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**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)	Case No. 07-551-EL-AIR
Edison Company for Authority to)	Case No. 07-552-EL-ATA
Increase Rates for Distribution Service,)	Case No. 07-553-EL-AAM
Modify Certain Accounting Practices)	Case No. 07-554-EL-UNC
And for Tariff Approvals)	

**DIRECT TESTIMONY OF MICHAEL R. SMALZ
ON BEHALF OF
OHIO PARTNERS FOR AFFORDABLE ENERGY**

Filed: January 10, 2008

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INDEX TO DIRECT TESTIMONY OF
MICHAEL R. SMALZ
PUCO CASE NO. 07-551-EL-AIR, et.seq.

	<u>Page No.</u>
1. Personal Data.....	1
2. Purpose of Testimony.....	2
3. Need for Low Income Assistance Programs.....	2
4. History of FirstEnergy Low Income Efficiency Programs.....	6
5. Recommendations for Future Programs.....	8

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF MICHAEL R. SMALZ
ON BEHALF OF
OHIO PARTNERS FOR AFFORDABLE ENERGY
PUCO CASE NO. 07-551-EL-AIR, et.seq.

Personal Data

Q. Please state your name and business address.

A. My name is Michael Smalz and my business address is 555 Buttlers Ave.,
Columbus, OH 43215.

Q. Please indicate by whom you are employed and in what capacity.

A. I am employed as a Senior Statewide Attorney with the Ohio State Legal
Services Organization ("OSLSA"). OSLSA is a nonprofit agency providing
support services to legal aid associations throughout Ohio. I also serve as
Board Secretary for Ohio Partners for Affordable Energy.

Q. Please briefly describe your educational background and business
experience.

A. I have a Bachelors of Arts degree from the University of Michigan and a
Juris Doctor degree from the University of Minnesota. My career has
included stints with legal services offices in Pennsylvania, Minnesota,
Nebraska, and Michigan. I have worked for OSLSA since 1988
specializing in domestic violence, fair housing, and public utility law. I
have argued before the Public Utilities Commission of Ohio and various
appellate courts including the Ohio Supreme Court. I have also worked
with utilities and other stakeholders regarding issues related to energy
efficiency and weatherization programs for low-income customers.

1 Q. Have you previously submitted testimony in any regulatory proceedings?

2 A. No.

3 **Purpose of Testimony**

4 Q. What is the purpose of your testimony in this proceeding?

5 A. The purpose of my testimony is to establish the need for low income
6 customer assistance programs that provide energy efficiency,
7 weatherization, and health and safety services. My testimony also traces
8 the history of low income energy efficiency programs funded by
9 FirstEnergy Corporation and its operating companies and make
10 recommendations regarding continuation of their existing successful
11 program.

12 **Need for Low Income Assistance Programs**

13 Q. Can you describe the general affordability problem faced by low income
14 families in meeting their energy needs?

15 A. One basic measure of the impact of energy prices on families of all types
16 is called the energy burden. For the average family the energy burden is
17 approximately 5.9 percent. In other words, the family spends 5.9 percent
18 of its household income to pay for the costs of heating, cooling and
19 operating lights and appliances. Low-income families, on the other hand,
20 had an energy burden of 17 percent in 2006. Given the steady rise in the
21 price of natural gas and the massive increases in fuel oil and propane
22 prices this winter, this burden is increasing. Between 2000 and 2005,
23 energy bills for low-income households grew by 40%. Current data from

1 the Energy Information Administration ("EIA") projects bill increases of 17
2 percent for natural gas, 3 percent for electricity, 33 percent for heating oil,
3 and 20 percent for propane compared to last winter. The price increases
4 that will result from this application will increase the burden for customers,
5 but particularly for low income customers in the FirstEnergy service
6 territories. Customers also face a significant risk that prices will increase
7 as a result of legislation being considered by the General Assembly.
8

9 Q. What is the size of the eligible population for low income assistance
10 programs?

11 A. According to data from the 2005 American Community Survey conducted
12 by the U.S. Census Bureau 952,150, or 21% of Ohioans have incomes
13 below 150% of the poverty line and would benefit from the bill reductions
14 resulting from an energy efficiency program. Attachment A to my
15 testimony provides a detailed review of poverty data for Ohio. Since
16 FirstEnergy serves roughly 1 million customers, I estimate approximately
17 200,000 customer households are eligible for existing energy efficiency
18 programs offered by the Company if funding continues.
19

20 Q. Have agencies you are involved with seen an increased demand for bill
21 assistance and weatherization and energy efficiency services?

