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**OCC EXHIBIT NO. 1**

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

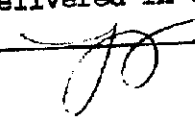
In the Matter of the Application of Ohio )  
Edison Company, The Cleveland Electric ) Case No. 08-935-EL-SSO  
Illuminating Company and The Toledo )  
Edison Company for Authority to )  
Establish a Standard Service Offer )  
Pursuant to R.C. 4928.143 in the Form of )  
an Electric Security Plan. )

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**DIRECT TESTIMONY  
of  
WILSON GONZALEZ**

**ON BEHALF OF THE  
OFFICE OF THE OHIO CONSUMERS' COUNSEL  
10 West Broad St., Suite 1800  
Columbus, OH 43215**

***September 29, 2008***

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1    **I.        INTRODUCTION**

2    ***Q1.    PLEASE STATE YOUR NAME, ADDRESS AND POSITION.***

3    ***A1.    My name is Wilson Gonzalez. My business address is 10 West Broad Street,***  
4           Suite 1800, Columbus, Ohio, 43215-3485. I am employed by the Office of the  
5           Ohio Consumers' Counsel ("OCC") as a Principal Regulatory Analyst.

6  
7    ***Q2.    PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND***  
8           ***PROFESSIONAL EXPERIENCE.***

9    ***A2.    I have a Bachelor of Arts degree in Economics from Yale University and a Master***  
10           of Arts degree in Economics from the University of Massachusetts at Amherst. I  
11           have also completed coursework and passed my comprehensive exams towards a  
12           Ph.D. in Economics at the University of Massachusetts at Amherst. I have been  
13           employed in the energy industry since 1986, first with the Connecticut Energy  
14           Office (Senior Economist, 1986-1992), then Columbia Gas Distribution  
15           Companies ("Columbia Gas"), (Integrated Resource Planning Coordinator, 1992-  
16           1996) and American Electric Power ("AEP") (Marketing Profitability Coordinator  
17           and Market Research Consultant, 1996-2002). I have been spearheading the  
18           Resource Planning activities within OCC since 2004.

19

***Q3. PLEASE DESCRIBE YOUR EXPERIENCE DIRECTLY RELATED TO  
UTILITY DEMAND-SIDE MANAGEMENT PROGRAMS AND RATE  
DESIGN, COST-BENEFIT ANALYSIS AND PROGRAM MONITORING  
AND EVALUATION.***

***A3.*** I have been involved with many aspects of demand-side management ("DSM") programs since 1986. While at the Connecticut Energy Office I represented the office in one of the first DSM collaborative processes in the country (Connecticut Department of the Public Utilities Commission Docket No. 87-07-01). There I analyzed the performance and cost-effectiveness of many efficiency programs for Connecticut's electric and gas utilities that led to demonstration projects, policy recommendations, DSM programs (including rate design) and energy efficiency standards. I also performed all the analytical modeling for United Illuminating's first integrated resource plan filed before the DPUC in 1990. At Columbia Gas, I was responsible for coordinating that company's Integrated Resource Plan within the corporate planning department and DSM program development activities in the marketing department. I designed and managed residential DSM programs in Maryland and Virginia. At AEP, I conducted numerous cost benefit analyses of programs being sponsored by AEP's corporate marketing department, including their residential load control water heater program. For the past 4 years at OCC I have:

- Been involved in DSM negotiations resulting in over \$140 million in Energy Efficiency programs with Ohio's investor owned utilities;
- Prepared DSM testimony in six Public Utility Commission of Ohio cases;

- 1 • Testified before the Ohio House Alternative Energy Committee in
- 2 support of Energy Efficiency; and
- 3 • Assisted in the preparation of Energy Efficiency and Renewable
- 4 Energy testimony and amendments for S.B. 221, H.B. 357, and
- 5 H.B. 487.

6

7 ***Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE***

8 ***PUBLIC UTILITIES COMMISSION OF OHIO?***

9 ***A4.*** Yes. I submitted testimony in the following cases before the Public Utilities

10 Commission of Ohio ("Commission" or "PUCO"): Vectren Energy Delivery of

11 Ohio, Case No. 04-571-GA-AIR; Dominion East Ohio, Case No. 05-474-GA-

12 ATA; Dominion East Ohio, Case No. 07-829-GA-AIR; Vectren Energy Delivery

13 of Ohio, Case No. 05-1444-GA-UNC; Columbus Southern Company/Ohio Power

14 Company ("AEP"), Case No. 06-222-EL-SLF; Duke Energy of Ohio ("Duke

15 Energy"), Case No. 07-589-GA-AIR, Cleveland Electric Illuminating/Ohio

16 Edison/Toledo Edison ("FirstEnergy EDUs" or "Companies"), Case Nos. 07-551-

17 EL-AIR, et al. ("Distribution Rate Cases"), and Case No. 08-936-EL-SSO; and

18 Vectren Energy Delivery of Ohio, Case No. 07-1080-GA-AIR.

19

20 ***Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF***

21 ***YOUR TESTIMONY?***

22 ***A5.*** I have reviewed the demand-side management ("DSM"), and advanced metering

23 infrastructure ("AMI") pilot program discussion in the Electric Security Plan

24 ("ESP") of Ohio Edison Company, the Cleveland Electric Illuminating Company,

1 and the Toledo Edison Company ("FirstEnergy EDUs" or "Companies") Case  
2 Application, the testimony of FirstEnergy witnesses Blank, Hussing, Jones,  
3 Schneider and Warvell. I have also reviewed the relevant responses to OCC  
4 discovery and Commission Staff data requests pertaining to DSM, AMI, and ESP.  
5

6 **II. PURPOSE OF TESTIMONY**

7 ***Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?***

8 ***A6.*** I recommend that the FirstEnergy EDUs increase the level of funding for DSM it  
9 is proposing in this case in order to meet the energy efficiency provisions in state  
10 law as informed by Amended S.B. 221. I also recommend that the funding of  
11 DSM programs to meet the new state requirements be incremental to those DSM  
12 programs negotiated by OCC in Supplemental Stipulation in Case No. 05-1125-  
13 EL-ATA, November 4, 2005 and partly funded by shareholders. Further, I  
14 recommend that the FirstEnergy EDUs use a third party administrator to either  
15 conduct the entire DSM program, or that a collaborative process be used in which  
16 programs are selected and a competitive bid process and/or a DSM offer are  
17 established among energy service companies to implement the programs. My  
18 testimony will also make recommendations to FirstEnergy EDUs' AMI pilot  
19 program and accompanying Dynamic Pricing Program. I also recommend that  
20 demand components be reintroduced into the structure of retail rates and I  
21 recommend a change to the proposed recovery of delta revenues arising from  
22 special arrangements. My testimony also comments on the Companies' proposed  
23 settlement of the pending distribution rate cases. Finally, I recommend that the  
24 Companies cost recovery for new generation sources or for long term power

1 purchase contracts identified by the Companies in their ESP plan should not be  
2 approved <sup>1</sup> pending a demonstration that such sources are least cost and subject to  
3 reasonable risk as determined in a formal long term forecast and integrated  
4 resource planning process in April 2009 as proposed by Staff in their Long Term  
5 Forecast Rulemaking in Case No. 08-888-EL-ORD.

6  
7 **III. THE COMPANIES' DSM PROPOSAL**

8 ***Q7. PLEASE DESCRIBE THE COMPANIES' DSM PROPOSAL.***

9 ***A7.*** FirstEnergy EDUs do not provide much information concerning their DSM  
10 proposal. The Application states that the Companies plan to:

11 provide up to \$5 million of investment each year from January 1, 2009 to  
12 December 31, 2013 for customer energy efficiency/demand side  
13 management improvements made on and after January 1, 2009. Such  
14 investment, up to \$25 million over the duration of the Plan, will provide a  
15 significant incentive for customer implementation of such programs.<sup>2</sup>  
16

17 In response to an OCC clarifying discovery request, the Companies' stated that  
18 "they have not yet determined how much will be spent on energy efficiency and  
19 demand reduction programs from 2009 through 2013."<sup>3</sup>  
20

21 ***Q8. WHAT IS YOUR ASSESSMENT OF THE COMPANIES' DSM***  
22 ***PORTFOLIO?***

23 ***A8.*** I observe that, as filed, the Companies' DSM proposal in this docket provides a  
24 paucity of information, and the information provided to date in discovery is  
25 seriously lacking detail. In most states, it is a requirement when seeking approval

---

<sup>1</sup> Except for those resources required to meet the Alternative Energy provisions of S.B. 221.

<sup>2</sup> Application at 25.

<sup>3</sup> Companies' Response to OCC INT-13 (attached as WG-1).

1 and cost-recovery for DSM programs for the utility to make a detailed filing,  
2 including the program designs, cost-benefit evaluation, implementation plans and  
3 monitoring and verification plans. In Ohio, such are the filings made by Duke in  
4 Case No. 06-91-EL-UNC, Columbia Case No. 08-0833-GA-UNC, Vectren Case  
5 No. 07-1080-GA-AIR, and AEP in its ESP filing.<sup>4</sup> For the Companies not to have  
6 provided a more substantial DSM filing knowing that the signing of Amended  
7 S.B. 221 into law on May of 2007 would require a significant DSM portfolio of  
8 programs is objectionable.

