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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Application of Ohio)	
Edison Company, The Cleveland Electric)	Case No. 09-1820-EL-ATA
Illuminating Company and The Toledo Edison)	Case No. 09-1821-EL-GRD
Company for Approval of Ohio Site)	Case No. 09-1822-EL-EEC
Deployment of the Smart Grid Modernization)	Case No. 09-1823-EL-AAM
Initiative and Timely Recovery of Associated)	
Costs.)	

INITIAL COMMENTS OF
OHIO PARTNERS FOR AFFORDABLE ENERGY

Ohio Partners for Affordable Energy ("OPAE") hereby submits its initial comments to the Application in the above-captioned cases. The Applications of the Ohio Edison Company, The Cleveland Electric Illuminating Company ("CEI"), and the Toledo Edison Company (collectively, "FirstEnergy" or "Companies") request approval for a smart grid plan and the collection of costs and lost revenues associated with the deployment of the proposed pilot project.

Introduction

On March 25, 2009, the Public Utilities Commission of Ohio ("PUCO" or "Commission") approved a Stipulation and Recommendation in Case No. 08-935-EL-SSO, *et seq.*, approving an Electric Security Plan (ESP) for FirstEnergy. In that Stipulation, the Companies abandoned a proposed smart grid plan, and instead committed to developing a new plan in concert with an application for funding made available to utilities under the American Reinvestment and Recovery Act ("ARRA").¹

Prior to approval of the ESP decision, the Opinion and Order in Case No. 07-551-EL-AIR, *et seq.*, and a May 21, 2009, Entry in Case No. 07-646-EL-UNC,

¹ Smart grid is a generic term for transmission and distribution automation which make those systems more efficient and reliable, and advanced metering which allegedly will permit customers to save money by shifting and controlling usage.

imposed a requirement that FirstEnergy submit a preliminary report on Advanced Metering Infrastructure and Smart Grid Technology. A supplemental report was subsequently filed on August 14, 2009. This supplemental report included an application prepared by the Company, after consultation with Staff and according to FirstEnergy, the Office of the Ohio Consumers' Counsel, which was submitted to the U.S. Department of Energy ("DOE") for funding under the ARRA.²

FirstEnergy was awarded funding under the ARRA's Smart Grid Modernization Initiative -- \$57 million of taxpayer money in total, of which \$36 million will be spent in Ohio. The Companies are now requesting approval of the plan, including collection of the fifty percent match required by the federal grant award and lost revenues. The decision in this docket will define the nature and level of costs that will be recovered from ratepayers.

Comments

FirstEnergy characterizes the distribution automation and advanced metering infrastructure proposal (collectively "smart grid") as a pilot. The description indicates that it will deploy various aspects of a smart grid across three operating companies in Ohio, Pennsylvania, and New Jersey in order to "analyze full-system life-cycle costs and benefits to justify recovery of investments (which is essential to the evaluation of whether to expand deployment....)" Application at 2. As a part of this process, FirstEnergy will "evaluate the associated benefits to customers and the environment." *Id.*

OPAE supports characterization of the smart grid proposal as a pilot. There are significant questions about the efficacy of smart grid; can it deliver on the

² See *Comments in Response to the Office of the Ohio Consumers' Counsel comments on FirstEnergy's Application Related to a Pilot Program for Deployment of Smart Grid, Smart Meters and Peak-Time Rebate Pricing and Collection of Costs from Customers*, Case No. 09-1820-EL-ATA (December 21, 2009) at 2. ("FE Comments")

extravagant promises of its proponents? It is important that FirstEnergy carefully evaluate the pilot deployment in consultation with the parties. In particular, the priority should be to ascertain whether the savings to customers justifies the large increase in customer bills associated with smart grid deployment. An accurate cost-benefit analysis is critical. In order to determine the cost-effectiveness of the proposal, the analysis should begin with the Technical Resource Manual, the monitoring and verification tool under development in Case No. 09-512-GE-UNC. Cost effectiveness should be reviewed with the same rigor as other energy efficiency and demand reduction programs. The Project Plan, Exhibit B to the Application, projects a "Go/No Go Decision" on the deployment of an additional 39,000 meters just over a year and a half into the project. Project Plan at 2. Prior to that time, the Companies should work with interested parties to develop appropriate metrics and deployment should not go forward without a separate proceeding. Any additional deployment of smart meters which will burden customers with higher costs -- \$36.5 million -- must be specifically approved by the Commission.³ Project Plan at 37.

