BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the matter of the application for Approval of Energy Efficiency and Peak Demand Reduction Program Portfolio Plans for 2013 to 2015.	:	Case Nos. 12-2190-EL-POR 12-2191-EL-POR 12-2192-EL-POR

PREFILED TESTIMONY OF GREGORY C. SCHECK

EFFICIENCY & RENEWABLES DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

STAFF EXHIBIT ____

October 9, 2012

1. Q. Please state your name and your business address.

A. My name is Gregory C. Scheck. I am employed by the Public Utilities Commission of Ohio, 180 East Broad Street, Columbus, Ohio.

2. Q. What is your current position at the Commission?

A. I am a Utilities Specialist 3 in the Efficiency and Renewables Division of the Energy and Environment Department. I am responsible for analyzing issues and providing recommendations pertaining to electric utility energy efficiency programs, including peak demand reductions, demand response, and SmartGrid related issues.

3. Q. What are your qualifications as they relate to your testimony in this proceeding?

A. I have worked at the Commission since 1985 in various capacities. Most of that time I have spent reviewing and evaluating demand forecasts, energy efficiency programs, and SmartGrid utility issues. I have earned a Master's Degree in Economics from Ohio University in 1984.

4. Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to address Staff's concerns in Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company's ("FirstEnergy" or "FE" or "Companies") 3-Year Energy

Efficiency Portfolio Plan (the "Plan") and make recommendations from lessons learned from the existing EE Portfolio Plan.

5. Q. What are the main concerns that you have with the proposed Portfolio Plan?

A. My main concerns relate to improving the process of remitting rebates in the C&I programs and increasing the budgets for the Large C&I customer segment for equipment for Ohio Edison and Cleveland Electric Illuminating ("CEI"). In addition, I have other recommendations related to the shared savings proposal and bidding in the capacity component of the energy efficiency programs into the PJM Base Residual Auction.

6. Q. In its Plan, FirstEnergy requested a waiver so that it could count energy efficiency savings on an annualized basis. What is your opinion regarding whether energy efficiency savings should be counted on an annualized basis or on a pro-rata basis when they are installed?

A. Staff recommends that the savings from energy efficiency programs should be counted for the full year in the year in which energy efficiency measures are installed. This convention, known as an annualized basis, makes it easier and less costly from an accounting standpoint to keep track of energy efficiency savings. Under the pro-rata method, FE and its contractors would need to keep track of measure installation on a daily basis to accurately account for savings on a pro-rata basis. The tracking that is necessary to implement a pro-rata process is inefficient and expensive. It is less costly, and more efficient to keep track of installations on an annualized basis.

7. Q. Could you please describe the difference between this 3-year Energy Efficiency Portfolio Plan and the one that is currently in effect for FirstEnergy?

A. This 3-Year Energy Efficiency Portfolio Plan essentially embodies the same or similar programs as FE's previous plan, except there is an inclusion of additional measures in most of the programs. Also, some programs have also been consolidated, which should allow for more administrative efficiencies. The addition of more measures should give more opportunities for customers to participate and make it easier for the FirstEnergy Operating Companies to reach their annual benchmarks and potentially exceed them.

8. Q. Are the FirstEnergy Operating Companies Energy Efficiency Portfolios expected to be cost-effective based on the TRC test?

A. Yes. The 3-year Portfolio Plan put forward by the Company has one of the most cost-effective ex-ante analyses of all the Ohio distribution utilities. The Staff is expecting that, in implementing this Plan, FE will be able to improve the performance of its EE programs in the currently proposed Plan, relative to what has occurred in the first portfolio plan.

9. Q. What type of program issues occurred in the implementation of first FirstEnergy's EE portfolio plan that concern you?

A. Staff is aware of two FirstEnergy portfolio programs that had issues/problems and both programs are related to lighting. The first one was the residential CFL program and the second one was the Commercial Lighting program for both Large and Small customers. Staff does not intend to revisit all of the issues related to these programs. Staff, however, believes that FE should have learned what to avoid in terms of program design and ways to improve delivery going forward, and Staff hopes the same or similar issues do not arise in future programs.

10. Q. Does Staff have any issues with the currently proposed programs by the Company?

A. Yes. The Staff has an issue with the size of the budgets allocated to the C&I EE Equipment Program–Large for both the Ohio Edison and CEI relative to the budgeted amount to be spent in the Toledo Edison service territory. Commercial and Industrial lighting still happens to be one of the largest sources for procuring energy efficiency for the Companies. There also appears to be an imbalance in the opposite direction for the budgeted amount to be spent on peak demand reduction programs for both the Ohio Edison and CEI relative to the Toledo Edison Operating Company. Staff recommends that the budgeted amounts to be spent toward the Large C&I Customer EE Equipment Program sector for the Ohio Edison and the CEI be increased relative to the proposed amount to be spent in the same customer segment for Toledo Edison.

