

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**OHIO PARTNERS FOR AFFORDABLE ENERGY’S
COMMENTS ON THE STAFF RECOMMENDATION**

I. Introduction

Ohio Partners for Affordable Energy (“OPAE”) herein submits to the Public Utilities Commission of Ohio (“Commission”) these comments to the Staff Recommendations regarding the implementation of R.C. 4928.54 through 4928.544. OPAE has long supported bidding out the right to service customers participating in the Percentage Income Payment Plan Plus (“PIPP”). The authority has been in place since 1999. The then-Department of Development at least discussed bidding it several time prior to the emergence of a competitive market in 2009. Had the Department, now the Ohio Development Services Agency (“ODSA”), been prepared to bid the aggregated customer base that year, ratepayers could have seen as much as a twenty-five percent reduction in the generation component of PIPP customer bills. Savings are still available in the market. Fortunately the General Assembly stepped in and made bidding a ‘shall’ provision rather than a ‘may’. R.C. 4928.54. The new statutory provisions also establish criteria to be used to determine whether or not the bid should be rejected. The most important of these is that the cost of PIPP be reduced by choosing the bid that offers the best value. R.C. 4928.542.

ODSA and the Commission significantly reformed PIPP in 2008. The Program served a critical role in protecting consumers during the throes of the recent recession, which hit Ohio early and continues to linger. In recent years,

PIPP enrollment has stabilized, but costs have continued to increase, driven by changes in utility prices. Bidding offers the opportunity to further control costs. OPAE supports the efforts of Director Goodman of ODSA and the Commission staff for their efforts in moving forward with this cost-control measure. Necessary public assistance programs should be run as efficiently as possible. The potential for the competitive market to save customers money exists. OPAE is optimistic the bidding process will result in savings for all customers.

The timing of this proceeding is both fortunate and unfortunate. It is good that the Commission seeks to finalize the auction process and conduct the bidding in March. It is unfortunate that interested parties only have one week to file comments. Fortunately, there is no need to reinvent the wheel. OPAE does have ideas for modifying the bidding process to better control costs over the long-term, and will briefly explain the options. There would not be enough time between now and March to implement our recommendations, but we hope the ideas stimulate discussions among stakeholders to use the market to further control the cost of PIPP

OPTION ONE – PIPP-SEPARATE PROCUREMENT

OPAE was involved in crafting the PIPP and the governmental aggregation provisions included in Amd. Sub SB 3, the first legislation to move Ohio from a fully regulated state to one that used competition to price generation. OPAE, and many of those that participated in the development of the provision, envisioned the PIPP bidding to operate in the same manner as a governmental aggregation: customers with something in common – where they lived or whether they participated in an affordable rate program – could have the right to serve them bid out. R.C. 4928.54. Larger customers get better deals. The same can be true for aggregations of small customers.

OPAE agrees with the need to conduct the procurement by utility service territory. Each utility has different supplier tariffs, which take different approaches to credit, delivery of generation services, and treatment of receivables. The current discounting of receivables will enhance the market for the PIPP pool because the State guarantees payment, reducing risk to the marketers.

OPAE is concerned about the language in the Staff Recommendations such as the need to “allow for the easier transition away from current contracts and to provide more flexibility for design choice for each utility.” This is nonsense. There is no ‘transition’. Customers shop all the time. Governmental aggregations are regularly formed and bid out the right to serve customers that participate. The PIPP bidding process should operate in basically the same manner. It is ODSA that is the ‘governmental aggregator’ for PIPP customers, the PUCO is the backroom, and there is no reason to treat this customer pool any differently than any other aggregation in a utility service territory. Established commercial practices should be followed.

Holding the auction of the PIPP aggregation as a sealed bid the same day as the SSO auction also raises some questions. Staff acknowledges that marketers bidding on the PIPP load will need to “review the SSO price and formulate an offer” but suggests extending the auction only until the next day. This is not an adequate amount of time. Staff Recommendations at 6. Two auctions separated by a reasonable period of time are preferable.

OPAE notes that in the past when Dominion held SCO and SSO auctions on the same day – the latter of which included PIPP customers – only the first of the auctions resulted in a lower price for the SSO. The two auctions were ultimately consolidated. See Case No. 11-6076-GA-EXM. This implies that

holding the PIPP auction on the same day as the SSO auction would not produce the desired outcome, a better deal for ratepayers.

The Procurement Plan recommended in the Staff Report, matching the contract lengths to those of the SSO pools, makes sense on its face; the initial procurement should cover the entire PIPP load, with staggered contracts that parallel those serving the SSO.

It is unclear what is meant under the heading “Effect on Existing Contracts” actually means. If it means that only a portion of the PIPP load is bid initially, OPAE does not support the recommendation. Governmental aggregations occur all the time. The SSO supplier is the one that bears the risk that a large aggregation may remove a substantial portion of the SSO load. The intent of the bidding is to reduce the cost of PIPP, not provide a transition for the benefit of SSO suppliers. Using a laddered contract approach will promote price stability with the pool. This is preferable to seeing swings in the price that could be caused by year to year variations in the generation bill.

Dividing the PIPP load into 100 tranches for the purposes of bidding does not make sense. For example, The Dayton Power and Light (DP&L) has roughly 40,000 PIPP customers. A tranche would include a mere 400 customers. The largest PIPP pool, in FirstEnergy’s service territory is 164,000 customers, so each tranche would be 1,640 customers. It would be simpler and more effective to reduce the number of tranches. This will minimize the impact of changes in the number of PIPP customers, which does occur on a seasonal basis. The number of tranches used by gas utilities – Dominion East Ohio bids 9 tranches; Columbia Gas of Ohio bids 16 tranches; and Vectren Energy Delivery Ohio bids 9 tranches – is more reflective of the size of the PIPP pool. OPAE recommends far fewer tranches be bid. We also recommend that bidders be limited to one-third of the available tranches, following the natural gas bidding model.

