Before

**The Public Utilities Commission of Ohio**

In the Matter of the Application of )

Ohio Edison Company, The Cleveland )

Electric Illuminating Company and The ) Case No. 12-2190-EL-POR

Toledo Edison Company for Approval of ) Case No. 12-2191-EL-POR

Their Energy Efficiency and Peak Demand ) Case No. 12-2192-EL-POR

Reduction Program Portfolio Plans for )

2013 through 2015 )

**POST HEARING BRIEF OF INDUSTRIAL ENERGY USERS-OHIO**

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**POST HEARING BRIEF OF INDUSTRIAL ENERGY USERS-OHIO**

# INTRODUCTION

On July 31, 2012, Ohio Edison Company, The Toledo Edison Company, and The Cleveland Electric Illuminating Company (collectively, “FirstEnergy”), filed an Application for Approval of their Energy Efficiency and Peak Demand Reduction (“EE/PDR”) Program Portfolio Plans for 2013 to 2015 (“Application” or “Portfolio Plan”). The Application claimed that the Opinion and Order approving FirstEnergy’s third electric security plan (“ESP”) required FirstEnergy to modify the Mercantile Customer Commitment Agreement (“Commitment Agreement”) through which mercantile customers commit their customer-sited capabilities for integration with FirstEnergy’s Portfolio Plan in return for an exemption from the demand-side energy (“DSEII”) Rider.[[1]](#footnote-1) The ESP III Order, however, required no such overly broad modification. Further, FirstEnergy’s proposal should be rejected because it may decrease the economic viability of mercantile self-funded projects and thus it may negatively impact the total amount of mercantile projects completed as well as the amount of energy efficiency resources bid into future PJM Interconnection LLC (“PJM”) auctions. Thus, the proposed modification is unnecessary and unreasonable and should be rejected.[[2]](#footnote-2)

# BACKGROUND

Under Section 4928.66, Revised Code, electric distribution utilities (“EDU”) must implement EE/PDR programs that achieve escalating EE/PDR savings. Since the inception of the EE/PDR savings requirements, EDUs have sought to achieve compliance through two different methods.

First, EDUs have designed EE/PDR programs that customers could affirmatively participate in return for either a rebate or point of purchase discount.[[3]](#footnote-3) Second, mercantile customers have the option to self-fund their own EE/PDR projects at their own risk.[[4]](#footnote-4) In the case of such self-funded mercantile customer projects, once the project is completed, in return for committing their capabilities for integration towards an EDU’s statutory obligation to achieve EE/PDR savings, a mercantile customer may request and receive an exemption from paying the rider that recovers an EDU’s EE/PDR program costs under certain circumstances.[[5]](#footnote-5) By requesting an exemption—rather than a rebate—a mercantile customer reduces the total costs of FirstEnergy’s EE/PDR program costs.

The right for a mercantile customer to request an exemption from paying for any such rider to collect an EDU’s EE/PDR program costs exists under Ohio law. Under the rules adopted by the Public Utilities Commission of Ohio (“Commission”), the process through which a mercantile customer may request an exemption requires submitting an application for approval of a reasonable arrangement pursuant to Section 4905.31, Revised Code. In 2010, the Commission streamlined the process for requesting and obtaining an exemption when it established the Mercantile Pilot Program, which is available to customers in the service territory of each EDU. The Mercantile Pilot Program allows customers to apply, either jointly with an EDU or individually, for approval of a reasonable arrangement for commitment of self-funded EE/PDR capabilities.[[6]](#footnote-6) On May 25, 2011, the Commission further streamlined the process for obtaining an exemption when it extended the sixty-day automatic approval process in the Mercantile Pilot Program to applications for an exemption.[[7]](#footnote-7)

Peak demand reduction capabilities associated with energy efficiency measures qualify as capacity resources under PJM’s rules.[[8]](#footnote-8) An energy efficiency resource “may participate in Reliability Pricing Model (“RPM”) auctions for a maximum of up to four consecutive Delivery Years.”[[9]](#footnote-9)