22 A. Absolutely. As I will detail below, we have seen consistent increases in
23 the need for assistance in obtaining essential energy services since 2000,

1 when the first wave of the recession began to be felt in Ohio. Combining
2 the impact of the recession with the 40% increases in electricity, natural
3 gas, fuel oil, and propane prices since 2000, many families have been
4 forced to turn to community action agencies and other nonprofits for
5 assistance in order to maintain essential energy services. The OPAE
6 network provides permanent assistance in the form of weatherization and
7 energy efficiency services to reduce a household's use of energy.
8 However, our resources for this purpose are limited. The community-
9 based agencies also provide households with bill payment assistance and
10 enroll customers in the Percentage Income Payment Plan when they are
11 served by regulated utilities or assist in arranging other payment plans.

12
13 Q. Can you indicate the number of customers throughout the FirstEnergy
14 system who received bill payment assistance in Program Year 2007, the
15 winter of 2006-2007?

16 A. Yes. In Program Year 2007, 50,945 FirstEnergy customers received
17 assistance from the Home Energy Assistance Program grants. These
18 numbers have been growing consistently in the 10% range since Program
19 Year 2000.

20 Q. Can you indicate the number of customers throughout the FirstEnergy
21 system who participated in the Percentage Income Payment Plan?

22 A. Yes. As of March, 2007, 121,054 FirstEnergy customers were
23 participating in the Percentage Income Payment Plan and 230,205

1 participated in the program statewide. Between January 2000 and March
2 2007, the number of households using the Plan has grown by 79.83% in
3 Cleveland Electric Illuminating service territory, 55.99% in Ohio Edison
4 service territory and 98.43% in the Toledo Edison service territory.

5
6 Q. How would you characterize the situation faced by these households
7 regarding the affordability of essential energy services?

8 A. Clearly, these households are unable to pay their bills and have been
9 forced to turn to public sources of funds and/or payment programs in order
10 to continue to receive electric service. In my experience, there are a
11 number of other households that are eligible for these services but do not
12 avail themselves of them either from lack of knowledge of the availability
13 of assistance, a desire not to accept public assistance, or other factors.
14 We reach approximately 37 percent of the eligible population statewide,
15 meaning that there are more households in the FirstEnergy service
16 territories that could qualify for assistance if they chose to do so.

17
18 Q. Can weatherization and energy efficiency programs benefit these low
19 income households by reducing demand of energy?

20 A. Absolutely. A number of studies have validated the fact that the
21 weatherization services provided by Ohio providers reduce the total
22 energy used for heating purposes when homes are heated by natural gas,
23 propane or fuel oil by 30%. The average savings for electrically heated

homes is 15%. Baseload energy efficiency services provided through the Electric Partnership Program reduce electric use approximately 12 to 18%. Comprehensive services covering natural gas and electricity provide an average usage reduction of 22%. Given improvements in lighting technology and improvements in appliance efficiency because of federal standards and the voluntary Energy Star® appliance program, there are a number of energy efficiency improvements that have a savings to investment ratio of much greater than 1. In other words, the installation of the measures will pay for itself and will then deliver additional savings in the form of lower bills.

History of FirstEnergy Low Income Energy Efficiency Programs

Q. Has FirstEnergy provided funding to assist low income customers use energy as efficiently as possible?

A. Yes. Prior to the merger that created FirstEnergy, Centerior and Ohio Edison both funded low-income energy efficiency programs. The programs were combined and the measures were standardized prior to the 2000 Program Year. The Opinion and Order in Case No. 99-1212-EL-ETP approved \$5 million per year from 2001 through 2005 for the weatherization of existing homes, some of which was diverted to Habitat for Humanity for new home construction. The Company agreed to provide an additional \$3.75 million between 2006 and 2008 in Case No. 03-2144-EL-ATA and the Commission ordered an additional \$5 million be

