OCC EXHIBIT NO. ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio	)	
Edison Company, The Cleveland Electric	)	Case No. 12-2190-EL-POR
Illuminating Company, and The Toledo	)	Case No. 12-2191-EL-POR
Edison Company For Approval of Their	)	Case No. 12-2192-EL-POR
Energy Efficiency and Peak Demand	)	
Reduction Program Portfolio Plans for	)	
2013 through 2015.	)	

DIRECT TESTIMONY
OF
WILSON GONZALEZ

On Behalf of
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October 5, 2012

TABLE OF CONTENTS

Page

<u>SCHEDULES:</u>

<u>ATTACHMENT:</u>

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Wilson Gonzalez. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio, 43215-3485. I am employed by the Office of the Ohio Consumers' Counsel ("OCC") as a Senior Energy Policy Advisor.

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A2. I have a Bachelor of Arts degree in Economics from Yale University, and a Master of Arts degree in Economics from the University of Massachusetts at Amherst. I also completed coursework and passed my comprehensive exams towards a Ph.D. in Economics at the University of Massachusetts at Amherst.

I have been employed in the energy industry since 1986, first with the Connecticut Energy Office (Senior Economist, 1986-1992), then with Columbia Gas Distribution Companies ("Columbia Gas") (Integrated Resource Planning Coordinator, 1992-1996), and finally with American Electric Power ("AEP") (Marketing Profitability Coordinator and Market Research Consultant, 1996-2002). I have been managing the Resource Planning activities within OCC since 2004, and have been involved in numerous electric industry cases before the Public Utilities Commission of Ohio ("PUCO" or "Commission").

Q3. ***WHAT HAS BEEN YOUR EXPERIENCE DIRECTLY RELATED TO ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION ("EE/PDR") RELATED PORTFOLIO PROCEEDINGS IN OHIO?***

A3. I have been directly involved in negotiations leading to settlements approved by the PUCO in AEP's two EE/PDR Portfolio Cases (09-1089-EL-POR, et al. and 11-5568-EL-POR et al.). In addition, I filed testimony in the Duke EE/PDR Portfolio Case, 09-1999-EL-POR. I was also on the OCC case team for the FirstEnergy Companies' first EE/PDR Portfolio, Case No. 09-1947-EL-POR.

Q4. ***WHAT HAS BEEN YOUR EXPERIENCE IN OTHER REGULATORY PROCEEDINGS?***

A4. I have been immersed with many aspects of electric utility regulation since 1986. To this end I have been involved in Rate Design and integrated resource planning, including transmission and non-transmission alternative planning. While at the Connecticut Energy Office, I was a participant in one of the first demand-side management ("DSM") collaborative processes in the country (Connecticut Department of the Public Utilities Commission ("DPUC") Docket No. 87-07-01). I analyzed the performance and cost-effectiveness of many efficiency programs for Connecticut's electric and gas utilities that led to demonstration projects, policy recommendations, DSM programs (including rate design recommendations), and energy efficiency standards. I also performed all the analytical modeling for United Illuminating's first integrated resource plan filed before the DPUC in 1990.

At Columbia Gas, I was responsible for coordinating the Company's Integrated Resource Plan within the corporate planning department and DSM program development activities in the marketing department. I also designed and managed residential DSM programs in Maryland and Virginia while at Columbia.

While at AEP, I conducted numerous cost-benefit analyses of programs being sponsored by AEP's corporate marketing department, including its residential load control water heater program.

For the past 8 years at OCC, I have (among other matters):

- Been a principal participant in DSM negotiations resulting in millions of dollars in energy efficiency programs with Ohio's investor-owned utilities;
- Prepared DSM-related testimony in a number of Commission cases;
- Testified before the Ohio House Alternative Energy Committee and Senate Energy and Public Utilities Committee in support of energy efficiency, demand response, and resource planning;
- Assisted in the preparation of energy efficiency and renewable energy testimony and amendments for S.B. 221, H.B. 357, and S.B. 315;
- Testified before the PUCO on rate design issues; and

- Worked extensively on a range of topics regarding FirstEnergy's SSO proposals.

Q5. ***HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?***

A5. Yes. This information is attached as Exhibit WG-1.

Q6. ***WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR TESTIMONY?***

A6. I have reviewed the Companies' EE/PDR Application filed in this docket on July 31, 2012. In addition, I reviewed Text Attachments A, B, C to the Application, and the Direct Testimony of the Companies' witnesses. I have also reviewed the Companies' responses to certain discovery requests in this case. Finally, I have reviewed the Objections filed in this case on September 17, 2012.

II. PURPOSE OF TESTIMONY AND RECOMMENDATIONS

Q7. ***WHAT IS THE PURPOSE OF YOUR TESTIMONY?***

A7. The purpose of my testimony is 1) to review the Companies' proposed incentive mechanism and its impact on consumers, and 2) to propose a conceptual framework for the Companies to bid their eligible EE/PDR into the next three PJM Reliability Pricing Model ("RPM") Base Residual Auctions ("BRA") for the benefit of all of the Companies' customers.

