

suppliers to be reimbursed at the actual cost later billed by PJM as a “pass-through” charge. Staff explains that the Public Service Commission of the District of Columbia adopted this approach. However, Staff identified another approach that the Companies believe has benefits for customers and which the Commission should adopt instead.

As the Staff Report also notes, the New Jersey Board of Public Utilities (“New Jersey BPU”) adopted a “proxy price” approach using a proxy for capacity cost based on 90% of the average market clearing price for the past two years.² The Staff Report states that this approach “merits consideration.” The Companies agree. Indeed, on April 1, 2020, the Maryland Public Service Commission (“Maryland PSC”) also adopted a proxy price approach for the 2022/2023 delivery year using 90% of the most recent two-year average.³ The Maryland PSC noted that while a few commenters expressed a preference for a zero proxy price, all parties consented to the use of a non-zero proxy price.⁴

The Commission should adopt the non-zero proxy price approach adopted by the New Jersey BPU and Maryland PSC for several reasons. Using a non-zero proxy price based on recent BRA results will minimize the under-collection of capacity costs that would need to be reconciled and recovered from customers, compared to a zero-proxy price approach. The Companies recover capacity costs associated with SSO generation service through two Commission-approved tariffs. The Generation Service Rider (“Rider GEN”) recovers costs associated with procuring SSO generation. These SSO generation costs are reconciled quarterly through the Generation Cost Reconciliation Rider (“Rider GCR”), which includes carrying costs associated with under- or over-

² In the Matter of the Provision of Basic Generation Service (BGS) for the Period Beginning June 1, 2020, Docket No. ER19040428, November 13, 2019.

³ See Maryland Public Service Commission, Case Nos. 9056 & 9054 letter approving the Procurement Improvement Process Report available at: <https://www.firstenergycorp.com/content/dam/upp/files/md/power/mdsosrpf/regulatory/Supplemental%20PIP%20Letter%20Order%20040220.pdf>

⁴ See Report on the 2019-2020 Supplemental Procurement Improvement Process, March 3, 2020.

recovery of Rider GEN. A zero proxy price for capacity guarantees a large monthly under-recovery of capacity costs, while the non-zero proxy price would be much closer to the actual costs and lower the amount of carrying charges. Thus, while both the zero and non-zero approaches result in customers paying the eventual actual PJM capacity charges to SSO suppliers, the zero-price approach could add significantly more in carrying costs to SSO customers through Rider GCR than would be the case with a non-zero proxy price.

Further, utilizing a non-zero proxy price approach should better allocate capacity costs to the customers who caused the costs to be incurred. The Companies' Rider GEN includes separate charges for energy and capacity. The capacity component is allocated based on each rate schedule's estimated contribution to overall capacity costs. For each rate schedule, the capacity charge of Rider GEN is intended to reflect the average cost to provide capacity service to the group of SSO customers served under that rate schedule. Rider GCR, on the other hand, is designed such that all SSO customers pay the same rate, on a loss-differentiated basis. This difference in the approved rate design of Rider GEN and Rider GCR could result in a re-allocation of capacity costs that is not aligned with the cost causers. Under a zero-proxy price approach, some customers would be responsible for paying a portion of the total actual capacity costs reconciled through Rider GCR, that is greater than the capacity costs incurred to serve them. These disproportionate impacts are mitigated under the Companies' recommended non-zero proxy price approach, as the rate impacts better reflect assignment of capacity costs to the cost causers.⁵

In addition, the non-zero proxy price avoids potential distortions of the EDU's Price to Compare that could in turn affect customers' shopping decisions. Since competitive retail electric

⁵ These cost causation concerns are exacerbated when considering that the Companies' approved Rider GCR could become non-bypassable if the under-recovered balance reaches a certain threshold. In this case, more customers would end up having to pay for capacity costs that they did not cause the Companies to incur.

service (“CRES”) providers must continue to include an expected value for generation capacity costs in their offers, a comparison against an SSO generation rate that contains a zero cost pass through would create a false price signal indicating that the EDU’s generation cost is significantly less than CRES providers’ offers. Conversely, as non-shopping customers begin to incur the cost of the Companies’ reconciliation of the initial zero cost for capacity, it will result in higher bills and a higher Price to Compare, which may lead to subsequent switching from SSO to shopping, leaving unpaid capacity costs to be collected from the fewer remaining SSO customers, which could further distort price signals and shopping behavior.⁶

Moreover, a non-zero proxy price more closely aligns with the risks traditionally assumed by SSO bidders. Similar to what the Maryland PSC Report and New Jersey BPU found in their proceedings, Ohio SSO bidders have traditionally borne the volume risk associated with serving SSO customers.⁷ Use of a zero proxy price transfers this volume risk from the winning SSO bidders onto customers because the SSO suppliers would be made whole for all of the actual costs no matter if there are differences between the suppliers’ load factor assumptions and actual load served. Maintaining the traditional risk apportionment will be less disruptive to the Ohio auction processes and results.

The Staff Report did not recommend a non-zero proxy price because it found that “using a proxy rate other than zero adds administrative complexity that may outweigh its incremental value” and that “estimating the appropriate proxy rate is also inherently difficult due to the high levels of volatility in annual capacity prices.”⁸ To the contrary, the Companies’ New Jersey and

⁶ If Rider GCR became non-bypassable as discussed above, these price distortion concerns would increase.

⁷ “Volume risk” in this context effectively represents the difference between the bidders’ assumptions for capacity costs translated into a MWh price based on customers’ load factor, and the actual capacity costs incurred associated with the SSO load served.

⁸ Staff Report at 6.

Maryland EDU affiliates are already obligated to implement non-zero price proxies, with only a modest additional burden to calculate the proxy price. The New Jersey BPU and the Maryland PSC each determined that 90% of the average of the past two years of capacity prices is a reasonably accurate proxy price estimate and the Companies agree. While the Companies recognize that there could be volatility in capacity prices, they expect that using a non-zero proxy price will be a better estimate of actual capacity costs than using a zero price proxy, which should help to mitigate the concerns discussed above.

The Staff Report also raised a concern about the impacts of any proposals on the Percentage of Income Payment Plan (“PIPP”) procurement process. The Companies do not expect that using a non-zero proxy price will be disruptive to that process. The same non-zero proxy price can be used for the PIPP RFP as is used for the SSO procurement process, and the costs will be reconciled through the Companies’ existing approved recovery mechanisms as discussed above.

In sum, the advantages described above of using a non-zero proxy price for capacity until PJM’s BRAs resume and get back on schedule outweigh the modest incremental administrative burden. Further, the Companies would not be required to modify their auction schedules for the non-zero proxy price alternative in order to lock in the historically low electricity prices currently available in Ohio.⁹ The Companies expect the non-zero proxy price revisions to their Master Supply Agreement (“MSA”) to be no more complicated than the zero proxy price alternative, and the Companies are willing to work with Staff and its consultant on the appropriate revisions to the MSA and corresponding auction products consistent with the Commission’s directives in this matter.

⁹ For example, the Companies’ upcoming October 2020 and January 2021 auctions will include a 12-month product for the delivery year ended May 31, 2022 and a 36-month product with delivery through May 31, 2024.

III. CONCLUSION

The Companies appreciate this opportunity to comment on the Staff Report and to propose an alternative proxy price target.

Respectfully submitted

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CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing Comments of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company was filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on this 8th day of May 2020. The Public Utilities Commission of Ohio's e-filing system will electronically serve notice of the filing of this document on counsel for all parties.

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