

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission’s Review of)
the Purchase of Receivables Implementation) Case No. 15-1507-EL-EDI
Plan for Ohio Power Company.)

**INITIAL COMMENTS OF
THE RETAIL ENERGY SUPPLY ASSOCIATION**

I. INTRODUCTION

The Retail Energy Supply Association (“RESA”)¹ appreciates the opportunity to comment on the Staff Report regarding the Purchase of Receivables Program (“POR”) of Ohio Power Company (“AEP Ohio”). RESA believes that a reasonably structured POR program may further enhance the development of the retail electric market, but a poorly constructed program may lead to market stagnation and frustrate the ability of competitive retail electric service providers (“CRES” or “Suppliers”) to develop and offer innovative products and services. Staff’s recommendations, if accepted, would lead to a POR program that fits within the latter category.

Specifically, Staff’s recommended POR Program rules do not include the flexibility and optionality envisioned by the Public Utilities Commission of Ohio (“Commission”) necessary to encourage supplier participation. At a minimum, Suppliers must have the option to utilize utility-consolidated billing with or without participating in the POR program.

Further, the Commission should clarify what constitutes a qualifying Program receivable because kilowatt-hour pricing may contain or combine a variety of components. The Program

¹ The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of more than twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

should have reasonable and non-restrictive parameters that allow inclusions of products that combine generation with one or more items that are directly related to the consumption of electricity. This clarification will allow suppliers to assess whether participation in the POR Program is appropriate for them, given their product offerings.

POR should not become a barrier to offering and billing innovative products and services through the consolidated utility bill. While RESA recommends certain changes to the proposed POR program, RESA finds that, consistent with the statements in the Staff's Report, there are Program details with which RESA concurs. RESA provides a brief summary of those details in Section IV.D. below.

II. COMPETITIVE SUPPLIERS

RESA is a trade association of CRES" suppliers that support the creation and advancement of competitive energy markets in Ohio and throughout the country. RESA's members represent the interests of a broad and diverse group of retail energy suppliers who share the common vision that competitive retail energy markets deliver a more efficient, customer-oriented outcome than regulated utility structure. Many of RESA's members are certificated as CRES suppliers and are active in the Ohio retail electric and natural gas markets and provide service to residential, commercial, industrial and governmental customers in AEP Ohio's service territory. Further, several RESA members certified pursuant to Section 4928.08, Revised Code, are active suppliers for the standard service offer auction programs.

The members of RESA are knowledgeable of competitive energy markets and how specific programs can influence the growth and development of the market. RESA members have first-hand experience in multiple jurisdictions with POR programs and market dynamics, and bring a wealth of experience on this subject.

III. BACKGROUND

In AEP Ohio's third electric security plan proceeding,² AEP Ohio proposed to implement a POR program such that AEP Ohio would assume responsibility for recovery of the competitive supply charges on the customer's consolidated bill.³ The Commission agreed that a POR program should be implemented in AEP Ohio's service territory. In reaching this conclusion, the Commission stated that a POR program will "provide significant customer benefits, including the likelihood of increased numbers of active CRES providers and product offerings in AEP Ohio's service territory."⁴ The Commission modified AEP Ohio's proposal and then directed AEP Ohio, Staff and other interested stakeholders to discuss within the Market Development Working Group ("MDWG") the implementation of the POR program as approved, including program rules, calculations of the discount rate, implementation costs and maintenance costs, collection rates and procedures, and timing and other mechanics of the process.⁵ In the Second Entry on Rehearing in that proceeding, the Commission did not change its rulings, but did provide several clarifications.⁶

The working group discussions took place between June and August 2015 and Staff filed in this docket a report with recommendations on November 15, 2015. The Staff found that a POR program can afford multiple stakeholders with a variety of benefits. The Staff described those benefits in its report as follows:⁷

A discounted rate POR program, in which the EDU purchased the CRES supplier's commodity charges at a discount to offset the cost, benefits customers, CRES suppliers, and the EDU. Customers benefit from having

² *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan*, Case Nos. 13-2385-EL-SSO et al. ("ESP III").

³ *ESP III*, AEP Ohio Ex. 11 (Direct Testimony of Gabbard).

⁴ *ESP III*, Opinion and Order at 81.

⁵ *Id.*

⁶ *ESP III*, Second Entry on Rehearing at 35-47.

