

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the 2018 Long-Term Forecast Report on behalf of Ohio Power Company and Related Matters.	:	Case No. 18-0501-EL-FOR
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In the Matter of the Application of Ohio Power Company for Approval to Enter into Renewable Energy Purchase Agreements for Inclusion in the Renewable Energy Rider.	:	Case No. 18-1392-EL-RDR
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In the Matter of the Application of Ohio Power Company for Approval to Amend Its Tariffs.	:	Case No. 18-1393-EL-ATA
	:	

**REPLY BRIEF
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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INTRODUCTION

In the final analysis, this case is quite simple. In fact, this case can be reduced to one question: are Ohio Power Company's (AEP) proposed, ratepayer supported renewable projects needed to serve load in Ohio? In Staff's view, they are not. This is need in its most basic sense, a requirement without which AEP customers would be at risk of not receiving electricity. Not merely a good idea, not merely offering a potential benefit, not merely helpful, but rather something that we cannot do without. This is a high bar, and the proposals do not clear it.

AEP has put forward six reasons to support its proposal. None of the reasons show that the energy the facilities would generate is needed in order to meet demand in

Ohio. In fact, it is not even necessary to have AEP's proposed ratepayer supported projects to accomplish them. Indeed, these goals can be, and some are being, accomplished without AEP's intervention. Thus, the Public Utilities Commission of Ohio (Commission) should find that, AEP's proposals being unnecessary, they are not needed as defined in R.C. 4928.143(B)(2)(c).

NAVIGANT STUDY

AEP's first basis for its need claim is that AEP customers want and need long-term renewable power generated by new Ohio renewable projects. This idea is dependent on the Navigant survey. First, the Commission cannot approve AEP's proposal based on customer desire for Ohio-produced renewable energy. Under R.C. 4928.143(B)(2)(c), AEP must show that the facilities are needed based on resource planning projections (i.e., enough supply to meet demand)—not customer desire for energy specific power. AEP has failed to do so. Second, even if the study supported the conclusion that customers want and need this specific type of energy, a single study is a remarkably thin need upon which to build a twenty year commitment. This is all the more true when the study's conclusion, as read by AEP at least, is at variance with what customers actually do. The majority of AEP's customers take the standard service offer, which of course includes only the statutory minimum renewable energy. Likewise, the vast majority of Certified Retail Electric Supplier (CRES) offerings on the Apples to Apples list are not renewable. AEP Ex. 21. The record reveals that no one knows how many customers take advantage of the renewable offers currently being made. Tr. Vol. II at 295, 300. Thus, to accept AEP's view, one must believe that there is a large body of customers out there who are

interested in Ohio produced, and only Ohio-produced, renewable energy. These hypothetical customers would be unwilling to purchase non-Ohio produced renewable energy but rather prefer to purchase presumably polluting traditional energy until their preferred product becomes available. This is very difficult to believe.

There is a much better way to determine if there are customers of the sort that AEP would have us believe. Simply putting an offer into the market of Ohio-produced renewable energy would be an excellent means to test if there actually is a body of customers who want only Ohio-produced renewable energy. It appears that Interstate Gas Supply, Inc. (IGS) is making such an offer¹, and its relative success or failure will be much more informative of the market demands than any survey.

Even if the sort of market demand that AEP posits actually exists in the real world, it is not necessary that AEP build generating plant to meet that need. The record shows that there are numerous proposals to construct various renewable generation sources by other parties. OCC Ex. 18 at 39. Just as market forces have drawn new participants in to build new generation plant (primarily gas fired) to meet the demand for energy generally, if there is a real demand for Ohio renewables, market forces will draw in new participants in that space as well.

In sum, AEP claims that its survey shows there is a unique and unmet demand for Ohio-produced renewable energy so great that it rises to the level of a “need.” This is at

¹ Tr. Vol. IX at 2009.

variance with the observed behavior of actual customers. Thus, it is difficult, at best, to accept AEP's interpretation. A better way to assess AEP's claim is to make an actual offering of Ohio-produced renewable energy and that is being done. Even if the demand exists, there is every reason to believe it will be met through the same market forces that have adequately served to assure the overall supply of energy. This aspect of AEP's argument does not provide a basis for a need finding.

