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. 16-0247-EL-UNC

STAFF REPORT

Revisions and additions to the Ohio Revised Code (R.C.) pertaining to Percentage of Income Payment Plan (PIPP) procurement provisions provided direction for the establishment of a new procurement process for PIPP load.[1] Previously in this case, Staff issued recommendations for the Commission's consideration of alternative options to satisfy this statutory requirement.[2] On March 2, 2016, the Commission modified and adopted Staff's recommendation for implementation of competitive RFP auctions to serve PIPP load.

Commission directives required the RFP auction process to satisfy the following parameters:

- Immediate implementation, by removing PIPP load from upcoming SSO auctions, for inclusion in a PIPP RFP auction process
- PIPP RFP auctions to be developed by the electric utilities, in consultation with Staff
- PIPP RFP auctions to be conducted in conjunction with upcoming SSO auctions
- Procure supply for PIPP load for a 12 month period
- Allow participation by every CRES provider in the EDU's service territory
- Allow credit requirements necessary to ensure supplier performance
- All RFP auction offers should be for the entire PIPP load that would otherwise have been included in the SSO auctions (i.e., a single winning bidder)
- RFP auction process must explain how winning bid(s) would be determined if there were multiple winning bidders
- RFP auction results must be subject to Commission approval

[1] R.C. 4928.54, 4928.541, 4928.542, 4928.543, and 4928.544.
[2] Staff Recommendations filed on February 1 and February 23, 2016, in Case Number 16-0247-EL-UNC.

- Electric utilities should work with Staff on any modifications that would need to be made to existing Master Supply Agreements
- Electric utilities should consult with Staff on a potential supplemental RFP auction, if no CRES providers were to participate in the initial RFP auction
- Supplemental RFP auction may allow a price above the blended SSO price
- Should both the initial and supplemental RFP auction fail to procure supply, allow for load to be served from the market until additional RFP auctions could be conducted

PIPP RFP Auction Preparation

Pursuant to the above directives, upcoming SSO supply auctions for AEP Ohio (AEP), Duke Energy Ohio (Duke), and the FirstEnergy EDUs (FE) that included the delivery period of June 1, 2016 through May 31, 2017, were modified so that the load to be served by the auction winners no longer included PIPP load. Because Dayton Power & Light's SSO supply for this delivery period had already been 100% procured through prior SSO auctions, its PIPP load was not included in this process.

SSO supply auctions that were in preparation when the Commission's March 2, 2016, order was issued were:

- FirstEnergy EDUs, 100% of load, delivery periods of one, two and three years, during the term of June 1, 2016 through May 31, 2019
- Duke Energy Ohio, 17% of load, for the term of June 1, 2016 through May 31, 2018
- AEP Ohio, 17% of load, for the term of June 1, 2016 through May 31, 2018

For each of the SSO auctions listed above, notification was provided to potential auction participants that the PIPP load would not be included in the auction products, and that the PIPP load would be served through a separate process. Staff then worked with the EDUs, the auction managers, and the Commission's consultant to assure that an RFP auction process that was in compliance with the Commission's directives was developed for each EDU.

Informational websites were established by each independent auction manager for each of the upcoming PIPP RFP auctions.[3] These websites provided information about the upcoming PIPP RFP auctions that was similar in nature to the information that has historically been provided about the ongoing SSO auctions. The information provided on the websites included a calendar of auction related events, PIPP load information, various documents needed by potential bidders to participate in the RFP auctions, the Master PIPP Supply Agreement, a process for submitting questions about the PIPP RFP auction process, and an FAQ section in which answers to submitted questions were posted for all to view. Bidder information sessions were also held for each PIPP RFP auction.

PIPP RFP Auction Results

The following table shows the SSO auction dates and the associated PIPP RFP auction dates for the auction activity that is included in this report.

EDU	SSO Auction Date(s)	PIPP RFP auction date
FE	April 13 and 26, 2016	May 2, 2016
Duke	March 14, 2016	May 3, 2016
AEP	March 29, 2016	May 9, 2016

For FE, the two SSO auctions held in April were being conducted for the start of a new ESP period, so they included 100% of FE's SSO load over terms of one to three years. The Duke and AEP auctions were both held mid-ESP, and included only a single product covering only a portion (17%) of their respective SSO loads. The following table shows the SSO auction and the PIPP RFP auction clearing prices for the auction activity that that is included in this report.

[3] AEP at http://www.aepohiocbp.com/ (under the PIPP RFP section); Duke at http://www.duke-energyohiopipp-rfp.com/; and FirstEnergy at http://www.firstenergypipprfp.com/.

EDU	SSO Auction Product(s)	Clearing Price	PIPP RFP Auction Product	PIPP RFP Clearing Price
FE	1 year (32%) 2 year (34%) 3 year (34%) Year 1 avg. (100%)	$49.06 $50.06 $50.96 $50.05	1 year (100%)	$49.43
Duke	2 year (17%)	$48.34	1 year (17%)	$44.98
AEP	2 year (17%)	$46.24	1 year (17%)	$44.89

The following table shows a comparison of the SSO auction and the PIPP RFP auction participation levels for the auction activity that is included in this report.

