

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

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

**ADDITIONAL COMMENTS OF OHIO POWER COMPANY
IN RESPONSE TO STAFF’S “SECOND RECOMMENDATION”**

I. Introduction

Ohio Power Company (AEP Ohio) appreciates the opportunity to provide comments on the “second recommendation” advanced by Staff relating to procurements for Percentage of Income Payment Plan (PIPP) customers. Within Staff’s February 23, 2016 filing, the Staff sets forth an RFP option for the PIPP procurement process. Like the options outline in Staff’s original proposal, an upward impact on SSO auction prices is anticipated under the RFP option – regardless of how it is done and given that load could be taken from or returned to the SSO obligation.

As a threshold statutory matter, the Company questions (as it did in its initial comments) whether R.C. 4928.54 *et seq.* contemplates a wholesale auction or retail aggregation. Given that the statute also indicates that CRES providers should be the suppliers and given that CRES are certified to provide retail service, it would seem apparent that the auction should be a retail auction. Moreover, the controlling statute, R.C. 4928.54, plainly mandates that “the process shall be an auction.” Whereas, Staff’s RFP option suggests a process administered by the EDU and recommends using the Master Supply Agreement as a contract between the utility and winning

suppliers – thus it contemplates a wholesale procurement process. For these reasons, the RFP process described in the “second recommendation” may be a non-starter. Such concerns may be another reason for caution and taking more time to consider a solution, rather than disrupting the Spring SSO auctions that are already well underway.

AEP Ohio continues to believe that the Company’s Option Three described in its initial comments) is a viable solution – especially for the Spring SSO auctions already underway. The Company believes a tariff-based solution to recognize a discount on PIPP service could best serve all parties by meeting the goal of the legislation while avoiding a disruption in the current process. As an example of how AEP Ohio’s recommended approach would work, the Company has attached Exhibit A to these comments for illustrative purposes.

Regardless, AEP Ohio has attempted to address areas of concern in its initial comments and in these additional comments within the brief period of time provided to consider and evaluate the proposals submitted by the Staff. 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 as general outlines with only general parameters, it is possible that additional concerns could be encountered when any approved proposal, in a more detailed format, is actually implemented.

In any case, AEP Ohio stands by its initial comments (filed on February 8, 2016) in this docket, which outline general concerns that also apply to Staff’s second/RFP recommendation. Setting aside the threshold points made above, the remainder of these comments will focus on the practical and logistical concerns with the RFP option. To that end, the Company also sets forth additional alternatives in these additional comments that are responsive to Staff’s RFP recommendation.

II. Discussion of Staff's Second Recommendation – RFP Option

A. SSO bidding risks associated with the RFP option and possibility of an retail aggregation-style solution

One problem with the RFP proposal is that it injects a new and unavoidable migration risk in the SSO auction that is not present currently (*i.e.*, the risk that PIPP load is moved to a successful RFP winner after the SSO auction is conducted and awarded). That risk would remain uncertain until after the auction process and would drive up the auction clearing price for the SSO auction – whose winning suppliers would be obligated to cover the PIPP load if the RFP fails but would not get to serve that load if the RFP succeeds. In this fashion, an RFP process linked to an SSO auction embeds a risk premium into the SSO bids based on the unknown status of serving the PIPP load – which also undermines the transparency of the SSO process.

Consequently, the SSO suppliers' bid pricing would be forced to recognize that the size of the tranches is unknown. The auction participants would be bidding on a MW measure of just the non-PIPP SSO load. Business prudence would require bidders to build in a risk premium because they will assume the pro-rata share of PIPP load if there isn't a winning bidder in the RFP. Because the RFP process occurs after the SSO auction, bidders cannot mitigate this risk. This would create a natural upward pressure on SSO bid prices.

It would result in an SSO load subsidizing PIPP load if SSO providers were required to serve the PIPP load;¹ or creates a premium in SSO rates for risk that did not materialize if the PIPP load was awarded in a successful RFP. The undesirable result is that it would create a price

¹ It would ultimately result in the SSO customer subsidizing the payers of the Universal Service Fund Rider by offsetting the saving incurred in the procurement of the PIPP load into a higher SSO price which would only be borne by those customers taking SSO load.

to beat for PIPP that is too high and thus does not meet objective of better prices for either PIPP or SSO customers.