9  
10 ***Q9. IS THE PROPOSED LEVEL OF DSM FUNDING SUFFICIENT TO MEET***  
11 ***STATE REQUIREMENTS?***

12 ***A9.*** No. Based on the Companies' proposal and their "yet to be determined" funding  
13 level, it is difficult to see how they will meet the energy efficiency requirements  
14 over the next five years.<sup>5</sup> Perhaps they plan on claiming a large amount of  
15 existing mercantile customer energy savings. If the Companies are contemplating  
16 the latter strategy, it appears to be a risky strategy since the rules for the  
17 integration of mercantile customer energy efficiency savings are currently being  
18 developed. Moreover, rather than rely solely on mercantile opt-out, a DSM  
19 portfolio should include a mix of programs for all customer classes. Based on the  
20 proposed budget, this is not achievable. Finally, as to mercantile opt-out, the  
21 Companies' filing fails to demonstrate how this would work and what steps it

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<sup>4</sup> AEP has estimated the costs and benefits of its DSM programs in Exhibit KLS-2 of Witness Sloneker.

<sup>5</sup> If one tracks the projected revenue the Companies plan to collect from Rider DSE from the different class schedules as they appear in Volume 1b of their application it totals \$14,273,712 for 2009. However, Rider



1 would take to monitor and evaluate the opt-out programs in order to assure that the  
2 energy efficiency savings materialize.

3  
4 ***Q10. WHAT DOLLAR LEVELS OF ENERGY EFFICIENCY DO YOU***  
5 ***RECOMMEND?***

6 ***A10.*** To meet the state requirements for DSM over the next three years requires  
7 additional funding. The energy efficiency requirements for the next three years  
8 are "at least three-tenths of one per cent of the total, annual average, and  
9 normalized kilowatt-hour sales of the electric distribution utility during the  
10 preceding three calendar years..."<sup>6</sup> For 2010 the figure is an additional five-  
11 tenths of one per cent and for 2011, seven tenths of one per cent for a cumulative  
12 1.5 per cent over the three years.<sup>7</sup> Based on funding levels and savings estimates  
13 from other utilities I recommend approximately \$49 million dollars per year. As  
14 demonstrated in Attachment WG-2, this spending level comes out to  
15 approximately a \$24.25 cost per electricity customer and places the FirstEnergy  
16 EDUs' spending level on a par with Duke Energy's average cost per customer  
17 energy efficiency effort in Cincinnati. Since the Companies have offered to  
18 contribute \$5 million per year for five years from shareholder dollars, the  
19 recommended annual ratepayer contribution is approximately \$44 million

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DSE contains more than just DSM costs, it also contains costs incurred to meet the advanced energy, renewable energy and customer sited program requirements of S.B. 221.

<sup>6</sup> R.C. 4928.66(A)(1)(a).

<sup>7</sup> Id.

1 annually.<sup>8</sup> Finally, I recommend that the remaining funding of DSM programs  
2 negotiated by OCC in the Supplemental Stipulation in Case No. 05-1125-EL-  
3 ATA, November 4, 2005 be used the first year as part of the \$44 million DSM  
4 budget.

5  
6 ***Q11. WHO SHOULD DELIVER THE ENERGY EFFICIENCY PROGRAMS?***

7 ***Ans.*** At this time I recommend an independent program administrator with years of  
8 proven experience in the DSM field. I also recommend that a collaborative  
9 process be formed. That collaborative would send out an RFP soliciting  
10 proposals and select an independent program administrator. The program  
11 administrator's role should be modeled from the role played by the Vermont  
12 Energy Investment Corporation ("VEIC") in Vermont.<sup>9</sup> The independent  
13 administrator will use the energy efficiency funds collected by the Companies in  
14 their tariffs to design and deliver energy efficiency programs (and with  
15 collaborative input) for all customer classes that meet the benchmarks required by  
16 Ohio law. The contract for the independent program administrator should contain  
17 penalties consistent with those in Section 4928.66 (C) of the Ohio Revised Code  
18 so that the FirstEnergy EDUs would not be penalized for failure to meet the  
19 annual benchmarks.

20  

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<sup>8</sup> The shareholder contribution is appropriate since the \$28 million funding negotiated by OCC in the Supplemental Stipulation in Case No. 05-1125-EL-ATA, November 4, 2005, should be matched by an equivalent shareholder contribution, since the energy efficiency savings are now mandated by Ohio law, and the dollars negotiated by OCC were supposed to be spent by 2008 before energy efficiency was required.

<sup>9</sup> See <http://www.encyvermont.com/pages/> for a description of the Efficiency Vermont model.

1 Another option is for the Companies to develop a Standard DSM Offer ("SDO")  
2 with collaborative input. In a SDO, FirstEnergy EDUs would pay the Energy  
3 Service Companies ("ESCOs") or third party provider of the energy efficiency a  
4 fixed kWh charge.<sup>10</sup> These incentives can be paid to ESCOs on the basis of  
5 deemed savings, which are standardized savings values or formulas for a wide  
6 range of measures in representative building types. If deemed savings have not  
7 been established for a particular qualifying energy efficiency measure, then  
8 incentives may be paid on the basis of verified peak demand and/or energy  
9 savings using the International Performance Measurement and Verification  
10 Protocol ("IPMVP").<sup>11</sup> ESCOs are very comfortable responding to, and  
11 delivering programs through a DSM Offer from a utility.

12  
13 ***Q12. ARE YOU FAMILIAR WITH FIRSTENERGY EDUs' EXISTING ENERGY***  
14 ***EFFICIENCY PROGRAMS?***

15 ***A12.*** Yes. The FirstEnergy EDUs currently are engaged in providing two energy  
16 efficiency programs, the Home Performance with Energy Star ("HPES") and  
17 Direct Load Control ("DLC") programs.

18  

---

<sup>10</sup> After the DSM Offer is made, third party energy service companies could then round up projects and submit proposals in conformance with criteria set by the FirstEnergy EDUs and the collaborative.

<sup>11</sup> The IPMVP provides standard measurement and verification ("M&V") terminology and defines four M&V options to quantify energy and water savings. It is a savings-verification tool with principles that are applicable to commercial and industrial energy efficiency projects. The use of IPMVP has become standard in almost all energy efficiency projects where payments to the contractors are based on the energy savings that will result from the implementation of a variety of ECMs. IPMVP has been translated into ten languages. More than 300 professionals from 100 U.S. and international organizations have contributed thousands of hours on a completely voluntary basis to update and revise IPMVP. More information can be found at <http://www.ipmvp.org>.

**Q13. HOW SHOULD THE FIRSTENERGY EDUs PROCEED WITH THEIR TWO  
EXISTING ENERGY EFFICIENCY PROGRAMS?**

**A13.** I recommend the FirstEnergy EDUs continue funding their existing DSM programs (i.e. HPES and DLC). I further recommend that the FirstEnergy EDUs consider jointly delivering the HPES program with the Dominion East Ohio Gas Company ("DEO"), now that DEO has stipulated to implement energy efficiency programs in its rate case.<sup>12</sup> Jointly delivering the home performance program should reduce the administration and program delivery costs, increase customer participation (one stop shopping for both natural gas and electric measures), and maximize total energy and emissions savings. For the DLC program, I recommend that the FirstEnergy EDUs consider upgrading their existing Carrier thermostat with a model that is ZigBee compatible to facilitate the future transition to AMI and the development of Home Area Networks.<sup>13</sup>

**Q14. WHAT ENERGY EFFICIENCY PROGRAMS DO YOU RECOMMEND  
THAT THE FIRSTENERGY EDUs OR AN INDEPENDENT  
ADMINISTRATOR SHOULD UNDERTAKE WITH THE ADDITION OF  
FUNDING FOR SUCH PROGRAMS?**

**A14.** For new programs, I recommend the FirstEnergy EDUs or the independent administrator participate in a stakeholder collaborative review to consider the list of exemplary energy efficiency program profiles put together and rated by the

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<sup>12</sup> Case No. 07-829-GA-AIR.

<sup>13</sup> ZigBee is the name of a specification for a suite of high level communication protocols using small, low-power digital radios based on the IEEE 802.15.4-2006 standard for wireless personal area networks (WPANs).

American Council for an Energy Efficient Economy that are listed in Attachment WG-3 to my testimony. This attachment contains four examples of residential lighting programs and one commercial lighting program.

There are other excellent programs across the country, but these programs would provide a good start for evaluation by the stakeholder collaborative. OCC is interested in exploring the implementation of the following residential programs in addition to the current programs in place:

1. A residential appliance program (including recycling of removed units);
2. A residential air-conditioning program; and
3. A residential new construction program.

I also recommend that the FirstEnergy EDUs or the independent administrator implement programs for business and state office buildings since these often have the highest cost-effectiveness ratios. The Companies or the independent administrator should also consider implementing additional cost-effective commercial and industrial programs.

***Q15. WHAT GUIDELINES SHOULD BE USED TO EVALUATE THE ENERGY EFFICIENCY PROGRAMS?***

***A15.*** Programs should provide the least cost of energy services to customers as a whole. I recommend, at a minimum, that the total resource cost ("TRC") test be used to evaluate the cost-effectiveness of energy efficiency programs. This test measures the total cost of the energy efficiency program and is compared to the avoided capacity and energy cost (or their market proxy) of traditional supply-

1 side resources. The TRC test does not include utility incentives or lost revenues  
2 that are typically viewed as being transfer payments between the utility and either  
3 the participants or non-participants. Given the potential for legislation to control  
4 greenhouse gases, sensitivity analysis should be conducted around a range of  
5 projected carbon allowance prices since these costs could be internalized into the  
6 utility cost structure.<sup>14</sup>

7  
8 Other external factors exist for DSM programs beyond the benefits of reduced  
9 electric demand such as changes in indoor or outdoor air quality, improved  
10 customer comfort, economic development (e.g. new job creation). These factors  
11 should be included in the evaluation procedure. A written description and/or  
12 proxy measurement should be provided for the decision process to the extent that  
13 it is impossible to associate specific dollar impacts with these attributes.

