

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Procurement of)
Standard Service Offer Generation as)
Part of the Fourth Electric Security)
Plan for Customers of Ohio Edison) Case No. 16-776-EL-UNC
Company, the Cleveland Electric)
Illuminating Company, and the Toledo)
Edison Company)

In the Matter of the Procurement of)
Standard Service Offer Generation for) Case No. 17-957-EL-UNC
Customers of Dayton Power & Light)
Company)

In the Matter of the Procurement of)
Standard Service Offer Generation for) Case No. 17-2391-EL-UNC
Customers of Ohio Power Company)

In the Matter of the Procurement of)
Standard Service Offer Generation for) Case No. 18-6000-EL-UNC
Customers of Duke Energy Ohio, Inc.)

COMMENTS OF OHIO POWER COMPANY

A. INTRODUCTION

By entry dated April 6, 2020, the Attorney Examiner sought comments from interested stakeholders to file comments regarding Staff’s proposal and recommendations filed on March 13, 2020 regarding Standard Service Offer (SSO) products/auctions and the projected schedule for PJM’s Base Residual Auction (BRA). Ohio Power Company (“AEP Ohio” or the “Company”) did not receive notification of that initial Entry and did not file comments in the initial round. Subsequently, the Attorney Examiner issued an Entry on May 15, 2020 extending the opportunity to file reply and sur-reply comments in these dockets. AEP Ohio appreciates the

opportunity to comment on the Staff's initial proposal and the other comments filed on May 8, 2020.

B. AEP OHIO COMMENTS

1. Comments on Staff Proposal

Staff suggests, in its proposal, that the SSO auction products be modified such that capacity is priced at \$0/MW-day and the winning suppliers are made whole for the actual capacity costs via a pass-through charge to the utility. Under the Staff's suggestion, that charge would then be recovered from SSO customers as part of a new separate auction cost recovery mechanism. AEP Ohio does not believe that the Staff proposal looks at where each of the electric distribution companies currently stand in relation to making provisions for SSO customers, as the timing of product mixes and products that have already cleared in prior. For AEP Ohio, we do not believe this approach is beneficial or useful for the AEP Ohio SSO; we offer a different approach detailed below.

AEP Ohio's proposed solution to simply make small modifications to its auction product schedule will eliminate the need for implementing some new separate auction cost recovery mechanism. AEP Ohio does not opine on whether the Staff's position might be more useful to another electric distribution company with different product terms they currently have completed auctions. So to make it available as a potential alternative, AEP Ohio does not oppose this approach but does believe that given our current auction schedule, the products to be auctioned could simply be adjusted to adapt to the available capacity market schedule (*See* Section D below for AEP Ohio's Recommendation), as this schedule should soon be getting back to a conventional schedule.

If the Commission does choose to move forward with the Staff proposal, AEP Ohio would ask that it be made available as an alternative that an electric distribution company could employ, if its current auction schedule can't otherwise be slightly modified to address the short-term issue with the BRA projected schedule. AEP Ohio would also ask for additional clarity, as several significant changes would need to be made to accommodate this approach in a timely manner.

2. Comments on Energy Harbor Proposal

AEP Ohio addresses each of the following questions with respect to Energy Harbor's proposal, consistent with the Entry:

a. Could an auction for two products – Energy-Only and Full Requirements - be held simultaneously or in parallel with the option for the Commission to reject one of the resulting prices?

Traditionally, energy and capacity products are considered complements and not substitutes, meaning suppliers will want to supply both. In such a context, there are well known complexities to holding an auction for such products. Any such approach would likely increase the administrative cost of handling the auction. While in principle the Commission could reject the results of the auction for one product and not the other, such a possibility would introduce significant risk for bidders looking to supply both products, and this risk will be priced into the bids to the detriment of customers.

b. How long would it take to implement parallel auctions? Would it affect the current fall auction schedule?

The current auction process and schedule includes full requirements products (energy and capacity). Proposing to auction these products separately would require the Company to develop the new product, change the commercial agreement, the underlying SSO Agreement, and adjust the overall auction approach. This would be no small undertaking or initiative. AEP Ohio estimates (based on input from its independent auction manager, NERA) that it would take

approximately 6-8 months to develop the product, the commercial agreement, and the auction approach. Working to implement such an approach on a quicker time schedule would likely only increase the administrative costs of such an effort, to the detriment of customers.

With a 6-8 month time frame to develop, the Fall auctions (November 2020) would not occur under this timeframe, especially considering the current working situation of AEP Ohio and the potential bidders.

c. Are there any issues with the design, structure, or competitive outcomes of such an auction?

Yes, there are issues and questions regarding the design, structure of competitive outcomes of such an auction – including the following:

- What type of auction will be used? The current auction process procures full requirements products, what process would be used to procure energy and capacity separately. Also, suppliers' bids in one auction (capacity) could potentially depend on their bids in the other auction (energy) considering suppliers would be looking to provide both products. This would affect the design of the auction.
- How will the capacity product be defined, as there are various forms of capacity transactions within PJM? Will this be unit-specific? How will the FERC stand that state auctions are subsidies and the potential implications for how the resource will be considered by PJM affect bidding?
- How would this approach affect prices in PJM? Will the uncertainty about the PJM structure going forward affect bids to include significant premiums?

d. If the hedged capacity product is locked in for multiple delivery years, possibly 4 or 5 years in the future, what is the expected effect on the price bids?

The effect of a longer term product is to increase the uncertainty for suppliers, as they won't have visibility into an expected capacity price for a product 4 or 5 years in the future.

