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FirstEnergy, AEP say value is in length of proposed PPAs for Ohio plants

By Darren Sweeney

Part of the focus on power plant income guarantees proposed by FirstEnergy Corp. and American Electric Power Co. Inc. has been shifting from the legality of the plans to the length of the riders. While the companies appear open to discussions about shortening the terms of the power purchase agreements, they contend the economic value to customers and protection against volatility could be diminished.

AEP utility AEP Ohio, the trade name of Ohio Power Co., is seeking an income guarantee for its share of two Ohio Valley Electric Corp. coal plants and four coal plants owned by AEP Generation Resources. While the company's original PPA proposal tied to the OVEC assets was rejected by the Public Utilities Commission of Ohio, it is in the third week of a hearing on its expanded PPA plan in which it hopes regulators will approve income guarantees for all six plants. (Case No. 14-1693-EL-RDR)

FirstEnergy, for more than a month, has been involved in a regulatory hearing before PUCO tied to its controversial plan to guarantee income for affiliate FirstEnergy Solutions Corp.'s 2,220-MW W.H. Sammis coal plant and 908-MW Davis-Besse nuclear plant, as well as a share of the OVEC-operated Kyger Creek and Clifty Creek coal plants. (Case No. 14-1297-EL-SSO)

The plan, called Powering Ohio's Progress, includes a 15-year economic stability program under which FirstEnergy's Ohio utilities will purchase power from the Davis-Besse and W.H. Sammis power plants, as well as from FirstEnergy's share of the OVEC plants. The utilities will then sell the output into wholesale energy and capacity markets, with customers receiving rate credits or charges to offset power purchase costs.

Staff opposition

The PUCO staff has filed testimony in opposition of FirstEnergy and AEP's PPA proposals.

Hisham Choueiki, a professional engineer and the senior energy specialist in PUCO's rates and analysis department, wrote that both non-bypassable retail rate stability riders "if properly conceived, may be in the public interest."

The staff said it believes the proposed ROE of 11.15% in FirstEnergy's plan is "excessive" and noted that the company has not presented "a demonstration of financial need."

AEP Ohio is seeking a long-term PPA for the output of the Cardinal coal-fired power plant and three other plants partly owned by merchant affiliate AEP Generation Resources.

Source: American Electric Power Co. Inc.

The staff took a very similar stance in AEP's proposal, noting its proposed 11.24% ROE is excessive and that it doesn't believe that the company demonstrated financial need. AEP also "did not provide an independent assessment of the impact of the closures" of the units involved in its expanded PPA plan — Cardinal unit 1, Conesville units 4 through 6, J.M. Stuart units 1 through 4 and W.H. Zimmer unit 1 — the staff wrote.

In addition, AEP and AEP Generation Resources "did not commit" to rigorous commission oversight or full information sharing, according to the staff.

The staff, among other recommendations, said that if PUCO does decide to approve FirstEnergy's rider, it should limit the length of the tariff to no longer than the term of the proposed electric security plan, which would run from June 1, 2016, through May 31, 2019.

The staff noted that AEP's proposal could lock ratepayers into a rider contract through 2051. This is reportedly the year the last unit associated with the proposal — the 1,344-MW W.H. Zimmer coal plant — is expected to retire. If approved, the term of the rider should be limited to the term of AEP's latest electric security plan, or ESP III, which runs through May 31, 2018, the staff wrote.

Seeking 'certainty'

FirstEnergy spokesman Doug Colafella noted that some of the key takeaways from PUCO rulings and discussions about the PPAs are that "the construct is legal" and "something that they do see value in."

"I think our discussions with the staff and other parties are focused on a potential term that might make sense for all parties," Colafella said. "From our standpoint, we believe that the term of the PPA needs to provide [an] appropriate level of certainty for the plants."

While customers would receive rate credits for any proceeds greater than power purchase costs, the typical residential customer is expected to pay about $3.50 more per month for electricity during the first full year of the economic stability program. However, FirstEnergy said the 15-year term of the power purchase agreement is predicted to produce savings of approximately $2 billion for its residential customers.

"One of the benefits of the longer term PPA that we're proposing is ultimately the cost savings for customers over the long term," Colafella said. "From the outset, we have stated that … we do not anticipate our customers seeing savings over a three-year period. From day one, when we filed our application, we have illustrated that we do anticipate in the first three years that customers will likely see charges on their bill to cover the cost of the PPA.