14  
15 ***Q16. DO YOU HAVE ANY FURTHER RECOMMENDATIONS REGARDING***  
16 ***THE FIRSTENERGY EDUs' DSM PROPOSAL?***

17 ***A16.*** Yes. I recommend that the Commission require the Companies to work with  
18 interested stakeholders through a collaborative process and with a selected  
19 independent administrator to provide a more detailed DSM portfolio business case  
20 -- including program designs, implementation schedules, a rigorous cost-benefit  
21 study, and the appropriate monitoring, evaluation, and reporting protocols -- so  
22 that the proposed DSM programs can be fully evaluated before an investment

---

<sup>14</sup> This analysis usually falls into the Societal Test since carbon costs have not yet been fully internalized.

1 decision is made. In the alternative, the Commission should also require the  
2 Companies to provide more realistic DSM cost estimates and to demonstrate that  
3 the proposed DSM programs and suggested funding meet the DSM requirements  
4 of S.B. 221.

5

6 **IV. COLLABORATIVE PROCESS**

7 ***Q17. WHAT IS THE BEST APPROACH FOR REACHING AGREEMENT***  
8 ***REGARDING THE OPTIMAL DESIGN AND IMPLEMENTATION OF***  
9 ***ENERGY EFFICIENCY PROGRAMS FOR THE FIRSTENERGY EDUs?***

10 ***A17.*** The most effective way for interested parties to have input in the DSM plan would  
11 be to work cooperatively with the Companies or the independent administrator in  
12 the plan design. This approach significantly limits the amount of contested  
13 matters, and leads to greater understanding of the complex issues by all parties  
14 involved. It also requires significantly less regulatory intervention and litigation,  
15 as the parties work out most (if not all) of their differences outside of the  
16 regulatory proceeding. My experience in Connecticut with the Northeast Utilities  
17 and United Illuminating Company collaboratives and in Maryland with the  
18 Columbia Gas and Maryland Collaborative,<sup>15</sup> and with Duke Energy and  
19 Columbia Gas of Ohio has demonstrated that a collaborative DSM process can be  
20 very effective in developing successful, cost-effective programs and avoiding  
21 contentious, drawn-out litigation over DSM issues. The Companies in their

---

<sup>15</sup> In compliance with the Public Service Commission of Maryland's Secretarial Orders issued on September 17, 1991 and August 20, 1992, Columbia Gas of Maryland (CMD) submitted its Energy Efficiency and Conservation Plan on November 12, 1993. The Plan was developed in consultation with the

1 response to OCC INT-14 (Attachment WG-4) state that "they have not proposed a  
2 collaborative process for DSM initiatives as part of the ESP." I therefore  
3 recommend that a small group of major stakeholders and an independent  
4 administrator agree to enter into a collaborative process starting prior to January  
5 2009, whose purpose is to analyze the potential for direct investment by the  
6 Companies in energy efficiency resources; to design programs to harness that  
7 potential on a comprehensive basis, across all sectors; and to facilitate the  
8 implementation of such programs by the Companies to the full extent that they are  
9 cost-effective.

10  
11 ***Q18. GIVEN THE ENERGY EFFICIENCY MANDATES FOR 2009, HOW***  
12 ***WOULD THE COLLABORATIVE PROCESS WORK AND HOW LONG***  
13 ***WOULD THE PROCESS TAKE?***

14 ***A18.*** The details of the process should be worked out among the key stakeholders that  
15 participate. The first task of the collaborative should be to select an independent  
16 administrator and establish the overall goals and objectives of the process. I  
17 recommend the Companies be given time after the Commission order in this case  
18 to develop and refine, collaboratively with interested stakeholders and the  
19 independent administrator, the program designs suggested by OCC and others.  
20 Any timetable adopted should allow sufficient time for meaningful input from the  
21 stakeholders, and should allow the Companies or independent administrator to  
22 begin implementing the new programs in the second half of 2009.



1

2       At the end of the process described above, the Companies should file a new DSM  
3       plan for Commission review and approval. Issues that have not been agreed to by  
4       all parties of the collaborative can be brought before the Commission at that time.

5       At the end of 2009, the Commission should evaluate the annual compliance by the  
6       FirstEnergy EDUs and whether they met their required benchmarks.

7

8       **V.     THE PROPOSED AMI AND DYNAMIC PRICING PILOT**

9       ***Q19. DO YOU SUPPORT THE FIRSTENERGY EDUs' PROPOSED AMI PILOT***  
10       ***PROGRAM?***

11       ***A19.*** While I agree with the concept of an AMI pilot program and the proposal to fund  
12       the first \$1 million spent, I do not agree with the program scale proposed by the  
13       FirstEnergy EDUs. I agree that the FirstEnergy EDUs should undertake a well  
14       designed AMI pilot program that will provide the Companies with insight into the  
15       merits of the SmartGrid for the Companies and their customers. I am not  
16       enthusiastic about the meager size of the pilot program. Where AEP has proposed  
17       a 110,000 customer AMI program in its service territory<sup>16</sup> and Duke Energy has  
18       already started the process of installing advanced electric meters for 50,000  
19       customers,<sup>17</sup> the FirstEnergy EDUs' pilot is limited to a mere 500 customers.

20

21       The limited size of the pilot program will inevitably fail to answer important  
22       questions as to the operational savings potential of AMI. Such a small pilot

---

<sup>16</sup> *AEP ESP Case*, Case No. 08-917-EL-SSO, Application at 7 (July 31, 2008), Sloneker at 13.

<sup>17</sup> *Duke Energy ESP Case*, Case No. 08-920-EL-SSO, Duke Witness Todd W. Arnold at 29..

1 program will provide limited useful information on the metering, information  
2 technology ("IT"), and communications costs of fuller implementation of AMI  
3 since the Companies will not obtain the discounts associated with bulk  
4 purchasing.<sup>18</sup> In response to OCC-INT-11 (Attachment WG-5), the Companies  
5 state that they "do not plan to make changes to the current billing system to  
6 accommodate the Dynamic Peak Pricing Program." Therefore, I recommend that  
7 the Commission order the Companies to increase the size of the pilot program to  
8 include meaningful funding in line with the undertakings by other Ohio utilities.

9  
10 I also support the Staff recommendation in Case No. 07-551-EL-AIR that an AMI  
11 "net of benefits" rider be established by the FirstEnergy EDUs.

12  
13 Finally, I recommend that the Commission order the FirstEnergy EDUs to provide  
14 tariffs for approval that make various rate options available for the benefit of  
15 customers and that the Companies be ordered to provide information on the cost  
16 of making any billing system changes to accommodate wide scale deployment of  
17 dynamic pricing.

---

<sup>18</sup> For example, the estimated costs per meter is over \$500 dollars, whereas the Companies' expected cost per meter under a more comprehensive AMI deployment is \$240 (OCC-INT-02\_078 Attachment WG-6).

1   **Q20. DO YOU SUPPORT THE FIRSTENERGY EDUs PROPOSED**  
2       **RESIDENTIAL DYNAMIC PRICING PILOT PROGRAM?**

3   **A20.** With recommendations contained below, I would support the program. The  
4       FirstEnergy EDUs propose the first residential dynamic pricing pilot in the state.<sup>19</sup>

5  
6   **Q21. DO YOU HAVE ANY RECOMMENDATIONS TO MAKE TO THE**  
7       **FIRSTENERGY COMPANIES' PROPOSED DYNAMIC PRICING RATE**  
8       **FOUND IN ATTACHMENT F TO THEIR APPLICATION?**

9   **A21.** Yes. First, I recommend that the Companies add a shoulder period to their  
10       proposed rate schedule. Currently, the Companies are proposing only two time of  
11       use periods (peak period from 11:00 AM Monday to Friday at 4:59 PM and non-  
12       peak from 5:00 PM - 11:00 AM on all days), along with a critical peak period to  
13       call up to 12 times per summer period for a duration of up to 6 hours each time.<sup>20</sup>  
14       Adding another period will make the program more appealing to customers and  
15       allowing them more flexibility in managing their usage. For example, the  
16       successful Gulf Power "Good Cents" residential critical peak pricing program  
17       contains four pricing periods: off-peak, shoulder, peak, and a dynamic critical  
18       peak. The program's off-peak and shoulder prices are 30% and 12% lower than  
19       their standard residential rate of 7.3 cents/kWh, and are in effect 87% of the  
20       time.<sup>21</sup>

---

<sup>19</sup> The description of the Pilot Dynamic Pricing Program is found in Attachment F of the FirstEnergy EDUs' Application.

<sup>20</sup> Hussing at 17-18.

<sup>21</sup> Brian White, "Good Cents Select Advanced Energy Management Program," Gulf Power Company, 2007.

1

2 Furthermore, with the advent of a plug in hybrid and non-hybrid electric vehicles  
3 scheduled to be introduced in 2010 by a number of major automobile companies,  
4 a price incentive to charge the vehicles in late evenings and overnight should be  
5 required to avoid the need for additional generation capacity.<sup>22</sup>

6

7 Second, the tariff design should retain the recommended four time-of-use periods  
8 (including the critical peak period) all year long to reduce customer confusion and  
9 provide the Companies with a greater ability to manage economic or reliability  
10 events during the winter peak periods. The rates for the four periods however,  
11 should be reduced to reflect the lower non-summer period generation costs.

12

13 Third, and in line with my earlier recommendation concerning the Companies  
14 AMI pilot, a larger universe of participants should be recruited to participate in  
15 the program.

