and Cardinal Unit No. 1, which will support the continued,

[1] Industrial Energy Users-Ohio and AEP Ohio entered into a separate agreement subsequent to the Stipulation, pursuant to which IEU-Ohio agreed, among other things, not to oppose the Stipulation (P3/EPSA Exhibit 11).

[2] AEP Ohio is the prior owner of Cardinal Unit No. 1, and was a party to the CSA until the effective date of Amendment No. 12 to the CSA. As part of its Commission-approved, corporate separation plan, AEP Ohio, effective January 1, 2014, sold Cardinal Unit No. 1, among other generation assets, to AEPGR and assigned the CSA to AEPGR.

cooperative, cost-effective, and reliable operation of those generating facilities under the OVEC ICPA and the CSA.

In its Opinion and Order in AEP Ohio's ESP III case, the Commission indicated that AEP Ohio's PPA Rider proposal should provide for: rigorous Commission oversight of the costs to be included in the PPA Rider; full transparency and disclosure by AEP Ohio of the basis for the costs proposed to be included in the PPA Rider; and an appropriate sharing and allocation of financial risk between AEP Ohio and its ratepayers. Although Buckeye supports AEP Ohio's PPA Rider as proposed in the amended application, Buckeye is not opposed to any reasonable modifications to the PPA Rider proposal that are necessary to ensure that the Commission's concerns (as well as the concerns of Commission Staff and various other parties to the case) are addressed. Buckeye's support for such modifications is conditioned upon AEP Ohio being agreeable to such modifications and, furthermore, in all cases, AEP Ohio and AEPGR remaining fully liable and responsible for all of their obligations to Buckeye (and its affiliates) under the OVEC ICPA and under the CSA, and as joint owners with Buckeye (and its affiliates) of OVEC and the Cardinal Station, regardless of (a) whether or not all of the costs incurred by AEP Ohio and AEPGR under such contracts are recoverable by AEP Ohio under the PPA and the PPA Rider, and (b) any commitments that AEP Ohio has made on behalf of itself and its affiliates under the Stipulation (and that the Commission may approve) with respect to the eventual retirement, repowering or refueling of generating units that AEP Ohio and its affiliates jointly own with Buckeye and its affiliates.

In that regard, Buckeye has signed and fully supports the Stipulation as a negotiated package of modifications to AEP Ohio's amended PPA Rider proposal that fully addresses the concerns of the Commission with respect to oversight of costs, transparency and disclosure, and sharing of financial risk, as well as the concerns of Commission Staff and the various other parties to the case who have signed the Stipulation or agreed not to oppose it. Buckeye's support of the Stipulation is subject only to Buckeye's exclusion from those provisions of the Stipulation that relate to its status as a joint owner with AEP Ohio and its affiliates of Cardinal Station and OVEC, as necessary to ensure that Buckeye's status as a party to the Stipulation does not prejudice the rights and remedies available to Buckeye and its affiliates as joint owners and contract counterparties with AEP Ohio and its affiliates, and to remove any implication that Buckeye, as opposed to AEP Ohio, is bound by the commitments of AEP Ohio set forth in the Stipulation with respect to the retirement, repowering or refueling of Cardinal Unit No. 1 and the OVEC units.[3]

BACKGROUND

Buckeye is a nonprofit generation and transmission electric cooperative that provides wholesale electric service to its members, 25 electric distribution cooperatives providing retail electric service in the predominantly rural areas of the State of Ohio. (Pearce Direct at 9:7-11.) These 25 electric distribution cooperatives, in turn, provide retail electric service to nearly 1,000,000 residents in portions of 77 out of Ohio's 88 counties.[4]

Buckeye owns or controls various generation resources. Its total electric generating resources constitute approximately 2,200 MW. As pertinent to this proceeding, Buckeye owns an 18% interest in OVEC and the related OVEC ICPA. (ICPA at Article 1.) Accordingly, Buckeye is entitled to 18% of the electrical output of, and is responsible for 18% of the costs of,

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[3] As footnote 12 of the Stipulation states, Buckeye is not participating in Sections III.D.10-12 of the Stipulation.

[4] Certain of Buckeye's electric distribution cooperative members, i.e. Adams Rural Electric Cooperative, Inc., Darke Rural Electric Cooperative, Inc., Guernsey-Muskingum Electric Cooperative, Inc., Holmes-Wayne Electric Cooperative, Inc., Logan County Electric Cooperative, Lorain-Medina Rural Electric Cooperative, Inc., Midwest Electric, Inc., North Central Electric Cooperative, Inc., North Western Electric Cooperative, Inc., Paulding Putnam Electric Cooperative, Inc., The Frontier Power Company, Tricounty Rural Electric Cooperative, Inc., and Union Rural Electric Cooperative, Inc., submitted public comments supporting AEP Ohio's proposal. Buckeye and Buckeye's affiliate, Ohio Rural Electric Cooperatives, Inc., also submitted public comments supporting AEP Ohio's proposal.

