

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

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

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

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

COMMENTS OF OHIO POWER COMPANY

In its January 3, 2023, Entry in Case No. 17-2391-EL-UNC (Entry), the Public Utilities Commission of Ohio (Commission) seeks stakeholder input regarding whether certain proposed modifications to the Ohio Power Company’s (AEP Ohio’s or Company’s) SSO auctions, as well as to the SSO auctions of the other Electric Distribution Companies (EDUs), “would help significantly reduce prices resulting from SSO auctions.”¹ Specifically, the Commission calls for stakeholder input on the following modifications:

¹ Entry, Case Nos. 16-776-EL-UNC, 17-957-EL-UNC, 17-2391-EL-UNC, and 18-6000-EL-UNC January 3, 2023. Available at <https://dis.puc.state.oh.us/ViewImage.aspx?CMID=A1001001A23A03B20957C00038>.

- a. Including six-month products in the offered products for each auction; and
- b. Revising credit requirements for companies seeking to bid in the SSO auctions in order to promote participation without unduly increasing risk.

The solicitation of the above-mentioned input comes in response to recent increases in the results of the EDUs’ SSO auctions observed over the past year. AEP Ohio offers the following comments in response to the Entry. These comments are submitted by AEP Ohio, in consultation with its auction manager, NERA.

a. Comments regarding including six-month products in the mix of products for each auction

Under the approved auction schedule in AEP Ohio’s current Electric Security Plan (ESP IV), AEP Ohio holds two auctions each year and the products offered in the auctions include products with 12-, 24-, and 36-month supply periods; this is consistent with the supply periods of the products offered in the auctions held under AEP Ohio’s prior ESPs. Each auction includes one to three of the 12-, 24-, 36-month products. The Commission has approved AEP Ohio’s auction schedules with overlapping products of 12-, 24-, and 36-month supply periods in order to minimize uncertainty and potential rate volatility for SSO customers.

As indicated in the Entry, the Commission is investigating whether including a 6-month product in the product mix in each auction would help to significantly reduce prices resulting in the auctions. This investigation comes in response to the increase in auction results seen over the past year. This increase in auction prices can be seen in the table below, which provides information released for each of the November 2021, March 2022, and November 2022 auctions.

Auction	November 2021	March 2022	November 2022
Delivery Period	June 1, 2022, to May 31, 2023	June 1, 2022, to May 31, 2023	June 1, 2023, to May 31, 2024
Date of Auction	November 2, 2021	March 8, 2022	November 1, 2022

No. of Registered Bidders	14	11	7
Clearing Price (\$/MWh)	55.14	69.27	119.98

The auction clearing price of \$119.98/MWh from the November 2022 auction is a dramatic increase from the auction clearing prices of \$69.27 from March 2022 and \$55.14 from November 2021; however, equally worthy of note is the decrease in the number of registered bidders in the November 2022 auction. The number of registered bidders in each of AEP Ohio's auctions held under ESP IV has ranged from 11 to 15 bidders, and as provided in the table above, the number of registered bidders in the November 2021 and March 2022 auctions fell within this range. The number of registered bidders in the November 2022 auction dropped to 7 bidders, which is the lowest level of participation in any auction held under ESP IV. AEP Ohio and its auction manager appreciate the Commission's investigation into whether including a 6-month product in the auction will help to significantly lower prices; however, as attracting maximum participation in the auctions is one of the driving forces for the Competitive Bidding Process (CBP) to achieve efficient and market-reflective prices, attracting participants to the auction and maximizing participation is what enables competition among bidders to drive prices down to be consistent with the market and is what will help to significantly reduce recent prices.

AEP Ohio submits that the best way to reduce auction clearing prices in future auctions is to increase participation. Thus, a modification that aims to significantly reduce prices should also be reasonably expected to increase participation in future auctions. It is not clear that the addition of a 6-month product will lead to an increase in participation or attract new bidders to the auction, and given this, including a 6-month product in the auctions may not achieve the desired outcome of reducing prices in the auction.