16

17 Fourth, in response to OCC INT-16 (Attachment WG-7), the Companies state that  
18 they "did not consider...a smart thermostat." A smart thermostat notification  
19 option should be made available to a subset of the customers. Currently, the  
20 Companies have proposed to "provide day-ahead notification via e-mail,  
21 telephone and/or text message to the participant the day before a Critical Peak

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<sup>22</sup> Argonne National Labs simulated a case for Illinois where a 25% electric vehicle replacement led to a 9.6% increase in electricity demand in a scenario that modeled some daytime charging. Again the importance of moving to time sensitive pricing is crucial to maintaining affordability in electricity.

1 Day event.<sup>23</sup> Providing a smart meter option would allow participating  
2 customers to pre-program their thermostat to control their major appliances during  
3 the various time-of-use periods, and especially the critical peak period in the rate  
4 program.

5  
6 Fifth, I recommend that a subsection of the program be reserved for low-income  
7 customers so that this important sector is studied for responsiveness to dynamic  
8 pricing.

9  
10 ***Q22. WHY IS IT SO IMPORTANT THAT THE FIRSTENERGY COMPANIES'***  
11 ***MAKE GENUINE PROGRESS IN ITS AMI EFFORTS?***

12 ***A22.*** I believe it is critical for the FirstEnergy EDUs to cost-effectively develop the  
13 AMI infrastructure needed to support voluntary dynamic pricing options for all of  
14 its customers. The FirstEnergy EDUs are the only utilities in Ohio to file  
15 simultaneous ESP and MRO applications. Without the option of widespread  
16 dynamic pricing, customers will be more at risk to changes in the wholesale  
17 electric market if a market option is approved for the Companies. Demand  
18 response triggered by dynamic pricing permits a more elastic (i.e. responsive)  
19 demand for electricity that would ultimately help discipline the wholesale  
20 market.<sup>24</sup> If the price in the wholesale market rises at a particular point in time,

---

<sup>23</sup> Application, Attachment F at 2.

<sup>24</sup> Steven Stoft, *Power System Economics: Designing Markets for Electricity*. Wiley-Interscience Press, 2002, page 78.

1 customers will decrease their demand rather than pay the high price. This  
2 responsiveness will moderate the wholesale price increases.

3  
4 **VI. THE FIRSTENERGY COMPANIES ESP FILING, THE NEW PROPOSED**  
5 **FORECAST REQUIREMENTS, AND INTEGRATED RESOURCE**  
6 **PLANNING**

7 ***Q23. WHAT IS YOUR ASSESSMENT OF THE FIRSTENERGY COMPANIES'***  
8 ***PROPOSED PORTFOLIO OF RESOURCES?***

9 ***A23.*** It is very difficult to assess the Companies' resource portfolio given that a  
10 integrated resource planning ("IRP") process, as envisioned by the Commission in  
11 its draft set of regulations in Chapters 4901:5-1, 4901:5-3, and 4901:5-5 of Case  
12 No. 08-888-EL-ORD, have not been undertaken.

13  
14 ***Q24. WHAT IS YOUR RECOMMENDATION CONCERNING THE COMPANIES'***  
15 ***PROPOSED RESOURCE PLAN?***

16 ***A24.*** Given the lack of resource planning information provided by the Companies in  
17 their filings, I recommend that the Companies' cost recovery for new generation  
18 sources or for long-term power purchase contracts identified by them in their ESP  
19 plan should not be approved.<sup>25</sup> Approval should depend upon the Companies'  
20 demonstration that such sources are least cost (and subject to reasonable risk)  
21 resources as determined in a formal long-term forecast and integrated resource  
22 planning process (as stated in the April 2009 proposed Long-Term Forecast

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<sup>25</sup> Except for those resources required to meet the Advanced Energy provisions of S.B. 221.

1 Report rulemaking, Proposed Ohio Adm. Code Chapters 4901:5-1, 4901:5-3, and  
2 4901:5-5). The Commission could allow for appropriate cost recovery of short-  
3 term resources identified in the Companies' ESP filing, but postpone a decision  
4 on the long-term resources until after the Companies have filed adequate long-  
5 term resource plans and they are approved by the Commission following a  
6 hearing and comment by interested parties.

7  
8 Only in this manner will the Commission be confident that the resources the  
9 Companies plan to procure as part of their ESPs are optimal for the Companies,  
10 and for the Companies' customers.

11  
12 **VII. DEMAND PRICE SIGNALS AND THE PROPOSED SSO**

13 ***Q25. HOW HAVE THE COMPANIES PROPOSED TO CHARGE FOR***  
14 ***GENERATION UNDER THE ENERGY SECURITY PLAN?***

15 ***A25.*** The Companies propose to impose an energy charge (i.e. kWh) that would be  
16 seasonally and voltage adjusted for all three years in retail tariffs.<sup>26</sup>

17  
18 ***Q26. ARE THE COMPANIES PROPOSING TO ELIMINATE THE USE OF***  
19 ***DEMAND CHARGES FOR NON-RESIDENTIAL CUSTOMERS?***

20 ***A26.*** Yes.  
21

---

<sup>26</sup> Warvell Testimony at 4-8.

1   **Q27. DO YOU AGREE WITH THE ELIMINATION OF THE DEMAND**

2           **COMPONENTS IN NON-RESIDENTIAL RETAIL GENERATION RATES?**

3   **A27.** No. Demand components are charges that take into consideration the large load  
4           for generation or the heavy burden large customers place upon a generation  
5           system at a single point or points in time. The Companies' proposal eliminates  
6           the principal that the existing source of responsiveness to differences in demands  
7           continues to be needed on a going forward basis to reduce the bid price: demand  
8           components in generation rates for large customers accomplish just that.

9  
10          The Companies' proposal focuses on procurement of generation services by the  
11          FirstEnergy EDUs from FirstEnergy Solutions (an affiliated company). The  
12          proposal fails to recognize the important cost differences between customers  
13          whose demand profiles differ. The existing tariffs, from which the FirstEnergy  
14          EDUs propose to depart, recognize these differences by including demand  
15          charges for large customers. The Commission and the Ohio Supreme Court have  
16          recognized that demand charges are an important way of reflecting the costs to  
17          provide generation service to large customers.<sup>27</sup> The elimination of historic  
18          demand charges from all non-residential generation tariffs will tend to encourage  
19          an inefficient demand for, and use of, generation resources.<sup>28</sup> Moreover, the  
20          elimination of demand charges can remove some of the predictability in  
21          determining the amount of generation that is needed to serve the system at any

---

<sup>27</sup> E.g., *Smith v. Public Utilities Commission of Ohio*, 130 Ohio St. 328 (December 26, 1935).

<sup>28</sup> For example, some customers may operate with multiple shifts, and the elimination of demand charges could encourage reductions in shift work that is currently designed to reduce demand charges. The result



1       one time. This in turn can have an adverse impact on the rates that other  
2       customers must pay, such as if the Companies were required to purchase more  
3       expensive peak power.

4  
5       FirstEnergy's affiliates are engaged in providing generation service in New Jersey.  
6       In fact, FirstEnergy's proposal in New Jersey contains both a "RTF" (i.e. a  
7       weighted average PJM LMP) component for energy and a capacity charge for  
8       customers with a greater than one megawatt of demand.<sup>29</sup> FirstEnergy's tariffs for  
9       large customers in Ohio should reflect demand charges, as it does in New Jersey.  
10      Such charges can be re-introduced without any concern over additional metering  
11      costs because the metering exists for such customers. In future ESP proceedings,  
12      the Companies and the Commission (in its oversight capacity) should consider the  
13      benefits of mandatory real time pricing for large customers, rather than demand  
14      charges, as a preferred pricing mechanism.<sup>30</sup>

15  
16      ***Q28. DOES THE COMPANIES' PROPOSAL IN THE INTERRUPTIBLE LOAD***  
17      ***AND SEASONALITY FACTOR AREAS PROVIDE ENOUGH CONTROL***  
18      ***OVER THE GROWTH IN DEMAND?***

---

could be to increase overall demand by the Companies' customers and result in a more costly supply environment.

<sup>29</sup> See Jersey Central Power and Light, Proposal for Basic Generation Service Beyond May 31, 2008, Docket No. ER07060379 at 16-17 (June 29, 2007).

<sup>30</sup> If a fixed priced product is desired by a large customer, the customer can contract for such a product with a competitive retail electric supplier.

1   **A28.** No. While the Companies' two interruptible programs for large general service  
2           customers, the Economic Load Response Program and the Optional Load  
3           Response Program,<sup>31</sup> and the included seasonality element are important to help  
4           control the growth in demand, they do not suffice to overcome that lack of a more  
5           granular demand signal. This is especially true given the voluntary nature of the  
6           interruptible rate programs.

7  
8   **Q29.   HOW DO THE COMPANIES PLAN TO MEET THE ADDITIONAL**  
9           **CAPACITY REQUIREMENTS THAT THEIR PROPOSED RATE DESIGN**  
10          **WILL NECESSITATE?**

11   **A29.** In the event that capacity is insufficient, the Companies propose a "separate  
12          charge recovered from [all non-choice] customers through Rider CCA . . ."<sup>32</sup>

13  
14   **Q30.   WHAT RECOMMENDATIONS DO YOU PROPOSE THE COMMISSION**  
15          **ADOPT WITH REGARD TO DEMAND CHARGES?**

16   **A30.** The Commission should adjust the FirstEnergy EDUs' proposal. Demand  
17          components should be re-introduced (i.e. similar to existing generation tariffs) for  
18          non-residential customers currently paying demand charges. In the alternative,  
19          the Commission should reject the Companies' Rider CCA that will compensate  
20          the Companies in the event that capacity is insufficient and additional capacity is  
21          needed, and allow the Companies' to bear the demand risk of their rate design.

22  

---

<sup>31</sup> Warvell Testimony at 22-23.

<sup>32</sup> Warvell Testimony at 12. CCA stands for Capacity Cost Adjustment.

