**Before**

**The Public Utilities Commission of Ohio**

In the Matter of the Application of Ohio )

Edison Company, The Cleveland Electric )

Illuminating Company and The Toledo )

Edison Company for Authority to Provide ) Case No. 14-1297-EL-SSO

for a Standard Service Offer Pursuant to )

R.C. 4928.143 in the Form of an Electric )

Security Plan. )

**REHEARING REPLY BRIEF**

**OF INDUSTRIAL ENERGY USERS-OHIO**

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Frank P. Darr (Reg. No. 0025469)

(Counsel of Record)

Matthew R. Pritchard (Reg. No. 0088070)

McNees Wallace & Nurick LLC

21 East State Street, 17TH Floor

Columbus, OH 43215

Telephone: (614) 469-8000

Telecopier: (614) 469-4653

fdarr@mwncmh.com

mpritchard@mwncmh.com

**August 29, 2016 Attorneys for Industrial Energy Users-Ohio**

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# Introduction

The Staff of the Public Utilities Commission of Ohio (“Commission”) recommended that the Commission approve a Distribution Modernization Rider (“DMR Proposal”) to provide incentives to the Ohio Edison Company, the Toledo Edison Company, and the Cleveland Electric Illuminating Company (“FE”) to begin grid modernization. In its initial rehearing brief, the Office of the Ohio Consumers’ Counsel (“OCC”) urges the Commission to approve division and allocation of the revenue requirement for the DMR Proposal “on the basis of 50 percent kwh allocation and 50 percent Demand (4 Coincident Peak).” Initial Rehearing Brief by The Office of the Ohio Consumers’ Counsel, *et al*. at 45 (Aug. 15, 2016) (“OCC Rehearing Initial Brief”). Staff recommends the revenue requirement be split equally with half allocated based on an undisclosed demand basis and the other half allocated based on energy. Post-Hearing Brief Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio at 13-14 (Aug. 15, 2016) (“Staff Rehearing Initial Brief”). For the reasons presented in the Initial Rehearing Brief of Industrial Energy Users-Ohio (“IEU-Ohio”), the Commission should not approve the OCC or Staff allocation methodologies. Instead, the proper allocation methodology for the DMR Proposal, if it is approved, is based on distribution revenue.

# If the Commission approves the Staff’s DMR Proposal, it should adopt a rate design based on cost causation and which supports the state’s effectiveness in the global economy

The Staff recommends the DMR Proposal as a means of jump starting grid modernization. Staff Ex. 15 at 15. Because the intended purpose of the rider is to provide incentives to modernize the distribution system, basing the allocation fully on distribution revenue is a logical and reasonable approach for assigning relative revenue responsibility to customer classes that benefit from grid improvements. OEG Ex. 4 at 2. See, also, Initial Brief on Rehearing by Nucor Steel Marion, Inc. at 6 (Aug. 15, 2016).

Additionally, the use of distribution revenue as a basis for allocation instead of a generation based allocation is consistent with the goal of the State Electric Services Policy to support Ohio’s effectiveness in the global economy. Increasing the costs of these industries without also providing additional benefits may leave energy intensive industries less competitive. A distribution revenue-based allocation will avoid a shift of revenue responsibility that would increase the costs of these industries.

# The Commission should not approve alternative allocation methodologies for the Staff’s DMR Proposal because they are not supported by any record

In its Initial Rehearing Brief, OCC states that the allocation methodology proposed by OEG is “inappropriate because it would disproportionally allocate costs to residential consumers to the benefit of high usage industrial and commercial customers.” OCC Rehearing Initial Brief at 44. In support of this criticism, OCC cites the total revenue responsibility of the residential class. *Id*. at 45. It then claims without record support that an allocation “on the basis of 50 percent kwh allocation and 50 percent Demand (4 Coincident Peak)” would be “a more equitable distribution between a pure demand or pure energy allocation.” *Id*.

In its initial rehearing brief, Staff recommends that the revenue responsibility for the DMR proposal be “allocated and charged on a 50/50 demand/energy basis” because “[t]his is the most equitable treatment for all rate classes.” Staff Rehearing Initial Brief at 13-14. Staff does not offer any support for this recommendation except a citation to the cross-examination of a Staff witness. *Id*. Additionally, Staff has not provided any proposed rate information or bill impacts to support its recommendation.

The Commission should reject these alternative allocation recommendations because they are not supported by the record.

R.C. 4903.09 requires the Commission to make findings of fact and base its decision on those findings of fact. A decision not supported by the record is unreasonable. *In re Columbus S. Power Co*., 128 Ohio St.3d 512, 519 (2011). Neither OCC nor the Staff has provided any basis in the record to support their recommendations concerning the allocation of the DMR revenue requirement. Without an adequate record, there is no basis for the Commission to find that the OCC or Staff proposal is “more equitable” or “the most equitable treatment of all rate classes.”