Q8. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A8. I propose that the Commission modify FirstEnergy's proposed incentive mechanism to better balance the Companies' interest with consumers' interests. Specifically, I recommend:

1. The Companies should receive no shared savings incentive for simply meeting Ohio's EE/PDR savings benchmarks contained in R.C. 4928.66(A)(1)(b).
2. The Companies should receive a more modest apportionment of the shared savings, and one more that is in line with other states, over a different tiered arrangement for EE/PDR savings that exceed Ohio's legal requirements contained in R.C. 4928.66(A)(1)(b).
3. The Companies should be capped on any incentive award of eight percent of program spending calculated on a pre-tax basis.
4. The Companies should be required to bid all eligible EE/PDR into the PJM RPM BRA in a manner that maximizes customers' benefits and reduces the Companies' risk.

III. EVALUATION OF FIRSTENERGY'S PROPOSED SHARED SAVINGS INCENTIVE MECHANISM.

Q9. WHAT TYPICALLY ARE THE THREE COMPONENTS OF COST-RECOVERY FOR ENERGY EFFICIENCY PROGRAMS DISCUSSED AT COMMISSION PROCEEDINGS?

A9. The three components of an energy efficiency program usually discussed, and that customers are generally asked to pay for, are 1) the recovery of program costs, 2) the collection of some program induced lost revenues, and 3) a performance incentive. Together, these three components can make up a utility's total cost-recovery.

Q10. DOES FIRSTENERGY'S PORTFOLIO APPLICATION CONTAIN ALL THREE ELEMENTS OF COST-RECOVERY?

A10. No. The Companies' Portfolio Application contains a budget for programs to be implemented in the years 2013 through 2015, and to be collected from customers via pre-existing Rider DSE (Demand Side Management and Energy Efficiency Rider). The Application also contains a shared savings performance incentive with money to be collected from customers. The payment by customers for energy efficiency induced lost revenues are not a part of this case and were addressed in the Companies' recent Electric Security Plan Case No. 12-1230-EL-SSO.

Q11. WHAT IS A SHARED SAVINGS INCENTIVE MECHANISM?

A11. A shared savings incentive mechanism is a tool used by regulators to reward exemplary utility performance in delivering energy efficiency and peak demand reduction programs to its customers. It usually takes the form of a utility sharing in a portion of the net benefits created by the utility programs. The net benefits are typically the avoided energy and capacity dollar savings minus the utility and individual customer costs of the programs implemented.

Q12. ARE UTILITY ENERGY EFFICIENCY PORTFOLIO PLAN SHARED SAVINGS INCENTIVE MECHANISMS ALLOWED IN OHIO?

A12. Yes. Ohio Administrative Code 4901:1-39-07 states that with the filing of its Portfolio Plan, the "electric utility may submit a request for recovery of an approved rate adjustment mechanism, commencing after approval of the electric utility's program portfolio plan, of costs due to electric utility peak-demand reduction, demand response, energy efficiency program costs, appropriate lost distribution revenues, and shared savings. Any such recovery shall be subject to annual reconciliation after issuance of the commission verification report issued pursuant to this chapter."

Q13. WHAT ARE THE COMPANIES PROPOSING AS AN INCENTIVE MECHANISM?

A13. Through the Direct Testimony of Eren Demiray, FirstEnergy proposes a tiered shared savings incentive with the following structure:[1]

Incentive Tier	Compliance Percentage	Incentive Percentage
1	< 100%	0.0%
2	100-105%	5.0%
3	>105-110%	7.5%
4	> 110-115%	10.0%
5	> 115%	13.0%

For example, the shared savings incentive mechanism proposed by FirstEnergy allows the Companies to collect from customers up to a maximum of 13 percent of the avoided energy and capacity costs for savings (minus utility program costs) if they achieve 115

[1] Case No. 12-2190-EL-POR, Eren G.Demiray Direct Testimony at 10.

percent of the statutory benchmark in EE/PDR.[2] If FirstEnergy does not meet the annual benchmark, it receives no incentive and is subject to a penalty.[3]

The Companies suggest that the net shared savings used in determining the incentive be calculated net of the Utility Cost Test ("UCT").[4] Under the Companies' proposal, FirstEnergy is entitled to an incentive for exceeding the energy savings thresholds in the above table, and the incentive dollar amount would be calculated in after-tax dollars and without a "hard" dollar cap.[5] A hard cap places a ceiling on the incentive dollar the utility may collect from its customers.

Q14. HAS FIRSTENERGY PROVIDED AN EXAMPLE OF HOW THE INCENTIVE WOULD OPERATE?

