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 their Energy Efficiency and Peak Demand Reduction . Program Portfolio Plans for 2013 through 2015.	))))))	Case No. 12-2190-EL-POR Case No. 12-2191-EL-POR Case No. 12-2192-EL-POR

OHIO PARTNERS FOR AFFORDABLE ENERGY'S OBJECTIONS TO THE APPLICATION

I. Introduction

Ohio Partners for Affordable Energy ("OPAE") hereby submits to the Public Utilities Commission of Ohio ("Commission") these objections to the application of Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("CEI"), and The Toledo Edison Company ("TE") (together "FirstEnergy" or "Companies") for approval of their energy efficiency and peak demand reduction program portfolio plans for 2013 through 2015. These objections are filed in accordance with Ohio Administrative Code Rule 4901:1-39-04(D) and the attorney examiner's entry dated August 16, 2012 in these cases.

This application is the second filed by FirstEnergy to meet the energy efficiency and peak demand reduction requirements established by Senate Bill 221, passed in 2009. After a rocky start, the FirstEnergy companies have met the respective benchmarks as required by the law. The new portfolio plans appear, on their face, to provide a slate of programs adequate to meet the benchmarks during the upcoming three years. However, the Companies are missing several opportunities to better target opportunities, achieve more permanent and deeper energy and demand savings, and further offset the costs and impacts of future energy price increases in the coming years.

II. OPAE hereby submits the following objections.

A. Residential Portfolio Proposal

1. A number of new measures are included in the residential portfolio for the 2013-2015 program, and the home performance program is consolidated. Some of the rebate levels, particularly for appliances, seem too low to motivate the number of customers who invest in the upgrades. See Appendix C-4. FirstEnergy indicates that subsidies will be regularly reviewed and altered as necessary to achieve the targeted outcome. OPAE recommends this review occur sooner rather than later so that the sub-programs achieve the projected program savings.

2. The plan incorrectly indicates that Ohio has no energy efficiency loan programs. Ohio actually has two: an Advanced Energy Fund, which is admittedly quite small; and, the Eco-Link Program, offered through the State Treasurer's Office. Both offer on-line applications. The latter provides a 3% reduction in interest rates. Several utilities have partnered with regional banks to offer low-cost loans under Eco-Link. FirstEnergy should initiate similar partnerships.

3. The Market Potential Study documents a large technical potential, but is quite negative regarding the economically achievable level of savings. The projections appear to ignore the impact of rising electricity prices – which are inevitable – and improvements in technology. While these do not have a direct impact on the current portfolio or the ability to achieve the required

savings, they are critical to achieving the long term goals of stabilizing and ultimately reducing overall energy consumption in Ohio. All elements of the portfolio exceed the level called for by the total resource cost ("TRC") test, as imperfect a measurement approach it is. This means there is significant headroom to push additional technologies. While the cost of energy efficiency on a per kW basis does exceed market price for capacity, it remains far less expensive than constructing new power plants. Pressure will grow for new plants, justified by the closure of a number of old generation facilities. While not a total replacement, energy efficiency and demand response remain a lower cost option than new power plants and justifies a significant investment in energy efficiency and demand response. A more aggressive program to ensure a higher percentage of the technically achievable savings level could be achieved.

4. In the Home Performance Program**,** the comprehensive audit rebates significantly lag market rates, which are in the $450 range. Gas companies subsidize the audits so the customer only contributes $50, which is refunded if the customer moves forward with measures. Moreover, all-electric homes benefit from a comprehensive audit. Homes where the energy usage is all base load need only have a less expensive walk-through assessment. A project within the FirstEnergy territory, Cleveland Energy $avers, uses a concierge approach which provides support to customers interested in investing in comprehensive efficiency. The program has prompted an average investment of $7,000 per unit by using higher discounts

and rebates than anticipated by FirstEnergy. The Companies should consider assisting the expansion of this program.