On the other hand, regardless of whether the competitive procurement for PIPP load is done as an auction-style process or RFP-style process, the statutory mandates for a retail procurement process (discussed above) should also be followed. In particular, that migration risk exists and may produce higher rates cannot drive a result that does not meet the statute. To that end, it may be more appropriate to do a retail competitive process akin to community aggregation that exists today.

Under that model, the PIPP load² would be competitively shopped at the retail level with CRES providers and would be switched as a block of customers. Either the Commission or the DSA Director would oversee the process and make decisions as to whether the PIPP load would procure from a successful CRES process or default to SSO load. SSO Suppliers would have to factor the risk associated with potential PIPP load aggregation into the price but that is true for community aggregation today. For example, the PIPP load is approximately equivalent to the combined residential SSO loads of the seven largest non-aggregated cities (after Columbus) served by AEP Ohio. SSO suppliers already have to factor into their bidding the risk that the load of any of these cities could aggregate during the delivery period for the auction.

In addition to more closely tracking the statute, there are other advantages to this aggregation model. Because CRES suppliers would serve the load, there would not be a separate wholesale process for a master supply agreement, but there still may be a need to further review the credit and collateral requirements associated with the PIPP load procurement, since a default

² Under this option, the PIPP load would be aggregated on the same basis that SSO load is auctioned – meaning that it would be the same product (capacity and energy but not RECs). This would help ensure that the resulting price to the aggregated PIPP load could turn out to be favorable to the SSO auction clearing price; stated more directly, if the REC responsibility for PIPP load does not stay with the EDU, it is hard to imagine how the resulting aggregation price to compare would be lower than the SSO.

by a CRES supplier serving PIPP load could otherwise offset or prevent the benefits of a lower price from being realized. And the Commission or DSA can decide to only shop the load if there is a pricing advantage (otherwise it would automatically default to SSO, consistent with RC 4928.541's and 4928.542's requirement that the duration of competitive procurement for PIPP load only be used when winning bids are selected that beat the SSO price). Moreover, the Commission could take some additional time to finalize the details associated with the aggregation approach and the Spring of 2016 auctions could go forward without modification or delay – subject to subsequent execution of the PIPP aggregation process. For those reasons, AEP Ohio urges the Commission to consider using a retail aggregation-style process that follows the requirements of R.C. 4928.54 *et seq.*

B. Separation of PIPP Load from SSO load should be achieved through a different RFP alternative

An alternative solution in general would separate the PIPP load from the SSO load by creating a parallel process for the RFP that is not linked to the SSO auction. More specifically, the PIPP RFP would be managed as discrete procurement processes separate from the SSO auction. Bifurcation of SSO load would help avoid this risk of a 'known unknown.' This approach would also assure SSO bidders that they won't be required to absorb PIPP load no matter the outcome of the PIPP RFP process. The PIPP RFP process would be held separate from the auction but the RFP rules would be as Staff proposes.

If the Commission does not approve an RFP winner, a supplemental RFP would be conducted (if time permits) or the load would be procured from the market through bilateral transactions. This approach follows the same rules as if an auction did not fill all available tranches. The PIPP load would then be included in the RFP for the next auction. This approach

also maintains the continuity with the current auction rules (*i.e.*, uses a similar process as when an auction failed or an SSO provider defaulted on their load).

If Staff believes it is crucial to implement a separate PIPP Process in time for June 1, 2016 delivery, then Commission should consider, the impact, both positive and negative, of adopting an order to suspend the current auction process before March 9, 2016. On that date, NERA is scheduled to announce final load size. At this point all bidders have committed to the auction as currently planned. Qualified bidders are then committed to bids based on certain tranche size, including providing required collateral. The Commission should act quickly to either suspend the pending auction process or move forward in a way that avoids disrupting those auctions (*e.g.*, AEP Ohio's Option Three from its initial comments).