EDU	SSO Auction Product(s)	Number of Registered Bidders	Number of Winning Bidders	PIPP RFP Auction Product	Number of Registered Bidders	Number of Winning Bidders
FE	1 year 2 year 3 year	10 10 10	6 6 5	1 year	2	1
Duke	2 year	13	5	1 year	3	1
AEP	2 year	15	5	1 year	3	1

PIPP RFP Auction Participation Rates

It is apparent that the participation levels in the PIPP RFP auctions were significantly lower than in the corresponding SSO auctions. Participation level is important because a greater number of participants provides increased competition and increases the likelihood of receiving lower price offers. Potential reasons for this relatively low participation level in the PIPP RFP auctions could include: knowledge of a target price to beat through the auctions; restriction of auction participants to certified CRES; short time period that was available for preparation to participate in the auctions; smaller load levels available for the auction winners, as compared to load levels obtainable through the SSO auctions: and, (alternatively) the requirement that a single bidder must win 100% of the PIPP load. Although it is not possible to know with certainty the specific cause(s) of the low participation levels, the potential explanations can be evaluated.

Potential participants could have perceived the price to beat as a price that was below a price that they were willing to accept, and decided not to participate. However, if the RFP auction were not successful in the first round, this price limitation would have been removed, so that participants seeking higher prices could have participated in a second round. It may be that this was not fully understood by potential participants, or that the effort required to become an RFP auction participant was perceived as excessive when compared to the likelihood of the RFP auction going to a second round and being successful in that second round.

The statutory restriction of auction participants to certified CRES necessarily restricts the number of potential participants. This would be particularly important in this initial group of RFP auctions, because of the limited time frame available for any potential participants which were not CRES-certified to go through the certification process, if they desired to do so. However, CRES certification of participants is a requirement of statute, and cannot be altered by the Commission.

The short time period available to prepare for participation in the RFP auction could have deterred participation simply because it takes time for entities to evaluate the opportunity to participate and determine whether or not it makes sense to them to do so from a business perspective. To the extent that the short time period was a factor, this concern should be limited to this initial set of PIPP RFP auctions.

The requirement to have participants responsible for 100% of the PIPP load was discussed at length in comments and throughout the implementation phase. The proponents of the requirement spoke to the relatively small size of the load and that if it was broken up into smaller tranches they would be too small to incent any participation. Additionally, some EDUs expressed concern with their billing systems and the ability to bill multiple CRES providers for the PIPP load at various prices. However, a winner takes all option might have led some CRES providers not to register for the auction, if their analysis were to show that they may not be able to serve the entire load.

PIPP RFP Auction Costs

The process of conducting the PIPP RFP auctions required new activities to be undertaken by the independent auction managers and the Commission's consultant. The total of all known and estimated direct costs associated with these activities for all of the EDUs is approximately $750,000. Allocating this across the three PIPP RFP auctions that were conducted equates to approximately $250,000 per auction.

PIPP RFP Auction Savings

Potential savings to PIPP customers associated with the PIPP RFP auctions would be a function of the actual PIPP load to be served and the difference between the SSO auction prices and the PIPP RFP auction prices. Because the actual PIPP load served by the PIPP RFP auction winners will not be known until June 2017, staff has used recent full year PIPP load data as presented on the PIPP RFP auction websites as an estimate of the PIPP load to be served.[4] The following table presents PIPP loads and projected potential PIPP RFP auction savings for each EDU.

EDU	Price Difference ($/MWH)	Historic Annual PIPP Load (MWH)	Potential Savings to PIPP Customers
FE	0.62	1,532,573	$ 950,195
Duke	3.36	375,422	$ 1,261,418
AEP	1.35	1,883,712	$ 2,543,011

Staff has concerns that the PIPP auction clearing prices, while initially priced below the blended SSO prices, may only represent illusory savings. It is important to recognize that the PIPP auction product is a one year product and is being compared to an SSO rate that is a blend of prices over two or three years. Over the two or three years in question, the PJM administered capacity price (an important determinant of the cost of serving load) is scheduled to increase from $59.37/MW-day in 2016/2017 to $120.00/MW-day in 2017/2018 and $164.77/MW-day in 2018/2019. The blended action price reflects an average of these prices, while the one year PIPP auction only reflects the first (and lowest) price. In future years, as capacity prices escalate, the

[4] For AEP and FE, the time period is June 2015 through May 2016. For Duke, the time period is calendar year 2015.

results of the one year PIPP auction will increase as well, and will likely exceed the cost of the blended product due to higher capacity prices associated with the one year product. In fact, one of the primary reasons Staff recommends solicitations of multiple products of multiple durations is to prevent rate shock from occurring due to the impact of annual capacity prices, which can often be volatile. By conducting one year auctions for PIPP load, the price of this product is likely to be more volatile that the blended SSO price. The PIPP auction price is likely to be higher than the SSO price in years when capacity prices are above average, and is likely to be lower than the SSO price in year when the capacity price is below average. Additionally, auction prices are impacted by fluctuations in energy prices and the time period for which energy prices are forecasted to meet the auction load. Given these factors, and the additional cost of conducting the PIPP RFP auctions, whether any net savings ultimately accrue to customers is not certain.

Staff Recommendation

Staff recommends that the PIPP RFP Auction continues as a separate auction from the SSO as ordered by the Commission, but that the process should be closely monitored and evaluated by Staff. While the initial auctions resulted in lower initial prices for PIPP customers, the additional factors discussed in the report, and the limited sample size, leads Staff to question if the results are simply a consequence of timing. The low participation rate is a significant concern for Staff and should be monitored closely in future auctions.

Staff will continue to work with parties to allow the PIPP auction process to improve. If at any point through Staff's monitoring and evaluation efforts, Staff identifies a concern that should be brought before the Commission, Staff will at that time provide its analysis to the Commission.

Summary: Staff Report of Investigation electronically filed by Raymond W. Strom on behalf of PUCO Staff