BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of Protocols for the Measurement and Verification of Energy Efficiency and Peak Demand Reduction Measures.	Case No. 09-512-GE-UNC

Comments to Appendix C
Policy Issues Regarding Cost and Avoided Cost
for the Total Resource Cost Test in Ohio Electricity Programs

I. INTRODUCTION

By Entry dated October 15, 2009, the Public Utilities Commission of Ohio ("Commission") identified and described policy questions arising from the implementation of the Total Resource Cost ("TRC") test in Ohio and proposed provisional recommendations for how such questions should be resolved in the context of developing the Technical Reference Manual ("TRM"). This Entry directed interested persons who wish to comment on the policy questions and proposed recommendations or propose other policy considerations with respect to the implementation of the TRC test to file comments in this docket no later than November 10, 2009.

Come now Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company (collectively, the "Companies"), by counsel, and, in compliance with the October 15th Entry, respectfully submit their comments to Exhibit C. The Companies appreciate the opportunity to submit these comments. Amended Substitute Senate Bill Number 221 ("SB 221") will require utilities to spend a significant amount of resources with no specified cost cap. That being said, it is imperative that a variety of cost tests are examined, and that energy efficiency measures are objectively evaluated against other resource options that are available. The Companies request the Commission consider their responses and comments and appropriately reflect such comments in the development of a TRM that meets each of the Commission's stated objectives: 1) faster development and review of proposed utility plans; 2) less regulatory uncertainty on cost-effectiveness provisions of SB 221; 3) comparability between utilities results; and 4) transparency for stakeholders and the public.

II. COMMENTS TO APPENDIX C

A. Cost Effectiveness Evaluation

The Commission posed the question "Should the Commission consider secondary cost-effectiveness tests in addition to the TRC?" The Companies believe that the Commission should consider, and provide for, secondary cost-effectiveness tests. Any prescriptive test has its limitations. As the Commission has noted the TRC test does not "provide any information regarding whether the portfolio, program, or measure is cost-effective from the perspective of an individual program participant, the sponsoring utility, or rate-payers who are not participating in the program." Setting aside whether all parties would agree with this particular critique of the TRC test, most parties would agree that the TRC test is not perfect, nor is any other known test, including the Ratepayer Impact Measure (RIM) or the Utility Cost Test (UCT). However, each of these tests offers its own view based on different stakeholder perspectives. At this stage of the process, we should continue to evaluate each of these test, and only as all parties gain more knowledge and experience with the significance of the results should a decision be made as to which test should be used to determine true cost-effectiveness and proper evaluation of all resource options.

a. Discount Rate

i. Use of After-Tax Weighted Average Cost of Capital

The Commission states that a significant driver of overall cost-effectiveness of energy efficiency is the discount rate assumption. The Companies agree. However, the Companies do not agree that it is appropriate to use the Companies after-tax weighted average cost of capital ("WACC"). It is important to recognize that energy efficiency is a very different type of "investment". Unlike other investments where the Companies maintain an asset as a result of the investment, there is no comparable asset with respect to energy efficiency. Thus, the Companies do not currently have a WACC that is appropriate for energy efficiency investments. The discount rate should be specifically designed for such investments, and include a risk adjusted cost of capital.

ii. Two Year Treasury Bond Rate

The Commission proposes to use the two year treasury bond rate for residential customers and the WACC for commercial and industrial customers when performing the program administrator cost ("PAC") test.[1] The Companies believe it is inappropriate to use the two year treasury bond rate for any class of customers. As the Commission noted, the discount rate assumption is a significant driver of the overall cost-effectiveness of energy efficiency. The use of a risk free rate grossly distorts the cost-effectiveness evaluation. The PCT test is based on participants' perspective, and thus, participant cost of borrowing money should be used.

b. Expected Useful Life

[1] We believe the participant cost test (PCT) was meant to be included in this section, rather than the PAC test, and our response is based upon this fact.