If the March auction is suspended, it would be pushed to early May following a Commission order. If that occurs, AEP Ohio would need to revise and reissue documents previously approved for the SSO auction, have suppliers agree to new documents and new load, assure suppliers that PIPP load will not revert to them as a result of failure of PIPP process. Moreover, the Company and its auction manager could concurrently qualify CRES for a PIPP RFP, hold the SSO auction and then implement the RFP process for PIPP load.

C. Another alternative (not possible to implement for the pending March auctions) is the use of a separate PIPP product/auction within the SSO auction process for qualified CRES bidders only.

For November 2016, March 2017 and subsequent procurement years, an alternative approach is to adopt an auction-based process using a one-year PIPP product, with bidders limited to qualified CRES Providers only. This is not achievable in time for the March 2016 auction because there are too many details to decide and implement. Under this alternative proposal, a PIPP auction for the same product would be held in March of each year, subsequent

to an SSO auction for flow on June 1 of that year. The SSO weighted average price would be known before the auction so bidder qualification could occur concurrently with March SSO auction. It would decrease administrative costs by avoiding separate qualification windows.

The PIPP load could be broken up into a set number of tranches. For example, if 10 tranches were used, the PIPP MW measure would be larger than SSO MW measure (*i.e.*, if SSO load is 2500 MW without PIPP, and PIPP is 350, then an SSO tranche would be 25 MW, and a PIPP tranche would be 35 MW). Larger tranche sizes are a tool auction managers can use to increase interest if prices are low in an auction.

In addition to fulfilling the statutory mandate for an auction process, there are economic benefits of using an Auction over an RFP. Under an RFP, a single winner does increase risk in event of default, in terms of how is such load provided in the event a CRES supplier should become financially insecure. The single winner approach concentrates the credit risk for this Customer class, in terms of CRES supplier non-performance. The size of AEP Ohio's PIPP load currently equates to about 13 tranches of its SSO load, but this amount could either increase or decrease over time. The SSO auction limits a load cap of 80% to a single bidder to minimize this risk. The sheer size of load limits the number of viable CRES bidders who can meet this load obligation, because having one CRES supplier take on the entire PIPP load obligation requires additional review and consideration; and default by a single CRES provider would undermine the benefits and purpose of the program. Under an auction with tranches, load cap issues are avoided and smaller tranches mean more CRES providers could bid in auction. Also, this would enable a smaller CRES to meet the per tranche obligation, which expands the pool of auction participants. If the auction failed to produce a winning bid that beat the SSO price (capacity and energy but not RECs), an additional auction could be held (if there is time before the delivery

period) or the PIPP load could be served through a bilateral arrangement. But the major downside to this approach is that it might lead to a result that ends up being priced higher than the SSO price (because it is de-linked from the auction for SSO load by being a separate product/auction).

D. Additional regulatory issues/questions that need resolved either through a timely working group or Commission order

If the Commission should decide to implement an RFP process as recommended by Staff, several issues need to be considered and addressed in the Commission's implementation order. Some of these issues may be better addressed after being further reviewed in a workshop setting. Further, if there is a lack of clarity and these matters are not definitively addressed until after parties file rehearing or clarification, it could create the situation where the Spring auctions are conducted without the benefit of clarity on such important matters. Thus, AEP Ohio requests that the Commission either directly address these issues in its order or immediately convene an industry working group to help resolve the following issues.

1) Timing of new steps to be included in Staff recommended RFP process.

- a. In the Commission's order it should be made clear if the following new steps in the RFP process as recommended by Staff will require a hearing to be decided or will be part of the order. These steps include:
 - i. The Maryland process referenced by Staff includes an eligibility application process that is at least three weeks from the opening of an RFP informational website to the issuance of applicant's eligibility.

- ii. Execution of the auctions (there are four) is approximately 10 days from identifying the size and type of load being bid until the Commission approval of results.