⁷ Staff Report at 2 (as corrected by Staff in its comment filing on November 30, 2016).

only one party to negotiate payment plans and billing questions when they are in arrears as well as the opportunity to budget their entire electric bill. CRES suppliers benefit from a predictive revenue stream and a reduced risk and cost of collection. The EDU benefits from having better customer service for credit and collections.

RESA agrees that a POR program can provide benefits, and has long advocated for POR programs in the Ohio electric choice markets. Importantly, the benefits of a POR program can be realized only when the POR program is properly constructed and not designed to hinder future development of the competitive marketplace.

Thus, the program design is critical. Staff specifically recommended the following details for the design of AEP Ohio's POR Program:⁸

- Staff is recommending that POR implementation costs are recovered monthly over a five-year period from all CRES suppliers utilizing the consolidated billing program as a charge based on the number of consolidated bills.
- Staff is recommending that on-going costs of the POR are recovered with a discount rate which includes a bad debt component, an O&M component, a working capital component, and a credit for shopping generation bad debt currently recovered by AEP through base distribution rates.
- Staff is recommending that the discount rate be assigned by class (residential, commercial, and industrial).
- Staff is recommending that the Bad Debt Rider remain but as a recovery mechanism of last resort for generation-related expenses, as well as a mechanism to alleviate an extreme economic situation (micro or macro) that may overwhelm a POR program.
- Staff is recommending AEP Ohio's Day Sales Outstanding model as a payment mechanism.
- Staff is recommending a one-year POR term with an evergreen provision.

⁸ Staff Report at 1, 9.

IV. POR PROGRAM RULES

A. The POR Program rules should encourage flexibility and optionality in the billing options available in AEP Ohio's service territory.

Suppliers should have the maximum amount of flexibility when it comes to billing options. Today in AEP Ohio's service territory, suppliers can elect utility-consolidated billing,⁹ or provide their own customer billing ("dual billing"). Suppliers who elect utility-consolidated billing for their customers can choose between bill-ready or rate-ready formats, and budget billing is an additional billing-related option. Suppliers should continue to have flexibility with billing after the POR program is established. POR should be an additional and optional feature relative to AEP Ohio's billing options – it should not be a mandated feature. Although the working group discussed whether POR should be electable when selecting utility-consolidated billing and the Staff Report references those discussions,¹⁰ Staff did not include (but should have included) such flexibility and optionality in any of its recommendations, including the recommended POR Program rules.

A POR Program rule on this point is important for two reasons. First, the Commission has endorsed or mandated flexibility to participate in a utility's consolidated billing, stating "CRES providers should maintain the flexibility to participate in consolidated billing, without being required to participate in the POR Program."¹¹ Thus, the Program rules should not be silent on this point, even though the Staff made no related recommendation.

Second, a lack of flexible and electable billing options will turn suppliers away. Not all suppliers are alike, and not all suppliers using utility-consolidated billing will want to utilize

⁹ AEP Ohio Tariff P.U.C.O. 20, Sheet No. 103-42D at ¶ 17.

¹⁰ Staff Report at 9-10.

¹¹ *ESP III*, Second Entry on Rehearing at ¶ 88 (May 28, 2015).

POR. There are various business reasons why a supplier interested in AEP Ohio's market and interested in utility-consolidated billing may, nonetheless, not utilize POR, including:

- Receivables purchased may be limited to plain competitive supply products
- Cost of POR implementation costs
- Dissatisfied with the discount rate

As a result, without flexibility and optionality in the POR Program, suppliers could be discouraged from entering or remaining in AEP Ohio's service territory because only utility-consolidated billing with POR would be available. This establishes a substantial risk that the market will not grow.

For these reasons, RESA urges the Commission to follow its prior orders and establish, as a specific rule of the POR Program, that POR not be a mandated feature of AEP Ohio's utility-consolidated billing. This is a significant and important detail of the POR program that should not be omitted from the Program rules.

B. The POR Program rules should not harm the development of the competitive market.

As noted earlier, the Commission found that POR program benefits include the likelihood of increased product offerings.¹² AEP Ohio's Program Rules should not impede this benefit. Staff's recommendations in the Staff Report, however, will hinder increased product offerings, thereby harming the development of the competitive market. This is because it is unclear what constitutes a qualifying Program receivable. Suppliers will need to understand in advance which product receivables qualify for purchase under the POR Program, and which do not qualify, in order to decide whether to participate.

¹² *ESP III*, Opinion and Order at 81.