11. Q. What methodology do you recommend that FirstEnergy use to determine how much to increase the budgeted amounts for the Ohio Edison and CEI?

A. I recommend that FirstEnergy increase the budgeted amounts for the Large C&I Customer Equipment Program segment by the relative amount of the estimated square footage of those customers in the Ohio Edison and CEI relative to those in Toledo Edison service territory.

12. Q. Do you understand that the Company has recommended more flexibility in its plan to be able to shift funds between programs within a class with this new EE portfolio?

A. Yes. However, fund shifts are usually limited to 25% of the total within a class. Further, FE is required to seek Commission approval it intends to exceed to this 25% amount. Therefore, Staff recommends that the fund increases discussed above in the Large C&I Customer EE Equipment Program for both Ohio Edison and CEI be included when the Plan is approved, rather than reallocating approved budgeted dollars later.

13. Q. Are there any problems that the Staff is aware of regarding the Companies current C&I prescriptive lighting rebate programs?

A. Yes. Approximately a year ago, Staff learned that rebates were initially set too high for 4 ft. T8 linear lighting replacements at $.80/watt and that the initially approved budgets for the Ohio Edison and CEI were being depleted quickly. Shortly thereafter, rebate levels were adjusted downward to the current $.05/kwh, but they were taking to long to process (i.e. to be paid out). Staff does not want to see is an overwhelming successful program being cut-off due to the lack of budgeted funds. This likely would have a chilling effect on customers to trust the Companies on other energy efficiency programs now and in the future.

14. Q. Do you have any recommendations regarding the processing of C&I prescriptive rebates for the Companies?

A. Yes. Due to the Staff's concerns about C&I prescriptive rebate application being timely processed, Staff recommends that FE or its selected contractors time-stamp rebate applications when they are received by FE. If there are any deficiencies in applications, FE should send a letter to the customer within 10 days of receiving the application. This letter should specifically notify the customer of the deficiencies and how these deficiencies can be remedied. After the customer has provided a corrected application, and completed the project and submitted all the necessary paper work, the Company should complete its review process and submit rebates to customers within 45 days. Implementing this quicker processing time will lead to better customer satisfaction with the prescriptive rebate program. Staff further recommends that FE create and submit to Staff a log report of the Companies processing of C&I customer prescriptive applications and payments after each quarter, starting when the EE Portfolio is approved by the Commission in this case.

15. Q. Do you have any other recommendations regarding the Companies C&I prescriptive rebate programs?

A. Yes. I would recommend that the Companies do ex-post C&I customer participation satisfaction surveys to receive feedback regarding what problems/issues customers experienced in interacting with the Companies in their prescriptive rebate programs. The Companies can use this feedback to improve the administration of the C&I EE prescriptive programs going forward.

16. Q. Do you have any other recommendations regarding the Companies Small and Large Customer C&I audit program?

A. Yes. In general, I think the audit payout amount should be increased to $5,000 instead of the proposed $4,000. Many smaller C&I customers do not have the budget to pay out for the initial audit. FE should include some sort of customer incentive and penalty mechanism so that the audit recommendations are likely to be implemented. To date, FE has stated that it has experienced a poor conversion rate in its C&I audits in its Pennsylvania distribution utilities. The Staff recommends that FE impose some financial reimbursement on customers who do nothing within six months of the audit completion. Customers that do install the Companies' prescriptive measures should be able to reduce any potential audit reimbursement costs on a dollar for dollar basis.

Also, in some cases the audit costs may be much higher for larger C&I customers due to the size and complexity of the audit. In these cases, the Staff would recommend that FE pay up to 50% of the audit costs. These customers could reduce their remaining 50% of the audit costs by installing the Companies prescriptive measures on a dollar for dollar basis. In any event, FE should be following up closely with those customers who have applied for and accepted an audit. FE account representatives should have regular contact with customers soon after they have had an audit completed. This will help increase the conversion rate of customers implementing energy efficiency.

17. Q. Do you have any opinion regarding FE's proposed shared savings incentive mechanism described in Mr. Erin Demiray's testimony?

A. Yes. In general, the Staff is supportive of FE's proposal, but the Staff is concerned about the magnitude of the after-tax incentive of 13% of the adjusted net benefits for exceeding the annual benchmarks by greater than 115%. Staff would recommend that the maximum Incentive Percentage be set at 10% after-tax for compliance greater than 125% of the adjusted net benefits. The reason for this is that shared savings mechanisms should only be set marginally above what the Companies would earn from any alternative investments. If the comparable alternative investment would be generation, it is not likely that those returns are very high in the current environment. However, generation returns have varied over time. The following table is Staff's recommendation for the percentage shared savings for exceeding the annual benchmark for each of the FE Operating Companies.

