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	:	Case No. 16-743-EL-POR
Company, for Approval of the Energy	:	
Efficiency and Peak Demand Reduction	:	
Program Portfolio Plans.	:	

Amended Testimony
Of
Patrick Donlon
Rates and Analysis Department

Staff Exhibit __

1. Q. Please state your name and business address.

A. My name is Patrick Donlon. My business address is 180 East Broad Street, Columbus, Ohio, 43215.

2. Q. By whom and in what capacity are you employed?

A. I am employed by The Public Utilities Commission of Ohio (PUCO) as the Director of the Rates and Analysis Department.

3. Q. How long have you been in your present position?

A. I assumed my present position in November 2014.

4. Q. What are your responsibilities in your current position?

A. In my current position, I am responsible for directing the activities of the Rates and Analysis Department of the PUCO, which generally includes department oversight on all policy matters, procedures, workload, goals, and other department activities.

5. Q. Will you describe briefly your educational and business background?

A. I received a Bachelor of Science degree in Accounting with a minor in Economics Management from Ohio Wesleyan University in 2000. In 2010, I earned a Master of Business Administration degree from Franklin University. I worked for American Electric Power (AEP) for just under ten years in two stints with the company serving in various roles. For AEP, I was an accountant in the

Generation Accounting Department; an Hourly Energy Trader for AEP focusing in the Southwestern Power Pool market; a Fuel, Emissions and Logistics Coordinator; and a financial planning analyst in Commercial Operations. I began working at the PUCO in August 2012 as Public Utilities Administrator 2 in the Rates Division of the Utilities Department. I also served as the Interim Director of the Energy and Environment Department, beginning in May 2014, until assuming my current role in November 2014.

6. Q. Have you previously provided testimony before the Public Utilities Commission of Ohio?

A. Yes, I provided testimony in various gas and electric rate cases, electric Standard Service Offer cases, and natural gas Gas Cost Recovery cases.

7. Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to propose modifications to the Stipulation filed in this case that will result in a fair outcome for participating and non-participating ratepayers of all classes within the Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company (the Companies) territories. This amended testimony replaces the previous testimony filed.

8. Q. What are the modifications to the Stipulation that Staff proposes?

A. Staff proposes that the Commission modify the stipulation in the following ways:

- The Stipulation should include a methodology for the Commission to use to control the costs of the energy efficiency and peak demand reduction programs that are developed and administered by the electric distribution utilities (EDUs). Staff is therefore proposing that the stipulation be modified to include the implementation of an overall cost cap on the program costs and shared savings incurred through the Companies' energy efficiency portfolio plan.
- On page 8 and 9 of the stipulation the signatory parties propose that the Commission approve lowering the shared savings trigger for 2017 by 14%. Staff is opposed to this dramatic change in Commission precedent, and suggests that the Commission modify the Stipulation by removing this provision.

Cost Cap Modification

9. Q. How will the cost cap be calculated?

A. The cost cap will be set by taking the annual operating revenues of the Companies for the portfolio plan year, as reported in line 10 on page 300 of each of the Companies' 2015 FERC Form 1 and multiplying each one by 3% for their individual totals.

10. Q. What does the number found on FERC Form 1, page 300, line 10 ("Line 10") represent?

A. As stated on the form, it is the operating revenues attributable to "total sales to ultimate consumers," which is a summation of the following FERC accounts:

- 440 – Residential Sales (line 2)
- 442 – Commercial and Industrial Sales (line 3 – 5)
- 444 – Public Street and Highway Lighting (line 6)
- 445 – Other Sales to Public Authorities (line 7)
- 446 – Sales to Railroads and Railways (line 8)
- 448 – Interdepartmental Sales (line 9)

Attachment 1 of my testimony is the FERC Form 1 page 300 for each Company.

11. Q. Why is Staff using Line 10?

A. Staff chose Line 10 for the following reasons:

- The number is public and readily available.
- The number is expressed in total dollars and thus is directly comparable to overall program costs and shared savings.
- Using a single number as a cost cap allows for the Companies to have more flexibility in managing their budget than a cost cap based on a percentage of specific customer bill impacts.
- Using a number that is required by FERC to be reported on a commonly used form allows for consistency amongst all the utilities in the state.

12. Q. What would be the cost cap applicable to the Companies' portfolio plan?

A. The 2015 FERC Form 1, page 300, line 10 for each of the Companies is listed in the following table, along with the 3% cost cap for each of the Companies, and the overall totals:

	FERC Form 1, Page 300, Line 10	3% Cost Cap
Ohio Edison Co.	$1,270,927,604	$38,127,828
The Cleveland Electric Illuminating Co.	$950,172,128	$28,505,164
The Toledo Edison Co.	$448,885,315	$13,466,559
Total Amounts	$2,669,985,047	$80,099,551

13. Q. In applying a 3% cost cap on program costs and shared savings, can the Companies run their energy efficiency portfolio and meet or exceed their statutory benchmark?

