

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)
Ohio Power Company for Authority to)
Establish a Standard Service Offer) Case No. 23-23-EL-SSO
Pursuant to Section 4928.143, Revised)
Code, in the Form of an Electric Security)
Plan)

In the Matter of the Application of Energy)
Ohio Power Company for Approval of) Case No. 23-24-EL-AAM
Certain Accounting Authority)

**TESTIMONY RECOMMENDING MODIFICATION OF THE STIPULATION
OF
JAMES F. WILSON**

On Behalf of
Office of the Ohio Consumers' Counsel
65 East State Street, Suite 700
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September 20, 2023

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On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 23-23-EL-SSO, et al.*

1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.***

4 ***A1.*** My name is James F. Wilson. I am an economist and principal of Wilson Energy
5 Economics. My business address is 4800 Hampden Lane Suite 200, Bethesda,
6 MD 20814.

7

8 ***Q2. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS***
9 ***PROCEEDING?***

10

11 ***A2.*** Yes. My direct testimony on behalf of the Office of the Ohio Consumers' Counsel
12 ("OCC") was submitted on June 6, 2023. My experience and qualifications, and a
13 list of past testimony before the Public Utilities Commission of Ohio ("PUCO")
14 and in other venues, were provided in my curriculum vitae, Attachment JFW-1 to
15 my direct testimony.

16

17 ***Q3. WHAT IS THE PURPOSE AND SCOPE OF YOUR TESTIMONY?***

18 ***A3.*** In Case No. 23-23-EL-SSO Ohio Power Company ("AEP Ohio" or "the
19 Company") has proposed a new electric security plan ("ESP") for the period June
20 1, 2024 through May 31, 2030. Many parties to the proceeding filed a Joint
21 Stipulation and Recommendation ("Settlement") on September 6, 2023. My
22 assignment was to review the Settlement and provide recommendations for
23 changes to ensure the ESP will benefit customers and the public interest. My

1 evaluation is pursuant to the three-part test the PUCO traditionally uses when
2 evaluating settlements.

3
4 **II. SUMMARY AND RECOMMENDATIONS**

5
6 ***Q4. FIRST, PLEASE DESCRIBE THE PUCO'S THREE-PART TEST FOR***
7 ***EVALUATING SETTLEMENTS.***

8 ***A4.*** The PUCO traditionally evaluates whether a settlement:¹

- 9 1. is a product of serious bargaining among capable, knowledgeable parties
10 representing diverse interests;
11 2. does not violate any important regulatory principle or practice; and
12 3. as a whole, benefits customers and the public interest.

13
14 ***Q5. PLEASE SUMMARIZE THE SCOPE AND MAIN CONCLUSIONS OF***
15 ***YOUR DIRECT TESTIMONY IN THIS CASE.***

16 ***A5.*** My direct testimony focused on possible changes to the structure or rules of the
17 standard service offer (“SSO”) auctions, in light of recent auctions that led to
18 sharply higher prices and costs to SSO customers. I first summarized recent SSO
19 auction results and discussed how an increase in perceived risk was leading to
20 higher prices. I then evaluated three categories of possible changes that could
21 potentially limit the risk perceived by SSO suppliers and contribute to more
22 efficient and lower cost SSO outcomes for customers: 1) placing limits on
23 customers’ rights to switch into and out of SSO; 2) placing limits on SSO

¹ Settlement at p. 35.

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1 suppliers' sales obligations at the SSO auction price when there are large inflows
2 into SSO; and 3) holding separate SSO auctions by customer class.

3
4 I concluded that holding separate SSO auctions for residential customers, or
5 perhaps residential and small commercial customers, had the potential to
6 significantly mitigate the perceived risk of SSO service, and could lead to more
7 efficient and lower cost SSO auction outcomes for customers. I recommended that
8 the PUCO require the Company to implement separate SSO auctions for
9 residential customers, perhaps also including small commercial customers.