1   **VIII. DELTA REVENUES**

2   ***Q31. WHAT IS "DELTA REVENUE"?***

3   ***A31.*** "Delta revenue" results from a difference in revenue between the amount  
4       collected under the special contract and the amount that would have been  
5       collected pursuant to rates stated in the utility's tariffs.

6  
7   ***Q32. HOW DO THE COMPANIES PROPOSE TO HANDLE THE RECOVERY OF***  
8       ***DELTA REVENUES ASSOCIATED WITH SPECIAL CONTRACTS?***

9   ***A32.*** The Companies propose a Delta Revenue Recovery Rider for CEI to recover the  
10       full difference in revenue between the amount collected under the special contract  
11       and the retail generation price (i.e. the "delta revenue").<sup>33</sup> The Companies argue  
12       that "to do otherwise would jeopardize the financial viability of the company."<sup>34</sup>  
13       However, CEI had special contracts both before and after passage of electric  
14       restructuring legislation in 1999 (i.e. S.B. 3) without placing that company in  
15       financial jeopardy.

16  
17       The Companies also fail to recognize the benefits to the distribution company  
18       itself of maintaining an existing manufacturing customer and/or encouraging such  
19       a customer to locate in their service territory.

20           a. The EDUs will receive distribution revenue directly from the retained  
21           customer (no distribution revenue and the underutilization of T&D assets  
22           results from loss of the customer).

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<sup>33</sup> Hussing Testimony at 11-12.

<sup>34</sup> Id. at 11.

1           b. If a new customer locates in an area with excess T & D capacity, revenue  
2           from the customer for transmission service will exceed the cost of  
3           providing that service.

4           c. For companies who locate in an area that requires capital investments to  
5           improve the electric grid, the company will usually charge those costs  
6           directly to the customer (resulting in EDU benefits).

7           d. Indirectly, economic growth leads to more distribution sales from the  
8           customer's employees and from the local suppliers of inputs to the  
9           contracting customer. Second and third level multiplier impacts can be  
10          important.

11          Therefore, the Companies should be responsible to recover a significant portion  
12          (if not all) of delta revenues. Previous to this filing, the FirstEnergy EDUs'  
13          shareholders contributed to the recovery of delta revenues resulting from special  
14          contracts. The situation faced by the Companies -- discounted generation rates  
15          without ownership of generation assets -- was one of their own making when they  
16          permitted the assets to be transferred to FirstEnergy Solutions without the transfer  
17          of responsibility for the discounted rates. I recommend the Commission permit  
18          no more than 50% recovery of the delta revenues from customers who do not  
19          have special contracts. This division of responsibility is consistent with prior  
20          Commission practice and the reasonable expectations of parties, including the  
21          Companies, at the time the special contracts were executed.<sup>35</sup>

<sup>35</sup> *CEI Rate Case*, Case 95-299-EL-AIR, Order at 17-18 (April 11, 1996).

**Q33. WHAT IS YOUR CONCERN REGARDING THE COMPANIES' RECOVERY  
OF THE ALTERNATIVE GENERATION PROVISIONS IN SENATE BILL  
221?**

**A33.** The Companies appear to be collecting "all required renewable energy resources during the Plan period, and/or the equivalent in renewable energy credits" in their base generation charge and "without additional charge to customers during the plan period."<sup>36</sup> However, according to their filed tariff Rider DSE, they also plan to recover "advanced energy resource programs, [and] renewable energy programs" from this tariff.<sup>37</sup> Therefore, it is not clear whether the Companies will or will not charge customers for meeting the renewable energy resources requirement during the Plan period.

**IX. DISTRIBUTION RATES**

**Q34. HAVE THE FIRSTENERGY EDUs PROPOSED THAT THE PENDING  
DISTRIBUTION RATE CASE ISSUES BE RESOLVED IN THIS ESP  
PROCEEDING?**

**A34.** Yes. Paragraph A.3.b of the Application addresses the Companies' proposal to resolve the pending Distribution Rate Case, Cases 07-551-EL-AIR, et al., in this ESP proceeding. On a summary basis, the FirstEnergy EDUs propose that distribution rates increase by \$75 million for OE, \$34.5 million for CEI, and \$40.5 million for TE (\$150 million for the FirstEnergy EDUs) as well as the

---

<sup>36</sup> Warvell Testimony at 7.

<sup>37</sup> Application at Volume 2C (Proposed Rider DSE), page 115 of 426.

1        deferral of \$25 million to be recovered in a rider.<sup>38</sup> In response to discovery, the  
2        Companies state that these amounts are based on management judgment of the  
3        expected outcome of the Companies' pending distribution rate cases.<sup>39</sup> The  
4        Companies propose to resolve the Distribution Rate Cases, as stated in paragraph  
5        A.3.d of the Application, based upon (i) an allowed rate of return on equity that  
6        reflects the midpoint of the PUCO Staff's recommendation, (ii) the stipulated  
7        revenue distribution and rate design, (iii) acceptance of the tariff terms proposed  
8        by the Companies (including those Staff positions that were accepted), and (iv) an  
9        "acknowledgement of an understanding that the Companies will continue to work  
10       with the Commission Staff to ensure Commission Staff is provided sufficient  
11       information to effectively continue its routine audits."<sup>40</sup>

12  
13       ***Q35. SHOULD THE COMMISSION ACCEPT THE FIRSTENERGY EDUs'***  
14       ***PROPOSED SETTLEMENT OF THE PENDING DISTRIBUTION RATE***  
15       ***CASES?***

16       ***A35.*** No. The OCC would welcome an order in the pending Distribution Rate Cases.  
17       These cases have been briefed and waiting for a decision since April of 2008.  
18       The expectations of the Companies' management regarding the outcome of the  
19       Distribution Rate Cases is well above what I believe is reasonable both in terms of  
20       rate increases and the terms and conditions under which service will be provided  
21       by the FirstEnergy EDUs.

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<sup>38</sup> Application, paragraph A.3.b.

<sup>39</sup> OCC Interrogatories 89, 90 and 91. See Attachment WG-8, WG-9, and WG-10, respectively.

<sup>40</sup> Application, paragraph A.3.d.

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10   ***Q36. CAN YOU GIVE AN EXAMPLE OF WHY YOU BELIEVE THAT THE***  
11       ***PROPOSED RATE RECOVERY MAY NOT SHOW A GREAT DEGREE OF***  
12       ***COMPROMISE ON THE PART OF THE COMPANIES?***

13   ***A36.*** Yes. While the Application states that the Companies' proposal "represents a  
14       fraction of the amount originally filed in the Companies' Distribution Case,"<sup>41</sup> the  
15       proposal remains well above reasonable expectations for the outcome in that case.  
16       The Companies have not compromised their position as much as implied in the  
17       Application. The Companies' treatment of the Rate Certainty Plan ("RCP")  
18       distribution deferrals, stemming from Case No. Case No. 05-1125-EL-ATA  
19       ("RCP Case"), provides a good example. The attachments to Staff witness Tufts  
20       testimony in the Distribution Rate Cases shows that the Companies originally  
21       asked for recovery of RCP distribution deferrals in the amounts of \$14.1 million  
22       for CEI, \$17.7 million for OE, and \$5.5 million for TE (\$37.3 million for the

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<sup>41</sup> Application, paragraph A.3.b.

1 FirstEnergy EDUs).<sup>42</sup> Staff figures were \$3.3 million for CEI, \$7.5 million for  
2 OE, and \$1.8 million for TE (\$12.6 million for the FirstEnergy EDUs).<sup>43</sup> A large  
3 portion of the difference between the positions of the Companies and the Staff  
4 was Staff's evaluation based on date certain amounts for the RCP distribution  
5 deferrals. While the Companies propose a lower immediate increase in revenues  
6 than they originally proposed, footnote 15 in the Application states that  
7 "[r]ecovery of post date certain deferral balances are not part of the resolution of  
8 the Distribution Case but are handled pursuant to paragraph A.6.b" that proposes  
9 a Deferred Distribution Costs Recovery Rider. In summary regarding this  
10 example, an important reason that the Companies' proposal is a "fraction" of  
11 earlier requests is that the FirstEnergy EDUs propose to recover part of their  
12 original request in the form of a rider that will apply for many years. In the case  
13 of the Distribution Costs Recovery Rider, the Companies propose to recover the  
14 post date certain amounts over twenty-five years.<sup>44</sup>

15  
16 I also note that the FirstEnergy EDUs propose that CEI defer an additional \$25  
17 million in distribution-related costs for the period from January 1, 2009 through  
18 April 30, 2009.<sup>45</sup> These deferred amounts would also be added to the deferred  
19 distribution balance and recovered through the Deferred Distribution Costs  
20 Recovery Rider.<sup>46</sup>

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<sup>42</sup> Distribution Rate Cases, Tufts Testimony, LET-2 (combined use of lines 5 and 6).

<sup>43</sup> Id.

<sup>44</sup> Application, Attachment G.

<sup>45</sup> Id., paragraph A.3.b.

<sup>46</sup> Application, paragraph A.3.b and A.6.b.



1

2 ***Q37. WHAT ELSE DO YOU OBSERVE REGARDING THE PROPOSED LEVEL***  
3 ***OF DISTRIBUTION REVENUE REQUIREMENTS?***

4 ***A37.*** The PUCO Staff's final position regarding rate recovery in the pending  
5 Distribution Rate Cases show a revenue deficiency of \$26.2 million for CEI,  
6 \$60.4 million for OE, and \$36.4 million (\$123 million for the FirstEnergy  
7 EDUs).<sup>47</sup> This is well below the amount the Companies propose, even without  
8 consideration of the additional \$25 million deferral for CEI and recovery of the  
9 post date certain RCP Deferrals on terms favorable to the Companies. On this  
10 basis alone, the Companies proposed resolution of the distribution rate case is  
11 unreasonably favorable to the Companies.