OVEC's Kyger Creek and Clifty Creek base-load coal-fired power plants (an approximately 400 MW interest).

Buckeye also owns Unit Nos. 2 and 3 at the Cardinal Station. Buckeye, AEPGR, and the Cardinal Operating Company have partnered together to operate Cardinal Station Unit Nos. 1, 2 and 3 pursuant to the Cardinal Station Agreement for nearly 50 years. (Pearce Direct at 9:6-7; *see, generally,* CSA.) AEPGR owns 100% of Cardinal Unit No. 1. (Thomas Direct at 4:2-3.) Cardinal Station Unit No. 1 "is a nominal 595 MW generating unit that was placed into service in 1967." (Thomas Direct at 3:18-19.) It is operated by the Cardinal Operating Company, which also operates Unit Nos. 2 and 3 for Buckeye. (*Id.* at 4:2-3.) Pursuant to the Cardinal Station Agreement, Buckeye is entitled to 87% of the electrical output of Cardinal Station Unit Nos. 2 and 3, and AEPGR is entitled to 13% of the output of Cardinal Unit Nos. 2 and 3 in exchange for providing back-up of Buckeye's Cardinal Station Agreement entitlement. (CSA at Articles 9 and 10.)

As part of the PPA, AEP Ohio has proposed that AEPGR's interest in Cardinal Station Unit No. 1 and its rights and obligations under the related CSA be dedicated to AEP Ohio's retail consumers in the State of Ohio as a hedge against volatile market prices. (Pearce Direct at 9:5-10:9; Pearce Cross-Examination at 434:17-24.) As part of its overall PPA Rider proposal, AEP Ohio also seeks to include in the PPA Rider its entitlement to 19.93% of the electrical output of generating units at the Kyger Creek and Clifty Creek facilities under the OVEC ICPA. (Pearce Direct at 10:12-17.)

Buckeye supports all of the reasons that AEP Ohio has cited for approval of the PPA Rider proposal, which are consistent with Buckeye's own business model. Indeed, Buckeye and its members have chosen not to opt-into retail competition for generation service and have chosen, instead, to own and plan for their own generation resources sufficient to serve their load and to operate on traditional cost-of-service rate-making principles with a long-term focus on affordability and reliability for many of the same reasons. In addition, as a joint owner with AEP Ohio of OVEC and AEPGR of the Cardinal Station, Buckeye has an interest in this proceeding not represented by any other party, and Buckeye is concerned that if the affiliate PPA and the PPA Rider proposals are not approved, there could be specific adverse impacts on Buckeye and its members, as explained in more detail below.

ARGUMENT

I. BUCKEYE AGREES WITH THE REASONS THAT AEP OHIO HAS CITED FOR THE COMMISSION TO APPROVE THE PPA RIDER PROPOSAL.

AEP Ohio's proposed affiliate PPA is "an agreement between AEP Ohio and AEPGR in which AEP Ohio will be entitled to output from several generating facilities owned by AEPGR." (Vegas Direct at 6.) Through a proposed PPA Rider, the net financial impacts of the proposed affiliate PPA and AEP Ohio's OVEC entitlement would be passed through to AEP Ohio's retail customers. (Vegas Direct at 2:15-23.) Buckeye supports AEP Ohio's proposal because, as established by AEP Ohio's testimony, the affiliate PPA and the associated PPA Rider: (A) advance rate stability; (B) promote electric system reliability; and (C) are economically beneficial to Ohio. In addition, Buckeye supports AEP Ohio's proposal because it is consistent with Buckeye's own business model, which also includes a focus on owned-generation resources, cost-of-service rate-making principles, and a long-term focus on affordable and stable rates and electric service reliability.

A. The PPA Rider Advances Rate Stability.

Buckeye supports the proposed PPA Rider because it promotes rate stability in at least two ways. First, it acts as a hedge against market volatility. And, second, it promotes generation fuel supply diversity instead of forcing Ohio to become dependent on a single, more volatilely-priced generation fuel supply (*i.e.*, natural gas).