A14. Yes. In Exhibits EGD-1 through EGD-4, FirstEnergy witness Demiray provides a number of tables illustrating the proposed incentive mechanism.

Q15. HAS FIRSTENERGY PROVIDED AN EXAMPLE OF PROJECTED INCENTIVE LEVELS BASED ON THE ESTIMATED SAVINGS LEVELS CONTAINED IN ITS PORTFOLIO FILING?

A15. No. In fact, the Companies' exhibits contain disclaimers such as: "[a]ll values in

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[2] Demiray Direct Testimony at 10.

[3] R.C. 4928.66(C).

[4] Id. at 5-6. The UCT is a benefit-cost test which measures the net costs of a program from the utility perspective and excludes any net costs incurred by the participant.

[5] Id. at 12.

the above scenario are illustrative and for the purpose of discussion only. Actual values will be calculated consistent with information as presented in the FirstEnergy's Annual Portfolio Status Report, with discounted lifetime costs and benefits determined under the Utility Cost Test, and calculated in line with industry standards."[6]

Q16. DO YOU HAVE ANY OTHER CONCERNS WITH FIRSTENERGY'S SHARED SAVINGS INCENTIVE PROPOSAL?

A16. Yes. As I explain in detail below, I have the following additional concerns with FirstEnergy's proposed incentive mechanism and its potential rate impact for consumers:

1. The tiered incentive percentage levels are excessive because of the level of lost distribution revenues the Companies can charge to customers.
2. The use of the Utility Cost Test is inappropriate because it overstates the energy efficiency program benefits, and underestimates the costs to customers.
3. The determination of possible electricity savings used in the shared savings mechanism should not include transmission and distribution savings, self-direct mercantile savings or savings from behavioral programs.[7]
4. The use of an after-tax rather than a pre-tax calculation of the incentive is inappropriate, and costly to consumers.

[6] See note on the bottom of Exhibit EGD-3.
[7] Behavior based programs focus on energy savings resulting from changes in individual customers or organizational behavior and decision-making.

5. The lack of an overall "hard" dollar cap presents risks for consumers.

Q17. WHY DO YOU BELIEVE THAT THE TIERED SHARED SAVINGS INCENTIVE PERCENTAGE LEVELS PROPOSED BY THE COMPANIES ARE EXCESSIVE?

A17. The shared savings incentive percentages proposed by the Companies should be reduced given FirstEnergy's lucrative lost distribution revenue arrangement approved in the FirstEnergy Electric Security Plan ("ESP") proceeding, Case No. 12-1230-EL-SSO (and in the earlier ESP I[8] and II). The PUCO's Order in that case, dated July 18, 2012, authorized FirstEnergy to collect lost revenues through May 2016, leaving the result after that date as unknown at this time. In this regard, the PUCO's Order adopted Paragraph E.3 of the Stipulation in the FirstEnergy ESP III proceeding that addressed Energy Efficiency and Peak Demand Reduction induced lost distribution revenues. Generally, lost distribution revenues are those revenues the Companies do not collect because of the implementation of energy efficiency programs. The Stipulation provides that:

> [D]uring the term of this ESP III, the Companies shall be entitled to receive lost distribution revenue for all energy efficiency and peak demand reduction programs approved by the Commission. Such lost distribution revenues do not include approved historical mercantile self-directed project[s]. **The Signatory Parties agree that the collection of such lost distribution revenues by the Companies after May 31, 2016 is not**

[8] The Order adopting the Stipulation in the first FirstEnergy ESP allowed the Companies to collect distribution lost revenues for six years. This Stipulation was approved in the Second Opinion and Order in Case No. 08-935-EL-SSO on March 25, 2009.

> **addressed nor resolved by the terms of this Stipulation**.[9] (Emphasis added).

The PUCO did not accept my recommendation (to limit customers' payment of lost revenues) in the FirstEnergy ESP III Order of July 18, 2012, and instead adopted the Stipulation. As a result, residential customers will be asked to pay for the Companies' lost distribution revenues at an estimated $70 million through the term of ESP III, as shown in Exhibit WG-2. This figure is conservative as it does not include lost revenue from the Government Sector, Small Enterprise Sector and Large Enterprise Sector for the Portfolio years. It is also conservative given the open ended nature of the Stipulation language cited above that was already extended once and could be extended in future FirstEnergy ESP settlements.[10] In the extreme, if FirstEnergy were permitted to collect all of the residential lost distribution revenues estimated in the Companies' Portfolio, the total could be over $140 million over the lifetime of the programs, as demonstrated in Exhibit WG-2.

Q18. WHY IS THE USE OF THE UTILITY COST NET BENEFITS TEST THE WRONG METRIC AND INAPPROPRIATE IN CALCULATING THE SHARED SAVINGS INCENTIVE?

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[9] *In the Matter of Ohio Edison Company,) The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*("ESP III"), Case No. 12-1230-EL-SSO, Stipulation at 31 (April 13, 2012).