12

13 ***Q38. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING THE***  
14 ***REVENUE REQUIREMENT AMOUNTS PROPOSED BY THE***  
15 ***COMPANIES TO RESOLVE THE PENDING DISTRIBUTION RATE***  
16 ***CASES?***

17 ***A38.*** Yes. My previous response regarding the PUCO Staff's positions should not be  
18 interpreted as the OCC's evaluation of the distribution rate case results, either as  
19 part of the OCC's advocacy or its expectation concerning the ultimate results  
20 from a Commission decision. Using my previous example, the OCC presented  
21 testimony that the Companies did not increase their spending on their distribution  
22 operation and maintenance expense over an extended period of time, and

---

<sup>47</sup> Distribution Rate Cases, Tufts Testimony, LET-2 (line 10, average of lower and upper bound).

1       therefore recommended major modifications to the deferrals stemming from the  
2       RCP Case.<sup>48</sup> The OCC also supported other substantial amounts that should not  
3       be used to support rate increases for the Companies, amounts that substantially  
4       lower the revenue requirements stated in the PUCO Staff's testimony.

5  
6       ***Q39. CAN YOU PROVIDE AN EXAMPLE OF A TOPIC ABOUT WHICH THE***  
7       ***OCC ADVOCATED FOR AN ADDITIONAL REDUCTION IN THE***  
8       ***REVENUE REQUIREMENT IN THE DISTRIBUTION RATE CASE?***

9       ***A39.*** Yes. The OCC recommended, as part of the pending distribution rate case, that  
10       the rate of return should be lowered for CEI and OE to reflect poor service quality  
11       performance.<sup>49</sup> This recommendation was supported by an extensive record that  
12       showed deficiencies in the service quality provided by CEI, including testimony  
13       by OCC witness Cleaver and an assessment by a consultant ("UMS Report")  
14       selected by the PUCO Staff to review the service provided by CEI and to make  
15       recommendations regarding improvements. Therefore, the OCC rejects resolution  
16       of the CEI rate case on the basis of an "allowed rate of return on equity for each  
17       of the Companies at 10.5% which reflects the midpoint of Staff's  
18       recommendation. . . ."<sup>50</sup>

19  

---

<sup>48</sup> "The distribution O&M expenditures by CEI and TE in 2006 were actually less than the expenditures in 2000, when the distribution rate freeze was initiated. While the OE expense increased slightly, the increase in distribution O&M expense on a per customer basis for OE from 2000 to 2006 . . . was less than 2%. The distribution O&M expense for the three Companies in total decreased by \$8.6 million, or approximately 5.6% from 2000 to 2006." Effron Testimony at 24.

<sup>49</sup> See, e.g., Distribution Rate Cases, OCC Initial Post-Hearing at 87.

<sup>50</sup> Application, paragraph A.3.d.

1   ***Q40. ARE YOU FAMILIAR WITH OCC WITNESS CLEAVER'S TESTIMONY IN***  
2       ***THIS CASE?***

3   ***A40.*** Yes. I am aware that Mr. Cleaver testifies regarding service quality provided by  
4       the Companies. Mr. Cleaver finds many problems associated with the Companies  
5       poor performance, and particularly that of CEL, in meeting reliability targets for  
6       service to customers.

7  
8   ***Q41. WHAT CLARITY DO YOU BELIEVE IS MISSING IN THE COMPANIES'***  
9       ***APPLICATION REGARDING DISTRIBUTION ISSUES?***

10   ***A41.*** I have two matters of primary concern. The first relates to distribution deferrals  
11       and is related to the RCP distribution deferrals that I mentioned previously. The  
12       second relates to the regulatory treatment of line extensions.

13  
14   ***Q42. WHAT IS YOUR CONCERN REGARDING DISTRIBUTION DEFERRALS?***

15   ***A42.*** I am concerned that the Companies seek to repeat a provision that was contained  
16       in the stipulation in the RCP Case, Case No. 05-1125-EL-ATA, which was the  
17       subject of contentious argument in the pending Distribution Rate Cases.  
18       FirstEnergy witness Wagner's testimony states that the FirstEnergy EDUs  
19       "request authorization to defer costs associated with distribution capital  
20       investments, placed in service subsequent to December 31, 2008, that are made to  
21       improve reliability and/or enhance the efficiency of the distribution system, as  
22       described further on Attachment HLW-1 . . . ."<sup>51</sup> The deferral of such distribution

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<sup>51</sup> Wagner Testimony at 4.

capital expenses is outside the normal distribution rate-setting treatment, and is all the more extra-ordinary because investment “to improve reliability and/or enhance the efficiency of the distribution system” is subject to varying interpretation, including overly broad interpretation by the FirstEnergy EDUs. The new round of deferrals should not be approved.

***Q43. DOES ATTACHMENT HLW-1 HELP TO ALLEVIATE YOUR CONCERNS REGARDING THE INTERPRETATION OF THE COMPANIES' PROPOSAL?***

***A43.*** No. Attachment HLW-1 to FirstEnergy witness Wagner’s testimony is broad and, in places, vague. Attachment HLW-1 is similar to Attachment 2 to the Supplemental Stipulation that was submitted in the RCP Case.<sup>52</sup> The manner in which the categories listed (i.e. in what is now labeled Attachment HLW-1) could result in increased distribution rates was highly contentious in the pending Distribution Rate Cases, especially concerning distribution operation and maintenance (“O&M”) deferrals. Attachment HLW-1 takes out some categories of O&M, but does not eliminate O&M expenditures entirely and in some places simply moves O&M categories elsewhere within Attachment HLW-1 (e.g. the Vegetation Management category from the RCP stipulation does not appear in Attachment HLW-1, but the same description appears under “Other” in Attachment HLW-1). Attachment HLW-1 does not contain the sentence from the RCP stipulation regarding the “[c]osts associated with restoration activities in

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<sup>52</sup> The Supplemental Stipulation, in its entirety, is Attachment WG-11.

1 response to storms,” but the heading in Attachment HLW-1 remains the same (i.e.  
2 “Failures, Relocations, *Storms*”<sup>53</sup>).

3  
4 Without an order in the pending Distribution Rate Cases, and especially due to the  
5 confusing nature of Attachment HLW-1, the controversy regarding the breadth of  
6 the Companies’ proposal will continue. The FirstEnergy EDUs should not have  
7 proposed to renew the controversy by depending upon Attachment HLW-1, and  
8 the Commission should certainly not approve extra-ordinary regulatory treatment  
9 for large sums of money over which there exists known, highly contentious  
10 issues.

11  
12 ***Q44. DO YOU HAVE ANY OTHER COMMENTS REGARDING THE***  
13 ***DISTRIBUTION DEFERRALS?***

14 ***A44.*** Yes. As I stated, the requested regulatory treatment of investments and other  
15 expenditures on the Companies’ distribution system is extra-ordinary, and in a  
16 manner that under some circumstances could provide the FirstEnergy EDUs with  
17 large amounts of added revenue. *Additional payments* to the FirstEnergy EDUs  
18 for improved performance, as part of the proposed Deliver Service Improvement  
19 (“DSI”) rider,<sup>54</sup> is inappropriate. Performance rewards in the form of higher  
20 customer rates should not be provided to a utility that is receiving extra-ordinary  
21 payments though rates for the added investment that is needed to improve service  
22 reliability.

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<sup>53</sup> Emphasis added.

<sup>54</sup> Application, paragraph A.3.f. OCC witness Cleaver also addresses this issue.

1

2 **Q45. WHAT IS YOUR CONCERN REGARDING THE TREATMENT OF LINE**  
3 **EXTENSIONS?**

4 **A45.** The Companies have not been entirely clear regarding their proposed treatment of  
5 line extension costs. The line extension costs that were part of the pending  
6 Distribution Rate Cases appear to be included in the treatment of revenue in the  
7 Companies' proposed resolution of those cases. Additional, post date certain  
8 deferrals for line extensions appear to be recovered as part of the Deferred  
9 Distribution Costs Recovery Rider.<sup>55</sup> Since these amounts were not included in  
10 the pending Distribution Rate Cases, they may not have been subject to the same  
11 scrutiny as deferred line extension amounts that were recommended by the PUCO  
12 Staff for recovery. Whether the Companies propose to continue line extension  
13 deferrals on an on-going basis (i.e. other than collection of amounts stated in the  
14 Application, Attachment G) is not entirely clear.

15

16 **Q46. WHAT IS THE SOURCE OF YOUR CONCERN?**

17 **A46.** The schedules in the Application do not appear to support the continuation of line  
18 extension deferrals. For instance, Schedule 6e, Page 7 of 7, shows a post date  
19 certain deferral for 2008 but not for subsequent years. On the other hand, Mr.  
20 Wagner's testimony refers to the line extension "proposal in Case No. 07-551-EL-  
21 AIR."<sup>56</sup> A controversy existed in the Distribution Rate Cases (i.e. 07-551-EL-  
22 AIR, et al.). FirstEnergy witness Ouelette argued for continued deferral treatment

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<sup>55</sup> Application, paragraph A.6.b.

<sup>56</sup> Wagner Testimony at 4.

1 of line extensions<sup>57</sup> while Staff witness Fortney testified that such continued  
2 treatment of line extension costs was inappropriate.

