

William R. Ridmann  
Vice President  
Rates & Regulatory Affairs

June 14, 2010

330-761-4154

Mr. Greg Scheck  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus, OH 43215

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

Dear Greg:

The Companies have signed an agreement with the Department of Energy ("DOE") and now respectfully petition the Commission to promptly issue an entry in the above-captioned cases approving the Ohio Smart Grid Project.<sup>1</sup> As stated in the Companies' Application, the Ohio Smart Grid Project is expected to improve reliability and interactivity of the electric distribution infrastructure in the targeted area; produce energy savings and peak demand reductions; help ensure the cost effective implementation of the initial smart grid investment; and provide support for programs that help customers save energy and money. The Companies are prepared to commence the Ohio Smart Grid Project as soon as they receive Commission approval. The Companies have already received the necessary approvals in Pennsylvania and New Jersey and will begin installing smart grid technologies in those respective service territories.

The Ohio Smart Grid Project has undergone rigorous review by DOE and Commission Staff and other interested parties were afforded and took the opportunity to submit initial comments on January 13, 2010 and reply comments on January 20, 2010. All parties to this proceeding have been heard and await a Commission decision. The Companies' Application should be approved as filed subject to Staff's seventeen recommendations, as amended and set forth below:

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<sup>1</sup> The Companies' Application was filed in furtherance of the Companies' commitment in Case No. 08-935-EL-SSO to develop a proposal to pursue federal funds that may be available for smart grid investment. The Companies filed the Application on November 18, 2009, approximately three months after the Companies initially submitted their Smart Grid Modernization Initiative to the Commission for review and shortly following the Department of Energy ("DOE") notifying the Companies that they had been selected as an award recipient for smart grid stimulus funds.

1. Staff recommended that the Companies create a database of customer-specific momentary interruption data.
  - The Companies agree to this Staff recommendation.
2. Staff recommended that only those actual costs that are incremental and reasonable with respect to this aspect of the pilot project should be recovered.
  - The Companies, Staff, and the signatory parties to a Stipulation and Recommendation filed in Case No. 10-388-EL-SSO (the “Proposed ESP”) have agreed that all costs approved in the above-captioned proceeding associated with the project will be considered incremental for recovery under Rider AMI.<sup>2</sup>
3. Staff recommended that the Companies should keep the accounting records for the Ohio Site Deployment actual costs separate, to facilitate review and verification.
  - The Companies agree to this Staff recommendation.
4. Staff recommended that the Companies set target values for CAIDI and SAIFI in the project area and report to Staff at the completion of the pilot project.
  - The Companies have made certain commitments towards CAIDI and SAIFI. Such commitments are fully set forth in Attachment A attached hereto.
5. Staff recommended that the Companies demonstrate that any Cleveland Electric Illuminating labor and capital costs incurred for the Ohio Site Deployment are incremental costs.
  - The Companies, Staff, and the signatory parties to the Proposed ESP have agreed all costs approved in the above-captioned proceeding associated with the project will be considered incremental for recovery under Rider AMI<sup>3</sup> and that all reasonably incurred incremental operating expenses associated with the project will also be recovered.<sup>4</sup>
6. Staff recommended the recoverable cost of newly installed Smart Grid plant that replaces existing plant should be the cost of the new plant less the net book value of the replaced plant.
  - The Companies, Staff, and the signatory parties to the Proposed ESP have agreed that rate base is defined as plant in service, depreciation reserve and accumulated deferred income taxes.<sup>5</sup>

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<sup>2</sup> Proposed ESP, p. 23, Section E.1.ii.

<sup>3</sup> Id.

<sup>4</sup> Proposed ESP, p. 23, Section E.1.vi.

<sup>5</sup> Proposed ESP, p. 23, Section E.1.v.