[10] The $70 million figure includes lost distribution revenue included in base rates and lost Rider Delivery Capital Recovery ("DCR") revenues recovered in reconciliations subject to the ESP II and ESP III caps.

A18. The UCT is a benefit-cost test which measures the net costs of a program from the utility's perspective, and excludes any net costs incurred by the participant. Specifically, the benefits in the UCT are the avoided energy, capacity and transmission and distribution costs from the energy efficiency programs. The costs in the UCT are all utility costs to implement the program including administration, marketing, incentives paid to customers, implementation costs, and evaluation costs. However, the problem with using the UCT to determine the Companies' incentive is that it only captures the benefits of the programs from the utility perspective and ignores the individual customer costs as a whole. The UCT fails to take into account participant costs (those incremental costs incurred from buying the more efficient measure and not covered by utility rebates). For this reason, the UCT can overstate the program benefit and understate the costs, making the incentive more costly to customers. Therefore, the UCT should not be used to determine the complete benefit of the Portfolio programs.

Q19. WHY SHOULD THE COMMISSION USE THE TOTAL RESOURCE COST ("TRC") TEST INSTEAD OF THE UTILITY COST TEST?

A19. The Commission should use the Total Resource Cost test because it is the only measure that accounts for all of the costs and benefits of an energy efficiency program. To this end, the TRC is a benefit-cost test which measures the net costs of a program based on the total costs of the program, including both the participants' and the utility's costs.[11] Usually the net benefits under the UCT seem higher because the participants' costs are excluded and the shared savings to the utility tend to be higher. The appearance of higher than actual benefits in the UCT means that programs could be recommended to the PUCO for adoption based on an inflated (or unrealistic) level of benefits for customers. Therefore, given the relative completeness of the TRC, the utility incentive should come from the total net benefit the programs provide, not the net benefits provided only to the utility.[12]

Q20. WHY ARE THE POTENTIAL ELECTRIC SAVINGS USED IN THE COMPANIES' SHARED SAVINGS CALCULATION INAPPROPRIATE?

A20. FirstEnergy's inclusion of electricity savings emanating from self-direct mercantile, transmission and distribution projects ("T&D"), and behavioral programs[13] in the shared savings calculation is inappropriate. Inclusion of these savings in the calculation of shared savings will excessively reward the Companies, and lead to more costs for consumers. In

[11] The TRC scores calculated for the self-direct mercantile programs appear inflated and may not be accurate as the Companies' do not appear to have accounted for the customer incremental project costs. See Companies' Response to OCC Set 2- INT 23 attached: "When calculating the TRC results for 'Mercantile' in Exhibit ECM-1 of Companies' Witness Miller's direct testimony in Case No. 12-2190-EL-POR, are the full customer project costs included in the calculation? Response: No."

[12]See seminal article on utility incentive mechanisms entitled "DSM Shareholder Incentives: Current Designs and Economic Theory, S. Stoft, J. Eto and S. Kito, Lawrence Berkeley Laboratory, page xvi, 1995. http://eetd.lbl.gov/ea/emp/reports/36580.pdf

[13] Behavior-based programs focus on energy savings resulting from changes in individual customers or organizational behavior and decision-making, as compared to savings from deployment of hardware such as appliances, HVAC equipment and home insulation.

contrast, an energy efficiency incentive mechanism should reward a utility for the savings the utility actively generates through the design and implementation of its programs.[14]

In this regard, the PUCO Staff has clearly stated that: "[o]nly 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."[15]

Savings from mercantile self-direct programs are generated by projects initiated and directed by mercantile customers, and therefore should not be included in the Companies' incentive mechanism. Similarly, savings from T&D projects[16] should not be included in the utility incentive mechanism. These types of projects are generally capitalized and receive a return on the utility's investment in distribution rate case filings and should not receive an additional incentive payment. Energy efficiency incentive mechanisms were set up precisely to provide EE/PDR investments with comparable earnings potential

[14] R.C. 4928.66. (A)(1)(a) "Beginning in 2009, an electric distribution utility shall implement energy efficiency programs that achieve energy savings equivalent to at least three-tenths of one per cent of the total, annual average, and normalized kilowatt-hour sales of the electric distribution utility during the preceding three calendar years to customers in this state."

[15] Case Nos. 09-1947-EL-POR, et al., Staff Proposal (October 24, 2011) at 1-2.

[16] R.C. 4928.66(A)(2)(d) permits a utility to include, for purposes of compliance with statutory EE&PDR benchmarks, "transmission and distribution infrastructure improvements that reduce line losses. FirstEnergy has developed the T&D Improvements program that accumulates the savings achieved through various energy efficiency T&D projects completed by the Utilities. These projects involve various system improvements. Portfolio at 62.

as the earnings received from the rate of return incentive utilities earn on capital assets in rate base.