3  
4 ***Q47. WHAT DO YOU RECOMMEND REGARDING THE CONTINUING***  
5 ***TREATMENT OF LINE EXTENSION COSTS THAT ARE NOT***  
6 ***RECOVERED BY THE COMPANIES IN CUSTOMER PAYMENTS?***

7 ***A47.*** I agree with Staff witness Fortney's recommendation on line extensions as  
8 submitted in the pending distribution rate case.<sup>58</sup> Mr. Fortney stated his  
9 understanding that the Commission's approval of the line extension stipulations in  
10 Case No. 01-2708-EL-COI was a "stop-gap" measure during the time in which  
11 the Companies' distribution rates were frozen. Mr. Fortney's testimony supports  
12 statements in the Staff Reports for the Distribution Rate Cases,<sup>59</sup> to which I could  
13 find no objections by the FirstEnergy EDUs. I agree that the continued use of  
14 deferrals regarding line extensions should end.

15  

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<sup>57</sup> Distribution Rate Cases, Tr. Vol. II at 49-50 (January 30, 2008) (Ouelette).

<sup>58</sup> Distribution Rate Cases, Fortney Testimony at 9-11.

<sup>59</sup> Id., Staff Reports (i.e. CEI, OE, and TE) at 20-21,

1    **X.    CONCLUSION**

2    ***Q48.   DOES THIS CONCLUDE YOUR TESTIMONY?***

3    ***A48.***   Yes. However, I reserve the right to incorporate new information that may  
4           subsequently become available. I also reserve the right to supplement my  
5           testimony in the event the PUCO Staff fails to support the recommendations made  
6           in the Staff Report and/or changes positions made in the Staff Report.



**OCC Set 1**  
**Witness: D. Blank**

**Case No. 08-935-EL-SSO**  
**Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.**

**RESPONSES TO REQUEST**

**OCC Set 1 –** How much is the Company planning to spend on energy efficiency and demand reduction  
**INT-13** programs from January 1, 2009 to December 31, 2013, based upon a breakdown of  
ratepayer dollars and shareholder dollars?

**Response:** The Companies have not yet determined how much will be spent on energy efficiency and demand reduction programs from 2009 through 2013. That said, the companies are proposing to spend up to \$5 million annually from 2009 through 2013 without recovery from customers on energy efficiency and demand side management activities; therefore, up to \$5 million per year from 2009 through 2013 will be paid for by shareholders. All expenditures on energy efficiency and demand side management activities from 2009 through 2013 exceeding \$5 million will be included in the Companies' Demand Side Management and Energy Efficiency Rider to be paid for by ratepayers. All demand side management costs incurred from the Rate Certainty Plan will be included in the Companies' Demand Side Management and Energy Efficiency Rider to be paid for by ratepayers.

Proposed First Energy DSM Funding Target		2008	2009	2010	Total Customers	\$ per Customer	Proposed Budget
<b>First Energy DSM Funding</b>							
<b>Customers</b>							
<b>Duke DSM Funding (OH)*</b>							
Residential	\$ 10,970,117	\$ 13,300,020	\$ 14,707,949				
Commercial	\$ 2,644,903	\$ 3,060,701	\$ 3,537,119				
<b>Total</b>	<b>\$ 13,615,020</b>	<b>\$ 16,360,721</b>	<b>\$ 18,245,068</b>	<b>\$ 16,073,603</b>	<b>662,799</b>	<b>24.25</b>	
<b>Duke DSM Savings (kWh)</b>							
Residential	49,809,300	55,343,300	60,015,800				
Commercial	32,419,255	37,815,502	44,232,843	<b>Duke 3 YR Total</b>			
<b>Total</b>	<b>82,228,555</b>	<b>93,158,802</b>	<b>104,248,643</b>	<b>279,636,000</b>			
<b>First Energy Delivery Forecast**</b>							
	61,501,000,000	62,127,000,000	62,706,000,000	<b>62,111,333,333</b>			
			<b>Percent of FE Load</b>	<b>0.014</b>			

\* From information contained in the appendix of Duke's Amended filing in Case No. 06-91-EL-UNC.

\*\* First Energy Corp. Ohio 2007 Electric Long Term Forecast Report page 4-13.

## Appendix: Profiles of Exemplary and Honorable Mention Programs

**Agriculture Programs:** <http://aceee.org/pubs/u081/ag.pdf>

### *Exemplary Programs*

Agricultural and Rural Business Program  
Dairy Farm Efficiency Services  
Interstate Power and Light Co. Agriculture Energy Efficiency Program

Focus On Energy  
Efficiency Vermont  
Interstate Power and Light Co., an Alliant Energy Company

### *Honorable Mention*

Agriculture and Food Processing Energy Efficiency Program  
**Commercial/Industrial Lighting Programs:** <http://aceee.org/pubs/u081/ci-lighting.pdf>

Pacific Gas & Electric

### *Exemplary Programs*

Bright Ideas Commercial Lighting  
Lighting Efficiency  
New York Energy Smart<sup>(SM)</sup> Small Commercial Lighting Program  
One-Stop Efficiency Shop Lighting Rebate Program

Efficiency New Brunswick  
Xcel Energy  
New York State Energy Research and Development Authority  
Xcel Energy

### *Honorable Mention*

Performance Lighting

NSTAR Electric

**Commercial/Industrial Motor and HVAC Replacement Programs:** <http://aceee.org/pubs/u081/ci-motor-hvac.pdf>

### *Exemplary Programs*

Motor and HVAC Distributor Rebate Program

Pacific Gas & Electric

### *Honorable Mention*

Workplace Equipment Replacement

Vermont Gas Systems, Inc.

**Commercial/Industrial New Construction Programs:** <http://aceee.org/pubs/u081/ci-new-const.pdf>

### *Exemplary Programs*

Business Energy Solutions: New Buildings  
Design 2000plus (MA) and NH Saves @ Work - New Construction (NH)  
Energy Conscious Blueprint Program

Energy Trust of Oregon, Inc.  
National Grid  
Connecticut Light & Power  
The United Illuminating Company  
Connecticut Energy Efficiency Fund  
Xcel Energy

Energy Design Assistance—Custom Consulting

## Compendium of Champion, ACEEE

Energy Incentives from We Energies C/I New Construction Program  
Sustainable Communities Program

### *Honorable Mention*

Advanced Buildings<sup>(TM)</sup> Program  
Business New Construction  
Commercial Construction Program  
WorkPlace New Construction Program

**Commercial/Industrial Niche/Other Programs:** <http://aceee.org/pubs/u081/ci-niche.pdf>

### *Exemplary Programs*

Compressed Air Leak Detection and Remediation Program

### *Honorable Mention*

High Tech Energy Efficiency Program  
Local Government Energy Watch Partnership Program

**Commercial/Industrial Retrofit Programs:** <http://aceee.org/pubs/u081/ci-retro.pdf>

### *Exemplary Programs*

Energy FinAnswer and FinAnswer Express

Energy Initiative (MA) and NH Saves @ Work - Large C/I Retrofit (NH)  
Energy Opportunities Program

Flexible Technical Assistance Program

### *Honorable Mention*

Custom Efficiency  
Whole Building Assessment/Benchmarking  
Workplace Retrofit Program

**Emerging Technologies, Development and Demonstration Programs:** <http://aceee.org/pubs/u081/et.pdf>

### *Honorable Mention*

California Statewide Emerging Technologies Program

We Energies  
San Diego Gas & Electric Company

National Grid  
Efficiency Vermont  
Long Island Power Authority  
Vermont Gas Systems, Inc.

NSTAR Electric

Pacific Gas & Electric  
Pacific Gas & Electric

Rocky Mountain Power  
Pacific Power  
National Grid  
Connecticut Light & Power  
The United Illuminating Company  
Connecticut Energy Efficiency Fund  
New York State Energy Research and Development  
Authority

Xcel Energy  
National Grid  
Vermont Gas Systems, Inc.

Pacific Gas & Electric  
Southern California Edison  
Southern California Gas  
San Diego Gas & Electric



California Statewide Codes and Standards Program

Eugene Water & Electric Board Energy Management Programs  
GasNetworks@

Pacific Gas & Electric  
Southern California Edison  
Southern California Gas  
San Diego Gas & Electric  
Eugene Water & Electric Board  
Bay State Gas  
Berkshire Gas  
KeySpan  
National Grid  
New England Gas  
NSTAR Gas  
Northern Utilities  
Unitil

Residential Lighting Programs: <http://aceee.org/pubs/u081/res-light.pdf>

*Exemplary Programs*

Arizona Public Service ENERGY STAR<sup>(R)</sup> Residential Lighting Program  
ENERGY STAR<sup>(R)</sup> Residential Lighting Program  
Puget Sound Energy ENERGY STAR<sup>(R)</sup> Residential Lighting Program  
Upstream Lighting Program

*Honorable Mention*

Community Lighting Events

Residential Lighting and Appliances Programs: <http://aceee.org/pubs/u081/res-light-app.pdf>

*Exemplary Programs*

California Statewide Appliance Recycling Program

Arizona Public Service  
Northwest Energy Efficiency Alliance  
Puget Sound Energy  
Pacific Gas & Electric  
Efficiency Vermont

Pacific Gas & Electric  
Southern California Edison  
San Diego Gas & Electric  
Pacific Gas & Electric

High Efficiency Appliance Rebate Program

New York Energy Smart<sup>(SM)</sup> Products Program

Northeast ENERGY STAR<sup>(R)</sup> Lighting and Appliance Initiative

New York State Energy Research and Development  
Authority  
Cape Light Compact  
Connecticut Light and Power  
Efficiency Vermont

Long Island Power Authority  
National Grid  
NSTAR Electric  
The United Illuminating Company  
Unitil  
Western Massachusetts Electric Company  
Northeast Energy Efficiency Partnerships, Inc.  
  