As AEP Ohio witness Pablo Vegas explained, "the largest benefit of this arrangement will be to act as a hedge that partially shields AEP Ohio's customers from the impacts of both capacity and energy market volatility over the term of the PPAs." (Vegas Direct at 8:7-9; *see also* Allen Direct at 20:8-9:2; Pearce Direct at 17:7-18:2.) AEP Ohio offered persuasive evidence that its proposed hedge would help offset increased energy costs due to market volatility. (Vegas Direct at 8:5-10:9.) For example, AEP Ohio's witnesses explained that electricity markets are inherently vulnerable to volatility because of the inability to store electricity, a vulnerability felt particularly acutely "during periods where load increases beyond expected levels due to weather and/or generation resources fail to perform as expected." (Pearce Direct at 20:16-21:2.) While electricity markets can be volatile at any time, *id.* 20:22-21:7, they are more susceptible to volatility in periods of extreme weather situations, such as during the 2014 Polar Vortex. During these times the proposed hedge would provide a clear benefit. (Pearce Direct at 18:6-22.)

In addition, the proposed PPA Rider further reduces volatility of electricity prices by ensuring that a diverse portfolio of generation resources are available. Recent winters have demonstrated the impact of overly relying on a single fuel source for generation, namely natural gas. (*See, generally,* Analysis of Operational Events and Market Impacts During the January 2014 Cold Weather Events.) As shown by AEP Ohio, in winter months, when natural gas is needed to both heat homes and fuel natural gas-fired electric generators, natural gas pricing can be very volatile, spiking to over 30 times the "normal" price for natural gas. (Vegas Direct at 8:22-9:6 and Figures 1-2; Bletzacker Direct at 5:3-7-10.)

Fuel supply diversity helps to offset the price volatility of any single fuel and the inescapable impact of that volatility on electricity rates. As AEP Ohio explains, one lesson from the 2014 Polar Vortex is that it "demonstrate[d] a need for substantial amounts of generation with on-site fuel or firm delivery capability," which are "overwhelmingly provided in PJM [defined below] by the coal, nuclear and old dual-fuel resources that are most at risk of retirement." (Pearce Direct at 22:3-23:3.) Furthermore, coal is historically subject to less volatile pricing than natural gas. (Haugen Cross-Examination at 2516:16-24.)

Unfortunately, planned retirement of base-load, predominately coal-fired, plants will outpace the addition of new generating capacity in Ohio, and most scheduled new generating capacity is renewable, which is not comparable to the retiring base-load generating capacity. (Vegas Direct at 23:1-10; Pearce Direct at 23:6-24:2; Wittine Direct at 4:6-15.) These retirements result in more reliance on natural gas plants, meaning that customers' electric rates are subject to greater volatility either due to variable rate pricing that follows the volatile natural gas market or as a result of fixed rate pricing structures that will increase electric rates to account for natural gas market volatility. (Vegas Direct at 10:1-9; Bletzacker Direct at 12:1-13:2.) The PPA and associated PPA Rider are designed to keep these diverse fuel sources operational in Ohio, thus reducing volatility. (Pearce Direct at 16:14-17:6.)

Buckeye agrees with AEP Ohio that permitting a portion of AEP Ohio's and AEPGR's Ohio generation portfolios to be dedicated to AEP Ohio's consumers on a traditional cost-of-service basis (while relying on the market to serve the remaining portion) is a superior alternative to complete reliance on volatile markets. Indeed, the PPA Rider proposal will ensure that a sufficient and diverse portfolio of generation resources is in place to meet the requirements of

Ohio's residential, commercial, and industrial consumers in a reliable manner and at an affordable cost.

B. The PPA Rider Advances the Reliability of Ohio's Electric System.

There are significant changes in the electric power system underway as long-term coal-fired power plants are retired due to changes in federal environmental rules and inadequate support for the plants in federally-regulated Regional Transmission Organization ("RTO") capacity and energy markets. Some of the parties opposing the proposed PPA have taken the position that energy and capacity markets operated by PJM Interconnection, L.L.C. ("PJM"), the RTO in which Ohio is located, provide a sufficient level of reliability and that new, more environmentally friendly forms of generation should replace older, coal-fired generation. Neither argument justifies rejecting the PPA Rider proposal.

As AEP Ohio demonstrates, past events have shown that the PJM's capacity market is unable to ensure sufficient reliability, particularly when demand is high due to unexpected weather situations. (Vegas Direct at 20:9-22:15.) As AEP Ohio witnesses Vegas and Pearce explained, PJM recognized that up to 22% of its capacity was unavailable during the winter of 2014, when the 2014 Polar Vortex occurred, and acknowledged that this was a "potentially significant reliability issue." During that same period, "89% of AEP's capacity slated for retirement in May 2015 was online." (Vegas Direct at 20:12-21:9; Pearce Direct at 24:16-25:2.) These figures demonstrate the potentially precarious state of reliability in Ohio.