Behavioral program[17] savings are difficult to measure, and it is not clear whether the savings will persists over time as in the case of a hardware high efficiency measure (like an air-conditioner or motor). Accordingly, behavioral programs do not satisfy the PUCO Staff's recommendation that "[e]nergy efficiency savings must be clearly and easily measurable."[18]

Q21. WHY IS THE CALCULATION OF THE SHARED SAVINGS INCENTIVE ON AN AFTER TAX BASIS A CONCERN?

A21. Using an after tax calculation means that customers are not only paying the Companies an incentive on their shared savings, but are also being asked to pay for the Companies' tax liability.

Q22. WHY DOES THE LACK OF AN OVERALL "HARD" DOLLAR CAP IN THE COMPANIES' SHARED SAVINGS PROPOSAL POTENTIALLY PUT CUSTOMERS AT RISK?

A22. A hard dollar cap means that no matter what the utility shared savings award is according to the level of savings reached above the annual state requirement, it cannot exceed a pre-determined dollar amount. A hard cap protects consumers from paying for excessive

[17] Behavior based programs focus on energy savings resulting from changes in individual customers or organizational behavior and decision-making.

[18] Id. at 2.

profits**,** or other unintended negative consequences of a shared savings type mechanism. For example, an unexpected and unprecedented increase in avoided costs or the introduction of a revolutionary technology lowering cost and/or increasing savings may lead to excessive utility returns on its EE/PDR expenditures. A disparaging front-page headline could lead to customer backlash, and an adverse reception to the Companies' energy efficiency programs. To this end, both of the incentive mechanisms contained in the PUCO Staff's Proposal for Incentivizing Utility Energy Efficiency Performance contained a hard cap.[19]

Q23. DO OTHER PARTIES IN THIS CASE SUPPORT CAPPING THE COMPANIES' DOLLAR INCENTIVE?

A23. Yes. Four of the five parties that commented on the cap issue in their respective Objections in this case supported a cap, if the Companies' proposed incentive is approved by the Commission.[20]

Q24. ARE YOU PROPOSING A SPECIFIC HARD CAP IN THIS CASE?

***A24*.** Yes. The incentive mechanism should have at most an eight percent overall before-tax cap. The eight percent level is within the range being offered to other utilities nationwide.[21]

[19] See *In the Matter of the Application of the [Companies] for Approval of Three Year Energy Efficiency and Peak Demand Reduction Plans and Initial Benchmark Report*, Case Nos. 09-1947-El-POR, 09-1948-EL-POR and 09-1949-EL-POR, Proposal For Incentivizing Utility Energy Efficiency Performance Submitted On Behalf Of The Staff Of The Public Utilities Commission Of Ohio (October 24, 2011) at 4-5.

[20] Case No. 12-2190-EL-POR, see specifically, Objections of OCC (at 4-6), OPAE (at 7), NUCOR (at 13), OEG (at 2), (September 9, 2012). Only OMA (at 4) stated that no cap should be imposed.

[21] See "Aligning Utility Incentives with Investment in Energy Efficiency," National Action Plan for Energy Efficiency, November 2007, pages 6-1 through 6-2.

Q25. DO YOU RECOMMEND ANY FURTHER ADJUSTMENTS TO THE FIRSTENERGY SHARED SAVINGS PROPOSAL?

A25. Yes. Given the poor performance of FirstEnergy's energy efficiency bid into the PJM RPM BRA for 2015/2016, the shared savings capacity benefit should be discounted by 45% in the first year any incentive is triggered. Specifically, the FirstEnergy Companies bid only 36 MW of energy efficiency resources into the PJM 2015/16 BRA auction on May 7, 2012.[22] The base residual auction determines what customers pay for capacity in any given year. FirstEnergy's bid of 36 MW was 55 percent of the 65 MW identified by the Companies that could have been bid.[23] The result of FirstEnergy bidding only 36 MW was that Ohio customers could end up paying significantly more for capacity for the PJM year 2015/2016.

In FirstEnergy's Portfolio plan, the Companies estimated that, by 2015, the plan will yield 658.3 MWs (or 460.3 MWs minus the large Mercantile projects).[24] A shared savings mechanism rewards a utility for capturing for its customers the value of avoided energy, capacity, and transmission and distribution savings from their energy efficiency and peak demand reduction programs. Since the Companies failed to capture substantial capacity benefits for customers in the 2015/2016 PJM Base Residual Auction (by bidding in a mere 36 MWs), an additional reduction in the calculated amount of the net avoided

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[22] Case No. 12-1230-EL-SSO, Tr. Transcript ESP III, Vol. I, at 301 (Neme) (June 4, 2012).

[23] Case No. 12-1230-EL-SSO, ESP III Stipulation at 33 (April 13, 2012).