Additionally, OCC’s claim that its proposed allocation would be more equitable than a pure demand or a pure energy allocation is irrelevant. Even if OCC had provided some evidence to support the comparisons it was trying to make (and it did not), no party is proposing either a pure demand or a pure energy allocation. By comparing its proposal to a strawman that no one is advocating, OCC adds nothing to the resolution of the allocation of the DMR revenue requirement.

# COnclusion

If the Commission authorizes the Staff’s DMR Proposal, the Commission should approve an allocation of the DMR revenue requirement based on distribution revenue. Because this rider is proposed to provide an incentive for distribution infrastructure modernization, an allocation based on distribution revenue responsibility ties revenue responsibility to cost causation. This approach also is supported by the record. OEG Ex. 4. Additionally, an allocation methodology based on distribution revenue responsibility would reduce the burden on Ohio’s energy intensive industries, relative to a generation-based approach, in keeping with the goal of the State Electric Services Policy to ensure the competitiveness of Ohio in the global economy.

Respectfully submitted,

*/s/* *Frank P. Darr*

Frank P. Darr (Reg. No. 0025469)

Matthew R. Pritchard (Reg. No. 0088070)

McNees Wallace & Nurick LLC

21 East State Street, 17TH Floor

Columbus, OH 43215

Telephone: (614) 469-8000

Telecopier: (614) 469-4653

fdarr@mwncmh.com

mpritchard@mwncmh.com

**Attorneys for Industrial Energy Users-Ohio**

**Certificate of Service**

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e‑filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Rehearing Reply Brief of Industrial Energy Users-Ohio* was sent by, or on behalf of, the undersigned counsel for IEU-Ohio, to the following parties of record this 29th day of August 2016, *via* electronic transmission.

*/s/ Frank P. Darr*

 Frank P. Darr

cdunn@firstenergycorp.com

jlang@calfee.com

talexander@calfee.com

dakutik@jonesday.com cmooney@ohiopartners.org drinebolt@ohiopartners.org tdoughtery@theoec.org mkurtz@BKLlawfirm.com kboehm@BKLlawfirm.com jkylercohn@BKLlawfirm.com larry.sauer@occ.ohio.gov Maureen.willis@occ.ohio.gov joliker@igsenergy.com

schmidt@sppgrp.com

ricks@ohanet.org

stnourse@aep.com

mjsatterwhite@aep.com

yalami@aep.com

wttpmlc@aol.com

mkl@smxblaw.com

gas@smxblaw.com

lhawrot@spilmanlaw.com

campbell@whitt-sturtevant.com

glover@whitt-sturtevant.com

dwilliamson@spilmanlaw.com

meissnerjoseph@yahoo.com trhayslaw@gmail.com lesliekovacik@toledo.oh.gov cynthia.brady@exeloncorp.com david.fein@exeloncorp.com lael.campbell@exeloncorp.com christopher.miller@icemiller.com gregory.dunn@icemiller.com jeremy.grayem@icemiller.com BarthRoyer@aol.com

athompson@taftlaw.com Marilyn@wflawfirm.com

blanghenry@city.cleveland.oh.us hmadorsky@city.cleveland.oh.us kryan@city.cleveland.oh.us

bojko@carpenterlipps.com gkrassen@bricker.com dstinson@bricker.com dborchers@bricker.com

mfleisher@elpc.org

kfield@elpc.org todonnell@dickinsonwright.com

jeffrey.mayes@monitoringanalytics.com twilliams@snhslaw.com sechler@carpenterlipps.com gpoulos@enernoc.com

mjsettineri@vorys.com

glpetrucci@vorys.com

thomas.mcnamee@ohioattorneygeneral.gov thomas.lindgren@ohioattorneygeneral.gov sfisk@earthjustice.org msoules@earthjustice.org tony.mendoza@sierraclub.org laurac@chappelleconsulting.net gthomas@gtpowergroup.com stheodore@epsa.org

mdortch@kravitzllc.com rparsons@kravitzllc.com

dparram@taftlaw.com

charris@spilmanlaw.com

dwolff@crowell.com

rlehfeldt@crowell.com

dfolk@akronohio.gov Kevin.moore@occ.ohio.gov William.michael@occ.ohio.gov rsahli@columbus.rr.com ajay.kumar@occ.ohio.gov callwein@keglerbrown.com ghiloni@carpenterlipps.com kristin.henry@sierraclub.org

rkelter@elpc.org

mwarnock@bricker.com

whitt@whitt-sturtevant.com