Additionally, it is not expected that a 6-month product would result in a lower auction price more consistently than the 12-, 24-, or 36-month products already offered. This is due to the plain fact that energy prices in winter months are typically higher than that of other months in the year. A 6-month product that includes the winter months may actually result in a higher price in the auction than would a 12-month product, which would ultimately result in a higher rate for SSO customers during those 6 months. This further demonstrates why the addition of a 6-month product may not be an advantageous modification to the SSO auctions at this time as the consequences of adding a 6-month product may not achieve lower prices. As a related matter, there is additional potential exposure to market volatility through more frequent auctions with more granular auction products.

In sum, the existing structure of laddering and staggering optimizes the balance between diversification of market exposure and practical implementation of a reasonable auction schedule.

b. Comments regarding revising credit requirements for companies seeking to bid in the SSO auctions in order to promote participation without unduly increasing risk

Under Article IX of the CBP Rules for AEP Ohio's ESP IV² (CBP Rules), in the case of supplier default, AEP Ohio may be required to procure the related SSO Supply in PJM-administered markets for the defaulted tranches until an SSO Supplier wins such tranches at the auction or in some cases, for the remainder of the delivery period. The credit requirements included as part of the auction process are designed to protect SSO customers and AEP Ohio from exposure to the costs and risks associated with supplier default and the contingency plan, and therefore, an important purpose of the auction application process is to qualify companies

² Bidding Rules for the Auctions Under the Competitive Bidding Process of Ohio Power Company. Available at https://aepohiocbp.com/assets/files/March%202023%20AEP%20Auction%20CBP%20Rules_13%20DEC%202022.pdf.

that can reasonably demonstrate their ability to perform under the Master SSO Supply Agreement³ should they be a winner at the auction. Regarding credit, generally, winners at the auction are required to post performance assurance (post-bid security) with AEP Ohio that is commensurate with AEP Ohio's exposure to a supplier default. There are unsecured credit lines extended to suppliers with investment grade ratings and suppliers that rely on a guarantor with investment grade ratings. In order to qualify to bid, each applicant posts pre-bid security, which aims to ensure to the extent possible that the applicant can post the required post-bid security amounts and meet any margin calls made during the term of the Master SSO Supply Agreement. Additionally, a credit-based tranche cap, a limit on the amount of tranches a bidder can bid and win in an auction, applies to applicants that are not rated or have credit ratings below investment grade, and do not have a guarantor that is investment grade, as further discussed below.

Another important objective of the application process is to be open to a wide range of potential bidders in order to maximize participation to increase the offered supply available to bid in the auction. For this reason, the pre-bid credit requirements aim to balance protecting SSO customers and AEP Ohio from a supplier default while allowing the largest pool of qualified participants possible to compete. As described in Section IV.29 of the CBP Rules, in order to qualify to bid, a bidder is required to provide a pre-bid letter of credit or cash in an amount of \$500,000 per tranche for the number of tranches the applicant wishes to bid at the maximum starting price announced by the auction manager. If more than one product is offered at an auction, additional pre-bid security on a per tranche basis of \$300,000 is required; however, in lieu of posting this additional amount any bidder may choose to submit a letter of intent to provide a guaranty from a creditworthy guarantor or a letter of reference from a bank. This

³ Master Standard Service Offer ("SSO") Supply Agreement. Available at https://aepohiocbp.com/assets/files/AEP%20Ohio%20Master%20SSO%20Supply%20Agreement_13%20DEC%202022.pdf.

requirement is standard across all bidders and the levels are in line with standards for similar contracts for default supply.

Additionally, as part of the application process, bidders undergo a credit assessment that may ultimately limit the number of tranches that a bidder may bid and win in the auction. This “credit-based tranche cap” helps to limit the exposure of SSO customers and AEP Ohio to a winning bidder that is not rated or has credit ratings below investment grade and does not have a guarantor that is investment grade. The credit-based tranche cap aims to provide reasonable assurances that such a bidder will be able to meet the credit requirements including responding to any required margin calls made during the term of the Master SSO Supply Agreement.

