BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Authority to Merge and Related Approvals.	))))	Case No. 10-2376-EL-UNC
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan.	))))))	Case No. 11-346-EL-SSO Case No. 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	))))	Case No. 11-349-EL-AAM Case No. 11-350-EL-AAM
In the Matter of the Application of Columbus Southern Power Company to Amend its Emergency Curtailment Service Riders.	))))	Case No. 10-343-EL-ATA
In the Matter of the Application of Ohio Power Company to Amend its Emergency Curtailment Service Riders.	)))	Case No. 10-344-EL-ATA
In the Matter of the Commission Review Of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company.	))))	Case No. 10-2929-EL-UNC
In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Ohio Revised Code 4928.144	)))))	Case No. 11-4920-EL-RDR
In the Matter of the Application of Ohio Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Ohio Revised Code 4928.144	)))))	Case No. 11-4921-EL-RDR

MEMORANDUM OF THE RETAIL ENERGY SUPPLY ASSOCIATION
IN RESPONSE TO THE SECOND REHEARING PETITION OF OHIO POWER

I. INTRODUCTION

On February 10, 2012 AEP Ohio[1] filed a rehearing request to the Commission's Entry of January 23, 2012 which addressed the detailed implementation plan (DIP) for the Second AEP Ohio Electric Security Plan (ESP II). Among the issues addressed in that pleading were concerns raised by the Ohio Manufacturers Association (OMA) about steep increases experienced by small business customers. In response, AEP Ohio suggests several adjustments to the DIP which could alleviate the disproportionate impact on these small business customers, generally classified as GS-2 customers, while maintaining the basic tenants of the Stipulation filed on September 7, 2011.[2]

The Retail Electric Supply Association (RESA) is an active party in this proceeding. Several members of RESA are licensed competitive retail electric service (CRES) providers serving customers in the AEP Ohio service area. Those RESA members serving GS-2 and low load factor GS-3 customers have also observed large overall rate increases similar to that described in OMA's second rehearing petition[3] and echoed by the over 200 letters from small business owners which have been docketed in this proceeding.[4]

RESA files this Memorandum in response to the implementation adjustments detailed on pages 14 and 15 of AEP Ohio's February 10, 2012 pleading. RESA also files this Memorandum to demonstrate its support of the Commission's efforts to address what appears to be a disproportionate increase in rates for low load factor GS-2 and GS-3 customers.[5] RESA and its member companies are very sensitive to the hardships that so many businesses have suffered during the extended economic downturn. RESA understands that businesses both big and small are the employment and

1 Section 4928.02, Revised Code – first passed as part of Senate Bill 3 in 1999 and amended in Senate bill 221 in 2008.
2 AEP Ohio Second Rehearing Petition filed February 10, 2012, pp. 14-15.
3 OMA Rehearing Petition of January 15, 2011, p. 10-11.
4 Docketing letter postings, Case No. 11-346-EL-SSO.
5 Press Release of the Public Utilities Commission of February 10, 2012 concerning small business rates.

economic drivers in Ohio. RESA also understands that increased electricity rates could hinder economic recovery in the state. However, RESA does not believe that the increases experienced by the low load factor small business customers are the product of the Commission's decision to support a transition to reliance upon the competitive market model for the provision of energy and capacity in the AEP Ohio service area. Rather, RESA believes that the rate increases are the direct result of two revenue-neutral rate design riders designed to phase in the rates authorized in the Opinion and Order. RESA therefore supports the Commission's efforts to address the rate design issues but urges the Commission to maintain its commitment to providing customers with the benefits of competitive markets throughout Ohio. RESA believes that these competitive energy markets create the products, service, and value that Ohio businesses need to rebound and thrive as the economic recovery expands. RESA member companies are actively marketing to customers throughout the AEP Ohio service territory as well as throughout other portions of Ohio.

II. DEFINING THE PROBLEM

The problem, simply put, is that a large number of Ohio small businesses are seeing increases in their total electricity bill regardless of whether they shop for supply from a competitive supplier or continue to purchase energy supply from AEP Ohio. It is important to remember, however, the electric service bill that an AEP Ohio small business customer receives is made up of several cost components. The first component is the energy a retail customer buys from either a CRES Provider via the competitive market or from AEP Ohio via the utility tariff. The second component is distribution or the delivery and wires side costs for which customers have no competitive options. Third, regardless of who you purchase your energy supply from, AEP Ohio charges all small business customers, on a non by-passable basis, for: the Phased in Rider[6]; the load Factor Rider (Rider LF), and the Market Transition Rider (MTR). It is the combination of all of these charges that make up a

[6] A deferral is now being collected.

small business customer's electricity bill.

