BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Amendment of Chapters 4901:1-10 and 4901:1-21, Ohio Administrative Code, Regarding Electric Companies and Competitive Retail Electric Service, to Implement 2014 Sub. S.B. No. 310.	)))))	Case No. 14-1411-EL-ORD

COMMENTS OF THE OHIO MANUFACTURERS' ASSOCIATION ENERGY GROUP

I. BACKGROUND AND PROCEDURAL HISTORY

In May 2014, the General Assembly passed 2014 Sub. S.B. No.310 (S.B. 310), which became effective on September 12, 2014. S.B. 310, inter alia, amended provisions in Chapter 4928, Revised Code, which governs the alternative energy portfolio standard rules and regulations. Additionally, newly-enacted Section 4928.65, Revised Code, directs the Public Utilities Commission of Ohio (Commission) to adopt rules concerning disclosure to customers of the costs of renewable energy resource, energy efficiency savings, and peak demand reduction requirements[1] by January 1, 2015.

On August 26, 2014, the Commission held a workshop to permit stakeholders to publicly comment on proposed rules for consideration by the Commission's staff (Staff). Many stakeholders, including the Ohio Manufacturers' Association Energy Group (OMAEG), were present at the workshop and offered comments on the content of rules proposed pursuant to S.B. 310.

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[1] See Sections 4928.64 and 4928.66, Revised Code.

By entry dated October 15, 2014, the Commission issued draft rules relating to the above-mentioned topics, as well as a business impact analysis projecting effects of the draft rules. The Commission directed interested stakeholders to file comments on the draft rules and/or business impact analysis by November 5, 2014. Pursuant to that request, OMAEG hereby submits its comments for the Commission's consideration.

II. COMMENTS

A. A Utility's Energy Efficiency/Peak-Demand Reduction (EE/PDR) Rider Includes Costs that are Not Associated with the Cost of Utility Compliance.

S.B. 310 requires that a customer's utility bill separately list the "individual customer cost of the utility's compliance" for the renewable energy portfolio standard (RPS), the energy efficiency resource standard (EERS), and the peak demand reduction standard (PDR). Staff has proposed listing the energy efficiency/peak demand reduction (EE/PDR) rider costs to a customer's bill to meet this requirement, and to allocate costs between the EE and PDR requirements. Specifically, for the energy efficiency disclosure requirement, Staff proposed to first multiply the customer's usage by the total EE/PDR rider rate, and then either multiply the resulting amount by the costs allocated to energy efficiency compliance or by a prescribed 80 percent. For the peak demand reduction disclosure requirement, Staff proposed to first multiply the customer's usage by the total EE/PDR rider rate, and then either multiply the resulting amount by the costs allocated to peak demand reduction compliance or by a prescribed 20 percent.

While it is unclear why a two step process in necessary, basing the itemized cost of compliance on the total EE/PDR rider is not in compliance with the requirements of S.B. 310 and Section 4928.65, Revised Code, because the EE/PDR rider includes *more* than just compliance costs. Section 4928.65, Revised Code, clearly dictates that only compliance costs are to be listed on the bill. The EE/PDR rider includes costs associated with items that are not required for EE and PDR compliance pursuant to Section 4928.65, Revised Code. Most notably, the electric distribution utilities' riders include costs associated with shared savings incentives for the utilities, which is profit for the utilities that was negotiated in settlement agreements for most of the utilities. The utility riders also may contain amounts associated with lost distribution revenue, which was also negotiated for some of the utilities. These non-compliance costs are significant. For example, 24.7% of AEP's 3-year EE/PDR costs for 2012-2014 are for shared savings.[2] Similarly, 37.7% of Duke's EE/PDR costs for the most recent program year of 2013 are for the *non-compliance* costs of shared-savings and lost distribution revenue recovery.[3] Utilizing the EE/PDR rider as the basis for the calculation dramatically inflates compliance costs presented to the consumer, as well as confounding utility shareholder profit with the cost of the important customer-sited resources of EE and PDR.

