

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In The Matter of the Application of Ohio )  
Edison Company, The Cleveland Electric )  
Illuminating Company, and The Toledo )  
Edison Company for Approval of Their ) Case No. 16-743-EL-POR  
Energy Efficiency and Peak Demand )  
Reduction Program Portfolio Plans for 2017 )  
through 2019. )

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**OBJECTIONS OF  
THE OHIO MANUFACTURERS' ASSOCIATION ENERGY GROUP**

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The Ohio Manufacturers' Association Energy Group (OMAEG) hereby submits its objections to the Application of the Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (the Companies) for approval of their Energy Efficiency and Peak Demand Reduction (EE/PDR) Portfolio Plans for 2017 through 2019 (POR Plans), which were filed with the Public Utilities Commission of Ohio (Commission) on April 15, 2016. OMAEG's failure to present a particular issue or objection herein should not be construed to bar OMAEG from presenting said issue or argument at hearing or in its brief.

## **I. Introduction**

On April 15, 2016, the Companies filed an application for approval of their POR Plans. The Companies state that the POR Plans were developed in accordance with Commission rules and contain a “comprehensive set of cost-effective programs” to meet or exceed statutory requirements and provisions contained in the Companies’ Stipulated ESP IV, while considering the suggestions of the Ohio Collaborative Group.<sup>1</sup> Further, the Companies have grouped the programs included in the POR Plans by service to particular customer classes, including (1) residential programs; (2) small enterprise programs; (3) mercantile-utility/large enterprise programs; and (4) government programs.<sup>2</sup>

Through the POR Plans, the Companies seek to continue to collect costs related to peak demand reduction, energy efficiency, and demand side management programs through the previously established Demand Side Management and Energy Efficiency Rider (Rider DSE).<sup>3</sup> Additionally, the Companies seek to continue to collect revenues through the shared savings mechanism, which the Companies’ state will be calculated annually on an individual electric distribution utility basis, will include the total discounted net lifetime benefits of all cost-effective energy efficiency programs as eligible for shared savings, and will be triggered only when the Companies exceed their annual and cumulative energy saving targets per year.<sup>4</sup> Pursuant to the Commission’s Opinion and Order in the Companies’ Stipulated ESP IV case, the

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<sup>1</sup> *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Company, and The Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Portfolio Plans for 2017 through 2019*, Case No. 16-743-EL-POR (April 15, 2016). The filing contains both the Companies Application and the POR Plans.

<sup>2</sup> POR Plans at 3.

<sup>3</sup> Id. at 99.

<sup>4</sup> Id at 99-100.

Companies are subject to an annual after-tax \$25 million cap on shared savings.<sup>5</sup> Finally, the Companies further contend that the POR Plans are cost-effective based on the Total Resource Cost (TRC) Test as defined in Rule 4901:1-39-01(Y), Ohio Administrative Code.

## II. Objections

### **A. The Companies' Customer Action Program should be modified as it does not pass the TRC test, does not include customer protections, and should not be included in the Companies' calculation of a shared savings incentive.**

The Companies seek to continue the Customer Action Program (CAP) established in the Companies' Amended POR Plan,<sup>6</sup> which was modified and approved by the Commission on November 20, 2014.<sup>7</sup> In approving the CAP, the Commission instructed the Companies to appropriately measure and verify any savings before counting such savings and work with its collaborative to develop more detailed information regarding implementation of the CAP.<sup>8</sup>

In the current Application and POR Plans, the Companies state that the CAP passes the TRC test as demonstrated in Appendix C-4 PUCO Tables 7A, 7C, and 7E of the POR Plans. The TRC Test is described in Rule 4901:1-39-01(Y) as follows:

"Total resource cost test" means an analysis to determine if, for an investment in energy efficiency or peak-demand reduction measure or program, on a life-cycle basis, the present value of the avoided supply costs for the periods of load reduction, valued at marginal cost, are greater than the present value of the monetary costs of the demand-side measure or program borne by both the electric utility and the participants, plus the increase in supply costs for any periods of increased load resulting directly from the

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<sup>5</sup> Id. at 100.