We generally agree with provisional recommendation #3. However, the Companies believe that the TRM must specify the useful life that should be used for calculations, unless there is justification for using alternative values on a case by case basis.

c. Utility and Program Costs

Provisional Recommendation #4b sets forth a very complex and confusing calculation that inappropriately departs from the generally accepted net present value ("NPV") calculation. The energy efficiency investment would be made upfront, and thus cost should not be levelized. Provisional recommendation #4b is not consistent with how investment analysis should be performed and should not be utilized. The Companies recommend the utilization of a simple NPV calculation.

d. Avoided Energy Costs

The Commission in provisional recommendation #8a correctly states that Ohio utilities do not neatly fit into a regulated or deregulated category. However, the Commission's provisional recommendation #8a to deem a utility's electrical energy component cost for the purpose of the TRC (or selected secondary test) as the energy cost embedded in the utility's respective standard service offer, including any POLR or standby component is not appropriate and inconsistent with provisional recommendation #7. Specifically, the POLR component in the Companies' standard service offer is one rate across all hours and is inappropriate to be used for the TRC test. A utility's electrical energy component cost for the purpose of the TRC test should reflect time-differentiated avoided cost (with and without energy efficiency).

It is difficult to comment on provisional recommendation #8b because it is unclear what is being delivered. Notwithstanding, we generally agree that a publicly available data set should be used, which could be provided by a third party to market participants. However, we believe that this forecast should include a locational basis specific to the utility. Additionally, as such forecasts are generally not given in hourly increments, a utility specific load shape should be incorporated to reflect time specific avoided energy costs.

In provisional recommendation #8c the Commission proposes a blend of a utility's most recent standard service offer and its forecasted bid price in the following prescribed proportion: 1) year one 90% /10%; year two 80%/20%; year three 70%/30%; year four 60%/40%; year five 50%/50%; year six 40%/60%; year seven 30%/70%; year eight 20%/80%; year nine 10%/90%; and for year ten and beyond the forecasted bid price. First, the Commission assumes that there is a forecasted bid price -- no such forecasted bid price exists. Second, this prescribed formula is completely unsubstantiated. Moreover, the prescribed formula does not attempt to reflect the true avoided cost. Although, it may be expedient to create such a formulaic approach, without data on how the percentages were selected and proper justification on the validity of the approach, this approach is improper. The Companies recommend that this provision be removed.

We agree with Commission provisional recommendation #9 in that ancillary costs should be included in the avoided cost calculation, however we disagree with the proposed derivation. Values should be based on market ancillary costs, consistent with our comments noted above.

In provisional recommendations #10a the Commission proposes including a CO2 component as an avoided energy cost. In provisional recommendation #10b the Commission proposes a precise amount for such CO2 component. The Companies believe that both the setting of a CO2 component and the establishing of a precise amount for the CO2 component is premature. Although, legislators continue to debate the need for, and value of a CO2 requirement, the fact remains that there is no current CO2 requirement. It is not appropriate to include a CO2 requirement, until such time that there is a CO2 requirement and the effects of such requirement may be critically evaluated.

In response to provisional recommendation #11, it would be very difficult for utilities to properly account for alternative energy benchmark costs as there is an inherent lag created by basing the utility's alternative energy requirement on the utility's rolling three year average SSO sales (impacts of percentage of customers shopping). Moreover, the alternative energy market in Ohio is not liquid.

In response to provisional recommendation #12, the Companies are confused with the language pertaining to the "market hub". The market hub reflects transmission, not distribution losses. Losses should only be included to the extent that they are not included in locational marginal pricing.

In response to provisional recommendation #13, the Commission proposes that utilities not include any hedging component in the avoided energy calculation for the TRC (or any secondary) test. The Companies strongly oppose this recommendation.

Hedging costs are a true cost to rate payers, and should be included in the avoided cost calculations.

In response to provisional recommendations #14a and #14b, the Companies believe that avoided capacity costs, consistent with our assumptions for avoided energy costs, should be based on market forecasts not the SSO price. Furthermore, even if a utility did attempt to base avoided capacity costs on the SSO price, such SSO price is often a full requirements price (which includes the capacity costs embedded in the energy costs), and thus such information would not be available.

III. CONCLUSION

For the reasons stated above, the Companies appreciate the opportunity to submit these comments and request the Commission consider their input and appropriately reflect such comments in the development of the TRM.

Respectfully submitted,

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