

RE: Initial comments of Industrial Energy Users-Ohio regarding structure of energy-only auction

FROM: Industrial Energy Users-Ohio

Date: October 30, 2012

In the initial materials provided by AEP-Ohio, the auction format is generally described as a descending clock auction with multiple rounds in which the bidders in each round will state the number of tranches that they are willing to bid for each product in the auction, and that price decrements for each subsequent round will be provided to the bidders prior to the auction. Absent from the summary of the auction process is any indication of a price limit or reserve that governs the opening level of bidding.

As was apparent in the ESP II hearings and the materials provided by AEP-Ohio for the first meeting concerning the design of the competitive bidding process, AEP-Ohio indicated it plans to flow the costs of the energy-only bid through the FAC and make no other changes to base SSO rates for distribution, transmission and generation. If that is the case, the only way that the limited energy-only SSO bid will not require an overall price increase to SSO customers is if the cleared bid price is lower than AEP-Ohio's expected FAC rate.

Without such a limit or reserve set at the projected FAC rates, the auction may produce results that increase the price of the Standard Service Offer (SSO) that is contained in the ESP II Order. *Therefore, Industrial Energy Users-Ohio recommends that the opening round bid price be set at a level no higher than the average expected fuel adjustment clause (FAC) rate over the term of the product being bid upon.*