In accordance with Section IV.1.4 of the CBP Rules, “the parameters [surrounding the credit-based tranche cap] may vary over time at AEP Ohio’s sole discretion. Any change to the parameters [surrounding the credit-based tranche cap] will be provided in the Bidder Information Session.” (see CBP Rules at page 10). A change to this parameter would be based on many factors such as the total number of tranches available at the auction. AEP Ohio, in consultation with its auction manager, implemented a change for its March 2023 auction and the auction manager announced this change during the bidder information session that was held on January 9, 2023. For its SSO auction set to occur in March 2023, the credit-based tranche cap was increased aiming to increase participation in the auction for bidders that may be restricted in the number of tranches they can bid and win in the auctions. This increase to the credit-based tranche cap was also made in light of the higher tranche target (55 tranches) in the March 2023 auction relative to prior auctions held under ESP IV, in which the tranche target ranged from 17 to 50 tranches. The credit-based tranche caps for the March 2023 auction are provided in the table below. For the March 2023 auction, bidders that are not rated or have credit ratings below

investment grade, and do not have a guarantor that is investment grade, are able to qualify to bid up to 8 tranches in the auction, where previously, based on the credit-based tranche cap parameters of prior auctions, these bidders could only bid up to 5 tranches.

Credit Rating for Bidder or Guarantor			
S&P	Moody's	Fitch	Credit-Based Tranche Cap
BB and above	Ba2 and above	BB and above	No Cap
BB-	Ba3	BB-	15
Below BB-	Below Ba3	Below BB-	8
If not rated by any of these rating agencies			8

These credit-related components of the auction process all serve to balance and protect customers and AEP Ohio from costs and risks associated with supplier default. Any modification to the credit requirements within the auction process should maintain the protections for SSO customers and the integrity of the SSO auctions. If the credit requirements in the auction process are relaxed, then participation may increase, but there are risks to any such revisions.

c. Flexibility in postponing an auction or modifying an auction schedule

Under the CBP Rules for ESP IV, the auction manager, in consultation with AEP Ohio and Commission Staff, together referred to here as “the parties”, “may make changes to [an] auction schedule as circumstances warrant” (see Section II.2.3 of the CBP Rules). The auction manager and AEP Ohio believe this rule provides these parties with flexibility to potentially postpone an auction or modify the auction schedule. In particular, if it can be reasonably determined by the parties that a postponement or modification to the auction schedule could lead to a better outcome in terms of supplier participation a change may be warranted. For example, it may be appropriate to modify the auction schedule if an unanticipated, extreme weather event

inhibits bidders' abilities to physically participate in the auction. Additional examples the auction manager believes could have a negative impact on supplier participation and thus would warrant this flexibility to be used includes extraordinary events, such as the advent of war, terrorism, or an act of God. This flexibility to modify an auction schedule exists in other jurisdictions⁴; the auction manager and AEP Ohio understand that the Entry does not propose a modification to the EDUs' SSO auctions that would remove this flexibility, but the auction manager and AEP Ohio believe that this flexibility should be maintained or augmented in order to deal with unplanned developments.

CONCLUSION

In conclusion, AEP Ohio appreciates the opportunity to file comments and requests that the Commission take action as described above to implement the Company's recommendations.

Respectfully submitted,

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⁴ For example, the flexibility to modify an auction schedule exists in Pennsylvania under PECO Energy Company's procurement of Default Supply; see Section I.1.8 of the PECO Energy Company Default Service Program Request for Proposals available here: [https://www.pecoprocurement.com/assets/files/0%20DSP%20V%20RFP%20Rules_MAR2023%20\(Dec%2020%20posted\).pdf](https://www.pecoprocurement.com/assets/files/0%20DSP%20V%20RFP%20Rules_MAR2023%20(Dec%2020%20posted).pdf)

CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing was sent by, or on behalf of, the undersigned counsel to the following individuals this 24th day of January, 2023, via electronic mail.

/s/ Steven T. Nourse

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Summary: Comments Ohio Power Company's Comments electronically filed by Mr.
Steven T. Nourse on behalf of Ohio Power Company