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<u>Via E-File</u>

November 30, 2012

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: <u>Case No. 10-834-EL-POR</u>

Dear Sir/Madam:

Please find attached COMMENTS OF THE OHIO ENERGY GROUP for filing in the above-referenced matter.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,

David F. Boehm

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MLKkew
Encl.
Cc: Certificate of Service

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of the Mercantile Customer Pilot Program for Integration of Customer Energy Efficiency or Peak-Demand Reduction Programs	: : :	Case No. 10-834-EL-POR

COMMENTS OF THE OHIO ENERGY GROUP

The Ohio Energy Group ("OEG") is a non-profit entity organized to represent the interests of large industrial customers in electric and gas regulatory proceedings before the Public Utilities Commission of Ohio ("Commission"). OEG's members purchase large amounts of electric power services from the investor-owned utilities in Ohio.

OEG thanks the Commission for the opportunity to comment on the November 15, 2012 workshop, and to address the remarks and recommendations of Merrian Borgeson of the Lawrence Berkeley National Laboratory regarding self-directed demand side management ("DSM") programs. OEG attended the workshop and listened with interest to Ms. Borgeson's presentation, and in particular, to the "Questions for Consideration" listed in her powerpoint presentation. We believe that the four "questions" posed by Ms. Borgeson are actually intended to be recommendations, and we will address them herein as such. But first we would like to make some general remarks about energy efficiency and its mandates from the standpoint of a large industrial customer.

Large industrial energy users love energy efficiency. They have long embraced the idea that it is not only wise to save on their energy bills, but absolutely essential, in the fiercely competitive global economy in which they must survive. For the most part, these large sophisticated manufacturers have instituted or will institute every energy efficiency or demand-reduction project that makes sense for their business. They willingly undertake these projects on their own, without the assistance of the utilities or the Commission. What they do not wish to do, however, is: 1) pay for the energy efficiency projects of others (particularly their own competitors) who, for whatever reason, did not undertake those projects with their own money; 2) undertake energy efficiency projects on a totally unrealistic schedule unsupported by science or economics; or 3) promote and fund complex and time-consuming regulations which result in either the delay or the rejection of worthy energy efficiency projects that might be the basis for a surcharge exemption..

Addressing now the presentation of Ms. Borgeson, we note that most of the States on which Ms. Borgeson presented data are traditionally regulated. In those states, the fundamental premise that DSM is a valuable vehicle for keeping generation rates lower is still somewhat valid. DSM originated on the premise that the major driver of utility rate increases was the construction of new generation plants to meet increased demand. If demand could be suppressed by energy conservation, generation construction would be reduced and ratepayers would not have their rates increased to pay for new plants. But in Ohio, generation is, or shortly will be, owned by merchant companies, not by regulated utilities. Ohio ratepayers will not pay the cost of new generation, but will instead pay the market price of generation. Therefore, Ohio ratepayers will not receive the value traditionally associated with DSM. While some argue that in a market-based system, lowering demand also lowers the market price, that connection is much more tenuous. Moreover, the current law has Ohio ratepayers absorbing a disproportionate share of the costs for benefits that the entire wholesale market enjoys.

Secondly, at the time these mandates were passed, energy – both electric and natural gas – was costly and resources limited. At the present time, as we know, market prices for electricity are very low and the abundance of natural gas, particularly in Ohio, promises cheap fuel for power plants for decades. Costly measures to meet unrealistic conservation goals make even less sense.

Ms. Borgeson's "questions" suggest modifications to Ohio's current self-direct program policies that, if adopted, would remove incentives for large industrial energy users to participate in that program. Ms. Borgeson seemingly recommends: 1) forcing self-direct customers to pay the administrative and EM&V cost portion of the Ohio utilities' DSM riders; 2) denying self-direct customers credit for historic projects; 3) modifying and potentially restricting the current DSM rider exemptions available to self-direct customers by abolishing the use of the "benchmark comparison method;" and 4) discontinuing the use of the "as found" standard for calculating energy savings from self-directed projects. Though well-intentioned, Ms. Borgeson's recommendations are impractical (particularly the discontinuation of the "as found" standard) and will serve to remove current incentives for large industrial energy users to participate in the self-direct program.

Initially, the mercantile self-direct program in Ohio was choked with applications whose approval was delayed by changing rules and protocols, indecision, and the persistent demand for more rigorous and costly reviews. But the Commission's adoption of the mercantile pilot program significantly remedied these issues, processing hundreds of self-direct energy efficiency project applications and substantially reducing the initial backlog. In particular, the Commission's adoption of the "as found" standard for purposes of the mercantile program has greatly reduced the complexity of the application process and the confusion among potential self-direct program applicants. Additionally, the Commission's current policies regarding DSM rider exemptions and the ability of self-direct customers to obtain credit for historic projects serve to incentivize customers to participate in the self-direct program. The popularity of the program is evidenced by the hundreds of applications submitted to the Commission, the majority of which have been approved.

Ms. Borgeson seems to suggest modifying the current self-direct program to remove a number of incentives for customers to participate in the program. But there is no need to alter a system that is working very well and encouraging the development of energy efficiency projects in Ohio. If historic projects can be used to meet the energy efficiency benchmarks, customers should get credit for those projects. Those customers chose to undertake those projects at a time when it was economic for their business, and energy savings resulting from those projects should be recognized for purposes of the self-direct program. There is also no need to remove current incentives for customers to participate in the self-direct program by limiting DSM rider exemptions or increasing the costs that self-direct customers must pay, even if they participate in the program. The Commission should not introduce additional complexity, cost, and confusion into the self-direct program when the current system is functioning well.

We suspect that Ms. Borgeson's proposals are driven by the desire to obtain and measure, with exact precision, energy efficiency savings in Ohio. A study done by Lawrence Berkeley National Laboratory entitled "*National Energy Efficiency Education, Measurement and Verification (EM&V) Standard: Scoping Study of Issues and Implementation Requirements*" outlines a costly standard of measurement and verification that implies both the need and ability to judge and measure energy costs and savings on a microscopic level.[1] This mammoth effort is supposedly required to guard, among other things, against the horrific possibility that a company might be given energy efficiency credit for replacing a machine that was going to be replaced anyway. The fact remains that replacing less efficient equipment with more efficient equipment saves the same amount of energy, whatever the motivation of the manufacturer in replacing it.

Ms. Borgeson's appeal for exact precision is at odds with practical realities. Her recommendations would increase the complexity of the self-direct program, remove incentives for customers to participate in the program, increase the risk that worthy self-direct energy efficiency

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[1] April 2011, *available at* http://eetd.lbl.gov/ea/ems/reports/lbnl-4265e.pdf (last visited Nov. 29, 2012).

projects will be delayed or rejected, and make it even more difficult for utilities in Ohio to achieve their energy efficiency benchmarks. Accordingly, the Commission should continue its current policies regarding the self-direct program.

Respectfully submitted,

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November 30, 2012

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CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail (when available) or ordinary mail, unless otherwise noted, this 30th day of November, 2012 to the following:

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