1 expended to provide energy efficiency services to existing housing. The
2 latter \$5 million was also diverted to Habitat for Humanity. Management
3 of the Community Connections program was transferred to Ohio Partners
4 for Affordable Energy (OPAE) pursuant to the Commission's orders in
5 Case No. 03-2144-EL-ATA. OPAE has obligated \$2.7 million per year to
6 participating agencies. The funding is being depleted. Allocations to
7 agencies serving Ohio Edison customers were reduced 56% this year.
8 Funding for the Cleveland Electric Illuminating Company and Toledo
9 Edison service territories will be spent by the end of the year. The
10 Company committed an additional \$1.5 million for low-income efficiency
11 pursuant to Commission orders in in Case Nos. 04-1932-EL-ATA and 06-
12 1125-EL-UNC, but the funding has not been provided to OPAE as of the
13 date of this testimony. [See Opinion and Order, *In the Matter of the*
14 *Application of Ohio Edison Company, the Cleveland Electric Illuminating*
15 *Company, and The Toledo Edison Company for Approval of a Rider for*
16 *the Collection of RTO Costs and the Accounting Authority to Modify Their*
17 *Accounting Procedures*, Case Nos. 04-1932-EL-ATA and Case No. 07-
18 128-EL-ATA (February 14, 2007) at 5, and Opinion and Order, *In the*
19 *Matter of the Application of Ohio Edison Company, the Cleveland Electric*
20 *Illuminating Company, and The Toledo Edison Company for Authority to*
21 *Modify Certain Accounting Practices and for Tariff Approvals.*, Case No.
22 05-1125-EL-UNC, et.seq. (December 4, 2006).

23

1 Q. Can you provide additional information on the program?

2 A. OPAE began managing Community Connections in Program Year 2004.

3 To briefly summarize, over the past four years the program has provided
4 10,334 customer households with cost-effective energy efficiency services
5 at an average cost of \$873.58 per unit, leveraging \$20,513,949.80 in
6 funding from other programs to provide comprehensive services. OPAE
7 administrative costs have averaged \$84,000 per year, or 3%. Demand for
8 services under the Community Connections program far exceeds the \$2.7
9 million allocated annually to this initiative and many agencies spend their
10 annual allocation well before the end of the program year.

11

12 **Recommendations for Future Programs**

13 Q. Do you see a need for new utility funding of low income energy efficiency
14 programs and what level of funding would you suggest?

15 A. Our member agencies see a clear need for additional funding. We are
16 seeing an increase in demand for services. As noted above, at current
17 funding levels only 1 percent of those eligible can be served per year.
18 I recommend an increase in funding to \$5.5 million to reach 2 percent of
19 the eligible annually with regular increases based on the cost of service.
20 Along with the higher level of funding we would also recommend
21 increasing the eligibility level to 175% of the poverty line. This would allow
22 us to serve low-income elderly households; the minimum Social Security
23 Payment places a single widow at about 178 percent of the poverty line. It

1 would also let us serve more of the working poor and probably help
2 reduce the mortgage foreclosure rate. Ohio currently has the largest
3 default rate in the country.

4 Q. Is funding at the \$5.5 million level reasonable, given the funding available
5 from other weatherization programs?

6 A. Yes, as I have previously indicated, we are only serving 1 percent of the
7 eligible households. Increasing eligibility to 175 percent of the poverty line
8 would also increase the number of eligible households. In addition, there
9 are only limited amounts of funds from other sources available to provide
10 electric efficiency services.

11

12 Q. Do you have any recommendations regarding other demand side
13 management initiatives?

14 A. Yes. OPAE has been working with Vectren Energy Delivery of Ohio to
15 pilot a program which makes weatherization services available to
16 customers up to the median income without requiring a cost share. We
17 believe that expanding a program like Community Connections and
18 serving payment troubled customers up to the median income would
19 produce not only savings for those customers but benefit other ratepayers
20 by reducing demand and bad debt.