In addition, if Ohio's coal-fired plants are prematurely retired, it will significantly alter the way Ohioans receive power because, "areas that have been historically net exporters of power may now be forced to import power from other areas of the system." (Bradish Direct at 3:11-12, 4:5-8.) Consequently, AEP Ohio's study, which accounted for premature retirement of certain generating units, revealed significant concerns about transmission reliability. (Bradish

Direct at 6:17-8:14, 10:15-23.) Abrupt changes from "retiring major baseload generating plants can cause serious swings in power flows and reactive power deficiencies that must be mitigated." (Bradish Direct at 4:10-12.) Central Ohio is particularly sensitive to reliability issues because prematurely retiring the Conesville plant, which is AEPGR's only generating plant near Central Ohio, "would eliminate the last remaining major baseload generating plant in Central Ohio, leaving a majority of the population susceptible to reliability risks." (Bradish Direct at 4:13-17.)

Buckeye agrees with AEP Ohio that the proposed PPA and associated PPA Rider would provide the long-term cost support for important coal-fired base-load power plants located in Ohio, such as the Cardinal Station, that are necessary for electric system reliability and which cannot be easily replaced with natural gas-fired base-load power plants or intermittent renewable resources.

C. The PPA Provides An Economic Benefit To Ohio.

AEP Ohio estimates that the plants included in the PPA provide an annual economic benefit to the state of Ohio in excess of $550 million. (Allen Direct at 11:13-18.) Indeed, the plants included in the PPA employ over 1,100 people and, when mining employment is included, an additional 600 people. (Allen Direct at 11:13-12:1.)

There is a potential negative economic impact if the Commission rejects the PPA. The parent corporation of AEP Ohio and AEPGR has indicated that it would likely sell the PPA units if the PPA and PPA Rider are not approved. (Vegas Direct at 14:10-14.) Such a sale, particularly if to an out-of-state entity, leaves the units' future uncertain, putting thousands of Ohio jobs at risk. (Vegas Direct at 14:10-16, 25:14-12; Thomas Direct at 11:15-20.) Buckeye urges the Commission to approve the PPA to ensure that these economic benefits are not lost and that thousands of Ohio workers do not lose their jobs.

D. The PPA and the PPA Rider are Consistent with Buckeye's Own Business Model, which Focuses on Owned-Generation Resources, Cost-of-Service Rate-Making Principles, and a Long-Term Focus on Affordable and Stable Rates, and Electric Service Reliability.

In the PPA and PPA Rider, AEP Ohio has proposed that its interest in OVEC and a portion of AEPGR's generation portfolio, including Cardinal Station Unit No. 1, operate using cost of service principles as a hedge against market volatility. *Supra* at I.A. Buckeye supports AEP Ohio's PPA Rider because it is fundamentally consistent with Buckeye's own business model.

Ohio's electric cooperatives have made the conscious and affirmative decision, available to them under Ohio law, not to opt-into retail competition for generation service and to remain traditional, vertically-integrated, cost-of-service electric utilities. They have chosen not to opt-into retail competition in their service territories and, instead, through their ownership of Buckeye, own or control enough generation resources to meet the demands of their retail member-consumers and to plan for the same through a long-term planning process, with a focus on stable rates, affordability, and reliability. Buckeye's members recover the cost of service through the rates set by their local Boards of Trustees and the Board of Trustees of Buckeye. (*See* Haugen Cross-Examination at 2507:7-24.)

It is Buckeye's position that cost-of-service ratemaking is a superior alternative to relying 100% on volatile market prices and short-term contracts. Thus, Buckeye agrees with AEP Ohio that the PPA is a superior alternative to relying fully on volatile energy markets, particularly if the goal is to ensure that a sufficient and diverse portfolio of generation resources is in place to meet the requirements of Ohio residential, commercial and industrial consumers for reliable and affordable electric service.

As established in AEP Ohio witness Vegas's testimony, the cost of service principles embodied in the PPA will allow the covered units, including Cardinal Unit No. 1, to be managed with a focus on long-term investments. (Vegas Direct at 11:10-18; *see also* Baron Direct at 13:9-21.) Facilities that are operated on a cost of service basis, are "less reliant on the volatile capacity market prices" and can be "managed based on well-informed long-term investment decisions with a more certain and transparent view of how they will ultimately recover their expenditures[.]" (Vegas Direct at 11:10-18; Thomas Direct at 12:13-13:5; Baron Direct at 13:9-21.) AEP Ohio, and now AEPGR, and Buckeye have jointly operated Cardinal Station applying this long-term focus since 1968 and have been successful in doing so. Buckeye desires to continue this successful joint operation of Cardinal Station by continuing to have a partner at the Cardinal Station with a similar business model and long-term investment philosophy as Buckeye.

