BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Implementation of Sections 4928.54 and 4928.544 of the Revised Code.	**Case No. 16-247-EL-UNC**

COMMENTS OF OHIO EDISON COMPANY, THE CLEVELAND ELECTRIC ILLUMINATING COMPANY, AND THE TOLEDO EDISON COMPANY

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Come now Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("CEI"), and The Toledo Edison Company ("Toledo Edison") (collectively, the "Companies"), by counsel, and, pursuant to the Public Utilities Commission of Ohio Entry issued February 1, 2016 ("Entry"), respectfully submit their comments in this proceeding addressing the Staff Report filed on February 1, 2016.

I. INTRODUCTION

Revised Code Section 4928.54 was amended and Revised Code Sections 4928.541, 4928.542, 4928.543, and 4928.544 were enacted with an effective date of September 29, 2015 for the purpose of mandating that the Director of the Ohio Developmental Services Agency ("ODSA") establish a competitive procurement process for a supply of competitive retail electric service to Percentage of Income Payment Plan ("PIPP") customers.[1] The required outcome of such process was to reduce the cost of the PIPP program with the result being to provide the "best value" for customers paying the universal service fund ("USF") rider.

The Companies' view is that the overriding purpose of these legislative provisions is that any reduction in PIPP program costs would benefit customers paying Rider USF as a result of a winning bidder(s) serving the PIPP load at a discount to the Companies' standard service offer ("SSO") price. The Companies' provide their comments with this legislative purpose as a guiding principle.

[1] R.C. 4928.543 states that the ODSA Director shall adopt rules to implement these legislative provisions. Before the Commission may proceed with designing a competitive procurement process for PIPP load under R.C. 4928.544, it would seem appropriate that the ODSA rules implementing the statutory provisions should first be in effect.

II. COMMENTS

The Companies appreciate the efforts of Staff in undertaking the unenviable task of developing a workable competitive procurement process for PIPP load, particularly within the very short timeframe before auctions are scheduled to occur in March. The longer the Companies worked to formulate their comments to the Staff Report, the more they realized the difficulty and complexity involved with designing and implementing a PIPP load auction process on an expedited basis. In the comments that follow, the Companies lay out a number of questions that should be addressed and also seek confirmation of certain assumptions the Companies are making regarding how Staff's proposals are designed to work.

Fundamentally, the Companies understand the Staff's proposals to be a wholesale auction and a wholesale product, i.e., there will be no PIPP customers switching to competitive retail electric service ("CRES") providers. Similar to the SSO auction, the Companies will purchase power from wholesale suppliers to serve the load of PIPP customers and the PIPP customers will remain generation customers of the electric distribution utility. While the Companies do not believe the controlling statutory provisions necessarily require a wholesale product for the PIPP auction, they wanted to clarify their understanding of the Staff's proposals.

Second, the Companies foresee a potential issue with the requirement in the statute that "Only bidders certified under section 4928.08 of the Revised Code may participate in the auction." The Staff Report suggests that "anyone qualified to bid in the SSO auction could bid in the PIPP auction." While Staff may be correct that all wholesale suppliers who meet SSO participation standards possess all of the requisite

qualifications necessary to be granted certification as a competitive retail electric supplier ("CRES provider") under R.C. 4928.08, R.C. 4928.54 requires a bidder to have been certified under R.C. 4928.08—not merely deemed eligible. Either way, the statute requires an application to the Commission. And wholesale suppliers that may have an interest in serving PIPP load at wholesale may have no interest in becoming a CRES provider with all its attendant requirements. While briefly addressed in the Staff Report at page 4, it is unclear whether the Commission will issue a certificate to wholesale bidders that are not currently certified to permit them to bid for the PIPP load, in order to comply with this statutory provision. Clarity is needed around this statutory provision so it will be clear to the Companies and their auction manager as to what entities may participate in any PIPP auction.

A. STAFF OPTION #1 — SEALED BID PROCUREMENT

The Companies believe that Staff's Option #1 has both positive and negative aspects, and raises several questions. First, one positive aspect of the separation of the PIPP auction from the SSO auction would be that SSO auction bidders are not obligated to also bid on PIPP load. But, due to that separation, an outcome could be that offers to serve PIPP load may or may not materialize, and even if offers are made, they may be insufficient to provide all of the PIPP load, due to the requirement that the sealed bid price must be below the average SSO auction clearing price. If wholesale suppliers' offers in the PIPP auction are insufficient to serve the entire PIPP load, such an outcome would at least inform the Commission and the General Assembly as to the viability of procuring supply to serve PIPP load in this way, and such feedback that may help guide further consideration of this matter.

This possible outcome raises the question of what is the contingency plan for PIPP load, both: 1) if none or only part of the load is bid out, and 2) in the circumstance of a PIPP load supplier defaulting on its obligation to serve PIPP load. As a general rule as to the first question, the Companies believe that PIPP load should remain as part of the SSO load obligation unless and until there is a successful PIPP procurement(s) to fully meet the PIPP obligation. Even then the SSO auction bidders would face at least the volume risk of serving PIPP load. Further, SSO auction bidders would also face the risk that serving PIPP load could change the overall load profile, which could change bidding behavior.