21

22 Q. Does this conclude your testimony?

23 A. Yes.

State Report – Ohio

This Appendix furnishes detailed information for Ohio, including:

- **Statistical Overview** – Key characteristics for Ohio households and housing units.
- **Needs Assessment** – Statistics for Ohio low-income households and estimates of the need for energy affordability and energy efficiency programs.
- **Legal and Regulatory Framework** – A description of the legal and regulatory framework for low-income programs and identification of any legal or regulatory barriers to program design enhancements.
- **Low-Income Affordability Programs** – Information on Ohio's publicly funded affordability programs, the ratepayer-funded affordability programs targeted by this study, and an assessment of the share of need currently being met.
- **Affordability Program Evaluation** – A summary of the available evaluation findings regarding the performance of Ohio's affordability programs.
- **Energy Efficiency Programs** – Information on Ohio's publicly funded energy efficiency programs and the ratepayer-funded energy efficiency programs targeted by this study.
- **Energy Efficiency Program Evaluation** – A summary of the available evaluation findings regarding the performance of Ohio's energy efficiency programs.

This report was developed from a number of publicly available sources. We gratefully acknowledge the information received and contributions from Susan Moser, Residential Consumer Education Specialist, Ohio Department of Development; Don Skaggs, Ohio Department of Development; and Tonja Stewart, Ohio Department of Development. This report was developed by APPRISE and Fisher, Sheehan, and Colton. The statements, findings, conclusions, and recommendations are solely those of analysts from APPRISE and Fisher, Sheehan, and Colton. They do not necessarily reflect the views of any individual consulted regarding Ohio programs.

I. Statistical Overview

Ohio is the 7th largest state in terms of population. It has about average income and poverty rates (26th in median family income and 24th in individuals below poverty). In 2005, the median housing value was \$129,600 and the median rent was \$613.

Most housing units (87%) in Ohio are heated with regulated fuels, predominantly natural gas (68%). Energy prices are moderate, with natural gas only 1% above the national average, and electricity 13% below and fuel oil 9% below the national averages. The weather is cold in the winter (5,971 heating degree days compared to the national average of 4,524) and moderate in the summer (738 cooling degree days compared to the national average of 1,242). Households are most at risk from the cold during the months of November through April, and are most at risk from the heat during the months of July and August.

The following population and housing statistics were developed using data from the 2005 American Community Survey (ACS).

Population Profile

Total Population.....	11.2 million
Individuals 65 and Over.....	1.4 million (13%)
Individuals Under 18.....	2.8 million (25%)
Individuals 5 & Over Who Speak a Language Other than English at Home.....	0.6 million (5%)
Individuals Below Poverty	13% (24 th nationally)

Household Profile

Total Households.....	4.5 million
Median Household Income.....	\$43,493 (30 th nationally)

Homeowners

Total Homeowners.....	3.2 million (70%)
Median Value	\$129,600 (32 nd nationally)
Median Housing Burden	20%

Renters

Total Renters	1.4 million (30%)
Median Rent.....	\$613
Median Rental Surden	27%

The following energy statistics were derived from a number of sources, including the 2005 American Community Survey (ACS), the Energy Information Administration's (EIA) supplier data collection, and NOAA's National Climatic Data Center (NCDC).

Energy Profile

Home Heating Fuel (Source: 2005 ACS)

Utility gas.....	68%
Electricity.....	19%
Fuel Oil.....	4%
Other	9%

2005 Energy Prices (Source: EIA)

Natural gas, per ccf.....	\$1.300
Electricity, per kWh.....	\$0.0819
Fuel oil, per gallon.....	\$1.863

Weather (Source: NCDC)

Heating Degree Days.....	5,971
Months of Winter (i.e., average temperature below 50°)	6
Cooling Degree Days.....	738
Months of Summer (i.e., average temperature above 70°)	2
Days with Temperatures Over 90°.....	14

[Note: Updates are available for energy prices and weather for 2006. Population statistics updates for 2006 will be available in August 2007.]

II. Profile of Low Income Households

Ohio policymakers have chosen to target the publicly funded and ratepayer-funded low income programs at households with incomes at or below 150% of the HHS Poverty Guideline. For 2005, the income standard for a one-person household was about \$14,355 and the income standard for a four-person household was \$29,025. For the analysis of low-income households in Ohio, we will focus on households with incomes at or below 150% of the HHS Poverty Guideline.

Table 1 furnishes information on the number of Ohio households with incomes that qualify them for the LIHEAP program and the ratepayer-funded programs. About 21% of Ohio households are income-eligible for these programs.