B. Historic Volatility and Inconsistency in Utility Energy Efficiency/Peak-Demand Reduction Riders May Confuse Consumers as to the Cost of Utility Compliance.

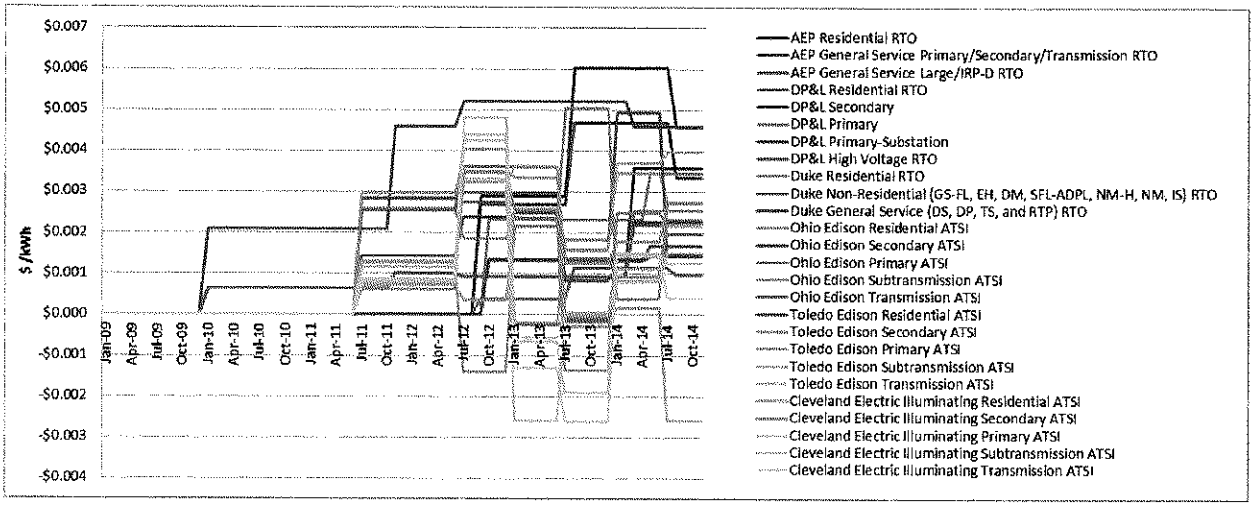
As described, Section 4928.65, Revised Code, requires that consumer bills reflect the costs of compliance for the utility as collected from customer bills. The utility's costs of compliance that are passed on to customers through the EE/PDR rider do not accurately depict a utility's actual compliance costs, apportioned to an individual customer. The EE/PDR riders have historically shown extreme volatility in some utility territories. This circumstance is owing to the fact, at least in part, that the EE/PDR rider reflects *recovery* of compliance costs, not

[2] See *In the Matter of the Application of Ohio Power Company to Update the Energy Efficiency and Peak Demand Reduction Rider*, Case No. 14-0873-EL-RDR, Application, Attachment 1, Schedules 1 and 2 (May 15, 2014).

[3] See *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue and Performance Incentives Related to its Energy Efficiency and Demand Response Programs*, Case No. 14-457-EL-RDR, Application, Attachment JEZ-1 (March 28, 2014).

actual compliance costs. The difference between recovery of rider amounts and actual compliance costs is not insignificant to consumers. EE/PDR rider costs have been shown to have spiked (most notably in FirstEnergy's service territories in fall 2012), followed by declines so steep they often result in credits to consumers (again, most notably in FirstEnergy's service territories in early 2013). The rider spikes and crashes affect consumer decisions. For example, anecdotally, many mercantile customers were informed of 2012 rider spikes and encouraged by some utilities and consultants to self-direct projects to gain rider exemption, only to forego the coming credits in 2013. Customers acting on the price signals afforded by a rider spike may have lost revenue. Figure 1 below shows EE/PDR rider values for all utilities, for all rate classes, as filed by the utilities over the period from January 2009 through October 2014. Figure 1 shows rider volatility within specific utility rate classes, and inconsistency between utilities and rate classes. Figure 1 clearly demonstrates that EE/PDR riders have historically represented a very poor apportionment of a utility's cost of compliance to an individual customer. Although some utilities and rate classes may have relatively consistent EE/PDR riders for certain durations, generally, the EE/PDR rider represents an imperfect metric of an individual customer's costs for the EE and PDR resources.

