FAX

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 Company for Approval of a New Rider and Revision of an Existing Rider.	)	Case No. 10-176-EL-ATA

OHIO PARTNERS FOR AFFORDABLE ENERGY'S POST-HEARING BRIEF

I. Introduction

Ohio Partners for Affordable Energy ("OPAE") hereby submits its post-hearing brief to the Public Utilities Commission of Ohio ("Commission") in this proceeding concerning the February 12, 2010 application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (together "FirstEnergy") for approval of a new credit rider and revisions to an existing rider. This proceeding arises from the problem during the 2009-2010 heating season that the full impact of increases to all-electric residential rates from both a distribution rate case and an electric security plan ("ESP") case were felt. Many all-electric residential customers encountered significant increases in their bills. Thus, the application of the FirstEnergy companies proposed to implement a new credit, designated as Rider RGC ("residential generation credit"), for all-electric residential customers to be applied during the winter billing periods and designed to be phased out over a period of approximately eight years.

On March 3, 2010, the Commission approved FirstEnergy's application but, as clarified on April 15, 2010, the rate relief provided by the RGC was to remain in effect only through the 2010-2011 winter heating season. The Commission stated that the RGC was not a long-term solution to the problem of increasing rates for all-electric residential customers and directed the Commission's Staff to prepare a range of options regarding rates and credits to be provided to all-electric residential customers. The Staff was also to include a range of options for the recovery of the revenue shortfall resulting from the credits provided to all-electric customers.

On September 24, 2010, the Staff filed its report in this docket. The Staff Report outlined six different options for the continuation, reduction or elimination of the RGC provided to all-electric customers as well as the bill impacts for each option. One of the Staff's options included higher fixed distribution charges accompanied by lower volumetric charges, a rate design known as the straight fixed variable ("SFV") rate design. OPAE has long opposed a SFV rate design in natural gas proceedings before the Commission because such a rate design is harmful to low-use, low-income consumers who rely on energy efficiency to reduce their bills. A SFV rate design discourages and even frustrates efforts of customers to reduce their bills through energy efficiency and conservation. OPAE does not consider the SFV rate design to be an appropriate solution to the problem presented in this case. Staff witness Robert B. Fortney presented the recommendations of the Staff in his pre-filed testimony. The Staff made no further recommendations regarding a SFV rate design and no party to this proceeding has recommended the SFV rate design as a solution to the problem presented in this case. Therefore, the SFV rate design has not been an issue in this proceeding, and there is no reason to anticipate that the SFV rate design would be endorsed by the Commission as a solution to the problem presented in this case.

II. The RCG must be maintained for as long a period as possible in order to minimize the rate shock that would result if rates for all-electric customers were to reflect the rates for standard electric customers.

The Staff recommended that a portion of the current credit given to eligible all-electric customers be maintained so that their rates remain below the rates paid by non-all-electric customers. Staff witness Fortney recommended that from September 1, 2011 through May 31, 2012, current electric customers' credits and discounts remain in place. In Year Two (from September 2012 through May 2013), the all-electric customer would receive 75% of the RGC, in Year Three 50% of the RGC, in Year Four 25% of the RGC, and then no RGC. Beginning in Year Two, the RGC discount would be capped at 7500 kWh and the water heating only discounts would be eliminated. With regard to the deferrals accrued from March 2010 through May 2011, which were created as a result of the RGC approved in this docket, the Staff recommended that the allocation of the recovery of those deferrals should be attributed to the residential class for future recovery consistent with the current allocations approved by the Commission in the current ESP and the ESP that will take effect on June 2011.

The Staff also recommended that all-electric discounts which are applicable to the grand-fathered all-electric accounts should stay with the property. The Staff recommended that the former load management customers who are not all-electric customers should be removed from the all-electric categories for RGC purposes. These customers would no longer receive the RGC discounts but would receive other discounts in order to avoid significant bill impacts. Staff Ex. 1 at 3-4.

FirstEnergy presented the testimony of William R. Ridman. Like the Staff, FirstEnergy proposed that Rider RGC should be available only to customers who use electricity as the primary or sole source of space heat. Like the Staff, FirstEnergy also proposed to phase out Rider RGC. Beginning in September 2011, Rider RGC would be reduced by comparing the total bill for the winter period from one year to the next with the credit being reduced to the extent the maximum increase on a total bill basis for the customer is no greater than 12% over the prior year's winter period total bill, assuming the same usage. The methodology would be used until the Rider RGC credit is zero. FirstEnergy also proposed to recover all associated deferrals and carrying charges beginning on June 1, 2011 from all residential customers. FirstEnergy Ex. 1 at 6-8. Like the Staff, FirstEnergy also proposed that some credits would be unaffected by this proceeding so that customers would continue to receive those credits as long as the customers continued to reside in the premise and qualify for those credits.

