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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Adoption of)	
Rules for Alternative and Renewable)	Case No. 08-888-EL-ORD
Energy Technologies and Resources,)	
and Emission Control Reporting)	
Requirements, and Amendment of)	
Chapters 4901:5-1, 4901:5-3, 4901:5-)	
5, and 4901:5-7 of the Ohio)	
Administrative Code pursuant to)	
Chapter 4928, Revised Code to)	
Implement Senate Bill No. 221)	

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REPLY COMMENTS OF THE DAYTON POWER AND LIGHT COMPANY

I. INTRODUCTION

On August 20, 2008, the Public Utilities Commission of Ohio ("Commission") issued an Entry seeking comments on the Commission Staff's ("Staff") proposed Amendment of Chapters 4901:5-1, 4901:5-3, 4901:5-5, and 4901:5-7 of the Ohio Administrative Code and new rules in connection with Ohio Administrative Code Chapters 4901:1-39 through 4901:1-41. The Dayton Power and Light Company ("DP&L") timely filed its comments for the Commission's consideration on September 9, 2008 pursuant to that Entry. DP&L respectfully submits its reply comments below.

II. OVERVIEW AND GENERAL REPLY COMMENTS

DP&L's reply comments will address certain comments made by various other participants in the proceeding. DP&L is not attempting to file a comprehensive set of reply comments addressing each comment or proposal made by another participant. The Commission should not assume that the lack of a response to other participants'

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proposals signifies agreement or acquiesce by DP&L to such proposals or a waiver of rights should such proposals be implemented.

DP&L believes that the application of certain key principles will guide the Commission to a correct decision as it weighs many of the comments that have been submitted in this proceeding.

A. Proposals that Are Contrary to the Statute Cannot Be Implemented Through a Regulatory Process.

A number of comments have been submitted that would have been better presented to the General Assembly for consideration. No matter how earnestly offered, this is not the appropriate forum to propose provisions that are contrary to Senate Bill 221. DP&L has not prepared a comprehensive list of proposals that violate the statute, but three examples illuminate the point.

1) The Great Lakes Energy Development Task Force, on behalf of Cuyahoga County, Ohio, proposes to redefine "Renewable Energy Credits" so that four units of credits are earned for each of the first 50 megawatt-hours of energy generated by an offshore wind pilot program in Lake Erie. Such a proposal, seeking a definition uniquely defined to benefit one particular project relative to all others, could only be written into law by the General Assembly. It cannot be implemented through the regulatory process given that it is directly contrary to the requirement in SB 221 that the Commission adopt "rules specifying the one unit of credit shall equal one megawatt hour of electricity derived from renewable energy resources. R.C. Sec. 4928.65.

2) Kroger, Inc. has proposed that a state-wide non-profit company be established that would collect money from all utilities and run a comprehensive, uniform set of energy efficiency programs. Again, this is an idea that the General Assembly could

have conceivably considered and included in SB 221, but that is decidedly not the approach that the General Assembly enacted into law.

3) The Council of Smaller Enterprises (COSE) in its initial comments at 1-2, proposes to rewrite the statutory definition of a "mercantile customer" to include potentially thousands of smaller commercial customers who, individually, have electric loads too small to meet the statutory threshold of 700,000 kwh per year. COSE seeks from this the ability for these thousands of customers to qualify for exemptions from any surcharges for energy efficiency programs and to qualify for special arrangement, i.e., individualized contracts. Utilities will undoubtedly work with this sized customer to develop and implement energy efficiency and demand reduction programs. The special rules created by the General Assembly may result in drafting and executing individual contracts or the coordination of commitments made to reduce demand or energy usage. That may be administratively possible when limited to a few hundred larger customers; it simply could not be implemented across thousands of smaller customers. The Commission should reject COSE's proposal to rewrite the statutory definition of mercantile customer.

B. Regulations Should Clarify Statutory Provisions that Need Additional Clarity; Merely Paraphrasing Statutory Language Is at Best Unhelpful, and at Worst Creates Ambiguities.

DP&L agrees with some of the introductory observations made by the Competitive Suppliers group headed by Constellation NewEnergy that merely restating statutory language provides no value and to the extent slightly different phrases are used in paraphrasing statutory language, the slightly different regulatory definition creates potential ambiguities. The Commission should carefully review all proposals made to

determine first whether the statutory requirement is clear and comprehensive enough that it can be cross-referenced "as is."

