

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of The Dayton) Power and Light Company for Approval of) Its Electric Security Plan.)	Case No. 08-1094-EL-SSO
In the Matter of the Application of The Dayton) Power and Light Company for Approval of) Revised Tariffs.)	Case No. 08-1095-EL-ATA
In the Matter of the Application of the Dayton) Power and Light Company for Approval of) Certain Accounting Authority Pursuant to) Ohio Revised Code §4905.13.)	Case No. 08-1096-EL-AAM
In the Matter of the Application of the Dayton) Power and Light Company for Approval of its) Its Amended Corporate Separation Plan.)	Case No. 08-1097-EL-UNC

**REPLY COMMENTS OF OHIO PARTNERS FOR AFFORDABLE ENERGY
ON THE DAYTON POWER AND LIGHT COMPANY'S REVISED BUSINESS CASES
FOR AMI AND SMART GRID**

Pursuant to the Entry of November 19, 2009, Ohio Partners for Affordable Energy ("OPAE") hereby submits its reply comments to the revised business cases for AMI and smart grid submitted by The Dayton Power and Light Company ("DPL" or "the Company") pursuant to the Stipulation entered into between the Company and various parties on August 4, 2009.

Cost Allocation and Recovery

The allocation and cost recovery associated with deployment of the advanced metering infrastructure ("AMI") and distribution system upgrade costs are critical issues. As a threshold consideration, Staff notes that the two investments are discrete and costs should be recovered separately. Staff Comments at 1. The City of Dayton

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concur. Dayton Comments at 3-4. OPAE agrees. The two projects are not interdependent. Distribution system investments are a basic part of doing business and replacing outdated systems with new technologies should be standard practice. Proponents of advanced metering, however, contend it will serve many more functions than that of the traditional mechanical meter which functions primarily as a cash register. Because both charges are part of regulated services, the expenditures should be prudent, and the equipment should ultimately be required to be used and useful. Separating the two types of expenditures and the recovery for each makes sense so that proper evaluations of the investments can occur. It will also provide the opportunity to determine whether or not a smart meter is simply a more effective cash register, to the detriment of customers.

OPAE also concurs with the suggestion of the City of Dayton that the costs be itemized as separate charges on the bill. Dayton Comments at 4. This will allow tech-savvy meter watchers to determine if they are actually saving more than the investment is costing them. Proponents of AMI have confidence in their prediction of significant customer savings and should be proud to have this investment highlighted.

Separating the investments and recovery also makes sense from the standpoint of determining the appropriate cost recovery designs. Here, Staff offers a 'one size fits all' approach, suggesting a fixed per customer charge. Kroger proposes a combination demand and energy charge, arguing that higher load factor customers impose less cost on the system. Kroger at 2. Dayton suggests lower rates for high voltage customers. Dayton at 6. The Office of the Ohio Consumers' Counsel ("OCC") argues the proposed cost recovery method fails to recognize that income tends to mirror usage and proposed

rate design would have an inequitable impact on low-use customers, including most low-income customers. Low-use customers also have little ability to reduce consumption. OCC proposes 'a fully volumetric kWh rider'. OCC at 6.

Traditional ratemaking would allocate these costs based on principles of cost causation. However, the business cases for AMI and advanced distribution systems focus on the savings they can create, a different paradigm. Staff and OCC comments stress the need for benefits to outweigh the costs when ratepayers make investments. OCC at 4. Reliability improvements benefit customers based in direct proportion to the amount of energy they use. Larger businesses benefit more because the larger amounts of power they consumer will be delivered more reliably. Manufacturers often depend on equipment that is sensitive to fluctuations in power quality so reliability is more valuable to them.

In this case costs should follow the benefits. Those with a greater potential to benefit – the larger users – should pay more. As Staff notes in its comments, "[q]uantifying that value (operational benefits) enables the staff and stakeholders to make a judgment about whether customers have a reasonable opportunity to recoup those costs by adjusting their consumption patterns so as to manage and lower their bills." Staff at 2. The ability to reduce demand or use in response to price signals is also a function of usage. A 4,000 square foot home or a 10,000 square foot grocery store simply has more usage that can be controlled than a 1,000 foot bungalow without air conditioning. Therefore, the volumetric charge is the most appropriate mechanism for cost recovery.

OCC opposes the Company request for recovery of 10% of the shared savings, a position which OPAE shares. OCC at 7. OCC also notes that the proposed collection of lost revenue will violate the cap established in the ESP case. OCC at 8. OPAE agrees.