To illustrate the impacts of the rates under ESP II, a rate sheet for a prototypical small business customer on AEP Ohio rate GS-2 with a 100,000 kWh annual load and a relatively low load factor is attached as Appendix A. What is instructive to note is that the AEP Ohio tariff cost for generation including fuel and the Environmental Investment Carrying Cost rider for the prototypical GS-2 under ESP I rates in 2011 would have been $8,639. Under the 2012 ESP II rates, the cost for the same amount of load with the same load factor would actually drop to $6,119. Further, the Commission's Apples to Apples chart shows that CRES Providers are currently offering energy for less than under the AEP ESP II tariff on a per kWh basis. While generation costs are down, distribution costs for our prototypical GS-2 customer do increase slightly from ESP I to ESP II[7] rising from $2,422 to $2,731. Similarly, there are small increases from ESP I to ESP II in the social riders such as the universal service fund. If the combined cost of energy and distribution for a low load factor GS-2 customer actually went down under the rates promulgated under the December 14th Opinion and Order, one may ask how the prototypical GS-2 customer ended up with an 18% increase in its total bill. The answer can be found in the structure of two new temporary ESP II riders: Rider LF (the Load Factor Rider) and Rider MTR (Market Transition Rider).

Rider LF applies to all AEP Ohio customers. The express purpose of Rider LF is to transfer a large portion of the obligation for wires charges from high load factor customers to low load factor customers by virtue of assessing a demand charge on the peak usage which is offset by a credit based on kilowatt hours consumed. Rider LF is structured so that all GS-2 customers pay a charge of $3.29 kW based on their peak demand. That demand charge is then netted against a 2.28 mil per kWh usage credit which is also a part of Rider LF. High load factor customers often have enough usage that the credit offsets most, if not all, of the demand charge. Conversely, low load factor customers

[7] The Commission authorized a change in the distribution rates for AEP Ohio customers in Case No. 351-EL-AIR which was approved at the same time as the matter at bar.

simply do not have enough usage for the credits to offset the demand charge. As a result, Rider LF becomes a significant charge to low load factor customers. For the prototypical low load factor customer depicted in Appendix A, Rider LF is an increased charge of $1,993 a year. For the prototypical GS-2 customer the Rider LF increase is equal to about a third of a its annual energy bill. That is why even though receiving a lower priced option from a CRES Provider while lowering the generation portion of the bill may not be enough to offset the effective total bill increase resulting from Rider LF.

The rates under Rider LF, as currently filed, are fixed for five years at which time the Rider expires. Given the cost impact directly attributable to Rider LF, AEP Ohio has suggested on pages 14 – 15 of its Rehearing Petition that Rider LF, as it applies to GS-2 customers, be phased in starting with 25% of the current $3.29 demand rate charged in 2012 and then moving up to 50% in 2013, 75% in 2014 and 100% in 2015. RESA supports the proposed mechanism given that the phase in would bring immediate relief to GS-2 customers for 2012. Further, the increased rates in 2013 and 2014 due to phase in of Rider LF would coincide with decreases scheduled in that time period for the MTR, thereby lessening the impact of the newly structured Rider LF on the total bill.

The other major contributor to the increase in GS-2 customer rates is the structure of the MTR. The MTR is not an energy charge or a wires charge. The MTR serves more as a mechanism to soften the increase to residential and certain larger business customers by creating a cross-subsidy from small and medium sized business customers. All GS-2 customers pay an MTR of 2.253¢ per kWh.[8] For the prototypical Columbus Southern Power Zone GS-2 customer, this came to $2,253 per kWh. While the MTR starts out at a fairly high level for GS-2 and GS-3[9] customers in 2012, it decreases each year until the cross-subsidization phases out and the rider expires in 2015.

