

**BEFORE THE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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|--|---|-------------------------|
| In the Matter of the Application of Ohio | ) |                         |
| Edison Company, The Cleveland Electric   | ) | Case No. 09-1820-EL-ATA |
| Illuminating Company and The Toledo      | ) | Case No. 09-1821-EL-GRD |
| Edison Company for Approval of Ohio      | ) | Case No. 09-1822-EL-EEC |
| Deployment of the Smart Grid             | ) | Case No. 09-1823-EL-AAM |
| Modernization Initiative and Timely      | ) |                         |
| Recovery of Associated Costs.            | ) |                         |

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**REPLY COMMENTS  
BY  
THE OFFICE OF OHIO CONSUMERS' COUNSEL**

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**I. INTRODUCTION**

The Ohio Consumers' Counsel ("OCC") on behalf of the 1.9 residential customers of The Cleveland Electric Illuminating Company, Ohio Edison Company and The Toledo Edison Company (collectively "FirstEnergy" or "Company"). OCC files these Reply Comments to the January 13, 2010 Initial Comments filed by The Citizens' Coalition ("Citizens"), Ohio Partners for Affordable Energy ("OPAE"), the Staff of the Public Utilities Commission of Ohio ("Staff"), the Kroger Company ("Kroger"), the Industrial Energy Users-Ohio ("IEU") and the Ohio Energy Group ("OEG") with the Public Utilities Commission of Ohio ("PUCO" or "Commission").

## **II. REPLY COMMENTS**

### **A. FirstEnergy Should Not Be Permitted To Collect From Customers Lost Revenues In This Pilot Program.**

The Citizens Coalition<sup>1</sup> and OPAE<sup>2</sup> opposed in their initial comments the recovery of any alleged associated lost distribution revenues. As noted in OCC's initial comments, the OCC agrees that recovery of lost distribution revenues should not be recovered, especially if FirstEnergy is not required to provide more support for the costs it intends to recover through the pilot program. Certainly if the size of the pilot will be too small to result in operational savings to be credited against costs, the size of the pilot will be too small to result in lost distribution revenues to be paid to the Company.<sup>3</sup>

### **B. FirstEnergy Should Be Required To Net Benefits Against Costs In This Pilot Program.**

Although the Staff predicted that there will be few operational savings, due to the small size of the pilot program, the Staff stated that if there are operational savings, the operational savings should be credited against the costs.<sup>4</sup> OCC concurs. If the Commission does not require FirstEnergy to credit operational benefits against Smart Grid costs the AMI Rider charges will be unlawful unjust and unreasonable rates under R.C. 4905.22.

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<sup>1</sup> Letter filed by the Citizens Coalition (January 14, 2009) at 3.

<sup>2</sup> OPAE Comments at 5.

<sup>3</sup> Comments Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio (January 13, 2010) at 2.

<sup>4</sup> Id.

**C. The Costs Of The Pilot Program Should Be Reviewed Before It Begins And Should Be Audited After It Is Over.**

The Staff seems to have similar concerns with the costs that FirstEnergy attributed to the installation of meters and thermostats as do other parties.<sup>5</sup> Staff makes numerous valuable recommendations:

- Only those actual costs that are found to be reasonably incurred and are incremental as part of the pilot project should be recovered through the Revised Rider AMI.”<sup>6</sup>
- A true-up to actual pilot project costs should occur no more frequently than annually to allow for enough time to perform meaningful cost analysis.”<sup>7</sup>
- The Companies should keep the accounting records for the Ohio Site Deployment actual costs separate, to facilitate review and verification.<sup>8</sup>
- The Companies should demonstrate that any Cleveland Electric Illuminating labor and capital costs incurred for the Ohio Site Deployment are incremental costs.<sup>9</sup>
- The capital asset cost recovery associated with the project should occur over the used and useful life of the assets.<sup>10</sup>

Presumably, taking these recommendations together, the Staff is recommending that a management performance and financial audit be conducted annually to ensure that FirstEnergy does not collect costs beyond those it prudently incurred. The Commission simply cannot meet the requirement that all rates and charges be just and reasonable under R.C. 4905.22 or under R.C. 4909.18 without such a review.

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<sup>5</sup> Staff Comments at 3.

<sup>6</sup> Staff Comments at 4.

<sup>7</sup> Staff Comments at 23.

<sup>8</sup> Staff Comments at 23.

<sup>9</sup> Staff Comments at 23.

<sup>10</sup> Staff Comments at 23.

The Staff's recommendation that the revised rider AMI rate be developed based on the Staff's recommended revenue requirement for the pilot is not clear. The Staff does not recommend a revenue requirement for the pilot in these comments.<sup>11</sup> If the Staff is stating that FirstEnergy should not recover any costs of the SmartGrid until all actual costs are reviewed through a management performance and a financial audit, a year after the pilot program begins, the Staff's recommendation is reasonable.