<sup>6</sup> The Amended POR Plan refers to the Companies' amended existing EE/PDR portfolio plans for 2015 and 2016, which the Commission approved on November 20, 2014 (Application at 3).

<sup>7</sup> *In the Matter of the Application of the Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Portfolio Plans for 2013 through 2015*, Case No. 12-2190-EL-POR, et al., Finding and Order at 5, 9 (November 20, 2014).

<sup>8</sup> Id. at 9.

measure or program adoption. \* \* \*

However, PUCO Tables 7A, 7C, and 7E incorrectly assume resource savings in the columns identified as program benefits, load reductions in kW, and MWh saved.<sup>9</sup> In reality, the CAP, by definition, does not produce any resource savings. CAP's sole function is to capture energy efficient projects that occur at the discretion of and financed by customers. The utility company plays no role in producing these savings and therefore the savings should not be captured as part of the CAP.

These independent customer actions do not produce net benefits in program years because they are already taken into consideration as part of any load-forecast. That is, customer actions are assumed to occur at a natural rate as part of any business-as-usual scenario. Net benefits from utility energy efficiency programs should be intended to account for the above business-as-usual energy savings produced by a particular program, not merely business-as-usual energy efficiency savings of customers that have already been considered in load forecasts. Given that the CAP is by definition business-as-usual actions, with no influence of the utility, the CAP has no net benefits distinguishable from the business-as-usual case.

Therefore, the Companies' proposal to collect a shared savings incentive from savings through the CAP is unjust and unreasonable and should be rejected. The Companies state that "the savings of all programs" will be used in calculating whether the Companies have exceeded their benchmarks for a specific year and have triggered the shared savings incentive mechanism.<sup>10</sup> Presumably, this would include savings from CAP. However, given that the CAP produces no net benefits and includes no action by the Companies in creating the savings, it is unjust and unreasonable to include such savings in the shared savings mechanism. To do so

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<sup>9</sup> POR Plans, Appendix C-4 PUCO Tables 7A, 7C and 7E.

<sup>10</sup> POR Plans at 100.

would allow the Companies to collect revenues from customers when the Companies had no responsibility for investing in or implementing the energy efficiency programs upon which they are claiming shared savings. This undermines the incentive of the shared savings mechanism as described by the Commission to “motivate and reward the utility for exceeding energy efficiency standards on an annual basis. As the mandated benchmark rises every year, [the utility] must continue to find ways to encourage energy efficiency.”<sup>11</sup> Here, the Companies take no actions to encourage energy efficiency through CAP and should not be rewarded through collection of shared savings.

Moreover, the Companies did not propose to collect shared savings through CAP in their Amended POR Plan. Thus, contrary to the Companies’ claims, the issue is new and the collection of a shared savings incentive on savings produced by customer actions under CAP (with no net benefits) has not been approved by the Commission.

Finally, the CAP competes with the Mercantile Self-Direct program, and, therefore, undermines customer protections. Customer actions have long been afforded recognition and protection, primarily through the Mercantile Self-Direct mechanism. Through the Mercantile Self-Direct mechanism, a customer can submit proof of energy savings resulting from its own actions and elect either a Rider DSE exemption or a cash commitment payment at 75 percent of the utility rebate value for the project.<sup>12</sup> In both of these scenarios, the Companies’ energy

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<sup>11</sup> *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, Finding and Order at 5 (May 20, 2015), reh’g pending.