A. Yes, based on the Companies 2012-2014 annual status reports demonstrating achievement related to their prior compliance.

14. Q. Why is Staff proposing a cost cap that is inclusive of program costs and pre-tax shared savings?

A. While Staff believes that energy efficiency is beneficial, particularly to participating ratepayers, the costs have been escalating to the point that the rider in which energy efficiency costs are collected has become one of the highest riders on residential customers' bills. Staff supports energy efficiency measures and programs, but believes a cost cap will provide some price assurances to customers while still supporting energy efficiency and allowing the utilities to meet or exceed their statutory mandate levels.

15. Q. Why does Staff support a cost cap of 3% of Line 10?

A. Staff reviewed many options for a cost cap, searching for the most appropriate percentage and baseline. Based on the 2015 Line 10 numbers across all of the EDUs in the state, Staff evaluated that 3% would provide price security for all ratepayers, while not hindering the Companies' ability to meet or exceed their statutory benchmarks.

16. Q. Does the cost cap remain the same for each year of the portfolio plan?

A. Yes.

17. Q. What if the EDU is unable to develop a portfolio that meets the statutory requirements within the cost cap?

A. If, after making all possible adjustments, the EDU projects that it would be unable to meet the statutory requirements within the projected budget, it may request that the Commission amend its applicable benchmark, pursuant to section 4928.66(A)(2)(b) of the Revised Code. However, the EDU would not be eligible for shared savings when making such a request.

18. Q. How will the cost cap be audited?

A. Each year the Companies file an annual rider case, the Demand Side Management and Energy Efficiency (DSE) Rider, in which Staff audits the prudence of the costs incurred and included in the rider. Within that filing, the Companies will provide additional information for the audit of the cost cap. Any costs exceeding the cap will not be recovered, and any amount already collected over the cap will be refunded as a credit to customers.

19. Q. Are there any items that would offset the cost cap?

A. Yes. Revenues from PJM that the Companies receive for bidding energy efficiency into the RPM Auction and are credited back to customers through the rider can offset the overall costs of the portfolio programs.

20. Q. Do the revenues from PJM include revenues as a result of demand response?

A. No. The revenues from PJM's demand response program offset the interruptible demand response credit that is above market and does not count against the Companies' cost cap. Therefore, the revenues received should not be credited against the cost cap.

21. Q. Does a cost cap on program costs and shared savings benefit ratepayers and the public interest?

A. Yes. A cost cap on program costs and shared savings would control the cost of energy efficiency. It requires the Companies to pick the most cost effective and efficient means of achieving their benchmarks, thus avoiding unnecessary charges to customers. The Stipulation lacks a provision controlling the costs of programs and shared savings.

Shared Savings Trigger Modification

22. Q. How does the Stipulation suggest adjusting the shared savings trigger for 2017?

A. The Stipulation provides for a reduction of 14% in the shared savings trigger. The table below shows the amended shared savings trigger.

Incentive Tier	Compliance Percentage	Amended "Trigger" Compliance Percentage	Incentive Percentage
1	<= 100%	<= 86%	0.0%
2	>100-105%	>86-91%	5.0%
3	>105-110%	>91-96%	7.5%
4	>110-115%	>96-101%	10.0%
5	>115%	>101%	13.0%

23. Q. Why is staff opposed to the suggested change in Commission precedent to adjust the shared savings trigger?

A. Shared savings is a Commission-created incentive mechanism to encourage the Companies to *exceed* the state-mandated level of energy efficiency in a cost effective manner. By reducing the trigger for shared savings, the Companies will not be incentivized to exceed the state mandated level of energy efficiency. The Stipulation allows the Companies to collect shared savings from customers prior to reaching the statutory mandated level of savings. By achieving above 86% of their mandate, the Companies will be allowed to collect shared savings from customers who did not receive any additional savings from the Companies. Under the Stipulation, the Companies will be eligible to receive as much as $10 million for exceeding the mandate by only 1%, rather than 15% as proposed in the application.