[24] Direct Testimony of Companies' Witness Miller, Exhibit ECM-2, pages 1-3.

capacity benefit should be made. This adjustment recommended would give customers back some of their avoided capacity benefit that has been foregone due to the limited MWs bid into the PJM Base Residual Auction by FirstEnergy.

IV. BIDDING ENERGY EFFICIENCY AND LOAD MANAGEMENT RESOURCES INTO FUTURE PJM RPM BASE RESIDUAL AUCTIONS.

Q26. CAN THE ELECTRICITY DEMAND SAVINGS GENERATED FROM A UTILITY'S ENERGY EFFICIENCY AND LOAD MANAGEMENT PROGRAMS BE BID INTO THE PJM RPM BASE RESIDUAL AUCTIONS?

A26. Yes. The demand saving from utility energy efficiency and load management programs can be bid into the base residual auctions as long as the savings from the programs have a PJM approved Measurement & Verification plan. The programs must comply with the Measurement & Verification ("M&V") protocols in PJM Manual 18b for energy efficiency resources, and PJM Manual 18 Section 4.3, Load Management Products (and all PJM manuals referred therein) for load management resources ("LM").[25]

Q27. WHAT IS FIRSTENERGY'S COMMITMENT TO BIDDING THE ENERGY EFFICIENCY AND LOAD MANAGEMENT RESOURCES GENERATED BY THE COMPANIES PORTFOLIO INTO FUTURE PJM RPM BASE RESIDUAL AUCTION?

[25] This is what is generally meant by "eligible" EE & LM for the remainder of my testimony. Specifically its Attachment DD-1 and especially page 2449 for EE in the PJM Tariff. The "eligible" EE and LM presupposes that the Companies execute their Portfolio Plan and sign up customers to their programs.

A27. According to Companies' witness Dargie, FirstEnergy's plan for future BRA participating is to:

a. bid only installed energy efficiency and LM,

b. bid only energy efficiency and LM whose ownership rights are secured at the time of the PJM auction,

c. bid only projects of scale; and

d. bid only projects meeting PJM standard and that are approved by PJM.[26]

Q28. IS THE COMPANIES' COMMITMENT SUFFICIENT?

A28. No. The commitment to bid energy efficiency and load management into the PJM BRA articulated in elements a and b above by Companies' witness Dargie is unreasonable. FirstEnergy's commitment leaves a substantial amount of customer benefits from being realized. In particular, the two major dollar benefit streams for customers from bidding additional capacity are: 1) the impact of the EE bid of potentially lowering the final capacity auction price, and 2) the revenue payments received by FirstEnergy from PJM for the eligible energy efficiency and load management capacity bid into the BRA are used to reduce the energy efficiency program costs. [27]

[26] Witness Dargie Direct Testimony at 15.

[27] Portfolio at 12-13.

Q29. DO OTHER PARTIES IN THIS CASE GENERALLY SUPPORT THE COMPANIES FULLY BIDDING THEIR ELIGIBLE ENERGY EFFICIENCY AND LOAD MANAGEMENT RESOURCES INTO THE PJM RPM BASE RESIDUAL AUCTION?

A29. Yes, eight out of eleven parties who filed Objections in this case commented on this issue. All eight parties generally supported a more aggressive FirstEnergy strategy for bidding of the Portfolio resources into the PJM RPM BRA than what currently is FirstEnergy's strategy.[28]

Q30. DOES THE PUCO STAFF SUPPORT AN APPROACH WHERE THE COMPANIES WOULD AGGRESSIVELY BID THEIR ELIGIBLE ENERGY EFFICIENCY AND LOAD MANAGEMENT RESOURCES INTO THE PJM RPM BASE RESIDUAL AUCTION?

A30. Yes. In filed Objections the PUCO Staff states: "[t]he Companies should bid their capacity saving from their EE programs in the prior year and planned years into the PJM BRA and other appropriate PJM incremental auctions. Capacity revenues received from the EE programs in the PJM auctions should be credited toward the appropriate energy efficiency riders."[29]

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[28] The Parties who filed objections addressing this topic are OCC (at 10-11), OMA (at 3-4), Advanced Energy Economy Ohio (at 6-8), ENERNOC (at 1-5), OPAE (at 8), Staff (at 2), NRDC and the Sierra Club (at14-18), Case No. 12-2190-EL-POR.

[29]Staff Objections at 2.

Q31. DOES THE COMMISSION SUPPORT AN APPROACH WHERE THE COMPANIES WOULD AGGRESSIVELY BID THE ELIGIBLE ENERGY EFFICIENCY AND LOAD MANAGEMENT RESOURCES INTO THE PJM RPM BASE RESIDUAL AUCTION?

