CHANGES IN OHIO’S ELECTRICITY MARKET

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The Regulatory Assistance Project (RAP)

We are a global, non-profit team of experts focused on the long-term economic and environmental sustainability of the power and natural gas sectors, providing assistance to government officials on a broad range of energy and environmental issues.
About RAP – US

RAP provides technical and policy support at the federal, state and regional levels, advising utility and air regulators and their staffs, legislators, governors, other officials and national organizations.

We help states achieve ambitious energy efficiency and renewable energy targets and we provide tailored analysis and recommendations on topics such as ratemaking, smart grid, decoupling and clean energy resources. RAP publishes papers on emerging regulatory issues and we conduct state-by-state research that tracks policy implementation.
BRIEF OVERVIEW OF SB 3 - 1999

• Provided retail competition and aggregation;
• Corporate Separation of Generation from Transmission and Distribution, and Codes of Conduct;
• 5-year Transition Period with recovery of stranded costs for utilities and frozen rates for customers; and
• After 5-year freeze, standard service, default generation would be provided through a competitive wholesale bid.
ALONG CAME SB 221 - 2008

Rationale for SB 221:

• High market prices worried policymakers;
• Utilities were filing “Electric Security Plans” (ESP) with PUCO approved rates in lieu of going to market (except First Energy (FE) which was the only utility to corporately separate;
• Issue of noncompliance with SB 3 - SB 221 was designed to codify the *ad hoc* the ESP.
SB 221

Two Major Components:

• Establishment of rates through a hybrid regulatory/market structure
SB 221 – ESTABLISHMENT OF RATES

• Utilities could choose either:
  ❖ To file an ESP for Commission approval; OR
  ❖ The Market Rate Option (MRO) and establish a generation price through a competitive bid.

• Note that if the utility chose the ESP and was dissatisfied with the PUCO’s Order, it could reject the decision and start the process over.
• If the utility chose the MRO, it would be precluded by law from filing an ESP in the future.
THE ELECTRIC SECURITY PLAN (RATE INCREASE)

ESPs may include the following:

- Automatic recovery of purchased power, emission allowances and carbon taxes;
- Recovery through a non-bypassable surcharge of Construction Work in Progress for any new generating or pollution control facility which can occur upon cost incurrence;
- Recovery through a non-bypassable surcharge of any new plant in service;
- Terms, conditions or charges on limiting customer shopping, bypassability, back-up power, accounting issues and deferrals, etc.
THE ELECTRIC SECURITY PLAN (RATE INCREASE)

- Automatic increases/decreases of standard service offer (SSO);
- Provisions to securitize phase-in of SSO;
- Provisions relating to and including cost recovery for transmission and ancillary services; and,
- Provisions on single issue ratemaking, decoupling, incentive ratemaking, distribution infrastructure and grid modernization;
SB 221 – THE MARKET RATE OPTION

• Competitive bidding process to be conducted by independent third party in transparent process open to all parties with at least 25% of load bid by entity other than distribution utility and at least 4 bidder;
• Distribution company must belong to a Regional Transmission Organization (RTO);
• Commission approval of bid price which becomes the SSO.
• Only FE has conducted an auction; but it has done so under the ESP, not the MRO, creating a hybrid within a hybrid.
SB 221 – THE MARKET RATE OPTION

• For AEP, Duke and DP&L, who have not chosen the MRO, the process of competitive bidding is phased in over 5 years with 10%, 20%, 30%, 40% and 50% of the load bid in years 1 – 5 respectively.

• These competitively bid rates are then blended with the ESP approved rate for the remaining load.

• Beginning in the second year, the Commission may alter the phase-in and blending ratio.
SB 221 – CLEAN ENERGY STANDARD

SB 221 mandates the following:

• Renewable Portfolio Standard of 12.5% with a solar set-aside of .5% by 2025.
• Energy Efficiency Resource Standard of 22.5% by 2025. (SB 221 subsequently amended to include Combined Heat and Waste)
• Alternative Energy Standard (which includes advanced technologies, storage, waste heat, etc.) of 12.5% by 2025
NEW DEVELOPMENTS SINCE SB 221

• SB 58

• PUCO Docket 12-3151

• Status of Competitive Bidding for Ohio utilities
SB 58

- Efforts to pass legislation that would freeze EERS and RPS did not pass last session.
- New bill version under discussion in Senate but not public. Awaiting details.
- Passage would be a step backward as an updated analysis by The Ohio State University’s Center for Resilience showed that the original Substitute Senate Bill 58 from last session would cost Ohio customers **$3.94 billion** more in electricity bills, with annual increases of **$302.8 million**.
PUCO Case # 12-3151-EL-COI

(In the matter of the Commission's Investigation of Ohio's Retail Electric Service Market – 12/12/12)

http://dis.puc.state.oh.us/TiffToPdf/A1001001A12L12B14210G58737.pdf

• Established in light of changing conditions with plant retirements, new Clean Air Act Regulations, DR and EE being bid into the market, proposed new transmission projects to alleviate Locational Deliverability Area in NE Ohio.
• Docket established to seek comments on market design and corporate separation with questions regarding the state of the market, if it is working, if there are barriers to entry, etc.
• Comments and Reply Comments have been filed.
STATUS OF COMPETITIVE BIDDING

FirstEnergy:

• First utility to corporately separate and conduct a declining clock auction under an ESP.
• SSO rates set through the auction
STATUS OF COMPETITIVE BIDDING

American Electric Power Company:

• The Company's proposal utilizes auction-based pricing for the Company's SSO customers beginning in June 2015 through the full term of the proposed ESP.
STATUS OF COMPETITIVE BIDDING

Duke Energy:

• Under the application, because the energy from the legacy generating assets would be sold to the market and a portion of the net profits would be returned to Duke's customers, the energy would not be available to the company's SSO load.

• To supply energy to the SSO load, Duke proposed to hold periodic auctions through a competitive bid process (CPB) to obtain the lowest cost energy from competitive wholesale suppliers.

• Duke proposed the CBP entail a descending-price clock auction with the first auction conducted on December 1, 2011, for delivery on January 1, 2012. In 2012, and for the remainder of the ESP, Duke proposed to conduct two auctions per year.
Dayton Power and Light Company:

- The Commission held that DP&L's ESP should be approved for a term beginning January 1, 2014, and terminating December 31, 2016.
- The Commission implemented annual blending percentages of the CBP auction rate of 10 percent for the period January 1, 2014, to December 31, 2014; 40 percent for the period January 1, 2015, to December 31, 2015; and 70 percent for the period January 1, 2016, to December 31, 2016.
About RAP

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- Promote economic efficiency
- Protect the environment
- Ensure system reliability
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