Neither the Mercantile Pilot Program nor Section 4928.66, Revised Code, require a customer requesting an exemption from paying EE/DPR program costs to transfer to the EDU the right or ownership of attributes (permanent peak demand reduction) that are produced from a self-funded project that PJM permits to be offered as a capacity resource in periodic capacity auctions. Customers have traditionally retained the right to bid the capacity resources associated with their self-funded projects into PJM’s capacity auctions.[[10]](#footnote-10)

Staff witness Scheck testified that ownership of capacity attributes initially remains with the customer:

If the customer requests an exemption and it's approved by the Commission, my view is that the customer would have ownership rights of that capacity, bid into the PJM market, and, therefore, the company could not claim those. If the customer wanted to commit such resources to the company, they could do so, but that would be up to the customer.[[11]](#footnote-11)

Ownership of such capacity rights can only be transferred to the EDU through a contract or if the EDU provides the customer compensation in the form of a rebate.[[12]](#footnote-12) Moreover, the Commission’s recent proposed rulemaking also supports the principle that an EDU must enter a contract with a customer to take ownership of a customer-sited resource:

Renewable energy credits associated with a customer-generator's net metering facility shall be the property of the customer-generator, unless otherwise contracted through a separate transaction, independent of the net metering tariff or the customer-generator's net metering agreement with the electric utility.[[13]](#footnote-13)

Ownership of capacity attributes associated with energy efficiency resources is not an academic matter. Logically, a mercantile customer evaluating the economic viability of an energy efficiency project would consider potential capacity revenue from PJM auctions. Indeed, FirstEnergy has indicated that mercantile customers have indicated that they will not participate in the self-direct program if they cannot retain ownership of their capacity attributes and their related revenue stream.[[14]](#footnote-14) Despite this fact, FirstEnergy has attempted to divert this capacity revenue stream from mercantile customers to its EE/PDR program. More specifically, FirstEnergy’s Portfolio Plan has modified the Commitment Agreement through which mercantile customers commit their customer-sited capabilities to the specific FirstEnergy operating company for the purpose of meeting the EDU’s statutory obligation. The modification requires mercantile customers requesting an exemption from the DSEII Rider to transfer to FirstEnergy the ownership rights to bid capacity resources associated with their self-funded projects into future PJM capacity auctions.[[15]](#footnote-15)

FirstEnergy has modified its Commitment Agreement under an incorrect assumption. FirstEnergy has claimed that the Commission, in FirstEnergy’s ESP III proceeding, directed FirstEnergy to, as a condition of participating in FirstEnergy’s EE/PDR programs, to transfer ownership of energy efficiency resources to FirstEnergy for purposes of bidding those resources into PJM’s capacity auctions. But, the ESP III Order[[16]](#footnote-16) was not directed at mercantile customer self-direct projects; it was focused on FirstEnergy’s failure to obtain ownership of capacity resources from customers directly participating in FirstEnergy’s EE/PDR rebate and point of sale programs, which resulted in less capacity being bid into the 2015/2016 PJM capacity auction:

**However, the Commission notes that additional steps may be taken to mitigate the impact of the transmission constraint in the ATSI zone for future base residual auctions. Specifically, the Companies should take steps to amend *their* energy efficiency programs to ensure that customers, knowingly and as a condition of participation in *the programs*, tender ownership of the energy efficiency resources to the Companies.** Further, the Companies should continue to take the necessary steps to verify the energy savings to qualify for participation in the base residual auctions, and the Companies should bid qualifying energy resources into the auction. The record demonstrates that there has been tremendous growth in the use of energy efficiency resources in the capacity auctions, ***and the Companies are well positioned to substantially increase the amount of energy efficiency resources they can bid into the auction***, ***which will assist in mitigating the impact of the transmission constraint in the ATSI zone.*** Further, the Commission will continue to review the Companies' participation in future base residual auctions until such time as the transmission constraint in the ATSI zone is resolved.[[17]](#footnote-17)