Incentive Tier	Compliance Percentage	Incentive Percentage
1	< 100%	0.0%
2	100 - 110%	3.0%
3	110 – 115%	5.0%
4	115 – 120%	7.5%
5	➢ 125%	10.0%

18. Q. What should be the adjusted baseline by which the net benefits earned from energy efficiency programs be determined?

A. The Staff recommends that each of the FirstEnergy Operating Companies use a baseline that removes the historical self-direct mercantile consumption and the associated savings from these applications in determining the shared savings incentive. In this way, shared savings are better related to actions taken by the Companies in order to exceed the annual energy efficiency benchmarks. Also, only those transmission and distribution projects that were implemented primarily for energy efficiency purposes should be included in the determination of net benefits as well. However, FE should be able to count any approved historical mercantile self-direct projects and T&D projects that are approved by the Commission towards its annual goal and for the purposes of banking savings.

19. Q. Do you recommend that the Total Resource Cost (TRC) test or the Utility Cost (UC) test be used for determining the percentage of the net shared savings retained by the Companies above the annual benchmarks?

A. The Staff recommends that the UC test be used rather than the TRC test because the Utility Cost test encourages the Companies on keeping the administrative program costs and rebates as low as possible in order to achieve the maximum shared savings above compliance while reducing total utility costs to all customers. The optimal economic outcome of any energy efficiency effort, whether mandated or not, would be to reduce the total costs to all consumers. In Ohio, the State has mandated certain threshold levels for energy efficiency. It is Staff's goal to keep the costs of complying with these requirements as low as possible. This implies the "searching out" for the minimal incentive levels to induce retail customers to invest in energy efficiency.

20. Q. Do you think there should be an absolute cap on the annual after-tax earnings the Companies can receive from the shared savings in this EE Portfolio plan?

A. In general, no. That is because the Significantly Excessive Earnings Test (SEET) already functions as a sufficient cap for any of Ohio's electric distribution utilities earnings. The purpose of a shared savings mechanism is to incentivize electric distribution utilities to go beyond the minimum statutory mandates of SB 221. An absolute annual cap on FE may disincentivize FE from implementing EE measures that go beyond the minimum statutory requirements. Staff believes the SEET trigger to be the natural cap for the Companies in this case.

21. Q. Do you have any recommendations as to whether the Companies should be required to bid-in the capacity component of its energy efficiency programs and any other peak demand reduction programs such as ELR into the PJM Base Residual Auction for future planning years?

A. Yes, the Staff recommends that the FirstEnergy Companies be required to bid-in any capacity reductions obtained from its planned energy efficiency and peak demand reduction programs into the PJM Base Residual Auction next May and in future BRAs. The Staff recommends that FE mitigate both the price and performance risk by being a price taker, i.e. bidding in $0 and 75% of its projected capacity reductions. If FE falls short of its cleared bid amount, it can purchase its obligations in the residual incremental PJM auctions. At the present time, the incremental auctions have been lower in price than the results from the original BRA. Any revenues received by the FE Operating Companies from the BRA auction should be credited back to the appropriate DSE Rider. It is possible that FE could share in any revenues received from the PJM auctions so long as the amount cleared and delivered into PJM exceeded the annual peak demand reduction benchmark for an FE Operating Company.

22. Q. Do you have any other issues regarding the Companies assumptions used in this EE Portfolio plan?

A. Yes. Staff is concerned about a few issues. The first one is the repeated use of the T&D avoided costs by the Companies of $20/kw/yr. with no supporting work indicating how these costs were developed. These are also the same T&D avoided costs used in the Companies last EE Portfolio Cases from 3 years ago. The Staff recommends that FE provide an avoided T&D cost study from actual projects that it knows that the Companies will likely be implementing over the next 5 years and then escalate those costs from that point going forward. This will provide for a more accurate value of the Companies avoided costs than just using a flat $20/kw/yr. in the present case.

23. Q. What is your opinion regarding the Companies proposal that they be able to count for purposes of peak demand reduction demand resources participating in the PJM Market for the applicable year without the need to contract for those resources?

A. The Staff is not in agreement that the Companies statement that they may be able to count peak demand resources in the applicable year for those resources that have not been committed to the Companies by the mercantile customer. Mercantile customers that are or will be participating in the PJM capacity markets may or may not commit such demand resources to the Companies. Such agreements may end up being contractual involving some form of financial compensation. Otherwise, the Companies are still responsible to acquire peak demand reduction resources that comply for each annual benchmark.

24. Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Gregory C. Scheck, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the following parties of record, this 9th day of October, 2012.

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