**D. Smart Grid Charges Allocated To Each Customer Class  
Should Be Based Upon The Dollar Benefits Each Customer  
Class Will Obtain From Increased Reliability Of The Grid.**

The Companies proposed to charge the costs for Smart Grid on a kwh usage rate.<sup>12</sup> The Staff recommends that Rider AMI/Smart Grid not apply to Rate GT customers.<sup>13</sup> Moreover, Staff recommended that the AMI/Smart Grid charge should be a fixed monthly charge rather than a usage sensitive charge as proposed by the Companies.<sup>14</sup>

IEU argues that the Smart Grid costs should be allocated "between customer classes (rate schedules) based upon their current proportional responsibility for base distribution revenues" because the "Smart Grid Modernization Initiative are distribution automation, voltage control, substation relay-based protective strategies, alternate pricing programs/AMI, and communications and data infrastructure installation."<sup>15</sup>

Advanced meter costs are most appropriately attributed to individual customers. But the advanced grid costs should not be allocated by either a fixed customer charge or by the current distribution system allocations. Reliability is the major customer benefit of

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<sup>11</sup> Staff Comments at 23.

<sup>12</sup> Application at Exhibit C.

<sup>13</sup> Staff Comments at 21.

<sup>14</sup> Staff Comments at 21.

<sup>15</sup> IEU Comments at 4.

the advance grid.<sup>16</sup> Numerous articles, including *The Economic Impacts of the August 2003 Blackout*<sup>17</sup> reveal the extent to which large customers benefit most from both reliable distribution and transmission systems. While it is true that residential customers benefit some from reliability, in actual dollar amounts, commercial and industrial customers benefit far more from reliability. The economic costs during the August 14, 2003 blackout have been estimated to be between \$6<sup>18</sup> and \$10 billion.<sup>19</sup> This includes approximately \$4.2 billion in lost income to workers and investors, \$1-\$2 billion in costs to affected utilities and between \$380 and \$940 million in costs associated with lost or spoiled commodities.

In fact, the Ohio Manufacturers' Association ("OMA") estimated the direct costs of the blackout on just Ohio Manufacturers to be \$1.08 billion.<sup>20</sup> Additionally, "some 12,300 manufacturing companies in the state (representing approximately 55% of the manufacturers in Ohio) were impacted with an average estimated direct cost of nearly \$88,000 each." The OMA estimates do not even include the commercial sector, which likely also suffered serious losses. Sixty Kroger stores were closed due to the blackout.<sup>21</sup>

Numerous other articles confirm that commercial and industrial customers will benefit far more in dollars from the increased reliability resulting from the advanced

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<sup>16</sup> Application at 3.

<sup>17</sup> Electricity Consumers Resource Council (February 9, 2004).

<sup>18</sup> *Transforming the Grid to Revolutionize Electric Power In North America*, Bill Parks, U.S. Department of Energy, Edison Electric Institute's Fall 2003 Transmission, Distribution and Metering Conference, October 13, 2003.

<sup>19</sup> *The Economic Cost of the Blackout: An Issue Paper on the Northeastern Blackout, August 14, 2003*, ICF Consulting.

<sup>20</sup> Ohio Manufacturers' Association (August 29, 2003).

<sup>21</sup> Detroit Free Press (August 16, 2003).

grid.<sup>22</sup> Additionally as indicated from the loss estimates above, even customers served at the transmission level will benefit more in dollar amounts from the increased reliability resulting from the advanced grid. Accordingly, all costs associated with the advanced grid should be allocated based on kwh usage, while advanced metering costs should be allocated based upon a customer charge.

**E. Interested Parties Should Also Have Access To The Metrics To Determine The Success Of The Pilot That Are Being Developed By The Company In Negotiations With The USDOE.**

The Staff recommended that the metrics to determine the success of the pilot that are being developed by the Company in negotiations with the USDOE be shared with the Staff and the Commission.<sup>23</sup> Additionally, all interested parties should have access to those metrics as they are developed. Such metrics involve the adequacy of service provided to customers and under R.C. 4905.22 and should be made available to all interested parties.

### **III. CONCLUSION**

The Commission should approve FirstEnergy's application only if there is sufficient review to determine that the costs that FE incurs are prudent and properly accounted for before FirstEnergy can recover the costs from customers. The costs related to the Smart Grid should be allocated on the basis of kwh use because the larger customers benefit most from a reliable distribution grid. FirstEnergy should not receive lost revenues during this pilot program because FirstEnergy will not likely have any during the pilot program. FirstEnergy should be required to credit its operational savings against the costs of the program before FirstEnergy collects any of the costs from

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<sup>22</sup> See, *Businesses pay heavy cost for blackout: study finds*, <http://blackoutsurvey.mirifex.com/blackout2003.cfm>

<sup>23</sup> Staff Comments at 24.

customers. All interested parties should have an opportunity to review the metrics FirstEnergy will apply to the pilot program as such metrics will reflect the adequacy of service as intended under R.C. 4905.22.

Respectfully submitted,

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## **CERTIFICATE OF SERVICE**

It is hereby certified that a true copy of the foregoing *Reply Comments* was served by Regular U.S. Mail Service, postage prepaid, to all parties this 20th day of January, 2010.

/s/ Ann M. Hotz \_\_\_\_\_  
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Summary: Comments Reply Comments by the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Hotz, Ann M.