OPAE recommends the Commission split recovery into separate charges for AMI and distribution system upgrades, that both charges are separate line items on the bill, and that the recovery charges are volumetric. Recovery of 10% of customer savings should be denied and lost revenue should be aggregated with the lost revenue associated with demand side management and demand reduction programs and subject to the agreed upon cap.

Billing System Charges

The City of Dayton recommends that collection of costs associated with billing system changes be limited only to the changes directly related to AMI, not an entirely new billing system. City of Dayton at 7. Staff goes further, contending that no billing system changes be included in the proposed riders for collection. Staff at 7. OPAE concurs with the Staff recommendation.

Price Projections and Estimated Benefits

Staff makes a cogent argument that the projected forward prices significantly overstate market costs for capacity and energy, a critical piece of the cost-effectiveness puzzle. Staff at 3-4. OPAE agrees.

OCC indicates a number of concerns regarding the quantification of benefits, arguing that the Company proposal severely understates the value of a number of operational benefits which could reduce customers' costs. Leaving aside the fact that

increasing billing revenues because of greater accuracy is still a bill increase for the customer, OCC cites a recently released 'study' that quantifies the value of smart grid investments to West Virginia. That study assumes the following end-state in order to achieve the 4:1 to 6:1 benefit to cost ratio:

Probable Future State: The desired situation, ten years from now, is quite different. This future state of consumer participation in West Virginia will be an active one, in which consumers interact with electricity markets, employing new smart grid technologies and programs. Consumer education initiatives that help customers understand the value and opportunities the Smart Grid provides will have been highly effective. Widespread deployment of consumer-enabling AMI and an associated integrated communications infrastructure will have occurred. Lessons learned in past pilot projects will have helped shape smart grid technology development and application deployments, as well as demonstrating economic and technical feasibility to policy makers. The future rate structure in WV will include time-of-use rates and dynamic pricing that is based on the current wholesale price of energy and capacity. Sensible net metering rate structures and supportive policies will be in place to drive demand response programs and the ownership of newly effective distributed generation and storage resources. Most customers will know their energy usage and pricing options on a real-time basis. Incentives and consumer price-awareness will stimulate customer's use of energy efficient appliances, distributed energy resources, home area networks, plug-in hybrid electric vehicles and other advanced technologies and applications. "West Virginia Smart Grid Implementation Plan," National Energy Technology Laboratory, DOE/NTEL-2009/1386, August 20, 2009, page 65.

OPAЕ looks forward to ten years from now when the clients of its sister agencies in the hollows of Appalachia drive their hybrid home, crank up their on-site generation, and listen to Vivaldi through their home area networks. For the present, one wonders how many West Virginians even have a home internet connection.

Sarcasm aside, the numbers in the NTEL study is not based on pilots or any direct measurement of customer participation or savings. It presumes that direct pass-through of wholesale costs will equal savings and is built on a host of assumptions

about the quality and effectiveness of a diverse portfolio of technologies. While the study does acknowledge installation will cost \$2 billion, it offsets that amount by counting the same \$2 billion as a benefit in the form of jobs from installation and equipment purchases. OPAE's initial comments already outlined flaws in the projected benefits of this application, which even in their overstatement by DP&L suddenly appear very conservative when compared to the delusional NTEL projections.

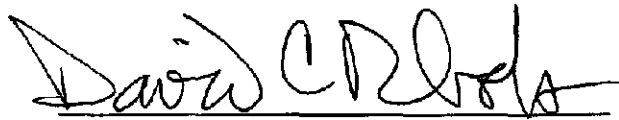
Fortunately, OCC also insists that the measurement and verification standards of the Technical Resource Manual, Case No. 09-512-GE-UNC be applied to the implementation. Bringing analytic rigor to the review can only be beneficial, and will likely show far lower cost savings for customers.

Conclusion

Staff notes that there is little pressure to move forward with at least the AMI portion of the revised application given that DP&L was not selected to receive federal funding for its smart grid spending program. Staff at 1. Because the distribution modernization is not inextricably linked to AMI, this is the prudent approach. Serious questions exist about the business case for AMI. Enough other pilots will be moving forward in Ohio with federal taxpayer subsidies to work out problems before all Ohio customers are subjected to the inevitable cost increases resulting from deployment.

Cost recovery should follow the potential cost savings; a volumetric rate is the most appropriate recovery method. Establishing cost-effectiveness is a critical precondition to obligating ratepayer funds. The recession-wracked Dayton region deserves no less.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David C. Rinebolt", written over a horizontal line.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Comments of Ohio Partners for Affordable Energy was served electronically upon the parties of record identified below in this case on this 8th day of January, 2010.



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