While the Staff Report identifies that the receivables must only be the commodity-related charges directly tied to the actual cost of generation,¹³ greater specificity as to what qualifies as a receivable under the POR Program is needed for the suppliers and AEP Ohio alike. For example, would the receivable of a product offered at a single, all-inclusive price that combines generation with one or more items that are directly related to the consumption of electricity qualify entirely? RESA believes these receivables should be included. Similarly, marketing costs and overhead incorporated into a supplier's generation-only product should be included.

A narrow or restrictive view of an acceptable receivable will harm the market. If many competitive products will not qualify for the POR Program, fewer products and less-diverse products will come to the market. More specificity and fair, non-restrictive determinations of what will qualify as a receivable under the POR Program are needed. As a solution, RESA recommends that the Program include products that combine generation with one or more items that are directly related to the consumption of electricity when the price is all inclusive.

C. Flexibility is important because the POR Program is not the only option for growing the competitive marketplace in AEP Ohio's service territory.

Other developments have taken place since the Commission's decision was issued in the *ESP III* and the working group discussions took place in 2015. AEP Ohio has agreed to develop a supplier-consolidated billing pilot for its service territory and agreed to file a grid modernization business plan through which customer usage data will become accessible, encouraging suppliers to offer new innovative products.¹⁴ Suppliers looking to grow the competitive marketplace in AEP Ohio's service territory will also be analyzing and considering

¹³ Staff Report at 4.

¹⁴ *In the Matter of the Application Seeking Approval of Ohio Power Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Rider*, Case Nos. 14-1693-EL-RDR, Stipulation at 16-19, 24 (filed December 14, 2015). AEP Ohio's grid modernization business plan was filed on June 1, 2016.

these new developments. The POR program will be one of several options for suppliers, which is another reason that proper flexibility and optionality for the POR Program is important to its success.

D. Staff recommendations with which RESA concurs.

There are a number of statements and recommendations included in Staff's Report.

RESA agrees with the following statements and recommendations made by Staff in its report:

Program Rules

- Sale of the receivables is without recourse
- Receivables have no restrictions or limitations (Uniform Commercial Code Article 9 compliant for perfection)
- Program conforms to AEP Ohio's billing cycles
- If a supplier participates in POR, all of its consolidated billing customers are included in the POR.

Implementation/On-Going Costs and Discount Rate

- POR implementation costs are recovered monthly over a five-year period from all Competitive Retail Electric Service suppliers utilizing the consolidated billing program as a charge based on the number of consolidated bills. The formula for the charge is: (Total costs of implementation including carrying charges / Total number of bills in the consolidated billing program) divided by 60 months. The Commission would review the implementation calculations annually.
- On-going costs of the POR are recovered from participants in the POR Program with a discount rate which includes a bad debt component, an O&M component, a working capital component, and a credit for shopping generation bad debt currently recovered by AEP Ohio through base distribution rates.¹⁵
- A single, blended discount rate be assigned by class (residential, commercial, and industrial). The Staff would review the discount rate annually.

Timing and Mechanics

¹⁵ RESA agrees with the detailed descriptions of each of those four components on page 6 and in Table 1 on page 7 of the Staff Report.

- Payments are made monthly for receivables billed and purchased the prior month.
- Payments will be made from the 15th of the revenue month in which receivables were billed based upon a yearly backcasted Day Sales Outstanding (“DSO”) value calculated for all AEP Ohio shopping and nonshopping customers.
- DSO is the average rate of time it takes for customers to pay once the bill is created.
- The DSO calculation is the company’s average daily accounts receivable balance, divided by the average daily billings.

Bad Debt Rider

- The Bad Debt Rider remains but as a recovery mechanism of last resort for generation-related expenses as well as a mechanism to alleviate an extreme economic situation (micro or macro) that may overwhelm a POR program.

Note: RESA is willing to accept this recommendation so long as, concurrently, AEP Ohio would reduce the collateral requirements of CRES providers, which was recognized by Staff as well.¹⁶

- The Staff would review the Bad Debt Rider annually.

V. CONCLUSION

Flexibility and optionality should be clearly incorporated into AEP Ohio’s POR Program rules. Also, to provide the necessary information to suppliers and AEP Ohio, the Commission should explain what receivables will qualify under the POR Program rules. Without these changes, more and more suppliers will take other approaches to further develop the competitive marketplace.

Respectfully Submitted,

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¹⁶ Staff Report at 8.

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CERTIFICATE OF SERVICE

The Public Utilities Commission of Ohio's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket card who have electronically subscribed to the case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served (via electronic mail) on the 8th day of December 2016 upon the persons/entities listed below.

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