10
11 With regard to placing limits on switching, I concluded that while such rules do
12 help to limit the quantity risk faced by SSO suppliers, they do not go very far in
13 limiting this risk; so, to achieve efficient SSO auction results, some limits on
14 switching may be helpful but more is likely needed to achieve efficient auction
15 outcomes.

16
17 With regard to rules limiting the quantities SSO suppliers are obligated to serve, I
18 concluded that this could be effective in limiting the perceived risk associated
19 with large inflows to SSO service, but the details of such rules could become
20 complicated and controversial.

1 **Q6. DOES THE SETTLEMENT PROPOSE ANY CHANGES TO THE SSO**
2 **AUCTION RULES THAT COULD ADDRESS THE RISK ISSUE AND**
3 **IMPROVE THE EFFICIENCY OF THE AUCTION OUTCOMES?**

4 **A6.** No; the Settlement does not propose any of the changes I discussed in my direct
5 testimony.

6
7 The Settlement does propose (pp. 3-4) to use a “capacity pass-through
8 mechanism” to address the specific problem that arises when an SSO auction is
9 scheduled, and the applicable PJM capacity price has not been determined for the
10 delivery year. This is a concept that is also under discussion in a separate PUCO
11 proceeding.² No other relevant changes are proposed.

12
13 **Q7. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE**
14 **CAPACITY PASS-THROUGH MECHANISM?**

15 **A7.** As further explained below, if the capacity pass-through mechanism is approved,
16 the PUCO should provide some guidance on how the proxy price will be set.

17
18 **Q8. WILL THE SETTLEMENT’S PROPOSED APPROACH TO THE SSO**
19 **AUCTIONS MITIGATE SUPPLIER RISK AND LEAD TO EFFICIENT AND**
20 **LOW COST SSO AUCTION OUTCOMES FOR CUSTOMERS?**

21 **A8.** No, I do not believe the approach will achieve efficient auction outcomes. Some
22 of the changes discussed in my direct testimony – especially separate auctions for
23 residential customers, and perhaps limits on supplier quantity risk – are needed.

² *In the Matter of the Proposed Modifications to the Electric Distribution Utilities’ Standard Service Offer Procurement Auctions*, Case No. 23-781-EL-UNC, Entry (July 26, 2023) and Attachment A, Staff Proposal and Recommendation.

1 **Q9. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE**
2 **SETTLEMENT?**

3 **A9.** The PUCO should require that the Company hold separate auctions by customer
4 class. The PUCO should also provide guidance on how the proxy price will be set
5 for the capacity pass-through mechanism. These changes are necessary to ensure
6 the Settlement benefits consumers and the public interest.

7

8 **Q10. HOW IS THE REMAINDER OF YOUR SUPPLEMENTAL TESTIMONY**
9 **ORGANIZED?**

10 **A10.** The next section further discusses the possibility of holding different SSO
11 auctions by customer class. The final section addresses the proposed capacity
12 pass-through mechanism.

13

14 **III. SEPARATE SSO AUCTIONS FOR DIFFERENT CUSTOMER CLASSES**

15

16 **Q11. PLEASE EXPLAIN YOUR CONCLUSION THAT HOLDING SEPARATE**
17 **AUCTIONS BY CUSTOMER CLASS WOULD LEAD TO MORE EFFICIENT**
18 **SSO AUCTION OUTCOMES, BENEFITING CONSUMERS AND THE**
19 **PUBLIC INTEREST.**

20 **A11.** Different customer classes are different in two principal ways relevant to the cost
21 to serve under an SSO obligation:

22 1. Different customer groups have different load shapes throughout the hours
23 of the day and on a seasonal basis; in general, more variable load shapes
24 are more costly to serve; and

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2. The customer groups also differ in the propensity to switch into or out of SSO service when market prices change and render a switch attractive. Generally speaking, smaller customers with less to save by switching are less likely to switch; large customers with more at stake are more likely to be watching the market for opportunities to save on their electricity costs.

