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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO 2008 JAN 30 PM 1:42

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In the Matter of the Application of Ohio Edison :
Company, The Cleveland Electric Illuminating : Case No. 07-551-EL-AIR
Company and The Toledo Edison Company for : Case No. 07-552-EL-ATA
Authority to Increase Rates for Distribution : Case No. 07-553-EL-AAM
Service, Modify Certain Accounting Practices and : Case No. 07-554-EL-UNC
for Tariff Approvals. :

PREFILED TESTIMONY
OF
GREGORY C. SCHECK
POLICY & MARKET ANALYSIS DIVISION
UTILITIES DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO

STAFF EXHIBIT _____

January 30, 2008

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

2 A. My name is Gregory C. Scheck. I am employed by the Public Utilities
3 Commission of Ohio, 180 East Broad Street, Columbus, Ohio 43266-0573.

4

5 2. Q. What is your current position at the Commission?

6 A. I am a Utilities Specialist in the Policy and Market Analysis Division of the
7 Utilities Department. I am responsible for analyzing issues and providing
8 recommendations pertaining to demand forecasting, demand side manage-
9 ment, demand response, and advanced metering infrastructure.

10

11 3. Q. What are your qualifications as they relate to your testimony in this
12 proceeding?

13 A. I have worked at the Commission since 1985 in various capacities. Most of
14 that time I have spent reviewing and evaluating demand forecasts, demand
15 side management applications, and advanced metering issues.

16

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

18 A. I will address the Applicant's Objection II .6 and supporting testimony in
19 three parts.

20

21 The Applicant claims that the Staff "...unreasonably 1) asserts that only
22 the McKinsey Model maybe used to provide the ...the basis for listing

1 operational utility benefits when other reasonable alternatives may exist,
2 and 2) asserts that certain conclusions must be taken into account in devel-
3 oping the Rider AMI/Modern Grid and attempts to resolve issues including
4 the benefits of AMI/Modern Grid in this proceeding when such issues are
5 to be determined in Case No. 07-646-EL-UNC. In addition, the Applicants
6 contend that they should not be bound to the Staff's conclusions or com-
7 pelled to use only the Staff's benefits as an outcome of this case. The last
8 part of this objection relates to the Staff failing to provide adequate speci-
9 ficity relating to its recommendation to adopt Rider AMI/Modern Grid
10 including adequately defining the costs to be recovered through the Rider
11 AMI/Modern Grid. The Applicant claims that the following costs should
12 be considered for recovery to the extent they are not reflected in rates:

- 13
- 14 ○ The revenue requirement impact of newly installed AMI and the deploy-
15 ment of Advanced Automated Distribution Technologies less any utility
16 benefits realized
- 17 ○ Stranded investment in existing meters and other infrastructure assets that
18 that the AMI/Smart Grid would replace, and
- 19 ○ Any reduction in distribution revenues resulting from or associated with the
20 deployment of AMI/Smart grid technology.\
- 21
- 22

1 5. Q. How do you respond to the Company's objection II.6 and supporting testi-
2 mony?

3 A. I will respond to each part of the objection separately
4

5 6. Q. Did the Staff solely recommend that the McKinsey model be used to evalu-
6 ate the cost-effectiveness of Advanced Metering Infrastructure investment?

7 A. In Commission Case No. 05-1500-EL-COI that part which related to
8 Advanced Metering Infrastructure, the Staff recommended that the electric
9 utilities utilize the McKinsey model for evaluating AMI investments pri-
10 marily for 2 reasons: 1) all of the electric utilities analysis would be con-
11 ducted in a uniformed and transparent manner and 2) it is available via the
12 internet free of charge. This would provide stakeholders the opportunity to
13 actually see what operational aspects of each Company's business case
14 would be affected by the investment in AMI. The Staff also recommended
15 that an alternative evaluation model could be used if it was superior to the
16 McKinsey model and also used by each of the electric utilities.
17

18 7. Q. Did the FE electric distribution utilities submit an AMI cost/benefit analysis
19 to the Staff utilizing the McKinsey model?