However, where additional clarity is needed, the Commission should provide that clarity. It is obvious from the number of participants who submitted comments on how to calculate the three-year baseline to for determining compliance with the energy efficiency and renewable energy requirements, that the existing statutory provisions are unclear. DP&L in its initial comments at page 2-5 offered two alternatives either of which would provide a clear and understandable way to determine the baseline. The primary proposal was to compute the baseline using 2006-08 data so as to eliminate a compounding effect that would otherwise occur if an energy efficiency percent savings requirement were applied against three-year average using years that already reflected energy efficiency gains. Alternatively, DP&L proposed that adjustments be made within the computation to eliminate the compounding effects. DP&L would urge the Commission to adopt one of these proposals.

Where the proposed regulations are themselves in conflict with SB 221, the proposed regulations must be changed. For example, Rolls Royce Fuel Cell Systems and the Ohio Fuel Cell Coalition separately filed comments that correctly note that the statute does not require that the feedstock for a fuel cell be derived from renewable energy sources in order to qualify as an advanced energy resource or a Renewable energy resource. R.C. 4928.01(34)(e) and 4928.01(35). The proposed regulation stating otherwise must be modified accordingly. Similarly, Norton Energy Storage has offered what appears to be a compelling argument for its proposed amendments to ensure that the proposed regulations do not violate SB 221 and the laws of physics by requiring that

more renewable energy be produced from a compressed air storage facility than is used to put the compressed air into storage.

On the other side of the spectrum, the Commission should reject proposals that create ambiguity. The Ohio Consumer and Environmental Advocates (OCEA), for example, has rewritten the proposed definition of "Energy Efficiency" and converted it to a definition that is both inaccurate and ambiguous. Energy efficiency is, in fact, the ratio of energy output over energy input, which is how Staff has defined it in slightly different terms. OCEA actually appears to be attempting to define energy efficiency savings when it attempts to compare the energy used by a product or system to the ambiguous term "regular products or systems."

C. Rigid and Exclusive Requirements Should Not Be Imposed at the Birth of a Regulatory Process.

The OCEA has proposed a mandatory "collaborative" process that would take over and manage the energy efficiency and demand reduction programs of a utility. As noted above, Kroger, Inc. appears to go even a step further and proposes to remove the utility from the process altogether in favor of a state-wide non-profit company that would run all such programs. Neither of these approaches should be mandated.

DP&L supports a voluntary collaborative process as an approach that may enhance creativity in the development and implementation of such programs. But "mandatory" and "collaborative" are concepts at odds with each other. Establishing a mandatory process at this time is more likely to create conflict than it is to resolve it.

DP&L also notes that OCEA's mandatory collaborative proposal improperly divorces authority and responsibility. Under its proposal, the collaborative is granted all the authority to plan, develop, market, manage, operate, and evaluate the suite of energy

efficiency and demand reduction programs. However, only the utility actually pays the penalty if the targets are not met. DP&L is willing to work with OCEA and others in a voluntary collaborative way to achieve success in this area. It is unwilling to turn over complete control to a group whose members assume none of the potential burdens that can occur if success is not achieved.

The same objection applies with respect to the proposals offered by LS Power Associates, L.P and the American Wind Energy Association that would mandate the use of a Request for Proposals process for all purchases of renewable energy. While DP&L has issued a Request for Proposals to solicit bids for renewable energy and Renewable Energy Certificates, that should not be the sole tool available for pursuing the targets established by SB 221.

D. Energy Efficiency and Peak Demand Reductions
that Actually Occur Should Be Counted.

In its evaluation of various proposals regarding what is included and excluded from the computations made to determine compliance with the targets, the Commission should start from the perspective that the statutory targets are extremely aggressive. Achieving the benchmarks will be extremely difficult under the best of circumstances and proposals that would limit the options available or exclude certain savings achieved would make the targets impossible to meet. Compliance program savings will have to be obtained from any and all sources possible.