A31. Yes. The Commission supported the bidding in of all cost-effective energy efficiency and peak demand reductions into the PJM BRA in the February 29, 2012 Entry in Case No. 12-814-EL-UNC. The PUCO reiterated that support in its Opinion and Order in the Companies' ESP III Case:[30]

> However, the Commission notes that additional steps may be taken to mitigate the impact of the transmission constraint in the ATSI zone for future base residual auctions. **Specifically, the Companies should take steps to amend their energy efficiency programs to ensure that customers, knowingly and as a condition of participation in the programs, tender ownership of the energy efficiency resources to the Companies. Further, the Companies should continue to take the necessary steps to verify the energy savings to qualify for participation in the base residual auctions, and the Companies should bid qualifying energy resources into the auction.** The record demonstrates that there has been tremendous growth in the use of energy efficiency resources in the capacity auctions, and the Companies are well positioned to substantially increase the amount

[30] ESP III Opinion and Order, at 38.

> of energy efficiency resources they can bid into the auction, which will assist in mitigating the impact of the transmission constraint in the ATSI zone. Further, the Commission will continue to review the Companies' participation in future base residual auctions until such time as the transmission constraint in the ATSI zone is resolved. (Emphasis added).

Similarly, in Commissioner Roberto's dissent in the FirstEnergy ESP III proceeding, she found that the information in the record was insufficient to find that the Companies "dedicated sufficient resources to reliability, particularly in the form of participation in the base residual auctions whose very purpose is reliability."[31]

Q32. DO YOU HAVE ANY OTHER RECOMMENDATIONS THAT WOULD ENCOURAGE THE COMPANIES TO BID THE MAXIMUM AMOUNT OF ENERGY EFFICIENCY AND LOAD MANAGEMENT RESOURCES INTO FUTURE PJM BASE RESIDUAL AUCTIONS?

A32. Yes. My recommendations in this area are generally two fold, 1) have customers assume FirstEnergy' risk[32]of PJM penalties for any EE & LM capacity obligations cleared in the PJM BRA, where FirstEnergy has been prudent managing the Companies' Portfolio Plan and used its best effort to deliver the capacity savings, and 2) allow the Companies to charge customers for reasonable incremental M&V and other appropriate charges related

[31]Id. at 5.(Roberto dissenting Opinion).
[32] This protection could include "acts of God" or other actions beyond FirstEnergy's control.

to getting the maximum amount of EE & LM approved and delivered to PJM. Specifically, my recommendations include the following:

a. FirstEnergy should bid all eligible EE & LM into the Base Residual Auctions to be held in 2013, 2014, and 2015.[33] This includes all existing, planned, and forecasted resources to cover the three auctions. It also includes eligible portions of mercantile self-direct customer projects with their permission. This recommendation would reduce what customers pay for future capacity and the Rider DSE;

b. FirstEnergy should continue its progress towards acquiring and retaining ownership of all installed, planned or forecasted savings that are assisted with the Companies' incentives.[34] This recommendation would resolve the energy efficiency attribute ownership issue;

c. The bid price for the resources should be at zero or a level that covers the reasonable incremental cost of having the resources clear the PJM BRA. This recommendation would benefit customers by ensuring that the Companies' energy efficiency and load management resources clear the auction;

d. In cases where FirstEnergy apparently will be unable to realize the full quantity of EE & LM capacity cleared in the BRA for any

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[33] In cases where existing EE & LM resources can only be bid into an incremental auction because of PJM M & V protocols, FirstEnergy will do so.

[34] This would also include any curtailable service provider capacity savings committed to the Companies.

year, it should purchase the shortfall in an incremental auction for the BRA in question. The balance of the incremental auction purchase, whether positive (purchased capacity at a price lower than the BRA) or negative (purchase capacity at a price higher than the BRA) shall be credited or charged against the overall RPM revenues for that year;

e. All revenues from base residual auctions and incremental auctions, net of reasonable incremental M&V costs and other costs incurred in qualifying the EE & LM, shall be returned to customers by offsetting the DSE-1 rider for ELR and OLR interruptible program savings, and DSE-2 rider for the remainder of the energy efficiency and peak demand reduction program savings using the existing rate class allocation; and

f. Appropriate consumer safeguards such as financial and management audits should be ordered by the Commission. This recommendation would protect customers by reviewing that FirstEnergy has prudently exercised its management of bidding EE & LM resources into the Base Residual Auction and has appropriately credited the auction revenues to customers via Rider DSE.

Q33. SHOULD THE FIRSTENERGY COLLABORATIVE HAVE THE OPPORTUNITY TO REVIEW THE AMOUNT OF ENERGY EFFICIENCY AND LOAD MANAGEMENT RESOURCES THE COMPANIES PLAN TO BID PRIOR TOA PJM BASE RESIDUAL AUCTION?

A33. Yes, FirstEnergy should hold a Collaborative meeting at least 120 days before the PJM BRA. The Companies should be required at that meeting to make a detailed presentation of the amount of EE and LM capacity resources it plans on submitting to PJM for approval.

V. CONCLUSION

Q34. DOES THIS CONCLUDE YOUR TESTIMONY?