20 A. Yes, the FE electric distribution utilities did submit an AMI business case
21 analysis utilizing the McKinsey model on January 7, 2008 in Commission
22 Case No. 07-646-EL-UNC.

1 8. Q. What was the purpose of Commission Case No. 07-646-EL-UNC?

2 A. The Commission directed Staff in Case No. 07-646-EL-UNC to examine in
3 more detail the issues related to Advanced Metering Infrastructure via an
4 informal Workshop process. The workshop process was in part intended to
5 evaluate the costs and benefits of AMI. Each of the electric distribution
6 utilities filed a cost/benefit analysis utilizing the McKinsey model template.
7

8 9. Q. What deficiencies does the McKinsey cost/benefit template model have?

9 A. I am aware of at least 2 categories of deficiencies. These are the failure to
10 include the customer/societal benefits related to AMI deployment as well as
11 failure of the model to include potential stranded metering costs.
12

13 10. Q. Is the Staff suggesting that these categories of deficiencies be ignored?

14 A. No, the Staff is aware of these deficiencies and has strongly encouraged
15 each of the electric distribution utilities to incorporate customer/societal
16 benefits in their analysis. Some of the customer/societal benefit categories
17 are listed in the Staff Report in this case.
18

19 11. Q. What about the issue of stranded metering investment?

20 A. There is a possibility of some stranded metering investment, if, for
21 example, existing electromechanical meters are changed out for a new solid
22 state meter before they are fully depreciated. However, since the Company

1 has submitted proposals for deploying advanced meters over a 4 year or a 7
2 year time period, the amount of stranded meter costs would be reduced.
3 Typically, a small percentage of the Companies meters will fail every year.
4 Depending on the deployment strategy of advanced meters, the Company
5 may no longer need to replace their existing meters with new electro-
6 mechanical meters. If it so happens that the Company needs to replace a
7 failed electromechanical meter with another one, the Company could utilize
8 one of the working electromechanical meters removed in the AMI rollout
9 as an interim replacement, reducing their stranded metering cost invest-
10 ment. In addition, there may exist some salvage resale value for the work-
11 ing removed electromechanical meters as well.

12
13 12. Q. Would you recommend that the Company be able to depreciate its existing
14 meters to a 10-year period because the adoption of new technologies?

15 A. I will defer to Staff witness, Mr. Kotting to more fully address this issue in
16 his testimony.

17
18 13. Q. Has the Staff come to any conclusion as to the Companies cost/benefit
19 analysis for their proposed AMI rollouts in their submittal in the 07-646-
20 EL-UNC case.

21 A. No.

1 14. Q. Is the Staff recommending any dollar amount of cost recovery in this case
2 for AMI deployment?

3 A. No. The Staff is only recommending a placeholder for a potential future
4 recovery of an AMI approved rollout as stated in the Staff Report. The
5 placeholder concept has been approved in a prior case.
6

7 15. Q. What is the other aspect that is included in the Staff's recommendation
8 regarding this issue?

9 A. In addition to operational benefits, the Companies must establish cus-
10 tomer/societal benefits to determine whether a recommendation to go for-
11 ward with an AMI plan may be justified.
12

13 16. Q. In what proceeding should the Companies file their AMI customer/societal
14 benefits associated with an AMI deployment?

15 A. The Companies should file their customer/societal benefits associated with
16 AMI deployment in Case No. 07-646-EL-UNC by June 1, 2008..
17

18 17. Q. What about the potential issue of lost distribution revenues associated with
19 Advanced Metering that the Companies have raised?

20 A. It is premature to discuss lost revenues associated with Advanced Metering,
21 since no specific plan has been filed for AMI deployment.
22

1 18. Q. Does this conclude your testimony?

2 A. Yes, it does.

3

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Gregory C. Scheck, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 30th day of January, 2008.



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