7. Staff recommended a true-up to actual pilot project costs occur no more frequently than annually to allow for enough time to perform meaningful cost analysis.
  - The Companies maintain that a quarterly true-up to actual pilot costs is appropriate. The Companies understand that Staff will conduct an annual audit and review of all reasonable project costs and there shall be an opportunity for hearing if Staff finds any costs to be unreasonable. The Companies will bear the burden of proof to demonstrate the reasonableness of any costs Staff finds to be unreasonable.
8. Staff recommended that the capital asset cost recovery associated with the project occur over the useful and useful life of the assets.
  - The Companies, Staff, and the signatory parties to the Proposed ESP have agreed to recovery of the costs approved in the above-captioned case shall be over a ten (10) year period for recovery under Rider AMI.<sup>6</sup>
9. Staff recommended that the Commission allow carrying charges on deferred balances using the most recent Commission approved cost of debt rate component included in the rate of return calculation used in a CEI proceeding.
  - The Companies, Staff, and the signatory parties to the Proposed ESP have agreed that the return on the investment shall be at the overall rate of return from the Companies' last distribution rate case.<sup>7</sup>
10. Staff recommended that the revised rider AMI rate be developed based on the Staff's recommended revenue requirement for the pilot.
  - The Companies believe that this recommendation conflicts with language in the Companies' Proposed ESP, and thus should be deleted.
11. Staff recommended that the rider AMI charge should be a fixed monthly charge rather than a usage sensitive charge.
  - The Companies agree to this Staff recommendation.
12. Staff recommended that the AMI/Smart Grid revenue requirement be allocated solely to CEI's rate schedules using the stipulated revenue distribution from the Company's most recent distribution rate case.
  - The Companies, Staff, and the signatory parties to the Proposed ESP have agreed that costs associated with the project should be collected from customers of Ohio Edison, CEI and Toledo Edison, exclusive of GT customers.<sup>8</sup>

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<sup>6</sup> Proposed ESP, p. 23, Section E.1.iii.

<sup>7</sup> Proposed ESP, p. 23, Section E.1.iv.

<sup>8</sup> Proposed ESP, p. 23, Section E.1.i.

13. Staff recommended that the metrics to determine the success of the pilot that are being developed by the Company in negotiations with the US DOE will be shared with the Staff and the Commission.

➤ The Companies agree to this Staff recommendation.

14. Staff recommended the Companies report assessment results of the information and outcomes learned from the initial 5,000 meter deployment.

➤ The Companies agree to this Staff recommendation.

15. Staff recommended that the Commission determine whether or not the pilot project has been successful and will go forward beyond the pilot period.

➤ The Companies believe that Staff's use of the term "pilot project" refers to the deployment of the initial 5,000 meters. The Companies agree that the Commission may determine whether or not the deployment of the initial 5,000 meters has been successful and whether the Companies may go forward to deploy the remaining 39,000 meters recognizing if the approval is not granted in an expeditious manner it may jeopardize the project.

16. Staff recommended that if the US DOE reduces any of the SGIG award from the eligible amount of \$36.1 million, the Commission should reduce the remaining cost recovery contribution by the FirstEnergy Ohio jurisdictional ratepayers by an equal amount.

➤ The Companies, Staff, and the signatory parties to the Proposed ESP have agreed to this recommendation as modified to read: "The Companies shall not complete any part of the Ohio Site deployment that the DOE does not match funding in an equal amount. Therefore cost recovery from customers will remain at 50% of total project cost even if the DOE reduces the funding."<sup>9</sup>

17. Staff recommended one adjustment to the distribution percentages shown on Schedule A, namely that the 0.17% assigned to Rate GT be ratably distributed to the remaining rate schedules. The last steps to develop the monthly fixed charge rate are to divide each Rate Schedule's revenue responsibility by its most recent customer count, and to divide those results by twelve to arrive at a monthly rate.

➤ The Companies agree to this Staff recommendation.

The Companies' Ohio Smart Grid Project is time sensitive and valuable time has already elapsed as the Companies worked diligently to execute an agreement with the

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<sup>9</sup> Proposed ESP, p. 23, Section E.1.viii.

DOE. That agreement is now signed. The Companies implore the Commission to promptly approve their Application.

Sincerely,

A handwritten signature in dark ink, appearing to read "William R. Ridmann". The signature is fluid and cursive, with a prominent initial "W".

William R. Ridmann  
Vice President, Rates & Regulatory Affairs

cc: Ebony Miller  
Wendy Stark

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

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**in**

**Case No(s). 09-1820-EL-ATA, 09-1821-EL-GRD, 09-1822-EL-EEC, 09-1823-EL-AAM**

Summary: Correspondence relating to Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company and the "Ohio Smart Grid Project" electronically filed by Mr. George A Yurchisin on behalf of FirstEnergy Corp. and Ridmann, William R.