24. Q. Does a reduction in the shared savings trigger benefit ratepayers and the public interest?

A. No. The Stipulation harms ratepayers by requiring them to pay the Companies up to $10 million for shared savings when ratepayers did not receive the benefit of additional savings beyond the statutory mandate. The Commission has stated, in Case No. 09-1947-EL-POR, that it "believes that incentive mechanisms, including shared savings, are an effective means of aligning the utilities' and consumers' interests in implementing energy efficiency programs."[1] By drastically reducing the shared savings trigger for 2017, the Stipulation distorts the purpose of the incentive mechanism; it no longer takes consumers' interests into account and only rewards the Companies for subpar performance on its energy efficiency programs.

25. Q. Does a reduction in the shared savings trigger violate any important regulatory principle or practice?

A. Yes. The Stipulation violates the Commission's precedent on the shared savings incentive by allowing the Companies to collect the incentive without meeting and exceeding the mandate. In Case No. 14-457-EL-RDR, the Commission noted that "the tiered incentive structure is designed to motivate and reward the utility for

[1] *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 Portfolio Plans for 2010 through 2012 and Associated Recovery Mechanism*, Case No. 09-1947-EL-POR, Opinion and Order at 15 (March 23, 2011).

exceeding energy efficiency standards on an annual basis."[2] Unless the provision lowering the shared savings trigger is removed, the Stipulation would violate that Commission policy.

26. Q. Would the shared savings cap of $10 million change based on the suggested reduction of the shared savings trigger?

A. No. Under the Stipulation, the Companies would be eligible to receive the full capped level of $10 million of shared savings in 2017. However, they would not have to achieve as much energy savings to do so.

27. Q. Without the suggested change to the shared savings trigger, is it possible for the Companies to still achieve their full capped shared savings level?

A. Yes. The Companies would still have the opportunity to achieve the full amount of the $10 million in shared savings, if they exceed the statutory benchmark to the full amount of the trigger.

28. Q. Should all programs count towards the Companies' shared savings calculation?

A. No. Consistent with the Commission Order in 14-1297-EL-SSO Fifth Entry on Rehearing (October 12, 2016, pg. 147), the Companies may not receive shared savings under the Customer Action Program.

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[2] *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).

In addition to those programs specifically excluded from the shared savings calculation in SB 310, the savings achieved from Historical Mercantile Projects and Energy Special Improvement Districts should also not be used in the shared savings calculation.

29. Q. Does this conclude your testimony?

A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true copy of the foregoing **Amended Testimony of Patrick Donlon** was served by regular U.S. mail email postage prepaid and/or electronic email, this 10th day of January 2017, on the parties listed below.

Respectfully submitted,

Natalia V. Messenger
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Toledo Edison Company, The	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2015/Q4

ELECTRIC OPERATING REVENUES (Account 400)

1. The following instructions generally apply to the annual version of these pages. Do not report quarterly data in columns (c), (e), (f), and (g). Unbilled revenues and MWH related to unbilled revenues need not be reported separately as required in the annual version of these pages.
2. Report below operating revenues for each prescribed account, and manufactured gas revenues in total.
3. Report number of customers, columns (f) and (g), on the basis of meters, in addition to the number of flat rate accounts; except that where separate meter readings are added for billing purposes, one customer should be counted for each group of meters added. The -average number of customers means the average of twelve figures at the close of each month.
4. If increases or decreases from previous period (columns (c),(e), and (g)), are not derived from previously reported figures, explain any inconsistencies in a footnote.
5. Disclose amounts of $250,000 or greater in a footnote for accounts 451, 456, and 457.2.

Line No.	Title of Account (a)	Operating Revenues Year to Date Quarterly/Annual (b)	Operating Revenues Previous year (no Quarterly) (c)
1	Sales of Electricity		
2	(440) Residential Sales	209,191,299	191,285,278
3	(442) Commercial and Industrial Sales		
4	Small (or Comm.) (See Instr. 4)	118,719,096	110,029,115
5	Large (or Ind.) (See Instr. 4)	112,943,625	116,150,827
6	(444) Public Street and Highway Lighting	8,031,295	8,783,223
7	(445) Other Sales to Public Authorities		
8	(446) Sales to Railroads and Railways		
9	(448) Interdepartmental Sales		
10	TOTAL Sales to Ultimate Consumers	448,885,315	426,248,443
11	(447) Sales for Resale	70,117,713	57,287,348
12	TOTAL Sales of Electricity	519,003,028	483,535,791
13	(Less) (449.1) Provision for Rate Refunds		
14	TOTAL Revenues Net of Prov. for Refunds	519,003,028	483,535,791
15	Other Operating Revenues		
16	(450) Forfeited Discounts	2,254,239	2,206,557
17	(451) Miscellaneous Service Revenues	380,832	1,134,258
18	(453) Sales of Water and Water Power		
19	(454) Rent from Electric Property	3,058,462	2,882,716
20	(455) Interdepartmental Rents		
21	(456) Other Electric Revenues	26,603,677	17,437,085
22	(456.1) Revenues from Transmission of Electricity of Others		
23	(457.1) Regional Control Service Revenues		
24	(457.2) Miscellaneous Revenues		
25			
26	TOTAL Other Operating Revenues	32,297,210	23,660,616
27	TOTAL Electric Operating Revenues	551,300,238	507,196,407