A34. Yes. However, I reserve the right to incorporate new information and/or discovery responses that may subsequently become available. I also reserve the right to supplement my testimony in response to positions taken by the Companies or other parties.

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing the *Direct Testimony of Wilson Gonzalez on Behalf of the Office of the Ohio Consumers' Counsel* has been served electronically this 5th day of October 2012.

*/s/ Kyle L. Kern*____________________
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Mr. Gonzalez has submitted testimony in the following cases before the Public Utility Commission of Ohio:

- Vectren Energy Delivery of Ohio, Case No. 04-571-GA-AIR
- Dominion East Ohio, Case No. 05-474-GA-ATA
- Dominion East Ohio, Case No. 07-829-GA-AIR
- Vectren Energy Delivery of Ohio, Case No. 05-1444-GA-UNC
- Columbus Southern Company/Ohio Power Company, Case No. 06-222-EL-SLF
- Duke Energy of Ohio, Case No. 07-589-GA-AIR
- FirstEnergy Companies, Case Nos. 07-551-EL-AIR, et al.
- Vectren Energy Delivery of Ohio, Case No. 07-1080-GA-AIR
- FirstEnergy Companies, Case No. 08-935-EL-SSO
- FirstEnergy Companies, Case No. 08-936-EL-SSO
- Duke Energy of Ohio, Case No. 08-920-EL-SSO
- AEP, Case No. 08-917-EL-SSO
- DPL, Case No. 08-1094-EL-SSO
- FirstEnergy Companies, Case No. 09-906-EL-SSO
- Duke Energy of Ohio, Case No. 10-1999-EL-POR
- FirstEnergy Companies, Case No. 10-388-EL-SSO

- FirstEnergy Companies, Case No. 10-1128-EL-CSS
- AEP, Case No. 11-351-EL-AIR
- FirstEnergy Companies, Case No. 12-1230-EL-SSO

Estimated Residential Distribution Lost Revenue From Energy Efficiency Portfolios (Exhibit WG-2)

	2013	2014	2015	2016 (6 months)
Energy Savings Leading to Lost Distribution Revenues* (1)				
Portfolio Estimated Savings				
Ohio Edison (MWH)	40,613	124,062	206,795	
Cleveland Electric Illuminating (MWH)	18,751	53,819	92,127	
Toledo Edison (MWH)	12,791	42,538	68,222	
Savings Total	72,155	220,419	367,144	183,572
Residential Lost Distribution Revenue	$ 2,537,141	$ 7,766,260	$ 12,924,250	$ 6,462,125
Lost Distribution Revenue from 2011-2012 Programs (4)	$ 17,888,746	$ 8,944,373	$ 8,944,373	$ 4,472,187
Total Lost Distribution Revenue by Year	$ 20,425,887	$ 16,710,633	$ 21,868,623	$ 10,934,312
Total Lost Distribution Revenue for ESP 2 & ESP 3 Term	$ 69,939,454			

Maximum Lost Distribution Revenues base on Lifetime Savings* (2)	Lifetime Savings
Ohio Edison (MWH)	2,239,692
Cleveland Electric Illuminating (MWH)	1,081,536
Toledo Edison (MWH)	700,663
Totals	4,021,891
Lifetime Lost Distribution Revenues for FE EE/PDR Portfolio	$ 141,317,403

Distribution Rates Used (3)	
OE Distribution Rate ($/kWh)	0.035183
CEI Distribution Rate ($/kWh)	0.033285
TE Distribution Rate ($/kWh)	0.037849

*Only Residential Energy Savings used so lost revenue calculations are conservative.
(1) Attachment A, B, C, Appendix C-3, Table PUCO 2 (Summary of Energy & Demand Savings) in Company Application in Case No. 12-2190-EL-POR.
(2) Attachment A, B, C, Appendix C-3, Table PUCO 4 (Program Summaries) in Company Application in Case No. 12-2190-EL-POR.
(3) From FE Ohio Operating Companies Residential Tariff Sheets (Rate RS Distribution Charge) and Residential Charge in Rider DCR.
Note: The $69.9 million figure above includes lost distribution revenue included in base rates and lost Rider Delivery Capital Recovery ("DCR") revenues recovered in reconciliations subject to the ESP II and ESP III caps.
(4) Company Response to OCC Set 1-INT-1 in Case No. 12-1230-EL-SSO. 2013 includes the cumulative lost distribution revenues of 2012.

OCC Set 2
Witness: Miller

Case No. 12-2190-EL-POR, Case No. 12-2191-EL-POR, Case No. 2192-EL-POR

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.

RESPONSES TO REQUEST

OCC Set 2 – INT-23 When calculating the TRC results for "Mercantile" in Exhibit ECM-1 of Company Witness Miller's direct testimony in Case No. 12-2190-EL-POR, are the full customer project costs included in the calculation?

Response: No.