

In the Matter of the Implementation of :  
Sections 4929.54 and 4928.544 of the : Case No. 16-247-EL-UNC  
Revised Code. :

Ohio Power Company (AEP Ohio) appreciates the opportunity to provide comments on the new proposals advanced by Staff in response to the new statutory provisions contained in Ohio Revised Code 4928.54, 4928.544, and 4928.542 of the Ohio Revised Code that relate to procurements for Percentage of Income Payment Plan (PIPP) customers. Within Staff's recommendation for PIPP procurements that was filed on February 1, 2016, the Staff, in consultation with Boston Pacific, set forth two separate options for a PIPP procurement process. Staff's recommendation contained Option One - PIPP Separate Procurement and Option Two – Administrative Discount. AEP Ohio respectfully submits the following comments in response to the proposals advanced by Staff.

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## **OPTION ONE – PIPP SEPARATE PROCUREMENT**

At this time, the Company does not have a good estimate or forecast of the additional costs that would be incurred by separating the PIPP tranches from the Master SSO load. With PIPP load currently being served as a part of the Master SSO load, the overall cost of the procurement for PIPP customers is spread across all other customers taking SSO service. Aside from the costs associated with reviewing and modifying the Master SSO Supply Agreement, auction rules, and related documentation to account for both the transitioning of PIPP customers to a separate auction and then another set of documentation once AEP Ohio could pursue a full implementation of separate PIPP procurements (that is, once existing SSO Supply blocks reach the end of the termination dates associated with such SSO Supply tranches), there could be additional IT and accounting costs associated with tracking PIPP load through some transition period where a portion of PIPP load is served via the Master SSO Supply Agreement through pre-existing agreements and a separate portion is served via an alternate PIPP procurement process. To that end, it might be more expedient to implement the Option One – PIPP Separate Procurement, after all existing Master SSO Suppliers who are serving a portion of PIPP load under existing contracts expire, and possibly achieving the objectives of the statutory requirements through some administrative discount applied to PIPP load served under the Master SSO Supply Agreements. These time frames are different for each EDU within Ohio, based on the time frames associated with their SSO procurements. Additionally, it is not clear that any analysis of PIPP load versus non-PIPP residential load has been undertaken to evaluate whether PIPP load, separated from SSO auctions, would necessarily result or produce any lower rates in an auction format conducted on the heels of the SSO auction. The characteristics of PIPP load

may actually produce a better result by being blended in with other SSO residential load and being auctioned off at that time.

Under the Option One Procurement Plan it is suggested that if 17% of the SSO supply is being bid out under two year contracts, that the PIPP load should be auctioned off for the same time period. The size of the PIPP load may not make the 17% of PIPP load as attractive or optimal for getting the lowest price from potential suppliers. AEP Ohio is currently studying this proposal, but it might make more sense to leave some flexibility with each utility's auction manager; if it believed that the percentage of PIPP load should be greater for a given procurement, should have the flexibility to select an optimal design for each such auction.

As it relates to potential effect on existing contracts, the recommendation suggested that transitioning off of the existing SSO supply agreements would not require any change to the existing SSO supply contracts. AEP Ohio believes that the transitioning would require amendments to the existing Master SSO supply agreements for any future SSO supply auctions. As AEP Ohio is currently in the middle of an auction process for SSO load on March 29, 2016, it believes the transition into any separate PIPP procurement would be better implemented for subsequent auctions that are held at least six months after the Commission issues an order pertaining to PIPP procurements. Preparations for this upcoming March 29, 2016 auction have already taken place, for instance, the auction manager has already advertised the upcoming auction in "Energy Today" and "MW Daily", and suppliers have already started to qualify to participate and pre-bid security has already been posted for this upcoming auction. The six month delay would also provide for an additional time frame should the Commission's Order become subject to a request for a rehearing. Additionally, suppliers have been currently

reviewing the load data posted to the CBP auction website, and that documentation will need to be further revised and then posted to the CBP auction website for suppliers review and analysis.

What is somewhat unclear from the auction process is the timing, in terms of occurring on the same day as the SSO auctions, as there is a currently an approval process associated with SSO procurements, as the results from each auction are reviewed and approved by the Commission. Is the process for obtaining Commission approval for auction results being moved up, such that any PIPP procurement that is conducted on the same day of an SSO auction can be based upon approved SSO auction results? Or is the proposal to conduct a second PIPP auction process based on the unapproved results from the first PIPP auction process. A related concern is the additional time delay associated with closing the auction process. AEP Ohio believes that any sealed offers for PIPP load should be submitted within two hours after the closing of the SSO auction.

With respect to the Load Separation proposal of 100 tranches, should the Option One proposal be adopted, each Ohio utility should have the flexibility to determine what tranche size is optimal to administer, so AEP Ohio does not see as much value in setting forth an initial split of 100 tranches for PIPP load. The same comment would apply to the Load Caps proposal, as each Ohio utility should have the ability to establish a load cap with reference to the number of PIPP tranches that are being bid out.