The Office of the Ohio Consumers' Counsel ("OCC") presented the testimony of Anthony J. Yankel. Mr. Yankel testified that the RGCs, which the Commission approved in March and April 2010, kept rates at December 31, 2008 levels for all three FirstEnergy operating companies. OCC recommended that, after this heating season, the RGC should vary in order to preserve a relative relationship between all-electric customers and standard residential customers. He proposed a band to insure that the relationship continues in the future no matter what the rates. If rates generally increase, the band would allow the RGC to increase such that the same approximate percentage differences exist between the standard and the all-electric rates. If rates decrease, the band would allow the RGC to be reduced as well so that the reduction remains reasonable and does not fall outside the relationship that previously existed. Mr. Yankel proposed that there be a uniform target adopted for all three operating companies. He proposed that the relationship be set such that the total bill for all-electric customers be set at 65% of the bill for standard customers. Once the initial RGCs are established, they would not be changed unless the relationship between the all-electric bills and the standard bills at a usage level of 3,500 kWh gets outside of a band around the 65% target of more than plus/minus 5% so that the band would go from 60% to 70%. If the relationship went outside the range, then the RGC would be reset such that the 65% target would be met. The band would operate as a mechanism to signal when charges need to be made if there are large changes in rates over time.

With regard to the recovery of the deferrals associated with the credits, Mr. Yankel recommended that a recovery rider be established with its own funding mechanism, such that it sets on an annual basis the level of RGC credits to be given and the amount of revenue to be collected. He recommended that the riders be funded by an equal cents per kWh charge from all other customers. Given that there is a single average price per kWh from generation suppliers and that all-electric customers benefit the system with their high usage during times of low hourly energy costs, it is appropriate that all customers, who are benefiting from the usage patters of all-electric customers, should equally pay for the credit given to these all-electric customers.

Bob Schmitt Homes, Inc., Sue Steigerwald, Citizens for Keeping the All-Electric Promise ("CKAP"), and Joan Heginbotham presented the testimony of Larry Frawley, a real estate agent. Mr. Frawley testified that, in the absence of the current all-electric home discount, homes would lose significant marketability and value and that this would have a negative impact on cities, schools and other entities that derive revenue from real estate taxes. In order to avoid a potentially devastating economic impact on the economy, Mr. Frawley recommended that the all-electric rate discount be continued at its current rate differential on a permanent basis and that the rate remain attached to the property. This would ensure the current and future marketability of all-electric homes and allow the property valuation to stabilize. CKAP Ex. 1 at 5.

OPAE agrees that some RGC for all-electric residential customers must continue in the three service territories of FirstEnergy. While the RGC may not be permanent at its current levels given its impact on other customers, the continuation of the RGC is essential to the economic health of the residential communities served by FirstEnergy. If the Commission determines that the RGC will eventually be phased out, the phase out should be accomplished very slowly, over a period of many years, at least eight as proposed originally by FirstEnergy. In the alternative, the Commission may determine that a certain differential between the rates of all-electric customers and standard service customers will be maintained, as recommended in the testimony of Mr. Yankel. The Commission should also adopt the recommendation of Mr. Yankel that the recovery of the deferrals should be from all customer classes because all classes benefit from the usage during the winter of all-electric residential customers.

III. The Commission should order that OPAE's long-term recommendation for a pilot program using solar energy incentives be implemented by FirstEnergy.

OPAE filed the testimony of Stacia Harper to recommend a long-term partial solution to the problem of increasing generation rates faced by FirstEnergy's residential customers. Ms. Harper offered a potential model for a long-term solution to the need to provide all-electric customers of First Energy with affordable electric service using an alternative procurement method. OPAE Ex. 1 at 3. She recommended that the Commission authorize a pilot program that would provide all-electric customers of FirstEnergy who participate in the Percentage of Income Payment Plan ("PIPP") program with lower-cost generation and weatherization services to reduce usage. The pilot program would be used to determine whether an expansion of the approach would be effective to continue to provide all-electric customers with affordable rates and minimize the shifting of costs to other customers.