Holding separate auctions for different customer classes would allow SSO suppliers to tailor their bids to the particular costs and risks presented by each class. When the costs and risks differ but the classes are included in the same auction, the lower-cost customer classes will in effect be subsidizing the service provided to the higher-cost customer classes.

Q12. DO OTHER RETAIL ACCESS STATES SEPARATE DEFAULT SERVICE INTO DIFFERENT PRODUCTS FOR DIFFERENT CUSTOMER GROUPS?

A12. Yes. It is common to hold separate auctions for either residential customers, or residential together with small commercial. In particular, New Jersey, Maryland, the District of Columbia, and Illinois hold separate auctions for residential together with small commercial customers. In Pennsylvania, Delaware and Massachusetts the auctions are by customer class, so residential customers have a separate auction. These approaches to standard offer service in these states have been in place for many years. The following paragraphs summarize early decisions to employ these approaches:

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- 1 ▪ Massachusetts (2000), providing a six-month fixed price approach for
2 residential and small commercial and industrial customers, and a variable
3 price approach for medium and large commercial and industrial
4 customers.³
- 5 ▪ New Jersey (2002), approving two auctions for Basic Generation Service,
6 one for larger commercial and industrial customers and one for all other
7 small customers.⁴
- 8 ▪ Maryland (2004), providing for Residential Standard Offer Service
9 (“SOS”) and three types of non-residential SOS.⁵
- 10 ▪ Delaware (2005), providing for a fixed price SOS for all but the largest
11 customers and an hourly priced service for the largest customers.⁶
- 12 ▪ Illinois (2006), adopting an approach with three-year contracts for serving
13 residential and small commercial customers.⁷

³ Massachusetts Public Utilities Commission, Opinion and Order, *Re Pricing & Procurement of Default Service*, Docket No. 99-60 (June 30, 2000), p. 4.

⁴ New Jersey Board of Public Utilities Decision and Order, *In the Matter of the Provision of Basic Generation Service Pursuant to the Electric Discount and Energy Competition Act*, Docket Nos. EX011110754 and EO02070384 (December 11, 2001), p. 3.

⁵ Maryland Public Service Commission Order No. 78400, *In the Matter of the Commission's Inquiry into the Competitive Selection of Electricity Supplier/Standard Offer Service*, Case No. 8098 (April 29, 2003), p. 3.

⁶ Delaware Public Service Commission Order No. 6746, *In the Matter of the Provision of Standard Offer Supply to Retail Consumers in the Service Territory of Delmarva Power & Light Company after May 1, 2006*, Docket No. 04-391 (October 11, 2005), p. 4.

⁷ Illinois Commerce Commission, Order, *Central Illinois Light Company d/b/a AmerenCILCO*, Docket No. 05-1650 (January 24, 2006), p. 129.

- 1 ▪ Pennsylvania (2007), recommending different procurement strategies for
2 different customer classes, consistent with the level of energy knowledge,
3 financial resources, and opportunity to shop associated with these groups.⁸

4
5 ***Q13. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING SEPARATE***
6 ***AUCTIONS BY CUSTOMER GROUP.***

7 ***A13.*** Holding separate SSO auctions for residential, or perhaps residential and small
8 commercial, customers, an approach many other states have adopted, is the best
9 option for improving the efficiency of SSO auction outcomes, thereby benefiting
10 consumers and the public interest. SSO suppliers are likely to find smaller
11 customers less likely to switch into and out of SSO service and, therefore, less
12 risky to serve.

13
14 **IV. THE PROPOSED CAPACITY PASS-THROUGH MECHANISM**

15
16 ***Q14. WHY DOES THE SETTLEMENT INCLUDE A CAPACITY PASS-***
17 ***THROUGH MECHANISM?***

18 ***A14.*** The capacity pass-through mechanism addresses the concern that the applicable
19 PJM capacity prices may not be known before an SSO auction, creating risk for
20 bidders into the SSO auction.

⁸ Pennsylvania Public Utility Commission Final Policy Statement, Default Service and Retail Electric Markets, Docket No. M-00072009 (May 10, 2007), p. 6.