From that perspective, it is clear that Commission should reject calls by the OCC to mandate that a specific percentage of DSM program savings be derived from the residential class (OCC comments at 16). It is wrong to suggest that a DSM opportunity

should not be pursued if it happened to result in a larger share coming from the industrial class.

It is similarly clear that the Commission should reject calls by Kroger, Inc. (Initial Comments at 3-4) that "EDU's should only get credit for implementing energy efficiency and demand reduction measures that a customer does not have an economic incentive to implement, without some form of subsidy provided by the EDU." First, that position is directly contrary to a fundamental premise that drives the call for energy efficiency programs, i.e., that energy efficiency programs create benefits in excess of costs but are often not implemented due to structural barriers or lack of customer education. But, more fundamentally, the goal of this portion of SB 221 is to enhance energy efficiency for the benefit of Ohio generally -- not to punish utilities or to create rules for a game that utilities cannot win because the goal is made unachievable. SB 221 at R.C. 4928.66(A)(2)(c) explicitly provides that mercantile customer-sited energy efficacy and peak demand reduction programs are to be counted toward compliance by the utility. Kroger, Inc.'s proposal would rewrite the statute and make the benchmarks impossible to achieve.

In this same area, DP&L, in its initial comments at 9-10, provided examples and explained why proposed rule 4901:1-39-04(C)(1) should be deleted because it excludes from the compliance computation any savings that are achieved to comply with some other legal mandate that might exist now or in the future. If, for example, the State government mandated the use of compact fluorescent bulbs in all State office buildings, the savings achieved would apparently not be counted towards compliance. This in effect steals a tool from the utility that might have been one of its most cost-effective tools to

meeting the energy savings targets. It also could have the unintended consequence of forcing utilities to consider whether they should oppose any such legislative or governmental mandates.

The targets will be difficult to achieve at best; the Commission should not establish rules that make the targets unreachable by excluding savings that are actually achieved.

E. **Section 4901:1-40-01**
A Broad Definition of "Deliverable into this State" Is in the Public Interest

Duke Energy Ohio in its Initial Comments at 6 proposes that the definition of "deliverable into this state should be revised to include facilities located in MISO or PJM as long as the utility or applicable CRES provider demonstrates an available transmission path. Constellation NewEnergy makes a similar, but somewhat broader proposal: that all facilities that are interconnected to the MISO or PJM regional transmission organizations should qualify.

For reasons set forth in DP&L's initial comments at 14-17, the broader approach taken by Constellation NewEnergy is appropriate.

When a new generation facility is proposed, MISO and PJM perform interconnection studies to determine if transmission upgrades are necessary to allow the power from the generator to flow into the interstate grid. It would be a waste of Commission and utility resources to have to re-prove what is already known, i.e., that the power from the generator can be delivered throughout PJM or MISO. DP&L also urges the Commission to recognize that the statutory requirement is only that the power "could" be delivered into the State. It is in the public interest to widen the pool of potential bidders of renewable resources. Thus, the Commission should promote the

potential for utilities to acquire a lower-cost resource outside the PJM or MISO areas if the power "could" be delivered into Ohio, but without a requirement to actually execute transmission agreements for delivery. See DP&L Initial Comments at 16-17.

F. **Section 4901:1-40-01(M)**
Double-Counting Prohibitions Should Be Clarified.

Modifications should be made to the proposed rule and its prohibition against "double-counting." AMP-Ohio (Initial Comments at 3) correctly seeks clarity to ensure that this prohibition does not refer to the practice of combining RECs and energy into a bundled product. OCEA (Initial Comments at 36-37) describes the double-counting rules as "somewhat vague" and proposes to revise the definition to apply to an individual REC, whether or not bundled with electric power.

DP&L does not oppose the modifications to this rule sought by these two participants. The Commission should also modify the rule as proposed by DP&L in its initial comments at 17-18 to ensure that there is not an inadvertent conflict created in the event that both Ohio and the federal government establish renewable energy requirements. I.e., if federal requirement is created such that 10% of a utility's portfolio must be renewable, this rule should not operate to require a utility to meet a 22% Ohio standard on top of the federal 10% requirement.