Figure 1: Utility Filed EE/PDR Rider for All Utilities, All Rate Classes



As required by Section 4928.65, Revised Code, the costs delineated on customer bills should only reflect the actual costs of compliance under Section 4928.66, Revised Code, rather than merely reflecting the EE/PDR rider amount at any given point in time.

C. The Cost of EE/PDR Compliance is an Inadequate and Incomplete Description of the Benefits and Costs of Energy Efficiency and Demand Response Resources.

Intuitively, the objective of line itemization of any cost, or energy consumption, on a utility bill would be to better inform consumers about the costs they are paying, such that they can better manage both their electricity purchasing and their electricity consumption based on this information. However, when only costs are presented, a consumer has incomplete information and may make a poor energy management decision. A fully informed decision would compare costs to benefits side-by-side, and additionally benchmark alternate investment choices for generation resources. In many cases, the utility bill is limited to informing the consumer of just costs, while excluding information on benefits and resource benchmarking. Recognizing the limitations of informing consumers through the bill, the Commission has created the Energy Choice Ohio website, which provides "apples to apples" comparisons of retail electric supply costs and product characteristics to consumers. The need for supplemental information from the Commission for consumer choice is not just limited to retail electric supply – it clearly extends to the resource.

Both the EE and PDR resources produce considerable benefits for consumers, both directly to participants of the programs, but also universally to all consumers via the Demand Response Induced Price Effect (DRIPE). DRIPE has been overwhelmingly recognized by consumers groups, utilities, state commissions, and others.[4] PJM's Independent Market Monitor (IMM) showed that eliminating DR and EE from a recent base residual auction (BRA) would have yielded an additional $9.3 billion in capacity costs for just one year.[5] The PJM IMM illustrates the financial stakes to Ohio's economy and manufacturing sector if the benefits and cost-effectiveness of PDR and EE programs are not communicated to consumers. Whether through studies of market price suppression, or regulatory cost testing, credible studies of EE and PDR programs have shown to save consumers more than they cost. In fact, AEP Ohio's most recent portfolio filing effectively illustrates this concept by showing the total resource cost of their EE/PDR programs versus other generation resources in a graph reproduced here in Figure 2.[6]

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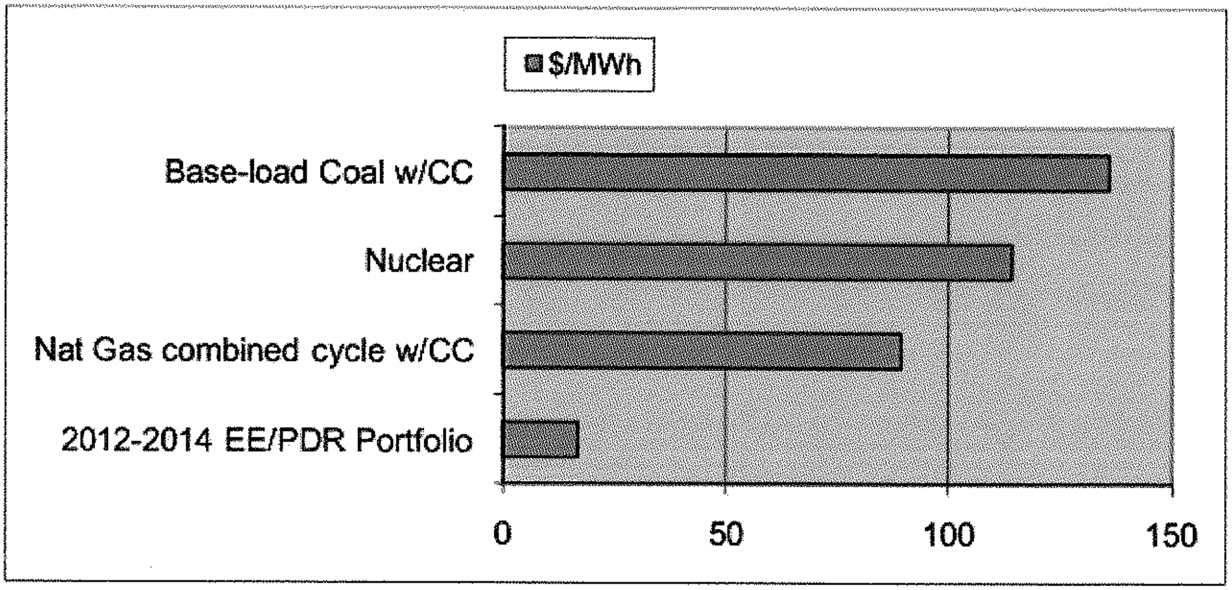
[4] Testimony of J. Richard Hornby on behalf of the Ohio Manufacturers' Association, http://www.ohiomfg.com/wp-content/uploads/2013-11-04_OMA-TESTIMONY-S.B.58-FINAL.pdf