FirstEnergy’s proposed Commitment Agreement is unreasonable and the Commission should direct FirstEnergy to modify the Commitment Agreement. IEU-Ohio, however, has no objection to FirstEnergy and/or the Commission requiring customers that participate in FirstEnergy rebate or point of sale purchase programs to provide FirstEnergy the necessary ownership rights to allow bidding the permanent peak demand reductions from these programs into PJM’s periodic capacity auction. Adding the requirement to confer the necessary ownership rights to FirstEnergy can simply be added as a condition of program participation and customers are free to participate or decline participation in these rebate and point of sale purchase programs.[[18]](#footnote-18) But, FirstEnergy’s proposal, which requires the mercantile customer to cede ownership rights in instances in which the customer has entirely self-funded the energy efficiency investment, goes too far and is analogous to a taking of property without just compensation. As a practical consequence of decreasing mercantile customers’ returns on their energy efficiency investments, self-funded projects will be less viable, fewer will be completed, and a smaller quantity of energy efficiency resources may be bid into PJM’s capacity auctions.[[19]](#footnote-19) The Commission should direct FirstEnergy to modify its Commitment Agreement to permit mercantile customers requesting an exemption from the DSEII Rider to retain the right to bid the capacity resources associated with their self-funded projects into PJM capacity auctions, with the option to transfer these rights to FirstEnergy voluntarily at the customer’s election.

# ARGUMENT

FirstEnergy has modified its Commitment Agreement under the assumption that the ESP III Order directed FirstEnergy to require all customers undertaking energy efficiency projects—regardless of whether such customers receive a rebate or elect to fund self-directed mercantile customer projects and request an exemption from the DSEII Rider—to transfer ownership of related capacity resources to FirstEnergy. The actual language in the ESP III Order demonstrates that FirstEnergy’s proposed modification to the Commitment Agreement is unreasonably overbroad:

[T]he Companies should take steps to amend ***their energy efficiency programs*** to ensure that customers, knowingly and ***as a*** ***condition of*** ***participation in the programs***, tender ownership of the energy efficiency resources to the companies . . . . ***the Companies are well positioned to substantially increase the amount of energy efficiency resources they can bid into the auction***, ***which will assist in mitigating the impact of the transmission constraint in the ATSI zone.[[20]](#footnote-20)***

It would be unreasonable to apply the Commission’s directive to mercantile self-direct programs eligible for a rider exemption for several reasons.

First, the ESP III Order was clearly directed at maximizing the quantity of permanent peak demand reduction associated with customers directly participating in FirstEnergy’s EE/PDR rebate and point of sale purchase programs that are bid into PJM capacity auctions. Two FirstEnergy witnesses testified that mercantile customers that retain ownership of their capacity resources are likely to bid such resources into PJM auctions themselves.[[21]](#footnote-21) Therefore, it is not necessary, appropriate, or lawful to require mercantile customers requesting an exemption from the DSEII Rider to transfer ownership of their capacity attributes to FirstEnergy.

Second, it is unreasonable to require mercantile customers requesting an exemption from the DSEII Rider to transfer their capacity attributes to FirstEnergy because such customers are not participating in FirstEnergy’s EE/PDR programs. Rather, mercantile customer self-direct projects are customer driven programs that mercantile customers fund from their own resources without financial support from FirstEnergy.

The law, precedent, and common sense support the conclusion that mercantile self-direct projects are not FirstEnergy programs. Amended Substitute Senate Bill 221 (“SB 221”) provided mercantile customers that self-funded their own energy efficiency projects the right to request an exemption from paying an EDU’s EE/PDR program costs:

Any mechanism designed to recover the cost of energy efficiency, including waste energy recovery and combined heat and power, and peak demand reduction programs under divisions (A)(1)(a) and (b) of this section ***may exempt mercantile customers that commit their demand-response or other customer-sited capabilities***, whether existing or new, for integration into the electric distribution utility’s demand-response, energy efficiency, including waste energy recovery and combined heat and power, or peak demand reduction programs, if the commission determines that that exemption reasonably encourages such customers to commit those capabilities to those programs.[[22]](#footnote-22)

The right to request an exemption is provided by Ohio law. It is a state-wide right and exists independently of any EDU’s specific portfolio plan. The right to request an exemption was not created by FirstEnergy’s Portfolio Plan.