Witness Joseph Bowring from the PJM Independent Market Monitor argues that the PPA Rider proposal constitutes a subsidy that is inconsistent with PJM market principles. However, on cross-examination, witness Bowring acknowledges that even within Ohio, entities such as Buckeye continue to operate on traditional cost-of-service rate-making principles in the PJM market and that many states in the PJM market remain fully-regulated with traditional cost-of-service rate-making principles. (Bowring Cross-Examination at 3037:14-3038-18.) Buckeye agrees with Ohio Energy Group witness Baron that cost-of-service rate recovery, such as provided for in AEP Ohio's PPA Rider proposal and in Buckeye Power's own rate schedules and tariffs with its members, is not a subsidy and is not inconsistent with the PJM capacity and energy markets. (Baron Direct at 12:1-23; 13:1-5).

Buckeye disagrees that it is prudent for the Commission and the State of Ohio to rely 100% on federal regulation by the Federal Energy Regulatory Commission (FERC) and the PJM market to ensure that goals important to the State of Ohio and the Commission, such as reliability, fuel diversity, and economic development, are met. As Ohio Energy Group witness Baron explains, the PJM capacity market is not a true market, and PJM itself has recognized that the PJM capacity market is not sending appropriate price signals to ensure electric system reliability. (Baron Direct at 6:18-23; 7:1-23; 8:1-23; 9:1-2). Buckeye and its members have made the decision for themselves not to rely 100% on federal regulation and the PJM market to meet their own similar goals of rate stability, reliable service, and affordable rates. Buckeye certainly thinks that is appropriate and prudent (and legal)[5] for the State of Ohio and the Commission to continue to have a role in ensuring that important state goals are met, and, therefore, to allow AEP Ohio to continue to rely on traditional cost-of-service rate-making principles for service of at least a portion of its load obligations, to ensure that such goals are met.

II. FAILURE TO APPROVE THE PPA RIDER COULD HAVE SPECIFIC ADVERSE IMPACTS ON BUCKEYE, ITS 25 ELECTRIC DISTRIBUTION COOPERATIVE MEMBERS, AND THE APPROXIMATELY 1,000,000 RETAIL CONSUMERS IN THE STATE OF OHIO SERVED BY THEM.

In addition to supporting the general reasons that AEP Ohio has provided for the Commission to approve the PPA and the PPA Rider, Buckeye would like to bring to the Commission's attention certain specific adverse impacts that Buckeye, its 25 electric distribution cooperative members, and the approximately 1,000,000 residents in the State of Ohio served by Buckeye and its electric distribution cooperative members, could incur if the PPA and the PPA Rider are not approved.

Buckeye and AEP Ohio, and now AEPGR, have a nearly fifty-year relationship at Cardinal Station, which has been largely conflict free due to their aligned interests. AEP Ohio witnesses have testified that OVEC and Cardinal Unit No. 1 are "on the economic 'bubble'" and

[5] In Hughes v. PPL EnergyPlus, LLC, Case No. 14-614, and CPV Maryland, LLC v. PPL EnergyPlus, LLC, Case No. 14-623, the United States Supreme Court may decide what role states may play in RTO markets.

at risk for premature retirement, Thomas Direct at 11:7-14, 13:8-2, and that, if the Commission does not approve the PPA, AEP Ohio and AEPGR may sell their interests in the PPA units, including OVEC and Cardinal Station. (Vegas Direct at 14:10-14.)

The potential sale or premature retirement of AEP Ohio's and AEPGR's interests in OVEC and Cardinal Station are very concerning to Buckeye because Buckeye prefers to maintain its longstanding relationship with AEP Ohio and AEPGR at OVEC and Cardinal Station, which has worked well for many years. If the Commission does not approve the PPA, and if AEP Ohio and AEPGR immediately sell or retire their interests in OVEC and Cardinal Station, Buckeye is concerned that such a sale or retirement could lead to: (A) a misalignment of interests between Buckeye and new owners at Cardinal Station and OVEC, causing Buckeye to incur stranded costs related to its significant unamortized investments in Cardinal Station and at OVEC; (B) increased costs to Buckeye associated with the failure of AEPGR to operate and maintain the Cardinal Station and OVEC's units and to provide back-up power to Buckeye under the CSA; and (C) increased transmission costs to Buckeye and its members with no increase in transmission reliability.

A. The Sale or Retirement of AEP Ohio's and AEPGR's Interests in the Cardinal Station and OVEC Could Lead to the Misalignment of Interests between Buckeye and New Owners at Cardinal Station and OVEC, Resulting in Potential Stranded Costs to Buckeye and its Members.