As it relates to the contract structure, the Option One proposal suggests that contracts will have equivalent provisions akin to the SSO product. It is unclear whether the actual Independent Credit Requirement (ICR) would be necessarily lower for PIPP supply. Setting this amount will be a function of the tranche size and load cap, so while a proportional adjustment may be appropriate based on these figures, it may not be accurate to suggest that the ICR should be

lowered. The proposal suggests that PIPP only participants may be smaller and provide for the opportunity to compete. As long as smaller participants can meet the credit requirements of the PIPP auction (requirements that won't be substantially different from SSO credit requirements), then AEP Ohio would not be exposed to additional credit risk associated with a default by a PIPP only participant/supplier. While the size of the PIPP tranche would likely have an impact on amount of security needed, the need for adequate credit by any participant is really no different than the SSO auctions processes. Likewise, AEP Ohio is concerned that the credit-based tranche caps example provided in the Option One proposal may not adequately address credit concerns for the Ohio utility conducting the PIPP auction. It is difficult to determine, from the material submitted, the extent of the credit impact associated with a bidder with an S&P rating below BB- could offer up to 50 PIPP tranches, effectively ½ of the PIPP tranches.

With respect to a PIPP procurement potentially not attracting enough supply to meet its target, it is unclear whether one of the statutory objectives/requirements of the PIPP procurement process could be met or satisfied by going through the market or a subsequent reserve auction. A subsequent reserve auction would potentially result in additional costs to implement a subsequent auction. These additional costs would be incremental and above the costs associated with SSO supply. In addition, a subsequent reserve auction might be held after a market movement that drives prices upward, such that the subsequent auction would not produce a rate that is less than the SSO Supplier rate.

The old adage 'you can lead a horse to water, but you cannot make it drink' may be worth considering, as the Commission and Staff evaluates Option One.

AEP Ohio is not endorsing, at this time, Option One as the most effective means to implement the requirements of R.C. 4928.542, but wanted to submit these comments in order for Staff and the Commission for further consideration and review.

## **OPTION TWO – ADMINISTRATIVE DISCOUNT**

While this Option Two did not receive the Staff Recommendation, this proposal is less complicated and much simpler to implement, without creating new documentation and processes for the SSO auction and the PIPP auction proposed in Option One. There were no details provided as to when auction participants would receive information regarding the administratively established discount for the portion of PIPP load supplied. Would this amount be established in advance of the auction process, such that SSO bidders would know, as the auction progresses, what an effective rate would be for a portion of a tranche it was bidding on? The Option Two proposal did not indicate whether an administratively set discount could change, based on the term of a product? And it did not indicate whether the administratively set discount would be a fixed amount or potentially a figure that might change within a range, over time. One advantage of Option Two is that suppliers would fund the discount, but it is not entirely clear whether that is feasible or would be successful from a market perspective.

## **OPTION THREE – PIPP PROCUREMENT – DISCOUNT SET THROUGH RETAIL DESIGN PROCESS**

AEP Ohio respectfully submits, as an alternative for consideration, the possibility of performing a PIPP Procurement that does not contain changes in the rules for the auction process, reducing, to an extent, the cost of the PIPP Procurement, but having the discount for PIPP customers be established through the retail rate design process. This may enable the retail rate design process to better address/determine how the costs for these discounts can be equitably split amongst customers of the utility through a non-bypassable rider. This option would not

disrupt the existing auction process and could be implemented quickly without complication or impact on the competitive suppliers. While it may not have been the approach envisioned when passing the legislation, it arguably nonetheless satisfies the statutory requirements.

## **CONCLUSION**

With the brief period of time provided to consider and evaluate the proposals submitted by the Staff, we have attempted to address areas of concern. Identifying issues or concerns with the proposals is also a function of how much granularity exists in the proposals being advanced. As both proposals were submitted with general parameters, it is possible that additional concerns could be encountered when any approved proposal, in a more detailed format, is actually implemented.

Absent adopting an approach like Option Three outlined above, AEP Ohio does not see how it can efficiently or effectively implement a new PIPP procurement process for the March 29, 2016 auction, as it is already midstream with regard to the upcoming SSO auction, and this SSO auction includes, as a portion of SSO load, PIPP customers. Taking steps to transition future auctions after the March 29, 2016 SSO auction, preferably an auction that is six months from a Commission Order or subsequent Commission entry on rehearing, would make implementing one of the alternatives advanced for consideration, or possibly another alternate proposal, more feasible. AEP Ohio believes that whatever program is adopted and established, the Commission should fully consider whether SSO customers should be bearing the full cost of any discounted rate to market or whether the cost of such discount would be better applied as a non-bypassable rider. The Option One set forth by Staff may ultimately result in SSO customers bearing the cost of the discount, as opposed to having the market bear the cost of the discount. Regardless of what path the Commission decides best accomplishes the statutory objectives of

the PIPP procurement process, due consideration should be given to whether or not a discount applied through a retail rate mechanism makes for the easiest and quickest means of implementing a PIPP procurement process in a manner that equitably spreads the cost of such PIPP service across all customers. We appreciate the invitation to submit comments on the proposals that were submitted by the Commission Staff.

Respectfully submitted,

//s// Steven T. Nourse

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**CERTIFICATE OF SERVICE**

I certify that these comments were filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on this 8<sup>th</sup> day of February 2016. The PUCO's e-filing system will electronically serve notice of the filing of this document on all parties of record.

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Summary: Comments electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company