[5] Monitoring Analytics, "The 2017/2018 RPM Base Residual Auction: Sensitivity Analyses," http://www.monitoringanalytics.com/reports/Reports/2014/IMM_20172018_RPM_BRA_Sensitivity_Analyses_20140710.pdf.

[6] AEP-Ohio 2012 to 2014 Energy Efficiency/Peak Demand Reduction Action Plan, Volume 1, Figure 1, as approved in *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of their Program Portfolio Plans and Request for Expedited Consideration*, Case Nos. 11-5568-EL-POR, et al., Finding and Order (March 21, 2012).

Figure 2: AEP-Ohio Apples-to-Apples Comparison of EE/PDR versus Other Generation Resources



D. The Commission Should Not Prescriptively Allocate EE and PDR Requirement Compliance Costs

As discussed, Section 4928.65, Revised Code, specifies that the utility's cost of compliance for the energy efficiency resource standard requirements, and the peak demand reduction requirements, be listed separately on a customer's bill. As an alternative of separating the costs of EE from PDR, Staff has proposed that all costs of the EE/PDR rider be prescriptively allocated 80% of EE/PDR rider costs to EE compliance, and the remaining 20% of costs to PDR compliance. The proposed alternative, however, does not accurately itemize compliance costs for either resource. Section 4928.65, Revised Code, specifically requires that each standard be itemized separately. Accurate itemizing of costs will lay the foundation for sound cost/benefit analysis by consumers. For example, for 3 years of AEP Ohio's EE/PDR costs, 12% of the costs come solely from interruptible tariff credits.[7] This is a substantial cost to consumers with no

[7] *In the Matter of the Application of Ohio Power Company to Update the Energy Efficiency and Peak Demand Reduction Rider*, Case No. 14-0873-EL-RDR, Application, Attachment 1, Schedules 1 and 2 (May 15, 2014).

impact on the EE standard. Although utilities, consumer groups, and many other entities have recognized the price suppression effect of demand response in wholesale capacity markets, confounding the costs of EE and DR programs confuses consumers with regard to the cost of compliance and inhibits the ability of sophisticated consumers to judge the cost effectiveness of the two resource standards.

Accordingly, the OMAEG recommends that the Commission order that interruptible tariff credits and the costs of other demand response programs be allocated specifically as a cost of the DR resource standard. Because EE programs contribute, however, both to the EE and PDR resource standards, it would be acceptable to divide program costs between the two standards. However, instead of applying a prescribed 80/20 percent allocation between the two standards, the OMAEG recommends that the Commission require the utility to determine this allocation, with supporting evidence, when the utility submits their cost of compliance metrics to the Commission for approval.

