



The Public Utilities  
Commission of Ohio



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## Electric Rate Stabilization Plans: Ensuring Rate Certainty in Ohio

Since electric choice began in 2001, the PUCO has been working hard to facilitate a competitive electric market in Ohio. The success of government aggregation aside, a fully competitive market has not developed as quickly as envisioned by lawmakers in Senate Bill 3, Ohio's electric restructuring legislation. As a result, the Public Utilities Commission of Ohio (PUCO) has developed plans to secure the future of Ohio's retail electric market.

### The Market Development Period

Senate Bill 3, signed into law in 1999, provided for a five-year market development period lasting from Jan. 1, 2001 to Dec. 31, 2005. During this period, rates were frozen in order to allow a competitive wholesale market to take shape.

As the end of the market development period neared, the PUCO grew concerned that the limited number of competitive electric suppliers and low degree of market activity were an indication 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 gradually transition customers to market-based rates, the PUCO worked with Ohio's electric utilities to develop rate stabilization plans (RSPs). These plans, coupled with other recent rate modifications, eliminate market uncertainty and provide customers with stable, predictable rates for years to come.

The establishment of RSPs is supported by the Ohio legislature which issued a report in October 2003 encouraging the PUCO to "continue to take the necessary steps ... to ensure that a healthy competitive market is in place before full electric competition begins." RSPs are in place for American Electric Power (AEP), Dayton Power and Light (DP&L), Duke Energy Ohio, and FirstEnergy.

### Highlights of Rate Stabilization Plans and Other Rate Modifications

*American Electric Power (includes former customers of Monongahela Power)*

- Three-year rate stabilization period: Jan. 1, 2006 – Dec. 31, 2008.
- Generation rates for all customer classes will increase by 3 percent each year (2006, 2007, and 2008) for Columbus Southern Power customers and by 7 percent for Ohio Power customers. If customers choose a competitive electric supplier during the RSP, they can avoid these increases.
- The PUCO approved a green-pricing option for AEP customers on May 2, 2007. This option would enable the company's customers to participate in a voluntary, market-based alternative to AEP-Ohio's standard service offer.

- Distribution rates are frozen through 2008.
- AEP will provide \$14 million to assist low-income customers and economic development.
- The PUCO approved the transfer of Monongahela Power's service territory to AEP on Nov. 9, 2005. Monongahela Power's former customers are now served by AEP.

#### *Duke Energy Ohio*

- Three-year rate stabilization period: Jan. 1, 2006 – Dec. 31, 2008
- Generation rates will change quarterly to allow the company to recover costs associated with fuel and environmental compliance. Some of these increases can be avoided by the first 25 percent of residential customers who shop for a competitive electric supplier.

#### *Dayton Power & Light (DP&L)*

- Five-year rate stabilization period: Jan. 1, 2006 – Dec. 31, 2010
- Generation rate increases are capped at 11 percent over the five-year RSP.
- Residential customers will receive a 7.5 percent generation discount on monthly bills from 2006-2008.
- Distribution rates are frozen through 2008.
- DP&L financial support of the voluntary enrollment procedure will extend through 2007. The voluntary enrollment procedure is a pilot program designed to enroll residential customers with a competitive supplier at rates lower than those offered by DP&L.
- If market prices fall during the RSP, the PUCO can terminate the plan in order to provide market-based rates to customers through competitive methods.

#### *FirstEnergy*

- Three-year rate stabilization period: Jan. 1, 2006 – Dec. 31, 2008
- The RSP provided for a competitive bidding process, or auction, to be conducted on FirstEnergy's electric load to see if lower rates could be obtained. The PUCO rejected the auction results, finding that the RSP provided lower electricity rates.
- Distribution rates are frozen through 2008.
- FirstEnergy will provide additional funding for energy efficiency and economic development programs.
- In addition to the RSP, the PUCO adopted and clarified an agreement to implement a rate certainty plan (RCP) for FirstEnergy. The agreement, reached by the company and parties including the Ohio Consumers' Counsel and the cities of Akron, Cleveland, and Toledo, will further stabilize price changes that could be potentially volatile through 2008, including fuel and distribution-related costs. The RCP also requires FirstEnergy to provide funding for demand side management conservation programs.

Transmission rates for all companies may vary during their respective rate stabilization periods.

## Supreme Court Review

Various organizations challenged the PUCO's approval of RSPs for DP&L, FirstEnergy, AEP and Duke Energy Ohio. By law, all challenges to PUCO decisions are appealed to the Ohio Supreme Court.

### *DP&L*

In December 2004, the Court issued an opinion upholding all aspects of DP&L's RSP.

### *FirstEnergy and AEP*

In May 2006, the Supreme Court issued a decision in the FirstEnergy RSP appeal. In its decision, the Court found that the PUCO had appropriately approved many aspects of FirstEnergy's RSP. However, the Court determined that the PUCO did not allow for proper customer participation when it rejected the results of the competitive auction and accepted the rates in FirstEnergy's RSP. As a result, the Court ordered that a competitive option for residential service must be developed.

In July 2006, the Court issued a similar opinion regarding AEP's RSP. The PUCO subsequently directed FirstEnergy and AEP-Ohio to submit plans for a competitive retail electric service option. In both instances, the RSPs will remain in effect.

In September 2006, FirstEnergy and AEP submitted proposals to establish a competitive service option.

In May 2007, the PUCO approved a green-pricing competitive service option for AEP. FirstEnergy's competitive service option is still pending PUCO approval.

### *Duke Energy Ohio*

In November 2006, the Court issued an opinion regarding Duke Energy Ohio's RSP. Again, the Court determined that the PUCO had appropriately approved many aspects of the RSP. However, the Court found that the PUCO allowed Duke to incorporate supplemental charges into the rate plan without providing evidence to support its decision and failed to require Duke to disclose side-agreements between the company and non-residential customer groups. The Court ordered the PUCO to explain why it allowed the supplemental charges and to identify the evidence it considered to support its decision. The Court also ordered the PUCO to require the disclosure of any side-agreements related to the RSP.

**If you would like to know more about the PUCO or have utility-related questions or concerns,**

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