"The benefit comes into play in the long term as we see power prices rising over time … the PPA provides an outstanding safeguard against volatility in the years ahead. Primarily, as more generation is being fueled by natural gas, we're anticipating volatility in the years ahead. And by having a long-term PPA with plants that offer more diverse supply, we think it provides an outstanding hedge for our customers. You would lose that hedge if you did it over a short term, and you would lose the $2 billion benefit for customers that we're projecting."

Gary Spitznogle, vice president of finance and regulatory affairs for AEP Ohio, said it would really depend on how short the term of the PPA would be.

"If the time period is the same time period as our ESP, which is a three-year time period, that doesn't really help us in planning for the long-term capital investments that would be required to keep those plants running reliably and efficiently," Spitznogle said in an Oct. 9 phone interview. "If the time period was long enough to enable planning, we would be interested in talking about different scenarios — other than some open-ended life-of-unit type duration — but three years certainly is too short to make any kind of real planning. That's one of the reasons the PPA is something we're trying to move forward with is because it gives a reasonable time frame under which you can make wise decisions about investing in those plants rather than running them with such a short window that you would never be able to, without excessive risk, make investments in them."

FirstEnergy Corp.'s W.H. Sammis coal plant is among the assets the company is trying to keep viable through proposed PPAs.

Source: FirstEnergy Corp.

Price projections

Judah Rose, an energy consultant with ICF International retained by FirstEnergy to justify its plan, admitted during the hearing that power prices are not increasing the way he predicted they would, with natural gas prices 30% below his 2014 projections, according to a Sept. 8 article published by *The* (Cleveland) *Plain Dealer*.

"They made a lot of hay over the testimony of our third-party witness who did this study," Colafella said. "We never predicted higher prices in the early years of this contract. His testimony is based on long-term volatility and price increases. We never suggested that power prices were going to rise in the near term. That's not the benefit of this plan. We've clearly stated, the first few years customers will likely see some modest increases in their bill. Starting in the fourth year of the contract through the remainder of the term, we believe collectively customers will save about $2 billion over time."

In the first day of AEP's hearing, lawyers for the Sierra Club reportedly accused the company of hiding updated price projections that indicate its PPA proposal could cost ratepayers $1.8 billion to $2.4 billion through 2024, according to a Sept. 28 article published by *Columbus* (Ohio) *Business First*. This is in contrast to a previous worst-case scenario projection that ratepayers would face $927 million in costs tied to the plan, the article states.

"It's a complex puzzle when you start taking forward projections and applying them to all the different moving pieces on this," Spitznogle said. "We haven't been able to get through all those integrations yet on the latest forecasting. What the intervenors have done has really looked at some of the raw numbers from those forecasts without considering, like I said there's a lot of moving parts that work together that determine the real picture, and they have taken what looks to be some of the worst-case scenario outlooks and not really done a thorough analysis on how any one piece affects everything else. So, their numbers tend to be very skewed in a way that [they] don't represent what we think are reasonable numbers."

Spitznogle said that there will "absolutely" be more cost risk for ratepayers if the plants are closed.

"There's a dampening effect on the swings in energy prices that these plants would provide our customers that absent them they would be exposed to the full effect of volatility. The power plants in that PPA, while they're kind of on an economic bubble based on current market conditions, they're not crummy old plants," Spitznogle said. "They're well-equipped plants that are compliant with all the current EPA regulations and are also retrofit with the right technologies to be able to comply with what we see as some of the future regulations that the EPA is working on right now."

'Sweet deal for AEP'

Daniel Sawmiller, senior campaign representative for the Sierra Club's Beyond Coal campaign, has been at the forefront of opposition to AEP and FirstEnergy's plans.

Sawmiller, in commentary published by *The Columbus* (Ohio) *Dispatch* and emailed to SNL Energy, said the PPA plan, if approved, "would be a sweet deal for AEP."

"AEP Ohio customers would be on the hook to pay AEP a projected $11.2 billion over just the next 10 years to keep these plants operating," he wrote. "AEP's plan would ensure a guaranteed profit for AEP's shareholders, while saddling all of the financial risk with customers. In other words, this proposal is asking customers to put their wallets on the line to bet on the future of coal, while AEP and its shareholders cannot lose."

Sawmiller also rebuked claims by AEP that denying the PPA would lead to the need for $1.6 billion in transmission upgrades and reliability concerns.

"This is an empty threat; the fact is that many of those units cannot be unilaterally closed by AEP, because they are co-owned with other companies," he wrote, adding that the figure is "inflated" to include the impacts of more than 11,000 MW of plant retirements that might occur in the region.