OPAE generally supports several components of the project: distribution automation; voltage controllers; and, substation relay-based protective strategies. Distribution automation and related measures should improve reliability and reduce losses, which will reduce energy usage and peak. The Application notes that these savings will be used to meet the benchmarks required by SB 221. What it does not do is provide a mechanism for these savings to be returned to customers to offset cost increases resulting from the pilot.

Cost recovery is the most significant issue for consumers associated with the Application. There is little definition of what costs will be recovered from customers

³ Based on the information provided in the Application, deploying the full 44,000 advanced meters will cost \$41.2 million or roughly \$936 apiece. This is approximately double the cost of meters included in the initial proposal of The Dayton Power and Light Company.

and what will be paid for by the federal grant. There is no information in the Application to permit interveners to determine whether some of the costs associated with the pilot program are already covered by initial base rates. For example, FirstEnergy recently had new base rates approved in Case No. 07-551-EL-AIR, *et seq.*, which included significant funding for distribution system upgrades. To what extent can or should the costs associated with the smart grid plan be offset by funding already in rates? Counting funds in existing base rates is as effective as a match for the federal funding as new customer revenues. In addition, the Application includes \$7 million for Project Management across all the three FirstEnergy operating companies. What percentage of these charges will be allocated to Ohio jurisdictional ratepayers and, again, what portion of these costs are already included in base rates? FirstEnergy has management staff that is already paid for in rates. Why should customers pay for the same person twice?

Equally troublesome is the lack of detail regarding how savings generated from the pilot by reductions in peak demand and increased efficiency as a result of the distribution automation components of the project will pass through to customers. Generation costs should be reduced to reflect lower peak demand and reduced line losses. There is also no provision to pass through reduced meter reading costs through netting with the recovery request.

FirstEnergy also requests it be authorized to collect lost revenues resulting from the peak time rebate and lost distribution revenues from CEI customers. Taking the latter first, the Application provides no framework for determining the amount of lost distribution revenues. While it proposes establishing a baseline constituting the usage over the previous five days, there is no indication that this is an appropriate baseline; after all, if you don't like the weather in Ohio, simply wait 15 minutes and it will change. Moreover, the Application seems to assume that the

reduction in distribution revenues caused by peak demand reductions is not offset when customers shift usage to another time of day. At a minimum, there should be no recovery of lost distribution revenues when there is an offsetting increase in use off-peak. Since this will be very difficult to calculate, OPAE recommends that FirstEnergy forego collection of lost distribution revenue during this pilot phase. That will permit the pilot to establish appropriate measurement approaches to determine lost revenue.

OPAE also opposes collection of lost revenue, at least during this pilot phase. The credit provided customers is reducing costs for the third-party generation suppliers, not CEI, and frees up capacity that can be sold into the wholesale market. If there is any collection of lost revenue, the third party suppliers should be required to rebate the value of the reductions in capacity and energy resulting from the pilot since they can offset any losses by selling the power and capacity made available through customer actions. This can be used to offset the costs associated with the peak time rebate. The Commission should not approve proposed Rider PTR in this proceeding, and delay lost revenue collection until a broader deployment is authorized.

Finally, the Application does not include deployment of "edge of network" devices; i.e., the equipment in customers' homes that permits changes in usage in response to price signals. The Application refers to providing data to customers, but provides no detail on the type of HAN which customers will be required to invest in and install.⁴ Likewise, there is no detail how direct load controllers will be used and there are no subsidies for customers who wish to invest in appliances that can be controlled through the HAN. It is impossible to understand how FirstEnergy expects

⁴ If customers must make investments to participate, the pilot will be flawed because only customers that are entranced by the new technology will install the equipment. It will not be a representative sample.

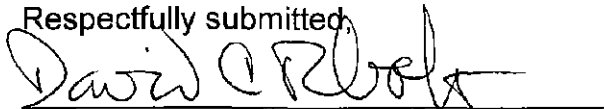
the smart meters to generate savings when there is no interface available to consumers.

Conclusion

The promise of smart grid is a more efficient and reliable system which reduces peak use and energy consumption. This should translate into lower bills for all customers as well as those that participate in the peak demand reduction program. Consumers are missing from the cost-benefit calculations in this Application. The focus of the pilot seems to be to have ratepayers and taxpayers pay for the implementation, with the Companies collecting all its costs and lost revenue. Only those participating in the pilot would see reductions in bills, and even they will pay part of the costs of the rebates.

Smart grid deployment should not result in an increase in costs for customers if it is truly beneficial. Establishing a precedent that utilities are made whole – and in fact enriched – at the expense of customers is the wrong way to go as Ohio tries to emerge from the current economic disaster and retool for the future.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Comments was served by regular U.S. Mail upon the following parties identified below in these cases on this 13th day of January 2010.



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