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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio)
Edison Company, The Cleveland Electric) Case No. 10-176-EL-ATA
Illuminating Company and The Toledo)
Edison Company for Approval of a New Rider)
and Revision of an Existing Rider.)

OHIO PARTNERS FOR AFFORDABLE ENERGY'S
REPLY BRIEF

I. Introduction

Ohio Partners for Affordable Energy ("OPAЕ") hereby submits its reply brief to the Public Utilities Commission of Ohio ("Commission") in this proceeding concerning the February 12, 2010 application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (together "FirstEnergy") for approval of a new credit rider and revisions to an existing rider. Herein, OPAЕ replies to the initial brief filed by FirstEnergy.

II. **Contrary to the argument of FirstEnergy, the Commission should order that OPAЕ's long-term recommendation for a pilot program using solar energy incentives be implemented.**

OPAЕ's witness Stacia Harper recommended "a potential model for a long-term solution to the need to provide all electric customers of the FirstEnergy operating companies - The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company - with affordable electric service using an alternative procurement method." Harper Testimony at 3. She recommended that the Commission require FirstEnergy to investigate alternative procurement methods that would yield a delivered price of electricity at less than the current market clearing price. Ms.

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Harper's testimony provided a concept of leveraging the purchased value of solar renewable energy credits (SRECS) to offset the project cost of solar/wind generation that would produce electricity at below the auction price. Ms. Harper requested that the Commission test this concept via a pilot program focusing on a carve-out of the all-electric customers of FirstEnergy who participate in the Percentage of Income Payment Plan ("PIPP") program providing them with the lower-cost generation and weatherization services to reduce usage. The pilot program would also be used to determine whether an expansion of the approach would be effective to continue to provide all-electric customers with affordable rates and minimize the shifting of costs to other customers.

FirstEnergy argues that the Commission should reject OPAE's proposal for two reasons. First, FirstEnergy argues that OPAE's proposal lacks details about the power plant project would work, such as who would pay for it, who would own it or who would operate it. Second, FirstEnergy complains that OPAE does not provide detail on the economics of the project, such as the revenue from the sale of renewable energy credits, the availability of government economic development funding, and the cost of electricity from a power plant such as the one OPAE suggests. FirstEnergy Brief at 73-75.

FirstEnergy misses the point of the OPAE project concept. The point is to get FirstEnergy to consider innovative solutions that yield long-term sustainable discounts needed by certain groups of its customers while minimizing the cost shift to other customers. In order to provide discounts to certain customers below the generation price derived from the auction, generation at a price below that set by the auction must be secured. FirstEnergy could enter into a power purchase agreement for below-auction power and dedicate the power to serve all-electric customers. There are options that can allow for power at a lower cost

than that set by the auction because the auction price represents a market clearing price.

One such concept as proposed by OPAE, a new power plant using solar photovoltaic and wind turbine technologies that uses the revenue streams from purchased solar renewable energy certificates ("SREC") yields generated power at a rate lower than market as a result of these revenue streams and could be dedicated to serve all-electric customers. Specifically, the auction price is a representation of what generators are willing to sell their power for in the wholesale market, this is a market clearing price and as such would not reflect the revenue streams produced by the sale of renewable energy credits, investment tax credits, accelerated depreciation, or other tax and economic development incentives that are available, or may become available, to promote the development of renewable energy power projects. Excess revenue, could be in the form of accelerated depreciation or any project funds that are garnered from either state energy resource development funds or federal sources of funding. This excess revenue from the power project could be used to weatherize the homes of all-electric customers, further reducing bills of these customers by reducing the electricity they use. OPAE Ex. 1 at 6.

This proposal would take advantage of Ohio's new law, SB 221, which requires generation suppliers to ensure that a percentage of the power they sell comes from advanced energy sources, including in-state solar resources. Because Ohio currently has little installed solar capacity, the market price for this resource is quite high. In a typical transaction involving solar energy today, the renewable attributes of the electricity generated from solar resources are stripped off and sold as a SREC. When stripped of its environmental attributes the actual electricity produced by the solar installation is referred to as "brown power." In

OPAE's proposal, FirstEnergy would commit to purchase the brown power through a power purchase agreement and enter into a contract to purchase the SRECs, as it would today, but the power would be dedicated to all-electric customers. Because the solar power installations are eligible for a number of incentives including production credits, investment tax credits, and accelerated depreciation, the value of these renewable energy certificates, tax advantages, and other incentives can be subtracted from the cost of producing power from solar resources, and the brown power should cost less than the auction price. OPAE Ex. 1 at 7.

FirstEnergy criticizes the lack of detail in OPAE's proposal, but the details could only be developed with the assistance of FirstEnergy. What OPAE recommended here was that the Commission order FirstEnergy to develop a pilot project along the lines recommended by OPAE which would establish a generation source that would provide a long-term solution to the problem of providing all-electric homes with affordable power. The pilot project would demonstrate the concept that by including the value of purchased solar renewable energy credits as an offset to the development cost of power from solar/renewable resources, electricity could be secured at a price lower than the auction price for a targeted population. Apparently, FirstEnergy will not consider the development of such a project unless the Commission orders FirstEnergy to consider it. If the development phase of the project ultimately shows that such a project is not feasible, if power cannot be produced at a price below the auction, if development funds and tax incentives are inadequate or if the project will not work for any other reason, it will not be undertaken. OPAE's point was that this sort of project could provide a long-term solution and ought to be considered.

III. Conclusion

Some residential generation credit for all-electric residential customers must continue indefinitely in the three service territories of FirstEnergy. While the current credit may not be permanent at current levels given its impact on other customers, the continuation of the credit is essential to the economic health of the residential communities served by FirstEnergy. If the Commission determines that the credit will eventually be phased out, the phase out should be accomplished very slowly, over a period of many years. The recovery of the deferrals resulting from the credit should be from all classes of customers because all classes benefit from the usage during the winter of all-electric residential customers.

FirstEnergy should be ordered to develop a pilot project along the lines recommended by OPAE witness Harper. The pilot project would demonstrate the concept that power from solar resources could be delivered at a price lower than the auction price. The output from the pilot project should be dedicated to all electric customers that participate in the PIPP program. Any excess revenues produced by the pilot project should be spent to weatherize the homes of customers participating in the pilot project.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply Brief was served by regular U.S. Mail upon the following parties identified below in this case on this 12th day of April 2011.

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