2) Finalizing the RFP Process, including approval of the RFP

- a. Determine whether the Staff, a Commission consultant, the EDU or an industry working group will develop the RFP process to be used.,
- b. Establish a specific timeline for completing the RFP process
- c. Determine whether the approval of the process will require a hearing.
- d. Resolve whether the DSA, the Commission, a consultant or the EDU will manage the RFP process and identify the product that would be the subject of the RFP process.
- e. The credit requirement to be included in the RFP must be that of the utility, and it needs to take into consideration the structure of and outcomes of an RFP, and whether it is advisable for PIPP supply to be diversified, as opposed to being concentrated into one supplier. The Commission should consider the impact of a single CRES serving all of the PIPP load, as this concentration of supply may otherwise increase the amount of collateral and demonstration of financial viability associated with serving such PIPP supply. AEP Ohio believes it is important that a good credit and collateral review/study be undertaken regardless of whatever program is adopted, as ensuring that the savings will be realized by the PIPP customers requires a credit and collateral requirement that minimizes the negative impact of a CRES supplier default.

- f. Determine how revisions and necessary changes to current SSO auction documents are completed.
 - i. Schedule and process changes due to the RFP
 - ii. Approval of necessary changes in SSO documents and contracts that implement the new process without negatively impacting existing SSO Suppliers who are providing service to PIPP customers.

CONCLUSION

AEP Ohio's Option Three recommendation applies a discount through a retail rate mechanism and 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.

In addition, as outlined above, AEP Ohio offers alternatives for consideration that include retail aggregation-style competitive procurement and pursuing a separate product/auction for PIPP load that is like the current SSO product (the latter proposal can only be implemented in future auction cycles after necessary questions are resolved). All of the available options have benefits and potential problems. But the Commission should carefully and clearly resolve important issues (set forth above) in a timely manner so as to not interrupt or adversely affect auction processes that are presently underway.

AEP Ohio appreciates the invitation to submit additional comments on the Staff's second/RFP recommendation and asks the Commission to incorporate consideration of the above comments into its decision.

Respectfully submitted,

//s// Steven T. Nourse

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Calculation of Generation Energy Rider Rates

					2015/2016	
Blended Competitive Bid Price					\$	54.87 /MWh
Capacity Revenue Requirement					\$	11.38 /MWh
Residual Energy Price					\$	43.49 /MWh
Tax Gross-up*					1.00435	Generation Energy Rider Rate
Rate Schedule	Season	Factors		RIDER GENE***		
		Loss**	Season			
Residential	Summer	1.0604	1.00	\$ 46.32	4.63200	
	Winter	1.0604	1.00	\$ 46.32	4.63200	
PIPP (1% Discount)	Summer			\$ 45.86	4.58600	
	Winter			\$ 45.86	4.58600	
GS Non Demand Secondary	Summer	1.0604	1.00	\$ 46.32	4.63200	
	Winter	1.0604	1.00	\$ 46.32	4.63200	
GS Secondary	Summer	1.0604	1.00	\$ 46.32	4.63200	
	Winter	1.0604	1.00	\$ 46.32	4.63200	
GS Primary	Summer	1.0235	1.00	\$ 44.71	4.47100	
	Winter	1.0235	1.00	\$ 44.71	4.47100	
GS Sub/Tran	Summer	1.0031	1.00	\$ 43.81	4.38100	
	Winter	1.0031	1.00	\$ 43.81	4.38100	
Lighting	Summer	1.0604	1.00	\$ 46.32	4.63200	
	Winter	1.0604	1.00	\$ 46.32	4.63200	

* Tax Gross-up includes: Commercial Activities Tax and PUCO and OCC Assessments

** Loss Factors reduced by 3% for marginal loss deration

*** Residual Energy Price x Tax Gross-up x Loss Factor x Seasonal Factor

CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Ohio Power Company's Additional Comments* was sent by, or on behalf of, the undersigned counsel to the following parties of record this 29th day of February 2016, via electronic transmission.

/s/ Steven T. Nourse

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Summary: Comments -Additional Comments of Ohio Power Company in Response to Staff's "Second Recommendation" electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company