ATTACHMENT 1

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Cleveland Electric Illuminating Company, The	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2015/Q4

ELECTRIC OPERATING REVENUES (Account 400)

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5. Disclose amounts of $250,000 or greater in a footnote for accounts 451, 456, and 457.2.

Line No.	Title of Account (a)	Operating Revenues Year to Date Quarterly/Annual (b)	Operating Revenues Previous year (no Quarterly) (c)
1	Sales of Electricity		
2	(440) Residential Sales	422,282,243	370,746,737
3	(442) Commercial and Industrial Sales		
4	Small (or Comm.) (See Instr. 4)	381,892,290	341,363,690
5	Large (or Ind.) (See Instr. 4)	125,981,150	112,259,318
6	(444) Public Street and Highway Lighting	20,016,445	22,180,529
7	(445) Other Sales to Public Authorities		
8	(446) Sales to Railroads and Railways		
9	(448) Interdepartmental Sales		
10	TOTAL Sales to Ultimate Consumers	950,172,128	846,550,274
11	(447) Sales for Resale	3,656,982	383,528
12	TOTAL Sales of Electricity	953,829,110	846,933,802
13	(Less) (449.1) Provision for Rate Refunds		
14	TOTAL Revenues Net of Prov. for Refunds	953,829,110	846,933,802
15	Other Operating Revenues		
16	(450) Forfeited Discounts	5,495,000	5,043,588
17	(451) Miscellaneous Service Revenues	250,877	1,447,117
18	(453) Sales of Water and Water Power		
19	(454) Rent from Electric Property	3,862,727	4,319,378
20	(455) Interdepartmental Rents		
21	(456) Other Electric Revenues	-580,923	1,076,943
22	(456.1) Revenues from Transmission of Electricity of Others		
23	(457.1) Regional Control Service Revenues		
24	(457.2) Miscellaneous Revenues		
25			
26	TOTAL Other Operating Revenues	9,027,681	11,887,026
27	TOTAL Electric Operating Revenues	962,856,791	858,820,828

ATTACHMENT 2

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Ohio Edison Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2015/Q4

ELECTRIC OPERATING REVENUES (Account 400)

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5. Disclose amounts of $250,000 or greater in a footnote for accounts 451, 456, and 457.2.

Line No.	Title of Account (a)	Operating Revenues Year to Date Quarterly/Annual (b)	Operating Revenues Previous year (no Quarterly) (c)
1	Sales of Electricity		
2	(440) Residential Sales	728,148,411	643,968,775
3	(442) Commercial and Industrial Sales		
4	Small (or Comm.) (See Instr. 4)	354,706,509	313,221,698
5	Large (or Ind.) (See Instr. 4)	173,626,130	181,697,712
6	(444) Public Street and Highway Lighting	14,446,554	14,447,868
7	(445) Other Sales to Public Authorities		
8	(446) Sales to Railroads and Railways		
9	(448) Interdepartmental Sales		
10	TOTAL Sales to Ultimate Consumers	1,270,927,604	1,153,336,053
11	(447) Sales for Resale	224,406,009	218,012,078
12	TOTAL Sales of Electricity	1,495,333,613	1,371,348,131
13	(Less) (449.1) Provision for Rate Refunds		
14	TOTAL Revenues Net of Prov. for Refunds	1,495,333,613	1,371,348,131
15	Other Operating Revenues		
16	(450) Forfeited Discounts	6,532,498	5,938,537
17	(451) Miscellaneous Service Revenues	1,594,406	4,173,846
18	(453) Sales of Water and Water Power		
19	(454) Rent from Electric Property	11,347,288	11,976,883
20	(455) Interdepartmental Rents		
21	(456) Other Electric Revenues	-4,351,362	3,303,839
22	(456.1) Revenues from Transmission of Electricity of Others		
23	(457.1) Regional Control Service Revenues		
24	(457.2) Miscellaneous Revenues		
25			
26	TOTAL Other Operating Revenues	15,122,830	25,393,105
27	TOTAL Electric Operating Revenues	1,510,456,443	1,396,741,236

ATTACHMENT 3