As established in Section II, above, for much of Cardinal Station's history, AEP Ohio (now AEPGR) and Buckeye, as the joint owners of Cardinal Station, have operated using cost-of-service ratemaking principles, applying a long-term focus on capital investments and maintenance to ensure affordability and reliability. Thus, their interests as to the operation of Cardinal Station have been historically unified. However, if AEPGR sells its interest in Cardinal Station, there is no guarantee that the new owner will have any other ties to the State of Ohio or will share the same long-term interests as Buckeye. In addition, the Commission may have little to no regulatory control or oversight over such a new owner. The new owners may be more interested in short-term profitability than in long term affordable rates and reliability for Ohio consumers, which could lead to operational disagreements between Buckeye and the new owner, and the potential curtailment or shutdown of the generating units.

Indeed, the record in this proceeding shows that certain actors have been incented to purchase generating assets in Ohio precisely because of the volatility AEP Ohio seeks to avoid with its proposal. (Ellis Cross-Examination at 2556:15-2557:11.) The potential for such an entity to purchase Cardinal Unit No. 1 and assume AEPGR's position relative to the CSA causes Buckeye to doubt whether the same long-term focus that has led to the successful joint operation of Cardinal Station in the past can continue into the future.

Buckeye has an approximately $320 million unamortized investment in OVEC, and an approximately $1.3 billion unamortized investment in Cardinal Station. Given these significant investments, Buckeye wants a partner at Cardinal Station and OVEC that shares Buckeye's same operational philosophy and long-term focus. Over time, AEP Ohio and AEPGR have proven to be such partners. However, if AEP Ohio and AEPGR sell their interests, the new owner(s) may have different plans and philosophies than Buckeye regarding the amount and timing of continued capital investments and maintenance in OVEC and the Cardinal Station. Premature retirement or less frequent dispatch as a result of such disagreements may cause Buckeye to have significant stranded investments in OVEC and Cardinal Station, even if Buckeye does not retire its own Cardinal Units. If the cost of the many joint and common facilities at Cardinal Station are spread over two units rather than three, this could substantially increase costs to Buckeye.

B. There is the Potential for Increased Costs to Buckeye Associated with the Failure of AEP Ohio and AEPGR to Operate and Maintain OVEC and Cardinal Station and provide Back-Up Power to Buckeye Following a Sale or Retirement by AEP Ohio and AEPGR of their Interests in OVEC and Cardinal Station.

A potential sale of AEPGR's interest in Cardinal Station is also concerning because AEPGR has provided significant operational expertise at Cardinal and, pursuant to the Cardinal Station Agreement, is obligated to provide backup power to Buckeye. (CSA at Article 9; Pearce Cross-Examination at 435:22-437:6.) Buckeye is concerned that after a sale, the new owner(s) may not provide the same operational support for Cardinal Station and may not be willing or able to supply back-up power to Buckeye, to the same extent that AEPGR (and AEP Ohio prior to the sale of Cardinal Unit No. 1 to AEPGR) has done from the beginning of Cardinal Station's operations in 1968.

Even though Buckeye owns two out of the three generating units at Cardinal Station, Buckeye does not operate Cardinal Station; it has a very small staff and, thus, does not directly operate any of its own generation resources. Instead, since operations commenced, Buckeye has relied on AEP Ohio's and AEPGR's expertise to operate and maintain Cardinal Station through the Cardinal Operating Company, including procuring coal, environmental permitting, routine maintenance and repairs, managing construction and capital projects, engineering support, and labor relations and employee benefits, on an at-cost basis. Similarly, OVEC relies on AEP Ohio for such operational support and expertise. A sale of AEPGR's interest in Cardinal Station and AEP Ohio's interest in OVEC renders uncertain future operational assistance by the new owners at the same level of expertise and economy previously provided by AEP Ohio and AEPGR in the past.

If necessary, Buckeye would be able to operate and maintain the Cardinal Station itself (or contract with others for such services), but such a shift would be disruptive in the short-term and could result in increased costs to Buckeye and its members due to increased staffing and related increased operational costs in the long-term. Certainly, a third party contractor with no ownership interest in Cardinal Station would charge a substantial fee, likely seeking a profit for its services in addition to recovery of its out-of-pocket costs. If Buckeye chose to operate and maintain Cardinal Station with its own employees, Buckeye certainly would not be able to spread the cost of necessary employees over the same number of plants and units as AEP Ohio and AEPGR.