STABILITY

AEP's second argument for a need finding is that large-scale development of reasonably priced Ohio renewable energy projects conveys a price advantage and rate stability for customers. Several points need be made here. First, the Commission should not approve AEP's proposal based on price advantage or rate stability benefits. Under R.C. 4928.143(B)(2)(c), AEP should show that the facilities are needed based on resource planning projections (i.e., enough supply to meet demand)—not price or rate impact. Second, even if AEP is correct that large scale projects offer a price advantage, there is no reason to require that the large scale project be controlled by AEP. Its participation is not needed. Third parties can step in to meet this need just as they are allowed to meet the need for non-renewable energy. Indeed, this is how the competitive market in Ohio is designed to work. Second, the need for price stability, a hedge, is already being met through the treatment of the Ohio Valley Electric Cooperative (OVEC). There is nothing in the record that indicates a larger hedge is needed. Further, granting AEP's proposal may create a slippery slope back to reregulation almost twenty years on from Senate Bill 3. Indeed, the logical extension of AEP's argument would reregulate all of AEP's SSO

generation. This would be the perfect hedge. Customers would have perfect stability; however, the regulation exception would swallow the market rule. This is not a desirable outcome for customers nor the one that the General Assembly likely envisioned upon creating R.C. 4928.143(B)(2)(c).

In sum, AEP's argument is already addressed by the Commission's earlier OVEC determination. To the extent that there is a price advantage, the same would be true for any developer of a large project, and this is not an argument for AEP to construct generation.

CONGESTION REDUCTION

Curiously, AEP claims that developing renewable projects in Ohio that are deliverable to AEP's service territory can help reduce congestion costs and ultimately transmission rates. The argument is both difficult to understand and unpersuasive because AEP indicates that there is no congestion on its system. Tr. Vol. II at 436. Thus there would appear to be no resulting congestion costs to reduce. Thus, there is no need for a new facility.

Even if congestion costs would decrease as a result of the projects, the Commission should not approve AEP's proposal on such a basis. Under R.C. 4928.143(B)(2)(c), AEP should show that the facilities are needed based on resource planning projections (i.e., enough supply to meet demand)—not price or rate impact.

In addition, whatever the effect might be on transmission rates, large or small, sooner or later, the effect would be exactly the same regardless of who controls the

generation. Thus, even if the effects that AEP speculates would be achieved in practice, this does not mean that there is a necessity that AEP control the facility. The hypothetical effect is a function of location not ownership.

In sum, neither reduction of non-existent congestion costs nor hypothetical transmission cost reductions create a need for AEP to construct anything.

ECONOMIC BENEFITS

AEP alleges that new in-state renewable projects will provide significant local and state-wide economic benefits. This sort of claim is always very difficult to evaluate. While the benefits of new construction are relatively easy to identify and quantify (tax receipts, jobs, etc.), the costs to achieve these benefits are very complex. The costs to achieve depend in large measure on what future energy prices are. If the facility produces power above market prices, the cost could be quite large, perhaps even making the facility a net loss. Conversely, if the facility produces power below market price, there may be no or negative costs to achieve. It is very difficult, perhaps impossible, to know this with certainty, making a proper cost-benefit analysis likewise difficult, perhaps impossible.

However, even assuming that AEP is correct and there would be significant net economic benefits to Ohio from constructing renewable facilities, this would not establish need. First, the Commission should not approve AEP's proposal based on net economic benefits. Under R.C. 4928.143(B)(2)(c), AEP should show that the facilities are needed based on resource planning projections (i.e., enough supply to meet demand)—not

economic benefits. Second, the same benefits would exist regardless of who controls the facility. Tr. Vol. IV at 1087-8. As the benefits, even if they exist, would be the same regardless of who controls the facility, this cannot be a basis for a determination of need.

IMPORTED POWER

AEP claims that new renewable projects in the state will help reduce Ohio's importation of power and avoid Ohio consumers being price-takers for out-of-state generation supply. These assertions are troubling on multiple levels.

First and foremost, the Commission should not approve AEP's proposal on such a basis. Under R.C. 4928.143(B)(2)(c), AEP should show that the facilities are needed based on resource planning projections (i.e., enough supply to meet demand)—not whether the facilities decrease the amount of power the state must import.

Even if we accept these assertions as all true, they do not show that there is any need for AEP to construct anything. Any new renewable projects would have the same effect. Control of the project would make no difference.