The inclusion of the MTR in the AEP ESP II is based on the regulatory principle of

[8] The Ohio Power Zone MTR is 7.75 mils per kWh
[9] GS-3 MTR is 5.93 mils per kWh

gradualism, a time honored principle that this Commission has often employed when setting rates.[10] Rider MTR is structured in a way that provides a set of gradually decreasing credits that are meant to offset overall rate increases – in this case, increases incurred by larger customers. To provide those credits, the MTR is charged to customer classes whose overall rates will decrease over time – in this case, small customers – thereby making the decrease more gradual. As such, to lessen the impact that the MTR has on the smaller customers, the Commission could decrease the size of the offsetting credits that the subsidized customers receive thereby decreasing the magnitude of the MTR payment. Again, while RESA supports the Commission's efforts to reduce the impact of the MTR on schools and small businesses in the state, it asks that the Commission seek remedies to the structure of the rider that do not jeopardize the overall transition of the AEP Ohio service area to an energy market based on competition and customer choice.

AEP Ohio's suggestion is limited only to low load factor GS-2 customers. It does not address a similar problem for low load factor GS-3 customers. In fact, the relief to the GS-2 customer will create an additional increase in Rider LF for the GS-3 customer. In looking at the letters filed with the Commission and from the January bills it is clear that the combination of Rider LF and MTR have created double digit increases for low load factor GS-2 customers as well as some low load factor GS-3 customers. Therefore as the Commission reviews this particular issue it is appropriate to look at the total effect on both low load factor GS-2 and GS-3 customers and not just the effect on GS-2 customers in order to address all the rate fly up complaints.

III. PUTTING THE LOW LOAD FACTOR ISSUE IN PERSPECTIVE

As previously discussed, the steep rate increases that small businesses in the AEP Ohio service area are facing are primarily due to the structure of Rider LF and the MTR -- and not a result

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10 See, e.g., In re Ohio Edison Company, et al., Case No. 07-551-EL-AIR, et al., Opinion and Order, January 21, 2009, at pp. 29-30; In re CEI, et al., Case No. 95-299-EL-AIR, et al., Opinion and Order, April 11, 1996, at pp. 59 and 61; and In re Ohio Power, Case No. 94-996-EL-AIR, et al., Opinion and Order, March 23, 1995, at pp. 22-23.

of a movement from a monopoly regulated model to one that relies upon the competitive market. Even though both of those riders are temporary, the impact on customers in 2012 is significant. While the Commission cannot and should not ignore these impacts, it also should not ignore the customer and policy benefits that accrue from a move to competitive market-based solutions for the provision of energy and capacity as it searches for remedies to portions of the AEP ESP II structure.

In 1999, the Ohio General Assembly established a state energy policy as it pertains to electricity. The Policy included provisions to ensure the availability of unbundled and comparable retail electric service,[11] prohibit anticompetitive subsidies,[12] and provide for a diversity of supplies and suppliers.[13] However, at the time ESP II was filed[14] little progress had been made towards these goals in the AEP Ohio service area. According to the Commission's Market Monitoring Report available at that time, less than three percent of the AEP Ohio load and less than one percent of its customers were shopping for energy.[15] The Opinion and Order decisively addresses the decade long lack of progress in providing access to the open energy market by providing for two major changes on the AEP Ohio system.

The first policy achievement of the Opinion and Order is the initiation of an open, transparent, and competitive process for the provision of capacity to meet the requirements of the retail customers in the AEP Ohio service territory. Once AEP Ohio participates in the next PJM 2015-2016 Base Residual Auction (BRA) under the RPM construct, all customers in the service area will have access to the efficient, market-based capacity prices that result from the competitive auction. Encouragingly, AEP made several compliance filings at the Federal Energy Regulatory Commission

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11 Section 4928.02 (B), Revised Code.

12 Id., subsection (H).

13 Id., subsection (C).

14 January 27, 2011.

15 PUCO Market Monitoring Report for the 4th Quarter of 2010. (the percentages were taken by combining the Ohio Power and Columbus Southern Power CRES sales and customer numbers and dividing those by the combined Ohio Power and Columbus Southern total MWh total sales and number of customers).

on February 10, 2012 so that it can participate in the BRA and remain in compliance with the Opinion and Order.[16]