In addition, under the CSA, AEPGR is obligated to provide back-up power to Buckeye when Cardinal Station is out of service for any reason. (CSA at Article 9; Pearce Cross-Examination at 435:22-437:6.) In return, AEPGR is entitled to approximately 13% of the output of Cardinal Unit Nos. 2 and 3 at all times, regardless of whether Buckeye actually requires any back-up. (CSA at Article 10; Pearce Cross-Examination at 435:22-437:6.) AEP Ohio and AEPGR have been able to provide back-up power to Buckeye ever since Cardinal Station commenced commercial operations in 1968. The back-up arrangement works well between Buckeye and AEPGR because AEPGR has a large generation fleet from which to provide back-up power, unlike Buckeye, which is a small utility not able to back-up large baseload units like Cardinal Unit Nos. 2 and 3 with its own resources to the same extent that AEPGR can. The term of the CSA and AEPGR's back-up obligation runs through 2026. (CSA at Article 14.) If AEPGR sells its interest in Cardinal Station, the new owner may be unwilling to provide back-up to Cardinal Unit Nos. 2 and 3, or, if it lacks the resources that AEPGR has, may not be able to provide back-up power to the same extent that AEPGR and AEP Ohio have done over the past almost fifty years.

Similarly, if AEPGR chooses to prematurely retire Cardinal Unit No. 1 and the other AEPGR units, AEPGR may be unwilling or unable to supply back-up power to the same extent that AEP Ohio and AEPGR did when it owned and controlled a large portfolio of generation resources.

C. Rejection of the PPA Rider Could Result in Increased Transmission Costs to Buckeye with No Associated Benefits in Reliability.

If the PPA is not approved and AEPGR prematurely retires some or all of its Ohio coal plants, AEP Ohio and others will be required to make substantial investments in transmission assets only to <u>maintain</u> – not improve or increase – the reliable operation of the electric system. (*See* Bradish Direct at 6:15-10:23.) In fact, AEP Ohio has demonstrated that while transmission upgrades could mitigate the impacts of generating unit retirements, transmission upgrades would not provide all the reliability benefits currently provided by the generating units at issue in this proceeding. (Bradish Direct at 4:19-5:4.)

Increased transmission costs due to retirement of generation are not hypothetical. Indeed, Buckeye has already experienced increased transmission costs resulting from retirement of generation in Ohio. Buckeye does not own transmission resources and, thus, it and its electric distribution cooperative members depend on the transmission systems of AEP Ohio, the FirstEnergy Utilities, Duke Energy Ohio, and Dayton Power & Light to deliver power from Buckeye's owned generation resources, such as Cardinal Station, to its members. Over the past ten years, Buckeye's transmission costs have already increased <u>100%</u> largely due to increased investments needed to deal with current or planned retirements.

If the Commission rejects AEP Ohio's PPA, AEP Ohio has indicated that it may retire more baseload coal plants resulting in more transmission investments just to maintain reliability.

This would further increase costs to Buckeye and its members with no associated benefits. Therefore, Buckeye supports the PPA Rider proposal.

III. BUCKEYE IS NOT OPPOSED TO REASONABLE MODIFICATIONS TO AEP OHIO'S PPA RIDER PROPOSAL THAT ADDRESS THE CONCERNS OF THE COMMISSION AND OTHER PARTIES.

In the Commission's Opinion and Order in AEP Ohio's ESP III case, the Commission indicated that AEP Ohio's PPA Rider proposal should provide for: rigorous Commission oversight of the costs to be included in the PPA Rider; full transparency and disclosure by AEP Ohio of the basis for the costs proposed to be included in the PPA Rider; and an appropriate sharing and allocation of financial risk between AEP Ohio and its ratepayers. In Commission Staff's testimony, Witness Choueiki indicates that Commission Staff believes that AEP Ohio's PPA Rider proposal could be in the public interest, if certain modifications are made to the proposal. Intervenors, such as the Ohio Energy Group, also indicate that the PPA Rider could be in the public interest if certain modifications are made to address the Commission's concerns.

Although Buckeye supports AEP Ohio's PPA Rider as proposed by AEP Ohio in its amended application, Buckeye is not opposed to any reasonable modifications to AEP Ohio's PPA Rider proposal that are necessary to address the concerns of the Commission, Commission Staff, and other parties to the case. However, Buckeye's support for reasonable modifications is conditioned upon AEP Ohio not opposing any such modifications. In addition, AEP Ohio and AEPGR must remain fully liable and responsible for all of their obligations to Buckeye under the OVEC ICPA and the CSA regardless of (a) whether or not all of the costs incurred by AEP Ohio and AEPGR under such contracts are recoverable by AEP Ohio under the PPA and the PPA Rider, (b) whether the affiliate PPA is terminated for any reason, and/or (c) any commitments that AEP Ohio has made in the Stipulation with respect to the retirement, repowering or refueling of units that AEP Ohio and its affiliates jointly own with Buckeye and its affiliates. It is important that the rights and obligations of the parties under existing contracts, *i.e.* the ICPA and the CSA, and as joint owners not be abridged in any circumstance as a result of these proceedings. To the extent that AEP Ohio and its affiliates will, as a result of AEP Ohio's entry into the Stipulation, have conflicting obligations and duties between (a) their obligations under the Stipulation, and (b) their obligations under the CSA and the ICPA and as a joint owner of Cardinal Station and OVEC, such conflicts must be resolved in favor of AEP Ohio's and its affiliates' obligations and duties under existing and longstanding contracts and joint ownership arrangements.