Given that FirstEnergy generation rates are now determined through an auction process, ideally residential tariffs would reflect a single rate based on the auction price. However, the attempt to eliminate the declining block rate structure which makes electric heating affordable created a public outcry that forced the Commission to reintroduce the declining block rate to eliminate the rate shock caused by charging all-electric customers the same rate per kWh that standard residential customers pay. The auction price remains the cost of electricity. When rates are reduced for all-electric residential customers below the auction price, other customers must make up the difference. FirstEnergy customers who do not heat with electricity subsidize the lower rates charged to customers that do heat with electricity. OPAE Ex. 1 at 5.

One approach that could ameliorate the problem is to secure generation at a price below that set by the auction. FirstEnergy could enter into a power purchase agreement to secure this below-auction power and the lower cost electricity would be dedicated to serve all-electric customers. Ms. Harper testified that there are options that can allow for power at a lower cost than that set by an auction because the auction price represents a market clearing price. Specifically, the auction price would not reflect the revenue streams produced by the sale of renewable energy credits, investment tax credits, accelerated depreciation, or other tax and economic development incentives that are available, or may become available, to promote the development of renewable energy power projects. A new power plant using solar photovoltaic and wind turbine technologies that uses the revenue streams from purchased solar renewable energy certificates ("SREC") and/or renewable energy certificates ("REC") yields generated power at a rate lower than market as a result of these revenue streams and could be dedicated to serve all- electric customers. Excess revenue from the power project could be used to weatherize the homes of all-electric customers, further reducing bills of these customers by reducing the electricity they use. OPAE Ex. 1 at 6.

This proposal would take advantage of Ohio's new law, SB 221, which requires generation suppliers to ensure that a percentage of the power they sell comes from advanced energy sources, including in-state solar resources. Because Ohio currently has little installed solar capacity, the market price for this resource is quite high. In a typical transaction involving solar energy today, the renewable attributes of the electricity generated from solar resources are stripped off and sold as a SREC. When stripped of its environmental attributes the actual electricity produced by the solar installation is referred to as "brown power." In OPAE's proposal, FirstEnergy would commit to purchase the brown power through a power purchase agreement and enter into a contract to purchase the SRECs, as it would today, but the power would be dedicated to all-electric customers. Because the solar power installations are eligible for a number of incentives including production credits, investment tax credits, and accelerated depreciation, the value of these renewable energy certificates, tax advantages, and other incentives can subtracted from the cost of producing power from solar resources, and the brown power should cost less than the auction price. OPAE Ex. 1 at 7.

The Commission should order FirstEnergy to develop a pilot project along the lines recommended by OPAE witness Harper to demonstrate the concept that by including the value of purchased solar renewable energy credits as an offset to the development cost of power from solar/renewable resources, electricity could be secured at a price lower than the auction price for a targeted population. The output from the pilot project should be dedicated to all electric customers that participate in the PIPP program. Since PIPP customers represent approximately 10% of all electric customers, the load associated with these customers can be met by a single pilot project. Any excess revenues produced by the pilot project should be spent to weatherize the homes of customers participating in the pilot. Weatherization would reduce the amount of electricity used in an all-electric home by about 22%. The combination of weatherization and lower cost power should lower the bills of all-electric customers and minimize the cost shift to other customers. OPAE Ex. 1 at 8.

IV. Conclusion

Some RGC for all-electric residential customers must continue indefinitely in the three service territories of FirstEnergy. While the RGC may not be permanent at its current levels given its impact on other customers, the continuation of the RGC is essential to the economic health of the residential communities served by FirstEnergy. If the Commission determines that the RGC will eventually be phased out, the phase out should be accomplished very slowly, over a period of many years. The recovery of the deferrals resulting from the RGC should be from all classes of customers because all classes benefit from the usage during the winter of all-electric residential customers. FirstEnergy should also develop a pilot project along the lines recommended by OPAE witness Harper. The pilot project would demonstrate the concept that power from solar resources could be delivered at a price lower than the auction price.

The output from the pilot project should be dedicated to all electric customers that participate in the PIPP program. Any excess revenues produced by the pilot project should be spent to weatherize the homes of customers participating in the pilot project.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Post-Hearing Brief was served by regular U.S. Mail upon the following parties identified below in this case on this 28th day of March 2011.

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