The second policy achievement of the Opinion and Order is the removal of numerous structural barriers that prevented retail customers from reaping the benefits of the competitive electric market[17]. As previously stated, the period before ESP II saw virtually no energy shopping. Since the Stipulation was made public, retail customers have flocked to CRES providers for electricity service. The record in this proceeding reveals that by September 8, 2011 more than 21% of both commercial class and industrial class demand load was signed up to shop for energy[18] including some 1,500 customers who did so without RPM-based capacity pricing.[19] Equally impressive, is the increase in the number of CRES Providers and Power Broker / Aggregators that have filed for licensure in that same period. In the decade between the passage of Senate Bill 3 and September 7, 2012 some 87 applications for certification to become a CRES Provider or Power Marketer were filed at the Commission. In the five months since the Stipulation was filed, 15 applications were filed – a 17% increase. Similarly, in the ten years of restructuring prior to September 7, 2011 some 133 applications to become power brokers or aggregators were filed. In the five months since September 7, 2011 some 34 applications were filed, an increase of 26%. This influx of new retail energy providers into the AEP Ohio market demonstrates the powerful impact the Stipulation and its acceptance by the Commission had on CRES provider investment in the AEP Ohio energy market.

IV. CONCLUSION

It is clear that some schools and small businesses in the AEP Ohio service area are struggling to manage the rate increases that have resulted from Rider LF and the MTR in ESP II. It is also clear,

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[16] On February 10, 2012, AEP made two compliance filings at the Federal Energy Regulatory Commission docket nos. EC12-71 and ER12-1041.

[17] September 13, 2011 Testimony of David Fein at pp. 11-12; September 13, 2011Direct Testimony of Teresa Ringenbach at pp. 10-11.

[18] FES Exhibit 18. Also see TR. Vol. XII 2071-2080

[19] Tr. Vol. XII p. 2081

however, that the market supportive components of ESP II are accruing distinct benefits and value to a broad array of customers. It is important to note that the double digit rate increases are limited to distribution billing factors attributable to low load factor customers, and that these increases are not directly attributable to the transition to market-based capacity and energy but rather stem from the goal of gradually improving the allocation of cost. The double digit increases are attributable to Riders LF and MTR. Fortunately, these riders are temporary and seek to accommodate a shift in rate design over four or five years while primarily being revenue neutral. RESA supports the Commission's efforts to adjust these factors or modify how they are phased in. However, since adjusting Rider LF and the MTR will impact the rates of other customers, RESA asks that the Commission follow the goals of the overall rate design in the Stipulation and recognize the economic development that is fostered by both big and small customers in Ohio.

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing document was served this 21st day of February, 2012 by electronic mail, upon the persons listed below.

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APPENDIX A

Prototypical CSP GS-2 Customer
20.5% Load Factor
100,000 kWh/per Annum

Rate Components	Current Rate	Current Revenue	2012 Rate	2012 Revenue	2012 Increase
Generation Charges	$0.0442346	$4,423		$2,460	
Replacement Electricity	0	$0		$0	
Fuel Adjustment Clause Rider	$0.0382715	$3,827	$0.0365934	$3,659	
Environmental Investment Carrying Cost Rider	8.78602%	$389	0.00000%	$0	
Subtotal Generation		$8,639		$6,119	-$2,520
Phase-In-Rider			$0.0022443	$224	
Distribution Billing					
Customer Charge		$9	9.04	$9	
Demand Charge	3.519	$2,375	4.033	$2,722	
Energy Charge	0.0003805	$38	0	$0	
Base Distribution		$2,422		$2,731	
Market Transition Rider			$0.02253	$2,253	
Load Factor Rider: Demand			$3.29	$2,221	
Load Factor Rider: Energy			($0.00228)	-$228	
DIR (Plus $5M EDR)			13.1728%	$360	
Universal Service Fund	0.0022828	$228	0.002868	$287	
Universal Service Fund	0.000183	$0	0.000183	$0	
KWH Tax (First 2,000)	0.00465	$9		$9	
(Next 13,000)	0.00419	$54		$54	
(Over 15,000)	0.00363	$309		$309	
OAD - GS Shopping Incentive Credit Rider					
EE&PDR Cost Recovery Rider	0.0027589	$276		$276	
SEET	0	$0		$0	
Econ Dev Cost Recovery Rider	6.96141%	$169		$190	
Enhanced Service Reliability Rider	3.94187%	$95		$108	
gridSMART	2.27	$2		$2	
DARR			8.5012%	$232	
Subtotal Distribution		$3,565		$9,029	$5,463
Transmission Cost Recovery: Demand	1.941	$1,310	1.72	$1,161	
Transmission Cost Recovery: Energy	0.0058552	$586	0.0034361	$344	
Subtotal Transmission		$1,896		$1,505	
Total Billing		**$14,100**		**$16,653**	**$2,552**