

## **AEP-Ohio's Electric Security Plan Application**

### **History of Electric Deregulation in Ohio**

A law enacted in 1999 restructured Ohio's electric industry by changing the way customers shop for electricity. The law, which took effect January 2001, provided for a five-year market development period. During this time, the utilities' rates were frozen to allow a competitive retail market to develop.

As the end of the market development period neared, there was a growing concern that an immediate shift to market-based rates in 2006 would not be in the best interest of customers. To minimize the effects of rate "sticker shock" and transition customers to market-based rates, the Public Utilities Commission of Ohio (PUCO) worked with Ohio's electric utilities to develop rate stabilization plans.

The rate stabilization plans, along with other changes, eliminated market uncertainty and provided customers with stable rates. Most of these plans expired at the end of 2008. In 2008, the Ohio General Assembly passed Senate Bill 221 to keep electric rates stable going forward, create jobs, implement energy efficiency and expand Ohio's alternative energy industry. The new law incorporated a system under which rates would be approved by the PUCO beginning in 2009. Senate Bill 221 also outlined alternative paths for electric utilities to implement different forms of market-based pricing.

### **Electric Security Plan 101**

An electric security plan (ESP) is a rate plan for the supply and pricing of electric generation service. The PUCO approved AEP-Ohio's first ESP in March 2009, setting gradual increases for the base price of electric generation through December 2011. For Columbus Southern Power customers, total annual bill increases were capped at 7 percent in 2009 and 6 percent in 2010 and 2011. Ohio Power customers saw total bill increases capped at 8 percent in 2009, 7 percent in 2010 and 8 percent in 2011.

### **What did AEP request in its new ESP application?**

AEP filed a new ESP application in January 2011. AEP proposed a plan implemented in two phases, with the first phase running from January through December 2012, and the second phase from January 2013 through May 2014. The new proposal would recover costs for wholesale electricity purchases and for fuel used to generate electricity. In addition, AEP's application proposed investments in its energy delivery systems, alternative energy, energy efficiency and demand response initiatives, and economic development and job retention programs.

The PUCO held five local public hearings across Ohio, gathering input about the application from more than 60 customers.

### **Did AEP and other stakeholders reach an agreement regarding the company's proposal?**

Yes. On September 7, 2011, AEP and 19 other parties representing a wide range of interests filed a stipulation that settles many of the issues in the ESP proposal and several other cases. The stipulation was signed by AEP, PUCO Staff, the Ohio Manufacturers Association, the Ohio Energy Group,

environmental groups, and energy suppliers among others. The PUCO publicly vetted the agreement during 13 days of hearings at which 30 witnesses provided testimony and faced cross-examination.

### **How did the PUCO rule on the ESP?**

On December 14, 2011, the PUCO modified and approved the Sep. 7 agreement.

Under the approved ESP, AEP will merge its Columbus Southern Power and Ohio Power operating companies and transition to a market-based generation rate structure over a four and a half year period between January 2012 and May 2016. AEP will sell its generation assets subject to PUCO approval of the company's corporate separation plan.

The PUCO lowered base generation rate increases to half of what was proposed in the ESP agreement. Customers will pay base generation rates of 2.27 cents/kilowatt hour (kWh) in 2012, 2.33 cents/kWh 2013, and 2.41 cents/kWh in 2014. These gradual increases from the current base generation rate of 2.1 cents/kWh will allow for a smooth transition to competitive market pricing in 2015.

Beginning in June 2015, generation rates will be set by a series of competitive auctions, to be monitored by the PUCO. Similar auctions have led to lower generation rates for customers of other Ohio electric utilities.

### **Did the PUCO address concerns over limits to government aggregation programs?**

Yes. The PUCO increased the market-based capacity set-aside levels outlined in the ESP agreement to accommodate the load of communities that approved a governmental aggregation program for customers in the November 2011 election. This modification will allow all municipalities with recently passed governmental aggregation initiatives to take advantage of supplier generation rate offers that may be lower than AEP's rate.

### **Did the PUCO address concerns about small business rate increases?**

Yes. The PUCO expanded the \$10 per megawatt hour (MWh) credit offered to small business customers (GS-2 rate schedule) to the first 2,000,000 MWh of usage per calendar year. This change, when coupled with the base generation rate decrease, helps mitigate the potential rate impact to GS-2 customers by increasing the likelihood that GS-2 customers are provided with additional shopping credits.

### **What other benefits are included in the ESP?**

AEP will boost investment in energy efficiency, economic development, and customer assistance initiatives. The company will contribute \$5 million annually from 2012 to 2015 to the Ohio Growth Fund for economic development and \$3 million annually to the Partnership with Ohio program benefiting low-income customers. The company will also establish a 3-year revenue decoupling pilot program from 2012 to 2014 that encourages the implementation of additional plans to maximize energy efficiency. AEP will also work with the Ohio Hospital Association to identify infrastructure projects that will improve electric service reliability to hospitals.