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1 ***Q15. PLEASE DESCRIBE THE PROPOSED CAPACITY PASS-THROUGH***
2 ***MECHANISM.***

3 ***A15.*** The Settlement calls for the capacity pass-through mechanism to be used in the
4 event “BRA clearing prices” for some of the planning years covered by any of the
5 SSO auction products are not known before the SSO auction. While “BRA” is not
6 defined in the Settlement I understand this to mean the Base Residual Auctions
7 held under PJM Interconnection, LLC’s Reliability Pricing Model capacity
8 construct. This is consistent with the Staff Proposal and Recommendation
9 attached to the Entry in Case No. 23-781-EL-UNC, cited earlier in my testimony.
10 The Settlement calls for the SSO auction manager, in consultation with Staff, to
11 establish a “proxy capacity price” based on “objective criteria” in advance of the
12 auction. Once the actual applicable PJM capacity price is known, the SSO auction
13 clearing price will be “trued up” based on the difference between the actual price
14 and the proxy price.

15

16 ***Q16. DOES THE SETTLEMENT ENUNCIATE ANY PRINCIPLES TO GUIDE***
17 ***HOW THE PROXY PRICE IS SET?***

18 ***A16.*** No.

19

20 ***Q17. DO YOU HAVE ANY CONCERNS ABOUT THE CAPACITY PASS-***
21 ***THROUGH MECHANISM?***

22 ***A17.*** Yes. The mechanism and associated true-up are potentially confusing, especially
23 to smaller residential and commercial consumers who are likely paying less
24 attention to the details of the SSO auctions. The mechanism renders any “apples

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1 to apples” comparison or “price to compare” less meaningful at best, and
2 potentially misleading at worst. And when a true-up occurs and changes the
3 anticipated cost of SSO service, this could potentially leave some customers
4 feeling cheated, especially if the SSO price is sharply increased.

5
6 ***Q18. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE***
7 ***CAPACITY PASS-THROUGH MECHANISM.***

8 ***A18.*** If the capacity pass-through mechanism is approved, to ensure it benefits
9 consumers and the public interest, the PUCO should provide some guidance on
10 how the proxy price will be set. I recommend erring on the high side in setting the
11 proxy price, to reduce the likelihood of a substantial upward true-up. Setting the
12 proxy price based on a historical average of capacity prices is likely to err on the
13 low side, because these prices have been very low recently.

14
15 ***Q19. WOULD THIS CAPACITY PASS-THROUGH MECHANISM ADDRESS THE***
16 ***SSO SUPPLIER RISK ISSUES YOU DISCUSSED IN YOUR DIRECT***
17 ***TESTIMONY?***

18 ***A19.*** No. My direct testimony addressed the concerns raised mainly by customers
19 switching into and out of SSO service. The capacity pass-through mechanism
20 addresses a different and very specific issue around the timing of the PJM
21 capacity auctions.

1 **V. CONCLUSION**

2

3 ***Q20. PLEASE SUMMARIZE YOUR EVALUATION OF THE SETTLEMENT.***

4 ***A20.*** To ensure the ESP that results from the Settlement will benefit consumers and the
5 public interest, the PUCO should require that the Company hold separate SSO
6 auctions by customer class. The PUCO should also provide guidance on how the
7 proxy price will be set for the capacity pass-through mechanism and consider
8 allowing competitive suppliers to use the same mechanism.

9

10 ***Q21. DOES THIS COMPLETE YOUR SUPPLEMENTAL TESTIMONY?***

11 ***A21.*** Yes, it does. However, I understand that I may be asked to update or further
12 supplement my testimony based on new information that may become available.

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Testimony Recommending Modification of the Stipulation of James F. Wilson on Behalf of the Office of the Ohio Consumers' Counsel was served on the persons stated below via electronic transmission, this 20th day of September 2023.

/s/ William Michael

William Michael

Assistant Consumers' Counsel

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