Table 1
Eligibility for Ratepayer Programs (2005)

Poverty Group	Number of Households	Percent of Households
Income at or below 150%	952,150	21%
Income above 150%	3,558,190	79%
ALL HOUSEHOLDS	4,510,340	100%

Source: 2005 ACS

Tables 2A and 2B furnish information on main heating fuels and housing unit type for Ohio low-income households. Table 2A shows that about 64% of low-income households use natural gas as their main heating fuel, somewhat less than the 68% for all Ohio households. Low-income households are more likely to heat with electricity than the Ohio average. Table 2B shows that one of the reasons for the higher rate of electric main heat is that 25% of low-income households are in buildings with 5 or more units. Many multiunit buildings use electric space heating rather than natural gas or fuel oil. About 52% of low-income households live in single family homes, while 16% live in buildings with 2-4 units. Seven percent of low-income households live in mobile homes.

Table 2A
Main Heating Fuel for Low-Income Households (2005)

Main Heating Fuel	Number of Households	Percent of Households
Electricity	231,280	24%
Fuel Oil	32,802	3%
No fuel used	4,512	0%
Other Fuels	72,153	8%
Utility Gas	611,403	64%
ALL LOW INCOME	952,150	100%

Source: 2005 ACS

Table 2B
Housing Unit Type for Low-Income Households (2005)

Housing Unit Type	Number of Households	Percent of Households
Boat, RV, Van, etc	278	0%
Building with 2-4 units	153,924	16%
Building with 5+	236,016	25%
Mobile Home	65,430	7%
Single Family	496,502	52%
ALL LOW INCOME	952,150	100%

Source: 2005 ACS

About 952,000 Ohio households are categorized as low-income. However, only those households that directly pay an electric bill or a gas bill are eligible for the Ohio ratepayer-funded programs. Table 2C shows that about 89% of low-income households directly pay an electric bill and that about 59% of low-income households directly pay a gas bill.

Table 2C
Low-Income Households
Direct Payment for Electric and/or Gas Bill (2005)

Poverty Group	Number of Households	Percent of Households
Electric Bill - Direct Payment	845,176	89%
Gas Bill - Direct Payment	563,876	59%
ALL INCOME ELIGIBLE	952,150	100%

Source: 2005 ACS

Tables 3A and 3B show the distribution of electric bills and burden for low-income households that do not heat with electricity and reported electric expenditures separately from gas expenditures.¹ Table 3A shows the distribution of electric expenditures for households that do not have electricity as their main heating fuel and Table 3B shows the electric energy burden.² Among these households, about 67% have electric bill that is less than \$1,000 per year while about 15% have an annual electric bill of \$1,500 or more. Electric energy burden is less than 5% of income for about 32% of these households, while it is 15% of income or more for 22% of households.³

¹The ACS allows respondents who have a combined electric and gas bill from one utility to report the total for both fuels. Those households are not included in these tables.

²Electric energy burden is defined as the household's annual electric bill divided by the household's annual income.

³About 13% of households have their electric usage included in their rent. These households have a nonzero electric energy burden, since part of their rent is used to pay the electric bill. However, since there is no way to measure the share of rent that is used to pay the electric bill, electric energy burden is unknown for these households.

Table 3A
Electric Bills for Low-Income Households without Electric Heat (2005)

Electric Bill	Number of Households	Percent of Households
\$1 to less than \$500	198,612	30%
\$500 to less than \$1,000	242,315	37%
\$1,000 to less than \$1,500	119,264	18%
\$1,500 or more	98,801	15%
TOTAL	658,992	100%

Source: 2005 ACS

Table 3B
Electric Burden for Low-Income Households without Electric Heat (2005)

Electric Burden	Number of Households	Percent of Households
0% to less than 5%	213,426	32%
5% to less than 10%	218,239	33%
10% to less than 15%	81,417	13%
15% or more	145,910	22%
TOTAL	658,992	100%

Source: 2005 ACS

Tables 4A and 4B show the distribution of electric bills and burden for low-income households that heat with electricity. Table 4A shows the distribution of electric expenditures and Table 4B shows the electric energy burden. Among these households, almost half have an electric bill that is less than \$1,000 per year while about 27% have an annual electric bill of \$1,500 or more. Electric energy burden is less than 5% of income for about 17% of these households, while it is 15% of income or more for 34%.