IV. BUCKEYE SUPPORTS THE STIPULATION.

Buckeye has signed and supports the Stipulation as a negotiated package of modifications to AEP's amended PPA Rider proposal that fully addresses the concerns of the Commission regarding oversight of costs, transparency and disclosure, and sharing and allocation of financial risk, as well as the concerns of Commission Staff, the Sierra Club, the Ohio Energy Group, and other parties to the case who have signed the Stipulation or agreed not to oppose it. For the reasons stated by AEP Ohio witness William Allen in support of the Stipulation, Buckeye believes that the Stipulation meets the criteria for Commission approval, and that AEP's amended application (as modified by the Stipulation) addresses the factors that the Commission stated that it would consider in approving a PPA Rider proposal. While Buckeye would not necessarily support the provisions of the Stipulation if Buckeye were advancing the Stipulation provisions by itself – indeed, many of the provisions of the Stipulation have no direct impact on Buckeye or its members, and Buckeye has explicitly removed itself from certain other provisions of the Stipulation that do impact Buckeye – Buckeye does support the Stipulation as a complete package of provisions that were negotiated among knowledgeable parties, that do not violate any important regulatory principle, and that, as package (and when combined with the unmodified portions of the amended AEP PPA Rider proposal) are in the public interest.

As mentioned above, Buckeye has excluded itself from those provisions of the Stipulation that relate to Buckeye's (and its affiliate's) status as a joint owner with AEP Ohio and its affiliates of Cardinal Station and OVEC. That exclusion is necessary to make clear that Buckeye reserves (on behalf of itself and its affiliates) all rights and remedies that it may have as a joint owner with AEP Ohio and its affiliates of the Cardinal Station and OVEC and as a party with AEP Ohio and its affiliates to the CSA and the ICPA. Buckeye does not necessarily agree that AEP Ohio's commitment to retire, refuel or repower Cardinal Unit No. 1 by a date certain is economic or in the best interests of the joint owners of Cardinal Station, nor that AEP Ohio's commitment to seek the retirement, refueling or repowering of the OVEC units is economic or in the best interests of the joint owners (although such a decision may, ultimately, become economic and in the best interests of the joint owners by December 31, 2030). Therefore, Buckeye reserves all of its rights as a party to the CSA and the ICPA and as a joint owner of the Cardinal Station and of OVEC to take actions that are inconsistent with or contrary to AEP Ohio's obligations under Sections III.D.10-12 of the Stipulation but that are, nevertheless, in the best interests of Buckeye and its members. Furthermore, Buckeye believes that AEP Ohio's commitments, set forth in the Stipulation, to retire, repower or refuel Cardinal Unit No. 1 by December 31, 2030, and to seek the retirement, repowering or refueling of the OVEC units by a date certain, may (though not necessarily) lead to actions by AEP Ohio and its affiliates that are inconsistent with their obligations to the other joint owners of these facilities.

Accordingly, Buckeye has removed itself from those provisions of the Stipulation relating to AEP Ohio's commitments with respect to the retirement, repowering or refueling of

Cardinal Unit No. 1 and the OVEC units so as to preserve all of Buckeye's available rights and remedies, whatever they may be, and to remove any implication that Buckeye, as opposed to AEP Ohio, is bound by AEP Ohio's commitments set forth in the Stipulation as to Cardinal Unit No. 1 and the OVEC units. To be clear, Buckeye is hopeful that, and has no knowledge that AEP Ohio will not, carry out its obligations under the Stipulation (assuming that the Stipulation is approved by the Commission) in a manner that is consistent with AEP Ohio's and its affiliates' obligations to Buckeye and its affiliates (and the other joint owners) of Cardinal Station and OVEC.

CONCLUSION

For the foregoing reasons, Buckeye supports AEP Ohio's PPA Rider proposal and urges the Commission to approve it as proposed by AEP Ohio in its testimony, and as modified by the Stipulation.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Post-Hearing Brief of Buckeye Power, Inc. was filed with the PUCO electronically and has been served by electronic mail delivery upon the persons listed on the attached Service List on this 1st day of February 2016.

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