5. FirstEnergy should also revamp the all-electric program into a whole-house program similar to the comprehensive low-income programs operating across the state. There has been a significant amount of litigation regarding the rate design available to these customers. The declining block rate will be phasing out over time. FirstEnergy should take the opportunity afforded by the demand-side management ("DSM") requirements to invest significant sums to achieve greater long-lived energy savings, which will also mitigate the impacts of the phase-out of the declining block rate. This would involve the direct installation of all cost-effective measures in all-electric homes. Based on a recent evaluation of the Ohio Department of Development's Electric Partnership Program, actual savings based on bill analysis will be in the range of 3,000 kWh per year, about 11% of pre-treatment usage. This approach will increase portfolio savings while mitigating the price increases faced by all-electric homeowners as the declining block rate design phases out.

6. In the Low Income Program, the description of the Community Connections Program contains a number of errors. The first is in the area of market potential. The study attached to the application uses Percentage of Income Payment Plan ("PIPP") customers as a surrogate for the number of eligible customers. PIPP customers represent only a fraction of FirstEnergy customers with incomes below 200% of the federal poverty line. Recent

census data indicates that the number of households under 200% of the federal poverty line range from 17.7 % in Union County to 40% in Ashtabula County, with an unweighted average of 29.56%. In Cuyahoga County, the largest county by population, 33.9% of all households have incomes under 200% of the federal poverty line. The potential for expansion is significant.

The second error is in the amount of savings produced by the program. The historical data used by the study is an anomaly. It reflects production characteristics during the period when American Reinvestment and Recovery Act ("ARRA") funding was available. At that time, Community Connections had no limits on health and safety expenditures – primarily roof repairs and replacement, and electric wiring upgrades. Because of the influx of ARRA funds, a large percentage of Community Connections funding was allocated to these health and safety measures. FirstEnergy has implemented a cap on the funding of 15%. The evaluation of American Electric Power's Community Assistance Program during the 2010-2011 program year found an average savings per unit of 1,423 kWh at a cost per unit of $1,096. OPAE projects production of 3,878 units per year based on a $5 million funding level. This will produce an annual savings of 5,518,020 kWh, far in excess of the savings projections included in the application.

The calculated TRC is also incorrect for the program going forward. Again, since it is based on historic data it is not an accurate picture of the program cost-effectiveness. The number for the program as it will operate going forward is 0.5, still not cost-effective but far higher than the numbers assumed in the application. This is equal to the Direct Load Control Program. As rates increase, the cost-effectiveness will also increase going forward.

As the application notes, funding for Community Connections was set in Case No. 12-1230-EL-SSO at $5 million per year. Because ARRA money is long gone and federal funding has declined significantly – this year's funding from the U.S. Department of Energy was $0.00 – the network has significant under-used capacity and can ramp up to provide a higher level of savings. OPAE recommends increasing the funding by $3 million in 2013; $4 million in 2014; and, $5 million in 2015. This would increase total funding to $8 million, $9 million, and $10 million over the coming three years. Given the significantly larger number of eligible customers projected by the market potential study, these funding levels more closely represent an equitable commitment to this large percentage of FirstEnergy's customer base.

B. Cost Recovery

7. Attachment C-3 indicates that residential customers will be charged $4,671,898, or 74%, of common costs. This is clearly excessive. Allocations are inequitable in the marketing program and the legal, plan development, and employee expense elements. Common costs should be tracked to the individual classes. Marketing costs should be more evenly distributed because of the spillover effect of marketing activities which also make large customers aware of the availability of portfolio programs.

8. For Shared Savings/Incentives, FirstEnergy seeks to receive incentives for excess savings and to be able to bank the savings. What is not

clear is whether those banked savings could result in additional incentives in the following year should the combined actual savings and banked savings exceed the benchmark. This can be rectified by establishing a protocol reflecting that established in the AEP Ohio case. See Case Nos.11-5568 and 11-5569-EL-POR at 7. Savings can only be counted for compliance one time. In the event that banked savings are used to comply with the benchmarks; no incentive can be generated from the banked savings. Incentives will be based only on the savings which are produced in that particular year.