G. Litigation Opportunities Should Not Be Casually Created.

Throughout its initial comments, OCEA proposes to add requirements for additional reports to be made with public notice, explicit Staff findings and reports, which all lend themselves to additional opportunities for litigation to arise before the Commission. See OCEA Initial Comments at 14-15, 18, 22, 24, 25, 58 and 81. DP&L is taking no explicit position on these proposals, but notes the potential for enormously

increased litigation and administrative burden on both the utilities and the Commission Staff. Prior to adopting any of these proposals, the Commission should evaluate them as a set and determine whether the cumulative burden of all these Staff reports, hearings and finding requirements is excessive.

IV. SPECIFIC COMMENTS

A. Sections 4901:1-39-04 (B)(1) and (2) and 4901:1-40-03(B)(1) Clarifying Amendments Are Needed to Compute the Baseline Used to Determine Compliance with Energy Efficiency, Demand Reduction and Renewable Energy Resource Targets.

In its Initial Comments, DP&L proposed amendments to proposed rules 4901:1-39-04(B)(1) and (2) and 4901:1-40-03(B)(1) that would clarify how to compute these baselines and eliminate a compounding effect that would otherwise make the targets virtually impossible to meet. DP&L Initial Comments at 2-5 and 20. A number of other commenters noted as well that the proposed rules were unclear and/or made recommendations for modifying these sections. See Duke Energy Initial Comments at 3 and 8-9 (“The wording of these sections is unclear.”); Ohio Environmental Council (“OEC”) Initial Comments at 12-13 (“... the description of the baseline for peak demand reduction is inconsistent with the language of the underlying statute.”); OCEA Initial Comments at 12 “The language in Senate Bill 221 concerning the peak demand baseline could be interpreted several ways.”

DP&L recommends that the Commission adopt DP&L’s proposed modifications to clarify the computational method that is to be used to establish these baselines. The OCEA and OEC correctly note the existence of a problem, but their proposed modifications do not resolve the compounding effect described by DP&L in its initial comments.

B. Section 4901:1-39-04(B)(4).
The "Exhaustion" Standard for
Adjustments to the Benchmarks Is Unworkable.

The Ohio Energy Group in Initial Comments at 1-2 notes that the standard within SB 221 for a utility seeking an amendment to a benchmark is a "reasonableness test" but the proposed rule 4901:1-39-04(B)(4) improperly converts that into a "physical impossibility test" by requiring proof that the utility has exhausted all compliance options. DP&L agrees. The Ohio Energy Group has proposed to insert the word "reasonable" between "exhausted all."

While the Ohio Energy Group's proposal is certainly an improvement, it does not go far enough. The statute does not require exhaustion, only that the adjustment is necessary because it could not reasonably be achieved. DP&L would recommend that the Commission modify the last sentence of this rule (B)(4) to read "In any such proposal, the electric utility shall demonstrate that it cannot reasonably achieve the benchmarks due to regulatory, economic, or technological reasons beyond its reasonable control."

C. Section 4901:1-39-04(B)(7).
The Phrase "Market Valuation" Should Be Deleted.

Duke Energy Ohio correctly notes in its initial comments at 4 that the phrase "market valuation" is unknown and that it is not clear how one could even address the topic unless there is an unspoken intent to require market potential studies to be performed. DP&L agrees and recommends deletion of that term. The purpose of the rule is to require a report that would attempt to quantify the size of the demand reduction and energy efficiency opportunities that may exist. Trying to develop a "market value" for

those opportunities is likely to require a host of debatable assumptions to be made, resulting in a report that itself has no market value.

D. **New Section 4901:1-04(B)(8)**
Over-compliance in the Prior Year
Should Count Toward the Current Benchmark.

Columbus Southern Power and Ohio Edison ("AEP Companies") in initial comments at 4 present a well-reasoned explanation of why the Commission should permit the equivalent of "banking" so that over-compliance in one year can count toward the benchmark in the subsequent years. DP&L agrees and recommends that the Commission adopt a new regulation:

"An electric utility may use any energy efficiency or peak demand reduction amount that exceeded the benchmark in the previous year to count toward the utility's compliance with the current year benchmark."

