BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

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

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**REPLY COMMENTS OF**
**OHIO EDISON COMPANY, THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND THE TOLEDO EDISON COMPANY**

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## I. INTRODUCTION

In evaluating competing proposals for a modified Standard Service Offer ("SSO") product with capacity flow-through provisions, Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company ("the Companies") recommend selecting the proposal which is best for customers and which remains consistent with the terms of the Companies' approved Electric Security Plan IV ("ESP IV"), requiring no material modifications. The Companies' recommendation that the Commission adopt a "proxy price" approach that uses a proxy for capacity cost, described in initial Comments on Staff's proposal, achieves both of these objectives and has been implemented successfully in New Jersey and Maryland in auctions that were deemed competitive. In contrast, the proposals of other commenters discussed below would shift risk onto the Companies and their customers, and in some cases would require significant modifications to the terms and conditions of approved ESP IV. For the reasons described below and in the Companies' initial Comments, the Commission should select the Companies' proxy price approach instead of these other commenters' proposals.

## II. REPLIES TO COMMENTS

### A. Replies to Energy Harbor's Primary Proposal for Two Separate Products

Instead of an energy-only product with a pass-through capacity charge as described in the Companies' and in Staff's recommendations, Energy Harbor LLC ("Energy Harbor") recommends that each electric distribution utility ("EDU") procure two separate products: an energy-only product and a capacity-only product. The proposed capacity-only product is a long-term financial hedge which requires no specific unit to clear in the PJM base residual auction. The Companies recommend against this proposal because it is devoid of necessary details, increases risk for the Companies' customers, and requires significant material modifications to the Companies' approved ESP IV.

As noted in the Commission's May 15, 2020 Entry soliciting replies to comments, the Energy Harbor proposal is lacking in numerous critical details. As a result, the Companies lack the necessary information to comment on a variety of important issues, such as but not limited to, the proposed design and conduct of the capacity auctions; the necessary rules for settlements; risk management by EDUs and potential bidders; impacts on retail shopping and effects of customer migration; and the transition from the proposed capacity-only financial hedge which would extend beyond the term of ESP IV to the Companies' next ESP. While this list of necessary details is by no means exhaustive, it demonstrates why the Energy Harbor proposal cannot be adequately evaluated.

Based on what is known, however, the Energy Harbor proposal would increase risk for the Companies' non-shopping and PIPP customers.[1] Further, the proposal lacks ESP IV's benefits of staggering and laddering procurement contracts for combined energy and capacity products.

In addition, the Energy Harbor proposal would require significant material modifications to the Companies' ESP IV. In ESP IV, the Commission approved a single full requirements product for the term of ESP IV. Staff's proposal and the Companies' recommendation would maintain the same product and merely implement limited changes to product settlement requiring minor adjustments to the Companies' auction process, and documents and master supply agreement. In contrast, Energy Harbor's proposal is to develop two products, neither of which was approved in ESP IV and one of which is a long-term product that exceeds the term of ESP IV. This proposal would require material changes to the Companies' auction process and documents, supplier master agreements and tariffs. And because the proposed long-term financial capacity hedge would exceed the term of ESP IV, it would also inappropriately set terms for the Companies' next ESP.

### B. Replies to IGS/Direct's Recommendation to Rely on the Secondary Market

Interstate Gas Supply, Inc. and Direct Energy Business, LLC and Direct Energy Services, LLC (collectively, "IGS/Direct") recommend against modifying the auction process, and instead propose shortening the length of the SSO products. IGS/Direct further recommend that in the absence of PJM auction clearing prices, SSO auction bidders should turn to the secondary market and bilaterally contract for capacity.

The Commission should reject IGS/Direct's bilateral capacity proposal because it would require extensive changes in how generation for non-shopping customers is procured in Ohio and

[1] Energy Harbor's alternative proposal, for wholesale suppliers to simply assume capacity price risk, would add premium costs to customer bills.

also would disrupt the Companies' ESP IV. IGS/Direct's proposal would create a different paradigm for setting the price for capacity, whereas the true up in the Companies' recommendation and in Staff's proposal would allow PJM's Reliability Pricing Model to continue to set the capacity price.

### C. Replies to Duke Energy's Agreement with Staff's Proposal

While Duke Energy Ohio, Inc. ("Duke") offers process recommendations, Duke generally is agreeable to accept Staff's proposal to modify the SSO auction product so that capacity is priced at $0/MW-day, with a subsequent true-up. For the reasons set forth in their initial Comments, the Companies recommend that the Commission instead adopt a "proxy price" approach that uses a proxy for capacity cost, which will reduce under-recovery of capacity charges and provide more benefits to the Companies' customers.

## III. CONCLUSION

The Companies appreciate this opportunity to reply to others' comments on the Staff Report and again urge the Commission to select an alternative proxy price target for the Companies' SSO procurements.

Respectfully submitted

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## CERTIFICATE OF SERVICE

The undersigned certifies that the foregoing Reply 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 29th 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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