The exemption concept embedded in Ohio law is an opt-out mechanism. Mercantile customers that self-fund energy efficiency measures have the right to request an exemption from paying for FirstEnergy’s socialized rebate and point of sale program costs. Effectively, these customers are opting out and not participating in FirstEnergy’s Portfolio Plan, on the condition that such customers commit their customer-sited capabilities to be counted toward FirstEnergy’s EE/PDR savings requirements.

Although mercantile customers requesting an exemption from the DSEII Rider have to fill out a form through which they commit their customer-sited capabilities for integration into FirstEnergy’s programs, such process does not equate to participation in a FirstEnergy program. Mercantile customer self-direct projects eligible for an exemption are neither funded by FirstEnergy nor exclusively predicated upon approval by FirstEnergy.[[23]](#footnote-23)

The Mercantile Pilot Program, which established an automatic approval process for mercantile programs throughout the state, further reinforces the conclusion that mercantile self-direct projects are not FirstEnergy programs.[[24]](#footnote-24) The Commission noted that mercantile customers may participate in EE/PDR projects either through the utility or through their own programs, and that the Mercantile Pilot Program was an example of the latter:

The Commission notes that***mercantile customer******participation through utility******and mercantile customer-sited programs******is essential to long-term reductions in energy usage and peak demand*.** We further recognize that the prompt review of applications to commit mercantile customer programs for integration with electric utility programs is essential in order for electric utilities to meet their peak demand reduction and energy efficiency benchmarks set forth in Section 4928.66, Revised Code, and we continue to seek ways to streamline the options available to mercantile customers and facilitate the prompt approval of applications filed by mercantile customers for ***integration of mercantile customer-sited programs with electric utility programs***.[[25]](#footnote-25)

Applications filed under the Mercantile Pilot Program are not EDU programs—as identified in the Mercantile Pilot Program, they are “mercantile customer-sited programs.”[[26]](#footnote-26) When a mercantile customer executes a FirstEnergy Commitment Agreement it is not for the purpose of participating in FirstEnergy’s EE/PDR programs, but rather to integrate “mercantile customers-sited programs with electric utility programs.” Because the ESP III Order only required FirstEnergy to obtain ownership of capacity resources for customers participating in FirstEnergy’s programs, mercantile self-direct projects filed under the Mercantile Pilot Program are not included in the Commission’s directive. But, FirstEnergy has inappropriately interpreted the Commission’s ESP III Order as requiring FirstEnergy to conscript the permanent peak demand reduction attributes of self-funded mercantile customer energy efficiency projects.

The Commission should direct FirstEnergy to alter its Commitment Agreement Form so that customers requesting an exemption from the DSEII Rider are not required to transfer ownership of their energy efficiency capacity rights to FirstEnergy. But, as previously noted, IEU-Ohio does not object to FirstEnergy requiring mercantile customers that seek a rebate to transfer ownership of their capacity rights to FirstEnergy.

# CONCLUSION

For the reasons stated herein, the Commission should direct FirstEnergy to modify its Commitment Agreement so that customers that self-fund energy efficiency measures requesting an exemption from the DSEII Rider may retain the ownership of their capacity attributes.

 Respectfully submitted,

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**CERTIFICATE OF SERVICE**

#### I hereby certify that a copy of the foregoing Post Hearing Brief of Industrial Energy Users-Ohio, was served upon the following parties of record this 20th day of November, 2012 via hand-delivery, electronic transmission, or first class mail, U.S. postage prepaid.

