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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Portfolio Plans for 2010 through 2012 and Associated Cost Recovery Mechanism , and Tariffs for Generation Service.	:	Case Nos. 09-1947-EL-POR 09-1948-EL-POR 09-1949-EL-POR
In the Matter of the Application of The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company for Approval of Their Initial Benchmark Reports.	:	Case Nos. 09-1942-EL-EEC 09-1943-EL-EEC 09-1944-EL-EEC
In the Matter of the Energy Efficiency and Peak Demand Reduction Program Portfolio of The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company.	:	Case Nos. 09-580-EL-EEC 09-581-EL-EEC 09-582-EL-EEC

PROPOSAL FOR INCENTIVIZING UTILITY ENERGY EFFICIENCY PERFORMANCE

SUBMITTED ON BEHALF OF THE STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO

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INTRODUCTION

Staff has been charged in the Commission's Order to develop a proposal for a potential shared savings mechanism for the First Energy operating companies' managed energy efficiency programs. Two of Ohio's other electric service companies, AEP Ohio and Duke Energy Ohio, have shared savings mechanisms in place. DP&L does not have a shared savings mechanism approved as part of its energy efficiency portfolio, but DP&L has been ordered per their stipulation in Case No. 09-1986-EL-POR to provide a comprehensive evaluation of the feasibility of developing a shared savings incentive structure for over-compliance with annual energy efficiency and peak demand reduction benchmarks. Such an incentive mechanism would be a candidate for inclusion in its updated energy efficiency programs to be filed by April 15, 2013.

Staff believes that a shared savings mechanism for the First Energy electric distribution utilities should only be for those activities for which First Energy has had a material affect in their customers' decisions in adopting energy efficiency. Only those programs that are under their direct or indirect supervision or management of the Company should be able to count toward those savings that exceed their annual benchmarks. This means that savings from efficiency measures or programs implemented by mercantile customers independent of the Company would not count toward a utility based incentive mechanism even though those savings could count toward their annual benchmarks. Staff believes that any Company investment in transmission and distribution projects that would count toward a shared savings goal would have to meet a standard of demonstration by the utility that such investment would not have been made in the absence of SB 221 requirements. Energy efficiency savings must be clearly and easily measurable. Programs that rely strictly on behavioral changes of customers must demonstrate the persistence of such savings each year.

In addition, the Staff recommends that if a shared savings mechanism is adopted for the First Energy electric distribution companies, and the company qualifies for a shared savings, they can either bank the savings or receive a financial reward, but they cannot receive both for the same energy savings earned above the benchmarks.

The Commission has asked that the issue of generation ownership be explored with respect to adopting a reasonable shared savings percentage. At the present time, Staff is unaware that any of Ohio's electric utilities' holding companies or affiliates have totally divested of their generation ownership. Ohio electric distribution utilities or utility affiliates hold some generation assets that help determine the value of the Company stock. Short of full divesture of generation from the corporate entities, it is the Staff's opinion that the entire assets of the Company would be profit maximized by its management regardless of whether there is a separation agreement between regulated and unregulated services and products. It is the fiduciary responsibility of corporate management to maximize shareholder return on investment by using all of its available resources.

Corporate management would, however, consider alternative investments that would produce returns of an equal or greater economic value than those energy efficiency investments that were above the Company's annual benchmarks. The question is therefore what level of return or incentive could the Commission approve that would be produce greater returns on energy efficiency investments than alternative investments the Company could pursue.

WHAT ARE THE DIFFERENT TYPES OF SHARED SAVINGS MECHANISMS?

The Staff is aware of two shared savings mechanisms that are now approved for both AEP Ohio and Duke Energy Ohio (DEO). The Duke Energy Ohio mechanism is based upon a different formula than that used by AEP-Ohio. DEO's save-a-watt program states that the Company only receives a shared savings amount based upon the avoided costs achieved by the portfolio performance. If the company is able to achieve success for an overall portfolio of programs, the company will keep a minimum of 50 percent of the projected value of the avoided energy savings and 75 percent of any avoided capacity savings. In addition to this, the company can earn a return on investment depending on the over achievement level that the company has attained for that year. The return is capped on a percentage basis. These percentage caps are provided for in the company's Rider DR-SAW Tariff Sheets No. 107.2, pages 1 – 4. Under this arrangement, the company is not guaranteed to recover their program costs unless the portfolio is successful in total. The Table for the company's Return on Investment cap Percentage (ROIP) is provided below.

Percentage of Mandate Achieved	Cumulative Return on Investment Cap Percentage (ROIP)
➢ 125%	15%
116% to 125%	13%
111% - 115%	11%
100% - 110%	6%

Under the AEP-Ohio shared savings mechanism, the company is guaranteed to recover all of its program costs based on whether the portfolio of programs passes the Total resource Cost (TRC) test. The company may receive a shared savings amount of up to 15 percent of after tax net benefit for measurable EE/PDR programs subject to incentive caps based on the Utility Cost Test (UCT). If the company does over achieve its annual benchmarks then it has the option to either take the financial reward in the year of over compliance or bank any portion for use in a subsequent year. The performance incentives approved in the company's last stipulation are the lesser of the maximum shared savings percentage of 15 percent or the program investment cap for each tier that is above the annual EE benchmark. The table is provided below.

Performance Incentives = Lesser of Shared Savings or the Program Investment Cap %		
Benchmark EE Target% Achievement for Over-compliance	SHARED SAVINGS	Program Investment Cost Cap % for Measurable Programs
Greater than 100% to 106%	15%	6%
Greater than 106% to 115%	15%	12%
Greater than 115%	15%	17%

STAFF EE INCENTIVE RECOMMENDATION

The Staff does not have a strong preference for the Duke shared savings method over AEP's approach. For the sake of simplicity, it is easier to determine what the results would be under the AEP-Ohio mechanism. The Staff does not necessarily endorse the percentages that were stipulated under the current AEP-Ohio mechanism, but the incentive will need to be slightly stronger than alternative investments the Company could pursue. A good comparison of an alternative would be the Company's recent return on generation investment, because if customers were not conserving energy and capacity they would be consuming it.

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Proposal for Incentivizing Utility Energy Efficiency Performance** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following Parties of Record, this 24th day of October, 2011.

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