<sup>12</sup> POR Plans at 73-74.

efficiency goals are modified based on customer actions, however, the Companies are not permitted to collect shared savings based on the customers' actions in either scenario.<sup>13</sup>

Through the CAP, however, the Companies may subvert the Mercantile Self-Direct program by reducing the financial benefit to customers (i.e., not paying a rebate or providing a rider exemption) while raising profits for themselves (i.e., shared savings incentive) through the use of consultant surveys of manufacturers to ascertain whether a specific manufacturer has completed an energy efficiency project within the previous year. If the manufacturer responds in the affirmative, the Companies will count the resulting energy efficiency savings that were financed by the customer, measure and verify the savings at a cost to ratepayers, and then receive a shared savings incentive on the energy efficiency project. However, the Companies are under no obligation to disclose to the customer that the customer may also benefit from the savings through the Mercantile Self-Direct program (via a rebate or rider exemption). The following table illustrates the comparison between the CAP and Mercantile Self-Direct programs:

	CAP	Mercantile Self-Direct
Customer-Action	Yes	Yes
Utility-Influenced Action	No	No
Rider Exemption Available	No	Yes
Cash Commitment Payment based on Rebate Value Available	No	Yes
Eligible for Utility Profit	Yes	No

The energy savings received from customer action programs can be achieved through the Mercantile Self-Direct program, and thus, a continuation of the CAP program is unnecessary.

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<sup>13</sup> *In the Matter of the Application of The Cleveland Electric Illuminating Company, Ohio Edison Company, and the Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Plans for 2013 through 2015*, Case No. 12-2190-EL-POR et al., Opinion and Order at 16 (March 20, 2013).

Thus, the Commission should modify the Companies' POR Plans and remove the CAP program as it provides no additional customer or system benefits. Nonetheless, if the Commission approves continuation of the CAP, the Commission should disallow any collection of a shared savings incentive on the energy savings achieved from energy efficiency projects completed by customers that were documented or captured through the CAP. Additionally, the Commission should require the Companies to disclose and inform customers of the opportunity to receive a rider exemption and/or cash rebate for its energy efficiency savings achieved through customer actions under the Mercantile Self-Direct program, and the Companies' intent to claim a shared savings incentive on any energy savings achieved by the customer's actions and reported to the Companies.

**B. The Companies' Application and POR Plans should be modified to clarify that the Companies should only receive a shared savings incentive for performance that exceeds the statutory benchmarks and to adopt new performance metrics.**

The Companies' proposed shared savings incentive mechanism includes five incentive tiers, with each tier containing a compliance percentage and associated incentive percentage.<sup>14</sup> The Commission should clarify that a shared savings incentive for performance is only available if the Companies exceed the statutory benchmarks (101 percent), not if the Companies merely meet the statutory benchmark (100 percent). Therefore, the Commission should modify the second tier and clarify that the shared savings mechanism would only be triggered if the Companies exceed the statutory benchmark, thereby establishing the compliance percentage at greater than 101 percent (instead of 100 percent).

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<sup>14</sup> POR Plans at 99.

Further, in its Stipulated ESP IV, the Companies received approval from the Commission to collect shared savings from its energy efficiency portfolio, capped at \$25 million per year after-tax.<sup>15</sup> Importantly, permitting the shared savings cap to be assessed after-tax results in approximately an additional \$10-\$15 million per year, for a more realistic shared savings cap of \$35-\$40 million annually. This additional \$10-\$15 million will be paid by customers. Therefore, it is critical that the Commission carefully review and consider whether the programs advanced by the Companies should be included in the shared savings calculation in order to protect customers and minimize the amount of additional costs collected from customers.

Finally, the Companies' proposed shared savings incentive tiers should be considered in the context of the quality of the proposed energy efficiency programs. Utilities should be encouraged to deliver low-cost energy efficiency programs that provide benefits to customers. To this end, OMAEG recommends that the Commission adopt new performance metrics for the Companies in order to achieve shared savings incentives. These performance metrics should be considered in addition to the incentive tiers, which require each utility to meet and exceed the annual statutory benchmark before being eligible for shared savings. The OMAEG recommends the following new performance metrics:

- Any above-market credits paid to the Companies through any hedging mechanism related to the wholesale market and/or affiliated generation should be subtracted from the system's energy savings that contribute to the shared savings incentives as these above-market payments deprive customers of system energy savings.

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<sup>15</sup> *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Opinion and Order at 95 (March 31, 2016).