E. **Section 4901:1-39-05**
The Recovery Mechanism Should Be Consistent with the Statute

The Commission should reject the proposal made by Kroger, Inc. (Initial Comments at 6-7) to preclude recovery of costs for energy efficiency and demand reduction programs except through a "normal" rate case proceeding. SB 221 added R.C. section 4928.143(D) which explicitly authorizes an approval process for the incremental recovery or deferral of costs that are not being recovered under the rate plan. Kroger, Inc.'s recommendation is inconsistent with the statute and should be rejected. DP&L would further recommend, as it did in its Initial Comments at 10-11, that the Commission eliminate the provision in Staff's proposed rule that improperly ties the incremental recovery of such costs, (which will necessarily be incurred as early as 2009) to an

approval of long term forecast and benchmark reports that will not even be filed until much later.

The Industrial Energy Users (Initial Comments at 7) suggest that the portion of this proposed rule excluding that portion of costs associated with reliability should be modified to preclude double recovery of costs. DP&L agrees. When there is a single project that provides both energy efficiency and reliability benefits, a proposed rule that attempts to allocate the costs between the two benefits will only spur litigation and conflict. Instead, the rule should be reformulated to permit the recovery of the costs through the incremental mechanism permitted by SB 221 and, to the extent recovered through that mechanism, to exclude such costs from the utilities next base rate case proceeding.

F. **Section 4901:1-40-01 Definitions**
How Green Is Green?

DP&L urges the Commission to reject proposals by various commenters who appear to want to continue the legislative battle over what kinds of technologies should be considered to be green enough or advanced enough to count toward the renewable energy or advanced energy targets. Vertus Technologies, Initial Comments at 2-3, for example proposes that the Commission define "biomass energy" using a definition that was created in Massachusetts so as to eliminate the possibility that food crops and trees are considered to be qualifying sources of biomass energy. OCEA, Initial Comments at 39-40, urges the use of a standard that is in a federal statute so that undeveloped land and federal lands are not used to create renewable biomass resources. Without debating the merits of either of these proposals, DP&L would note that the General Assembly heard these and similar arguments over several months. Ultimately, the General Assembly

made its own determinations of what should be included within the definition of biomass energy and chose not to adopt the kinds of restrictions suggested by Vertus and OCEA. The Commission should uphold the statute and reject these contrary proposals.

For similar reasons, the proposal by Global Energy (Initial Comments at 2) that "clean coal" can only include projects with sequestration should be rejected. There is, for example, no statutory requirement making sequestration mandatory. OCEA (Initial Comments at 33-24) proposes that clean coal technologies be defined as it has been defined in Illinois, and thus suggests language that includes specific percentage limitations on carbon emission that vary year by year. DP&L suggests that prior to such a schedule of targets being adopted, the Commission will need to develop a more extensive record.

The Commission is equally responsible, however, to ensure that Staff's proposed definitions do not remain in place if they also rewrite the standards more narrowly than provided by SB 221. As previously discussed in these Reply Comments, the statutory definition of fuel cells does not require that the feedstock come from renewable resources and, thus, Rolls Royce Fuel Cell Systems and the Ohio Fuel Cell Coalition correctly propose modifications to the proposed rule to eliminate this new requirement improperly added by Staff.

G. **Section 4901:1-40-03(B)(2)(b)**
Baseline Sales for New Entrants.

DP&L agrees with the comments filed by Constellation NewEnergy (Initial Comments at 4-5) that this proposed rule creates an unwarranted competitive advantage for new CRES providers relative to existing CRES providers. DP&L, however, does not understand the effect or how to apply Constellation NewEnergy's proposal to grandfather

existing contracts of existing CRES providers for purposes of establishing their baseline requirements. DP&L, in its initial comments at 20-21, proposed that new CRES providers have requirements established based on their projected sales until they have three years of experience.

H. **OCEA Proposed Section 4901:1-40-03(B)(4)**
Discounting RECs

OCEA (Initial Comments at 43) has proposed the equivalent of a discount for any REC that is counted toward compliance with the renewable standard. OCEA would reduce the quantity of the REC by an amount equal to the transmission and distribution losses on the theory that the REC is created at a generation bus-bar and compliance is measured based on retail sales. This interpretation is contrary to the statute which makes RECs one-for-one equivalent to energy produced from a renewable resource. R.C. 4928.65 provides that "The public service commission shall adopt rules specifying that one unit of credit shall equal one megawatt hour of electricity derived from renewable energy resources."