OPAE agrees with the Staff Report's recommendations regarding the full requirements product to be provided. Credit requirements should be adjusted based on the size of the tranches. Credit requirements are a component of EDU supplier tariffs. The qualifications suggested in the Report appear appropriate; again, this is just another type of governmental aggregation and the statute specifies the criteria to be an eligible bidder.

OPAE opposes the use of sealed bids as the method for determining the price for the PIPP pool. The auction should follow the declining clock model. This approach has proven to be the most effective at reducing price. Again, the natural gas market provides the best example. The SCO declining clock auctions have produced prices that most governmental aggregations, which generally secure power through sealed bids, cannot match. A declining clock auction best mimics a purely competitive market.

OPAE recommends that there be two separate declining clock auctions. The SSO auction should go first. After marketers are informed of the winning SSO auction bid and the resulting residential SSO, the PIPP declining clock auction should be held. The characteristics of the PIPP load should produce savings.

The Staff Report does not specify whether the service will be at wholesale or retail. The distinction did not make a difference with the Dominion auction discussed above. However, a wholesale auction may well be preferable. PIPP customers know they cannot shop, but making the product a retail product with a separate supplier listed on the bill may lead to customer confusion and they might attempt to change suppliers. OPAE will defer to the judgement of Commission staff as to whether a wholesale bid is preferable to a retail bid.

OPTION TWO – ADMINISTRATIVE DISCOUNT

OPAE does not support Option Two at this time. We believe it is better to follow the intent of the statute and hold a separate auction for the PIPP pool. If the auction does not produce a discount in the initial or second auction, then this approach could be revisited. OPAE is concerned that the bidding strategies employed by marketers in this discount model could limit the discount to the PIPP pool, and reduce potential savings. OPAE succeeded in negotiating PIPP discounts in two SSO proceedings, when ODSA was not bidding the load. See Case Nos. 10-388-EL-SSO and 11-3549-EL-SSO. In both cases, the discount OPAE obtained did not match the savings available in the market when compared to the SSO minus the discount. It is very difficult to determine what the market will offer for the PIPP aggregation; attempting to project the appropriate discount to reflect the market option could result in less savings for ratepayers. Let competition through a declining clock auction determine the price.

ADDITIONAL COMMENTS

PIPP is authorized by statute. The auction approach recommended in the Staff report will procure capacity and energy on a laddered basis for a period of years. OPAE suggests that the Staff and ODSA explore other strategies that can reduce the cost of serving PIPP customers. This would be beneficial for ratepayers as well as PIPP customers; lowering the cost of generation will reduce the rider, and will reduce PIPP arrears which customers must pay when they are no longer qualified for the program.

DEMAND RESPONSE – Duke Energy Ohio and the FirstEnergy operating companies both operate voluntary demand response programs for residential

customers which have been quite successful. Smart meters are not required because the load control uses a one-way switch. Customers can override. This demand response has value in the marketplace. Working with demand response providers, now that the rules have become clear after the U.S. Supreme Court's rebuff of the challenge to FERC Order 745, may be able to further reduce costs by using the aggregations as demand response providers. Better controlling load shape could also reduce marketers' bids.

PHYSICAL HEDGE -- In two current cases, electric distribution utilities ("EDUs") have made the case that Power Purchase Agreements ("PPAs") with their unregulated generation affiliates will promote reliability and price stability. The EDUs also argue that the economic impacts of retaining that generation in Ohio is good for ratepayers. What's good for the goose should be good for the gander.

OPAЕ recommends that Staff and ODSA look at options to develop generation dedicated to serving a percentage of the PIPP load. The Ohio State University has contracted with an Ohio windfarm and will save \$1 million of the university's annual \$35 million electricity bill, roughly 3 percent.¹ The Association for Energy Affordability, Inc., a nonprofit weatherization and advocacy organization specializing in multifamily buildings, is working on aggregating apartments, combining energy efficiency, demand response, and behind-the-meter renewables.

There is no reason this could not be used with the PIPP pool. Analyzing the load characteristics of the pool, and strategically deploying weatherization services and demand response technology, would provide long-term physical

¹ See <https://news.osu.edu/news/2012/10/01/newsitem3521/>;
<http://www.toledoblade.com/Energy/2013/01/29/Wind-power-to-save-OSU-1M-annually.html>.

hedges, result in economic development – the goal of ODSA – and save Ohio ratepayers, including PIPP customers, by reducing program costs.

CONCLUSION

OPAE supports implementation of R.C. 4928.54 *et seq.* This represents an aggressive effort to control the costs of the PIPP pool. To that end, the PIPP load should be treated like and other governmental aggregation. The bidding process should use a declining clock auction, the tried and true mechanism that leads to the lowest price.

OPAE also hopes to work with Staff and other interested parties to fashion a plan to take advantage of demand response to shape the load and potentially generate revenues in regional wholesale markets. Stimulating the construction of generation through twenty year contracts; coordinating existing weatherization efforts; and developing demand response opportunities that can cut costs and demonstrate a market-based approach to managing residential customer load through aggregations are policies for future consideration.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of these Comments was served on the persons stated below via electronic transmission this 8th day of February 2016.

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Summary: Comments Comments on the Staff Recommendation electronically filed by Mr. David C Rinebolt on behalf of Ohio Partners for Affordable Energy