- All capacity resources associated with eligible energy efficiency and peak demand reduction resources should be bid into the PJM capacity auctions with 100 percent of the revenue offsetting the energy efficiency rider costs. If all of the capacity resources associated with eligible energy efficiency and peak demand reduction resources are not bid into the PJM capacity auctions, the value of the price suppression effects foregone should be subtracted from the system's energy savings that contribute to the shared savings incentives.
- In addition to quantity of savings achieved, shared savings should be indexed to the cost of the programs. There is a significant discrepancy between Ohio's investor-owned utilities regarding the cost to deliver energy efficiency programs. Utilities that perform expensively receive the same profit incentive as utilities that perform cost-effectively. Because customers cannot choose which utility provides their energy efficiency programs, the Commission should account for these significant differences and encourage utilities to deliver low-cost energy efficiency programs by accounting for the cost performance in the shared savings mechanism.
- Customer satisfaction should be integrated into the shared-savings mechanism. The Commission should have the statewide evaluator conduct customer satisfaction surveys. Customer experience and satisfaction results should then be integrated into the shared-savings mechanism.

### **III. Conclusion**

OMAEG respectfully requests that the Commission determine that CAP does not produce net benefits above the business-as-usual case and remove the CAP program from the POR Plans.

OMAEG also requests that the Commission modify the Companies' POR Plans to disallow the collection of shared savings incentives through the CAP. OMAEG further requests that the Commission modify the Companies' POR Plans to clarify that a shared savings incentive for performance is only available if the Companies exceed the statutory benchmarks and to establish new performance metrics for obtaining shared savings incentives as set forth herein.

Respectfully submitted,

/s/ Danielle Ghiloni Walter  
Kimberly W. Bojko (0069402)  
Danielle Ghiloni Walter (0085245)  
Carpenter Lipps & Leland LLP  
280 Plaza, Suite 1300  
280 North High Street  
Columbus, Ohio 43215  
Telephone: (614) 365-4110  
Email: [bojko@carpenterlipps.com](mailto:bojko@carpenterlipps.com)  
[ghiloni@carpenterlipps.com](mailto:ghiloni@carpenterlipps.com)  
(willing to accept service by email)  
*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 June 14, 2016.

/s/Danielle Ghiloni Walter  
Danielle Ghiloni Walter

[Cdunn@firstenergycorp.com](mailto:Cdunn@firstenergycorp.com)  
[burkj@firstenergycorp.com](mailto:burkj@firstenergycorp.com)  
[demiraye@firstenergycorp.com](mailto:demiraye@firstenergycorp.com)  
[kjklaw@yahoo.com](mailto:kjklaw@yahoo.com)  
[mpritchard@mwncmh.com](mailto:mpritchard@mwncmh.com)  
[tdougherty@theoec.org](mailto:tdougherty@theoec.org)  
[jfinnigan@edf.org](mailto:jfinnigan@edf.org)  
[mfleisher@elpc.org](mailto:mfleisher@elpc.org)  
[cmooney@ohiopartners.org](mailto:cmooney@ohiopartners.org)  
[rdove@attorneydove.com](mailto:rdove@attorneydove.com)  
[Christopher.healey@occ.ohio.gov](mailto:Christopher.healey@occ.ohio.gov)  
[Kyle.kern@occ.ohio.gov](mailto:Kyle.kern@occ.ohio.gov)  
[ricks@ohanet.org](mailto:ricks@ohanet.org)  
[mwarnock@bricker.com](mailto:mwarnock@bricker.com)  
[dborchers@bricker.com](mailto:dborchers@bricker.com)  
[dstinson@bricker.com](mailto:dstinson@bricker.com)  
[callwein@keglerbrown.com](mailto:callwein@keglerbrown.com)  
[William.wright@ohioattorneygeneral.gov](mailto:William.wright@ohioattorneygeneral.gov)  
[Natalia.messenger@ohioattorneygeneral.gov](mailto:Natalia.messenger@ohioattorneygeneral.gov)  
[orourke@carpenterlipps.com](mailto:orourke@carpenterlipps.com)

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