I. **Section 4901:1-40-04(B)**
Advanced Energy Resource Definition

Without waiving or appearing to acquiesce in the many other modifications proposed to this section by other participants, DP&L would note that there is no basis in the statute for OCEA's proposal (Initial Comments at 45) that an increase in generation capacity must be accompanied by a decrease in total annual carbon dioxide emissions. SB 221 clearly states a policy that the efficacy be achieved without additional carbon dioxide emissions. R.C. 4928.01(A)(34)(a). There is no requirement that a decrease occur.

J. **Section 4901:1-40-04(D)(3)**
REC Banking Provision

DP&L opposes OCEA's proposal (Initial Comments at 46-47) to rewrite the statutory limit on the banking and later use of RECs that are acquired to meet the renewable energy resources target. The statute specifies that such purchased RECs can be used for up to five years after purchase. OCEA would rewrite that provision to look to the date the REC was created by the generator.

K. **Section 4901:1-40-06**
Force Majeure Provision

Modifications have been proposed by OCEA and others to Staff's proposed rule on force majeure. DP&L generally supports the Staff's version that, in DP&L's view, gives the Commission sufficient authority to declare what is and is not a force majeure based on the circumstances that present themselves at the time the issue arises. OCEA and others appear to be trying to more narrowly define the set of circumstances that will apply in ways that themselves may create interpretative problems in the future. For example, OCEA (Initial Comments at 50-52) includes a requirement that the inability to meet the requirement arises out of circumstances "not reasonably foreseeable." DP&L would submit that the possibility already is apparent to everyone that renewable energy markets might not develop quickly enough to meet the targets. Does that mean that this is an event that is reasonably foreseeable and therefore not a force majeure event? DP&L supports the language proposed by Staff in this subsection.

L. **Section 4901:1-40-07**
Cost Cap Provisions.

DP&L supports comments made by Cleveland Illuminating (Initial Comments at 18) and others that the proposed rule as written appears to inappropriately convert the 3% cost cap in the statute into a 6% cost cap by creating two separate sections, each with a 3% cost cap.

American Wind Energy Association (Initial Comments at 19-20) and OCEA (Initial Comments at 54-55) have proposed to delete subsection 1-40-07(D), which states that the Commission may exclude from the computation of the cap costs those projects approved by the Commission and recovered through a non-bypassable surcharge. In contrast, Greenfield Steam and Electric Company (Initial Comments at 1) propose that the word "may" in this subsection be changed to "shall." DP&L believes that the American Wind Energy Association and OCEA have misinterpreted the provision. Their arguments appear to assume that clean coal technology is a conventional energy cost and that when the costs of alternative energy are compared with conventional energy (after excluding the clean coal technology costs), the 3% cap will be triggered prematurely. DP&L views this provision from exactly the opposite perspective recognizing that clean coal technology is not a conventional energy technology. This provision appears to allow the Commission to use a public policy-based discretionary authority to approve a non-bypassable surcharge for the recovery of costs associated with a clean coal plant without those costs counting against the 3% cap. It thus promotes, not discourages, advanced and renewable energy resources. DP&L supports this proposed subsection without modification.

DP&L opposes the suggestion made by the Industrial Energy Users Group (Initial Comments at 15) that the 3% cost cap be applied such that customer-sited projects get first priority. It is not in the public interest to give priority to a customer-sited project that is higher cost and/or is of lower reliability than a competing project.

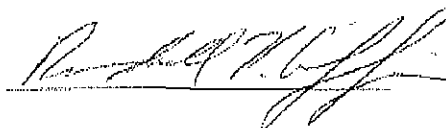
M. **Section 4901:5-5-01**
Integrated Resource Plans

DP&L opposes the use of the term "least cost, least risk," which is used in several instances in modifications proposed by OCEA. Those terms are often mutually exclusive. Instead, DP&L would propose the use of a term such as "lowest reasonable cost taking into consideration reliability of supply and other risks."

V. CONCLUSION

The Dayton Power and Light Company appreciates the opportunity to reply to the initial comments submitted by other stakeholders and strongly urges the Commission to modify Staff's proposed regulations consistent with the proposals set forth in DP&L's initial comments and here.

Respectfully submitted,



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