But the assertions themselves are problematic. Whether new renewable projects in Ohio would reduce importation of power would depend on what generation is being replaced by the new renewable projects. If it is Ohio-based generation that is being displaced, there would be no net effect on importation. Determining this is not a simple matter. It would depend on the level of demand, the availability of the new renewable project output, and the makeup of the dispatch stack at any given point in time. As none of this is available, any projection of the outcome is highly suspect.

Even if the net effect on importation could be determined in a meaningful way, there is no point that is served by the exercise. One of the primary benefits of the existence of PJM is central dispatch. PJM allows access to the least expensive power deliverable to a customer at any given point in time. Being a price taker in a system that brings you the lowest price is a good thing not a bad thing. Access to the least expensive power is important. Where that power comes from, even if that could be known by the consumer, should not matter.

In sum, Ohio benefits by having access to the cheapest deliverable power in the PJM footprint at all times. Where that power is produced makes no difference.

FUEL DIVERSITY

AEP's final argument for a finding of need is the claim that new in-state renewable projects will promote fuel diversity, advance the development of renewable technology, and help reduce carbon emissions. As has been the pattern with AEP's arguments, the Commission should not approve AEP's proposal on such a basis. Under R.C. 4928.143(B)(2)(c), AEP should show that the facilities are needed based on resource planning projections (i.e., enough supply to meet demand)—not whether the facilities will make Ohio more fuel diverse or have environmental benefits. Second, even if we accept AEP's assertions as true, they do not require AEP to construct anything. A renewable project developed by anyone would promote fuel diversity, advance the development of renewable technology, and help reduce carbon emissions to the same

extent as one developed by AEP. Likewise, there is nothing unique about a development in Ohio in these regards. The location does not seem related to the benefits claimed².

In addition, whether the proposed renewable projects would even aid fuel diversity and reduce carbon emissions depends on what is being displaced. If nuclear generation is displaced³, there would be no carbon emission reduction and less fuel diversity. If it would be coal or natural gas fired generation that is displaced, then there would be more diversity and less emission. As noted previously, it is very difficult to determine what sort of generation would be displaced. This depends on the level of demand, the makeup of the dispatch stack, and the availability of the renewable project output from time to time. While it may not be possible to measure the impact on fuel diversity and carbon emission reduction with accuracy, the direction of the changes seems relatively clear. New renewable facilities would likely reduce carbon emissions and increase fuel diversity. Whether this is relevant to the question of need is not a matter about which the Staff has a position.

The final claim made by AEP in this regard is that the construction of new renewable facilities would advance the development of renewable technology. It is difficult to understand what is meant here. It appears that the proposed renewable projects simply involve buying commercially available equipment and installing it.

² The local economic benefits are a different matter,

³ This may be of less practical import as the closure of Ohio's two nuclear units is already planned.

There appears to be nothing experimental or “cutting edge” about it. Thus, it appears that the proposed project only advances the development of renewable technology in the same sense that buying a new automobile advances automotive technology, that is to say not significantly.

It might be claimed that the proposed renewable projects would advance the development of the technology in terms of increasing its deployment. Such a claim would be controversial. Some parties would speculate that other parties would build more renewable generation if AEP did not construct its rate-payer supported projects. OCC Ex. 25 at 13, OCC Ex. 18 at 37. They might claim that there would be more renewable generation installed in Ohio if the proposed AEP projects did not go forward with ratepayer support. Having no facts to guide it, Staff takes no position about this dispute. However, what is clear is that advancing the development or deployment of renewable technology, in and of itself, does not show that the facilities are needed. One needs to show that this increase in supply is needed to correct a shortage in supply or increase in demand. AEP has not shown that.

In sum, fuel diversity may be increased with the construction of renewable projects. This increase in diversity is not tied to control by AEP. Whether increased fuel diversity is a relevant matter for the Commission to consider in the need determination is up to the Commission and the Staff has no recommendation.

CONCLUSION

Staff does not believe that AEP has established need under RC 4928.143(B)(2)(c) for its proposed projects. There is no need for energy, capacity, or renewable energy certificates. The various benefits claimed by AEP are simply not tied to AEP being in control of the project or the project being ratepayer supported. Market forces appear perfectly capable of providing the right level of renewable resources just as they have provided the right level of energy. The Commission should let the market decide.

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Reply Brief** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following Parties of Record, this 27th day of March, 2019.

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