While there will be, on a delayed basis, visibility into the capacity price for the 2022/2023 delivery year, there is no discussion about running the Capacity market within PJM on a 4 or 5 year basis. PJM is still working on the implementation of the FERC directives (and more

directives are still to come, as FERC's review of PJM's compliance filing is not complete). It is unknown if suppliers will participate in offering a product without knowledge of the PJM structure that extends beyond the time horizon of the current PJM OATT, but AEP Ohio anticipates that bidders, if they don't have visibility into such rules of the road, they would be expected to increase their bids to the detriment of customers. Additionally, a four or five year product could potentially reduce the number of parties being interested in bidding, as not all bidders necessarily participate in all auctions with different product terms (1, 2 or 3 years).

e. Given generation capacity conditions in the PJM footprint, what is the expected impact on bid prices for a locked-in product relative to capacity prices established through the BRA process as modified by the expanded MOPR?

AEP Ohio is not entirely clear as to the question being posed. The new PJM BRA process with the expanded MOPR is the direction that PJM is following, based on input from FERC. Having this process run its course in the same manner as earlier BRA processes have been completed, seems to be the outcome or result that is being required by FERC. Setting aside the question posed, Suppliers will generally include risk premiums because of the uncertainty of the price estimates for capacity in the future, but that is typically tempered by or based in part on the rules as they are going to be implemented. Bid prices in an Ohio auction for a delivery year could be lower than the prices ultimately obtained in the BRA. Suppliers could forecast incorrectly. There is risk that Suppliers could offer capacity at a price today that turns out to be significantly lower than what they will obtain in the BRA process with an expanded MOPR. The effect of the expanded MOPR is due the prices in the BRA being too low, and these measures should RAISE capacity prices.

f. Would it make sense to stagger and ladder these products as is done in Ohio's SSO auction today and how much load should be locked in at a time?

As AEP Ohio does not see value to overhauling its current set of products being offered in an auction, it is difficult to say for certain whether a staggered and laddered approach for new ‘products’ would be useful. It is unclear what the appropriate approach would be to procure the capacity product, particularly because the proposed product may not be useful to all electric distribution companies based on their ability to make small modifications to the existing product schedules. A stagger and ladder approach could level out potential prices over planning years. But it may or may not be affected by the desire for suppliers to serve energy over periods as well.

g. Would supplier credit worthiness become more of an issue with a longer-term capacity product and if so, what incremental credit requirements should be considered?

Separating products and the term of the products would impact the credit requirements in the current Master Agreement. A capacity only product would be less standard and potentially more difficult to replace once the BRA process resumes. Generally speaking, the longer period or time horizon of a product, the potential exposure to an electric distribution company is increased as well. A ‘product’ that is outside of the framework of the proposed PJM BRA process, as modified by the MOPR, in terms of being four (4) or five (5) years forward would definitely present more credit risk and exposure for electric distribution companies.

h. What have other states in the PJM footprint done to establish or modify a competitive bidding process for retail default generation supply in view of the current limitations and uncertainties regarding the BRA process?

There have been a few states that have made certain changes, but some of those changes may have been driven more by the particular requirements of their State Codes and the Commission Auction processes and documentation that they had implemented. In other words, some of the states may not have had any choice, but to make a change. To date, Maryland, New Jersey and the District of Columbia have all instituted a proxy price for capacity and modified

the contracts. AEP Ohio does not believe for its own current auction process that such an effort or overhaul is necessary.

3. AEP Ohio Recommendations

The Company reserves the right to file additional proposals in the AEP Ohio auction docket, especially regarding potential solutions or modifications to take better advantage of low energy prices, but we provide these recommendations for the capacity issues raised in these dockets – to tweak our auction schedule.

Option 1: AEP Ohio simply plans to update our auction schedule to adjust to the known capacity auctions, as the timing issue associated with the delay in the BRA auction will be resolved in the not too distant future. With this approach, the Company would not have to amend the documents or have a mix of products with/without a capacity proxy price, and as important, the Company could forego the additional administrative expense associated with attempting to implement such a program.

- Fall 2020 – Procure 34 tranches of the 12-month product in November 2020 auction (6/1/21 through 5/31/22).
- By the Spring 2021 auction, the BRA for the 2022/2023 delivery year should have been conducted; the BRA for the 2023/2024 delivery year may not have occurred.
- Spring 2021 – Procure 33 tranches of a 24 month product in March 2021 (June 2021 through May 2023)
- We would have to Add 16 tranches of a 12 month product (June 2022 through May 2023) in each of the November 2022 and March 2023 auction to make up for the reshuffling of the Fall/Spring 36 month products.
- Proposed auction schedule:

Auction	Tranches	21-Jun	22-May	22-Jun	23-May	23-Jun	24-May
Nov-20	33%	12 month					
Mar-21	33%	24 month					
Nov-21	34%			12 month			
Mar-22	34%			24 month			
Nov-22	33%					12 month	
Mar-23	33%					12 month	

Option 2: Non-zero capacity proxy price as an Alternative for Electric Distribution Companies who do not have the flexibility to address the current BRA issue by modifying the

products being offered. Adopt an alternative methodology to determine an average over the past few years of capacity prices to use as reasonably accurate proxy price estimate, to later be reconciled to actual capacity prices. Using a non-zero proxy price is a better method to estimate actual capacity costs even in the face of volatile capacity prices. AEP Ohio believes that maintaining the current auction structure, but providing the potential for some near term flexibility in light of the delay in the BRA, makes for a better outcome for all parties.

CONCLUSION

For the foregoing reasons, AEP Ohio respectfully requests that the Commission consider the above comments.

Respectfully submitted,

/s/ Steven T. Nourse

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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of Ohio Power Company's *Comments* was served by electronic mail upon the individuals listed below this 29th day of May, 2020.

//s/ Steven T. Nourse
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Summary: Comments - Comments of Ohio Power Company electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company