Table 4A
Electric Bills for Low-Income Households with Electric Heat (2005)

Electric Bill	Number of Households	Percent of Households
\$1 to less than \$500	37,252	20%
\$500 to less than \$1,000	55,480	29%
\$1,000 to less than \$1,500	45,370	24%
\$1,500 or more	48,082	27%
TOTAL	186,184	100%

Source: 2005 ACS

Table 4B
Electric Burden for Low-Income Households with Electric Heat (2005)

Electric Burden	Number of Households	Percent of Households
0% to less than 5%	33,137	17%
5% to less than 10%	55,620	30%
10% to less than 15%	34,882	19%
15% or more	62,545	34%
TOTAL	179,024	100%

Source: 2005 ACS

Tables 5A and 5B show the distribution of gas bills and burden for low-income households that heat with gas and report their gas bills separately from their electric bills. Table 5A shows the distribution of gas expenditures and Table 5B shows the gas energy burden. Among these households, just under half have a gas bill that is less than \$1,000 per year, while about 31% have an annual gas bill of \$1,500 or more. Gas energy burden is less than 5% of income for about 24% of these households, while it is 15% of income or more for 34%.

Table 5A
Gas Bills for Low-Income Households (2005)

Gas Bill	Number of Households	Percent of Households
\$1 to less than \$500	125,098	23%
\$500 to less than \$1,000	139,386	26%
\$1,000 to less than \$1,500	107,864	20%
\$1,500 or more	170,946	31%
TOTAL	543,294	100%

Source: 2005 ACS

Table 5B
Gas Burden for Low-Income Households (2005)

Gas Burden	Number of Households	Percent of Households
0% to less than 5%	132,255	24%
5% to less than 10%	139,874	26%
10% to less than 15%	86,330	16%
15% or more	184,835	34%
TOTAL	543,294	100%

Source: 2005 ACS

Tables 6A and 6B show the distribution of total electric and gas expenditures for low-income households that pay bills directly to a utility company. Table 6A shows the distribution of electric and gas expenditures and Table 6B shows the electric and gas energy burden. About 89% of households have an electric bill, a gas bill, or both. About one-fourth of low-income households have a total electric and gas bill that is less than \$1,000 per year while about one-fifth have an

annual bill of \$2,500 or more. Electric and gas energy burden is less than 5% of income for 9% of low-income households, while it is 25% of income or more for one in four low income households.

Table 6A
Electric and Gas Bills for Low-Income Households (2005)

Electric and Gas Bill	Number of Households	Percent of Households
\$1 to less than \$500	76,149	8%
\$500 to less than \$1,000	161,360	17%
\$1,000 to less than \$1,500	177,501	19%
\$1,500 to less than \$2,000	126,569	13%
\$2,000 to less than \$2,500	106,743	11%
\$2,500 or more	199,874	21%
No Bill	101,954	11%
ALL INCOME ELIGIBLE	952,150	100%

Source: 2005 ACS

Table 6B
Electric and Gas Burden for Low-Income Households (2005)

Electric and Gas Burden	Number of Households	Percent of Households
0% to less than 5%	82,350	9%
5% to less than 10%	195,376	21%
10% to less than 15%	167,783	18%
15% to less than 20%	107,924	11%
20% to less than 25%	62,728	7%
25% or more	234,035	25%
No Bill	101,954	11%
ALL INCOME ELIGIBLE	952,150	100%

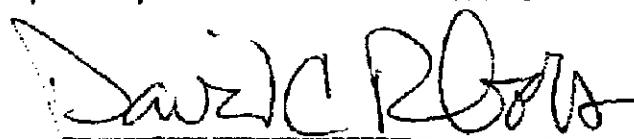
Source: 2005 ACS

We have developed a series of demographic tables for households that pay an electric or gas bill. Table 7 furnishes information on the presence of vulnerable members in the household and illustrates what share of the population might be particularly susceptible to energy-related health risks. Table 8 shows the household structure for these households, and Table 9 presents statistics on the language spoken at home by these households.

Over one-fourth of the low-income households with utility bills are elderly; just over 25% of low-income households do not have any vulnerable household members. Some programs choose to target vulnerable households with outreach procedures and may offer priority to these households.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Direct Testimony of Michael Smalz on behalf of Ohio Partners for Affordable Energy was served by electronic transmission and by First Class Mail upon the parties of record in this case on this 9th day of January, 2008.



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