The other issue is a placing a cap on shared savings. The dominant opinion, though it is not one OPAE shares, is that utilities require incentives to exceed statutory mandates. This has become accepted practice in Ohio. However, customers should be protected by a cap on shared savings incentives. FirstEnergy is collecting program costs and lost distribution revenues. The lost distribution revenues include a rate of return. Utilities remain incentivized to increase throughput so as to increase distribution revenues. The impact of the DSM portfolio has no impact on distribution revenues because they are recovered, so a company can only be ambivalent about the reductions in usage. Utility rates are exceedingly high. Providing excessive incentives reduces the cost-effectiveness of the overall portfolio. An absolute cap on incentives is appropriate to ensure customer pay a fair price for efficiency and nothing more.

C. Artificial Limits on the Level of Energy Efficiency and Demand Response Bid into the PJM Market

9. FirstEnergy's application indicates that "it is the Companies' policy to only bid those resources for which it has ownership at the time of the auction…" This policy artificially limits the amount of resources to be bid into the PJM Base Residual Auction or Incremental Auctions. The Companies have a portfolio of programs. They have data on the performance of individual programs over time. FirstEnergy is capable of estimating the savings from programs going forward to include in the auctions. While it is appropriate to discount these projections somewhat, it is not appropriate to limit these projections to the term of the currently approved portfolio. Portfolios do not change much; there are only so many types of energy efficiency programs. While the farther out capacity is bid, it is reasonable to increase the discount, it is damaging to customers for the Companies to not recognize the efficiency that will result simply from meeting portfolio requirements. FirstEnergy should abandon its policy and develop instead a protocol for bidding forward along with appropriate risk management techniques.

10. With regard to the ownership of Energy Efficiency and Demand Response Resources**,** a rule of thumb is that whoever pays for a measure should own the demand response from the measure. In most residential programs, FirstEnergy is only paying a portion of the cost. However, since the total value of the efficiency will be reflected in the market bid and because

it is a complex endeavor to coordinate bidding of residential resources, the Companies should be able to auction the resources so long as the entire revenue from the process is netted against the costs of the programs, lost distribution revenues, and shared savings.

The approach to be used for larger customers, where brokers are competing for demand response and energy efficiency resources, is more complicated. Clearly, capacity resources have value. Should a company choose to retain those resources, there will not be any revenue flowing back to FirstEnergy from the sale so there will be a lower impact on the rider, which is paid by all customers in the class. OPAE recommends that the value of capacity resources be part of the negotiation over the payments or credits to be provided for committing the resource. Other customers within the class should not have to pay higher riders than necessary.

11. With regard to the inclusion of additional energy efficiency and demand response into the market, FirstEnergy should seek opportunities to develop additional resources that can be bid into capacity and other markets established by PJM. Capacity costs will increase markedly in the ATSI zone in the coming years. The value of energy efficiency and demand response will increase commensurately. While this phenomenon will improve the cost effectiveness of portfolio investments, it also presents additional opportunities to develop larger revenue streams to offset program costs. FirstEnergy should work with the collaborative to develop these opportunities and create programs designed to harvest the revenue these opportunities present.

III. Conclusion

FirstEnergy has proposed a conventional portfolio that is relatively well balanced. The proposed rebates should be carefully scrutinized and, in many cases, increased to ensure the projected savings and demand response yields are realized. Several programs need to be more aggressively funded and redesigned to yield higher savings and produce other positive outcomes. In particular, funding for Community Connections should be increased to better reflect the large number of eligible customers in the FirstEnergy service territories. And, the home retrofit program should be expanded and targeted to all-electric homes, using a direct installation model based on existing low-income programs. A cap should also be placed on shared savings to ensure they are not excessive.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Objections was served electronically upon the following parties identified below in these cases on this 17th day of September 2012.

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