London Hydro  
Nevada Power Company and Sierra Pacific Power Company

New Jersey Board of Utilities, Office of Clean Energy  
Jersey Central Power and Light Company  
Public Service Electric and Gas Company  
Atlantic City Electric  
Rockland Electric  
Long Island Power Authority

Oncor Electric Delivery  
  
Pacific Gas & Electric

Pacific Gas & Electric  
Southern California Edison  
San Diego Gas & Electric  
Southern California Gas  
National Grid  
Efficiency Vermont  
New York State Energy Research and Development Authority

### *Honorable Mention*

Chill Out  
Nevada Power/Sierra Pacific Power ENERGY STAR<sup>(R)</sup> Lighting and Appliance Program

**Residential Mechanical Systems Programs:** <http://aceee.org/pubs/u081/res-mech-systems.pdf>

### *Exemplary Programs*

COOL Advantage Program

Cool Homes

### *Honorable Mention*

Oncor Electric Delivery Air Conditioning Installer Information and Training Market Transformation Program

Refrigerant Charge and Air Flow Tune-Up Program

**Residential Multifamily Programs:** <http://aceee.org/pubs/u081/res-multi.pdf>

### *Exemplary Programs*

California Statewide Multifamily Energy Efficiency Rebate Program

EnergyWise (MA) and Home Energy Solutions (NH)  
Multifamily Housing  
Multifamily Performance Program

**Residential New Homes Programs: <http://aceee.org/pubs/u081/res-new-homes.pdf>**

***Exemplary Programs***

ENERGY STAR<sup>(R)</sup> New Homes Program

Homebase New Construction/Vermont ENERGY STAR<sup>(R)</sup> Homes

Rocky Mountain Power ENERGY STAR<sup>(R)</sup> New Homes Program

***Honorable Mention***

Iowa New Home Construction Program

Long Island Power Authority ENERGY STAR<sup>(R)</sup> Labeled Homes Program

Oncor Electric Delivery ENERGY STAR<sup>(R)</sup> Homes Program

Tucson Electric Power Guarantee Home Program

**Residential Niche/Other Programs: <http://aceee.org/pubs/u081/res-niche.pdf>**

***Honorable Mention***

Cool Roof Rebate Program

Residential Cool Roof Program

**Residential Retrofit Programs: <http://aceee.org/pubs/u081/res-retro.pdf>**

***Exemplary Programs***

Homebase Retrofit Program

Home Performance with ENERGY STAR<sup>(R)</sup>

Home Performance with ENERGY STAR<sup>(R)</sup> MassSAVE Program

***Honorable Mention***

Home Energy Solutions Program

Pacific Gas & Electric  
Southern California Edison  
San Diego Gas & Electric  
Southern California Gas  
Vermont Gas Systems, Inc. and Efficiency  
Vermont  
Rocky Mountain Power

Interstate Power and Light Co., an Alliant Energy  
Company  
MidAmerican Energy  
Long Island Power Authority  
Oncor Electric Delivery  
Tucson Electric Power

Pacific Gas & Electric  
Sacramento Municipal Utility District

Vermont Gas Systems, Inc.  
New York State Energy Research and Development  
Authority  
National Grid  
NSTAR Electric  
Berkshire Gas Company

Connecticut Light & Power  
The United Illuminating Company  
Connecticut Energy Efficiency Fund



**Schools Programs:** <http://aceee.org/pubs/w081/schools.pdf>

***Exemplary Programs***

Collaborative for High Performance Schools

Energy Smart Schools Program

Higher Education Energy Efficiency Partnership

California Energy Commission  
California Integrated Waste Management Board  
California Department of Education  
Division of State Architect  
Office of Public School Construction  
Pacific Gas & Electric  
Sacramento Municipal Utility District  
San Diego Gas & Electric  
Southern California Edison  
Southern California Gas  
New York State Energy Research and Development Authority  
Pacific Gas & Electric  
Southern California Edison  
San Diego Gas & Electric/Southern California Gas Company  
University of California Office of the President  
California State University Office of the Chancellor  
California Community Colleges System Office

**Small Business Programs:** <http://aceee.org/pubs/w081/small-bus.pdf>

***Exemplary Programs***

Small Business Energy Advantage Program

Small Business Services Energy Efficiency Program

***Honorable Mention***

Small Business Rebate Program (PG&E) and Express Efficiency Rebate Program (SCE and SDG&E)

Connecticut Light & Power  
The United Illuminating Company  
Connecticut Energy Efficiency Fund  
National Grid  
Pacific Gas & Electric  
Southern California Edison  
San Diego Gas & Electric

**OCC Set 1**  
**Witness: Hussing**

**Case No. 08-935-EL-SSO**  
**Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.**

**RESPONSES TO REQUEST**

**OCC Set 1 –** Regarding the collaborative process to guide its AMI pilot program that is proposed by the  
**INT-14** Company, what collaborative process (if any) does the Company contemplate will guide its proposed DSM initiatives?

**Response:** The Companies have not proposed a collaborative process for DSM initiatives as part of the ESP.

**OCC Set 1**  
**Witness: Hussing**

**Case No. 08-935-EL-SSO**  
**Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.**

**RESPONSES TO REQUEST**

**OCC Set 1 –** What alterations, temporary and permanent (distinguish which) does the Company intend  
**INT-11** to make to its customer billing system in order to accommodate its Dynamic Peak Pricing program?

**Response:** Presently, the Companies do not plan to make changes to the current billing system to accommodate the Dynamic Peak Pricing program.

# AMI Cost Estimates

- Several other utilities have published detailed business cases for an AMI deployment with requirements that could be similar to FirstEnergy's
- FE would likely fall in the middle of the extremes (\$240/meter) based on its requirements
- The allocation of the total costs is based on the published breakdowns reported in FERC's 2006 Staff Report (see previous slide)

	ConEd	PSEG	RG&E	PG&E	NYSEG	Pepco MD	SDG&E	SCE
Square Miles	2,182	2,600	2,023	69,280	16,995	572	4,108	51,655
Est. Deployment Cost (\$Million)	\$713	\$700	\$127	\$1,739	\$243	\$128	\$572	\$1,600
# of Meters (Thousands)	4,800	3,900	700	9,000	1,100	531	2,300	5,300
Cost / Meter (\$)	\$150	\$179	\$181	\$193	\$221	\$241	\$249	\$302
Remote Connect / Disconnect	No	No	No	No	No	Yes	Yes	Yes

Note: ConEdison's costs would be the low range as a result of their primarily more urban and densely populated territory and their exclusion of remote connect/disconnect

**OCC Set 1**  
**Witness: Hussing**

**Case No. 08-935-EL-SSO**  
**Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.**

**RESPONSES TO REQUEST**

**OCC Set 1 –** How has the Company considered -- as part of its Dynamic Pricing program study, review,  
**INT-16** and design -- the possibility that customers could be notified of the critical peak period via a signal to a smart thermostat?

**Response:** The Companies did not consider notification of a critical peak period via a signal to a smart thermostat, but propose to use their current infrastructure to provide day-ahead notification to customers of a critical peak event.

**OCC Set 4**  
**Witness: Blank**

Case No. 08-935-EL-SSO  
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.

**RESPONSES TO REQUEST**

**OCC Set 4 –** Referring to the ESP Application at paragraph 3.b., how was the proposed annual  
**INT-89** distribution rate increase amount of \$75 million for OE calculated or determined?

**Response:** The proposed distribution rate increase was determined based on management judgment of the expected outcome of the Companies' pending distribution rate case (Case 07-551-EL-AIR). See the Companies' response to OCC Set 4 – RPD-42 which reflects calculations made in support of the exercise of that judgment.

**OCC Set 4**  
**Witness: Blank**

Case No. 08-935-EL-SSO  
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.

**RESPONSES TO REQUEST**

**OCC Set 4 –** Referring to the ESP Application at paragraph 3.b., how was the proposed annual  
**INT-90** distribution rate increase amount of \$34.5 million for CEI calculated or determined?

**Response:** The proposed distribution rate increase was determined based on management judgment of the expected outcome of the Companies' pending distribution rate case (Case 07-551-EL-AIR). See the Companies' response to OCC Set 4 – RPD-43 which reflects calculations made in support of the exercise of that judgment.

**OCC Set 4**  
**Witness: Blank**

Case No. 08-935-EL-SSO  
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.

**RESPONSES TO REQUEST**

**OCC Set 4 –** Referring to the ESP Application at paragraph 3.b., how was the proposed annual  
**INT-91** distribution rate increase amount of \$40.5 million for TE calculated or determined?

**Response:** The proposed distribution rate increase was determined based on management judgment of the expected outcome of the Companies' pending distribution rate case (Case 07-551-EL-AIR). See the Companies' response to OCC Set 4 – RPD-44 which reflects calculations made in support of the exercise of that judgment.



**OCC Set 6**  
**Witness: Blank**

Case No. 08-935-EL-SSO  
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.

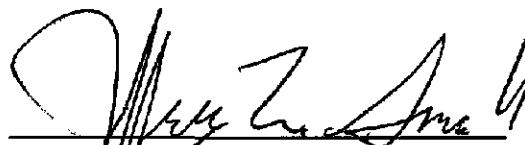
**RESPONSES TO REQUEST**

**OCC Set 6 –** Referring to the ESP Application at paragraph A.3.b, page 19, how was the \$25 million for  
**INT-123** CEI's deferred distribution-related costs from January 1, 2009 through April 30, 2009 calculated or determined?

**Response:** The deferral of \$25 million of distribution-related cost referenced in the question is the result of management judgment in view of the totality of the ESP.

### **CERTIFICATE OF SERVICE**

It is hereby certified that a true copy of the foregoing the *Direct Testimony of Wilson Gonzalez on Behalf of the Office of the Ohio Consumers' Counsel* has been served via First Class US Mail , this 29<sup>th</sup> day of September, 2008.



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