Ohio Retail Electric Service Market
Case No. 12-3151-EL-COI
September 5, 2013 Workshop Summary

Corporate Separation

Prepared Discussion Remarks:

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Open Discussion:
After the prepared remarks, an open discussion was held with parties commenting on both the comments presented and any other corporate separation topics. The following topics were discussed in detail throughout the workshop.

- **Information Sharing Between Affiliates**

  Generally consumer advocacy groups claimed that the law is clear in that there should be corporate separation and no information sharing between affiliates. Generally the electric utility companies stated that functional corporation is not harmful to consumers because there are rules in place to protect them.

- **Affiliate Transactions and Shared Costs**

  Discussion revolved around the electric utility companies' adherence to the code of conduct rules and cost allocation manuals, which are periodically updated and reviewed by the Commission, in order to ensure adherence to rules regarding affiliate transactions occurring at fully embedded cost.

  A consumer advocacy party suggested there was a need for periodic and comprehensive audits of procedures to make sure affiliate transactions and shared costs are reasonable and according to law. There was discussion around the potential for perverse incentives to allocate costs from shared services to get rate recovery and therefore there should be more scrutiny. Suppliers stated that they do not have the benefit of being able to allocate a percentage of cost to an affiliate as an electric utility company does with certain costs such a payroll associated with call centers. Suppliers also stated that some costs are appropriate to be shared with an affiliate, whereas other costs would not be appropriate to allocate.

Electric utility company countered that the shared services model creates lower operating costs. Rules were designed to prevent manipulation and these are working. Shared services model is working and results in lower costs for customers. This leads to efficiencies and could lead to lower costs to consumers. Any changes could lead to higher costs and less efficiencies.

- **Return on Equity (ROE) and Business Risk**

  Discussion revolved around the appropriate ROE for distribution companies given their amount of risk. There was general consensus that ROE should be commensurate with business risk. However, generally consumer advocacy groups claim that an electric utility company's return on equity should be lower because of lower risk, thus producing lower distribution rates. Generally electric utility companies countered that the assumption that wires companies should have lower ROE is wrong and there is greater risk than realized. It was pointed out that FERC is incentivizing investments and with that comes greater risk. Also, it was suggested that the best place to review ROE is in a base rate proceeding and that consideration should be given to the proxy groups being used to determine ROE in order to determine if they are most appropriate.