The Staff Report briefly addresses contingency planning on page 6, but certain questions remain. For instance, the Staff Report says that any unfilled need could be satisfied through the next auction, a reserve auction, or through the market. But the question remains, what SSO auction price is to be used against which the bidding for PIPP load is based and compared? Is it the price from the first SSO auction again, or from the next SSO auction, or the next, or a combination of the auction prices? It is also unclear as to what is meant in the Staff Report that PIPP load could be supplied "through the market"? With the requirement that the PIPP load price must be below the SSO auction price, this may not be a viable component of a contingency plan. Consideration must also be given as to how PIPP load pricing will occur if only part of the PIPP load is auctioned successfully, which, as described above, the Companies would include the portion of PIPP load not auctioned off in SSO load until there is a successful procurement of the total PIPP load.

Presumably, if a supplier of PIPP load defaults, then the provisions of the Master SSO Supply Agreement ("MSA") would be relied upon to address that situation. But again, with the requirement that PIPP load be priced below the SSO price, the standard contingency provisions may not be workable as those provisions may lead to purchasing from the market, which may be above the SSO auction price at the time.

The Companies agree that the existing MSA should be used for both SSO and PIPP-only bidders, as there are safeguards and default contingency plans explicitly detailed therein and known to all potential bidders, and that the same MSA document may be used for both if that is determined to be workable by the Companies and auction manager. However, the Companies do not favor relaxing the credit-based tranche caps for PIPP-only suppliers as that may expose the Companies and customers to increased credit risk and increased concentration risk for PIPP supply. While the Companies' MSA risk provisions and contingency plans are adequate to ensure reliability, default carries a strong risk of increased costs.

Staff's recommended Option #1 is unclear on how and when PIPP bidders not participating in the SSO auction are informed of the SSO auction closing price(s). There a number of ways to accomplish that (e.g., the Bidding Website accessible by PIPP bidders), but PIPP bidders must be prevented from disclosing those prices publicly and they must be reminded that the SSO auction prices are tentative unless and until accepted by the Commission. Disclosing the SSO auction clearing price prior to the Commission's acceptance of that outcome is a change in the existing SSO competitive bidding process. Bidders bidding on the PIPP load will need to understand that their bids may be rejected if the results of the SSO auction are rejected. Also, because PIPP bidders not

participating in the SSO auction will not know the starting price for the PIPP auction until PIPP bidding begins, they may be at a disadvantage to bidders in the SSO auction. And all PIPP bidders — whether or not participating in the SSO auction — may find it difficult to formulate their best (lowest-priced) bids in the PIPP sealed-bid auction if there are two or more products (contracts) to bid on; that will tend to result in higher PIPP load prices.

Finally, with respect to Option #1, the Companies have no experience to guide selection of the number of PIPP-only tranches to put out for the sealed bid auction. The choice should be set, all else equal, to maximize interest in the PIPP procurement and to minimize the utility's cost of administering the PIPP contracts after procurement, but discretion should be provided to the Companies and their auction manager, together with Staff and Staff's auction consultant, to reach a final conclusion on this issue. Potential bidders would then be advised of the number of PIPP tranches prior to the auction.

B. STAFF OPTION #2—ADMINISTRATIVE DISCOUNT

The language used in the Staff Report to describe Staff Option #2 is very limited, suggesting only: (1) current procurement methods would continue to be used for SSO load in which SSO suppliers would bid to serve SSO load via a descending-price clock auction, and (2) suppliers fulfilling PIPP load would receive an administratively-determined discounted rate for any PIPP load supplied. It is left unspecified how and when PIPP suppliers are chosen or whether there is any connection between the SSO bidders and bid process and the PIPP suppliers. We reserve the right to comment further if and when more details are provided for Staff Option #2.

C. ALTERNATIVE TO STAFF OPTION #2

In an attempt to expand upon and streamline what may have been intended with Staff's Option #2, there could be a single auction and essentially the product in the SSO auction could be redefined to include the obligation to serve both SSO and PIPP load, but with PIPP load receiving a lower price than SSO load. The price paid to the winning SSO/PIPP supplier for serving PIPP load would be X% (the administrative discount) below the price paid to the supplier for serving SSO load. Although the discount would be administratively determined (rather than auction-determined), the actual price paid to suppliers for serving PIPP load arguably is determined by auction (given that it is a discount off of an auction-determined price). This approach also likely ensures that all SSO load and all PIPP load is served — assuming starting prices are set high enough and the Commission and other stakeholders accept the possibility that this approach may impact the price resulting from the SSO auction. If the administratively-set PIPP discount is set below the cost of serving PIPP load, bidders may raise their SSO bid prices in order to be compensated adequately for serving both SSO and PIPP obligations.

Advantages of this approach include: 1) it essentially guarantees all SSO and all PIPP load is served and the PIPP load is priced lower than SSO load (that assumes auction starting prices are high enough.), and 2) it is a relatively streamlined approach as it avoids any sort of a secondary auction or procurement process for just PIPP load. Disadvantages include: 1) the administratively-determined X% may be perceived as arbitrary; 2) a bidder who wants to serve only SSO load is forced to serve PIPP load too, which may increase the SSO auction price (how much it increases the SSO auction price

would depend on the magnitude of the discount percentage); and 3) it may create a cross-subsidy between customer groups.

III. CONCLUSION

The Companies again appreciate the opportunity to provide comments on the Staff Report. The Companies urge the Commission to consider the comments of the Companies set forth above and provide additional detail and guidance for upcoming auction processes.

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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 8th day of February, 2016. The Commission's e-filing system will electronically serve notice of the filing of this document on counsel for all parties.

/s/ *Robert M. Endris*_____
One of the Attorneys for Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company

Summary: Comments Comments of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company electronically filed by Mr. Robert M. Endris on behalf of Burk, James W. Mr.