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1. FirstEnergy Ex.1 at 15-16 (citing *In the Matter of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 12-1230-EL-SSO, Opinion and Order at 38 (Jul. 18, 2012) (hereinafter “ESP III Order”). [↑](#footnote-ref-1)
2. To the extent that the Industrial Energy Users-Ohio’s (“IEU-Ohio”) Post-Hearing Brief does not address an issue or position in this proceeding, such silence should not be construed as acceptance or support of that issue or position. [↑](#footnote-ref-2)
3. Point of purchase programs have been used to underwrite the costs of programs that mass market the distribution of, for example, more efficient lighting such as compact fluorescent light bulbs through retail sales outlets. [↑](#footnote-ref-3)
4. Section 4928.66(A)(2)(c), Revised Code. [↑](#footnote-ref-4)
5. *Id.* [↑](#footnote-ref-5)
6. *In the Matter of a Mercantile Application Pilot Program Regarding Special Arrangements with Electric Utilities and Exemptions from Energy Efficiency and Peak Demand Reduction Riders*, Case No. 10-834-EL-EEC, Entry (Sep. 15, 2010) (hereinafter “Mercantile Pilot Program”). The Mercantile Pilot Program was recently extended. Mercantile Pilot Program, Finding and Order (Sep. 5, 2012). [↑](#footnote-ref-6)
7. Mercantile Pilot Program, Entry at 5 (May 25, 2011). [↑](#footnote-ref-7)
8. IEU-Ohio Ex. 1 at numbered page 4 (PJM Manual 18). [↑](#footnote-ref-8)
9. *Id.* at numbered page 38 (PJM Manual 18). [↑](#footnote-ref-9)
10. *See* FirstEnergy Ex. 1 at 15-18. [↑](#footnote-ref-10)
11. Tr. Vol. IV at 769-770. *See also id.* at 771. *See also id.* at 827-830. [↑](#footnote-ref-11)
12. *Id.* at 827. [↑](#footnote-ref-12)
13. *In the Matter of the Commission’s Review of 4901:1-10, Ohio Administrative Code, Regarding Electric Companies*,Case No. 12-2050-EL-ORD, Entry, Attachment A at 73 (Nov. 7, 2012). [↑](#footnote-ref-13)
14. FirstEnergy Ex. 1 at 17-18. [↑](#footnote-ref-14)
15. *See* FirstEnergy Ex. 1 at 15-16. The specific language FirstEnergy has added to the Commitment Agreement is as follows:

By committing the Customer Energy Project(s), Customer further acknowledges and agrees that the Company shall take ownership of the energy efficiency capacity rights associated with said Project(s) and shall, at its sole discretion, aggregate said capacity into the PJM market through an auction. Any proceeds from any such bids accepted by PJM will be used to offset the costs charged to the Customer and other of the Company’s customers for compliance with state mandated energy efficiency and/or peak demand requirements.

https://www.firstenergycorp.com/content/dam/customer/Saving%20Energy/Files/OH/Mercantile%20Customer%20Project%20Commitment%20Agreement%20(Exemption).doc (last viewed Nov. 15, 2012). [↑](#footnote-ref-15)
16. ESP III Order at 38 (Jul. 18, 2012). [↑](#footnote-ref-16)
17. *Id.* (emphasis added). [↑](#footnote-ref-17)
18. Staff witness Scheck also supports this position. Tr. Vol. IV at 827-828, [↑](#footnote-ref-18)
19. FirstEnergy witness Dargie testified that mercantile customers have indicated that they will be less likely to undertake self-direct projects if they are forced to cede ownership of capacity attributes to FirstEnergy. *See* FirstEnergy Ex. 1 at 17. [↑](#footnote-ref-19)
20. ESP III Order at 38 (Jul. 18, 2012) (emphasis added). [↑](#footnote-ref-20)
21. Tr. Vol. VI at 1188-89; Tr. Vol. VI at 1113. [↑](#footnote-ref-21)
22. Section 4828.66(A)(2)(c), Revised Code (emphasis added). [↑](#footnote-ref-22)
23. Although the vast majority of applications at the Commission to commit mercantile customer projects towards EDU portfolio obligations have been joint applications between the customer and an EDU, the mercantile customer retains rights to file a unilateral application at the Commission. Rule 4901:1-39-05(G), Ohio Administrative Code (“OAC”). [↑](#footnote-ref-23)
24. Mercantile Pilot Program, Entry (Sept. 15, 2010). [↑](#footnote-ref-24)
25. Mercantile Pilot Program, Entry at 1 (Sep. 15, 2010) (emphasis added). [↑](#footnote-ref-25)
26. *Id.*  [↑](#footnote-ref-26)