E. The Commission Should Create Supplemental Educational Materials on the Benefits and Costs of the EE and PDR Resources, with an Apples-to-Apples Comparison with Other Generation Resources

While allocating compliance costs included in the EE/PDR rider separately for the EE and PDR resource standards is appropriate, the Commission should also provide appropriate, supplemental educational materials for consumers on the benefits and costs of EE and PDR resources as compared to other electricity resources. EE and PDR resources benefit the electric grid differently; however, the way in which they benefit the grid overlaps in a manner which makes it difficult for the average consumer to weigh the benefits of the resource against the costs, if only the costs are provided. The EE resource reduces electrical energy consumption (kWh) and often also electrical demand, or capacity (kW), thereby reducing consumption and suppressing prices in both wholesale capacity and energy markets. The PDR resource most notably reduces capacity needs (kW) and thereby reduces capacity consumption and price. However, PDR can also reduce prices in wholesale energy markets during grid peaking periods. To this end, the Commission should provide supplemental information to consumers describing and quantifying the benefits of both the EE and PDR resources. This would allow consumers to better understand the benefits versus cost for each and every particular resource.

As explained previously, the EE/PDR rider is not solely the cost of utility compliance with the standards, as it includes shared savings incentives and lost revenue recovery. Thus, the proposed rules do not follow the directives of Section 4928.65, Revised Code. Additionally, the EE/PDR rider does not reflect *actual* compliance costs at the time of billing, but instead the *recovery of* compliance costs. Given the true-up mechanism embedded in the rider, recovery of compliance costs can be dramatically out of synch with actual costs, potentially confusing customers. Finally, the EE/PDR rider gives no indication of the savings benefits from these resources.

For these reasons, in addition to the modifications proposed herein, OMAEG recommends that the Commission provide supplemental information materials to consumers regarding the benefits and costs of EE and PDR resources, and as an "apples to apples" comparison with other generation resources. This supplemental information could take the form of a dedicated page on the Commission website and bill inserts. A bill message accompanying the resource compliance costs could direct consumers to the webpage for more information.

The EE/PDR programs have the lowest cost to consumers in this comparison. The Commission has an opportunity to continue its tradition of providing consumers with an "apples to apples" comparison of electricity costs and benefits so that consumers can make informed decisions. Absent this supplemental information, the proposed rules do not conform with the spirit of Section 4928.65, Revised Code, to fully disclose the actual costs of the EE and PDR standards.

III. CONCLUSION

In connection with the arguments set forth above, OMAEG respectfully requests that the Commission recognize that the EE/PDR rider imperfectly apportions utility compliance costs to the individual customers for compliance with EE and PDR resource standards, and also dramatically over-quantifies compliance costs by including in its calculation costs unrelated to compliance. Accordingly, OMAEG requests that the Commission order the inclusion of a bill message accompanying the compliance cost itemization on consumer bills, directing consumers to a Commission website with supplemental information on the benefits of EE and PDR resources, as well as an apples-to-apples comparison of EE and PDR resources versus other generation resources.

Respectfully submitted,

/s/ Kimberly W. Bojko

Kimberly W. Bojko (0069402)
Rebecca L. Hussey (0079444)
Carpenter Lipps & Leland LLP
280 Plaza, Suite 1300
280 North High Street
Columbus, Ohio 43215
Telephone: (614) 365-4100
Email: Bojko@carpenterlipps.com
Hussey@carpenterlipps.com

Counsel for OMAEG

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served upon the following parties via electronic mail on November 5, 2014.

/s/ Kimberly W. Bojko
Kimberly W. Bojko

Kyle L. Kern
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, OH 43216
Kyle.kern@occ.ohio.gov

Gregory Price
Mandy Willey Chiles
Attorney Examiners
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215
gregory.price@puc.state.oh.us
mandy.willey@puc.state.oh.us

William Wright
Ohio Attorney General's Office
Public Utilities Section
180 East Broad St., 6th Fl.
Columbus, OH 43215
william.wright@puc.state.oh.us

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Summary: Comments Comments of Ohio Manufacturers' Association Energy Group electronically filed by Ms. Cheryl A Smith on behalf of The Ohio Manufacturers' Association