



## **II. Argument**

### **A. The Commission's Order is unreasonable because it is inconsistent with the stated policy goals of encouraging energy efficiency and distributed generation.**

Because the Commission opened this docket expressly for the purpose of considering “modifications to Ohio electric utilities’ rate structures [that] would better align utility performance with Ohio’s desired public policy outcomes,” the first question that should be asked here is what is in fact the desired public policy outcome? The goal should be to encourage energy efficiency and distributed generation. This goal is outlined in Ohio Revised Code (“R.C.”) § 4928.66 and explained in the Commission’s initial Entry: “Ohio’s policy goals [include] competition, increased energy efficiency, and encouraging distributed generation.”

In terms of encouraging efficiency, any movement toward SFV rates sends customers the wrong signal about their usage. When a utility moves revenue recovery from the usage charge to customer charge it means that customers pay more each month regardless of usage. A simple example highlights the issue. Assume, for example, a current customer has a bill of \$100 per month, with \$30 going to the fixed monthly charge and \$70 going to the usage charge (per kWh). If the consumer decides to take advantage of a utility energy efficiency program and reduces their usage, but the monthly charge increases to \$50, then this reduces the benefit of their efficiency efforts. ELPC believes that this sends customers the wrong signal and is inconsistent with the Commission’s stated purpose for opening this docket and considering changes to the rate design structure.

Another issue is that utility rates have always reflected a fairness in how costs are split between high usage customers (cost causers) and low usage customers. All customers benefit from the utility system and their connection to the grid, and they pay for that benefit in the fixed monthly service. However, the largest users generally cause higher rates because their higher

electricity usage means we need more power plants and more power at peak times.<sup>2</sup> Thus, the more kWhs customers use, the higher their bills. By moving guaranteed revenue into the fixed customer charge, the PUCO changes this balance and sends customers the signal that energy efficiency is less important.

Under the current format, utilities know in advance what their energy efficiency savings targets will be in future years, and in rate cases ELPC supports using future test years that adjust customer usage to reflect efficiency gains. Under the simple formula of taking utility capital costs and expenses and dividing that by customer usage, lowering the customer usage adjusts for the loss of revenue from efficiency. Moreover, under traditional ratemaking, utilities always have an incentive to cut their costs (in other words, become more efficient), and when they do so that increases their profits. Hence, moving more revenue into the customer charge not only sends customers the wrong signal, it reduces utilities' incentive to reduce their costs.

The Commission's Order does not reflect that efficiency programs have reduced utility revenues to the point that they are under-recovering and need a rate case. However, if in fact they are under-recovering they should file for a rate case and the PUCO can adjust the projected demand accordingly. If the Commission believes that more action should be taken to adjust for efficiency, then decoupling is a preferable adjustment to straight fixed variable rates. Under decoupling the PUCO would conduct a true up every year to adjust the utility revenues for any loss from lower sales. However, and this is the key factor, it would also adjust if customer usage increases because of weather or other factors. For example, if Ohio experiences greater than average summer temperatures, usage may rise despite all efficiency efforts; if that is the case, then under a decoupling structure customers would be entitled to a refund. Under straight fixed

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<sup>2</sup> We acknowledge that some large usage commercial customers have a consistent load that does not increase at peak times and makes them easy to serve. The current rates reflect that as well.

variable rates, customers would pay both a higher monthly charge and a higher usage charge. Hence, while ELPC favors the current ratemaking framework with adjustments for anticipated lower usage to reflect increased efficiency, it supports decoupling over straight fixed variable rates.

**B. The Order is unreasonable because the Commission did not adequately consider stakeholder comments or explain its decision.**

In concluding that utilities should utilize the SFV rate design, the Commission ignores the arguments made by many of the commenters in this case. As explained by the Commission, the Ohio Consumer and Environmental Advocates (“OCEA”) “argue[d] that the SFV rate design should not be adopted because it would have an adverse effect on the objective of increasing energy efficiency, would . . . have a detrimental effect of the use of environmentally-friendly distributed generation, and would decrease customers’ investments in energy efficiency.”<sup>3</sup> FirstEnergy agreed, explaining that “an SFV rate design diminishes the customer incentive for EE/PDR participation [and] will result in shifting of costs from higher-usage customers to lower-usage customers.”<sup>4</sup> Other commenters, such as Duke and AEP-Ohio, also recognized the potential cost-shifting problems associated with SFV.

Despite these well-supported comments in opposition to SFV, the Commission determined in the Order that, “given the comments filed in this proceeding, as well as recent experience by the natural gas utilities, the rate structure that may best accomplish these policy goals is the SFV rate design.”<sup>5</sup> The Order does not respond to the many concerns of commenters regarding SFV, nor does it provide sufficient explanation for its conclusion. As explained above

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<sup>3</sup> Finding and Order at 7.

<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at 19.

and in the comments of stakeholders, SFV is inconsistent with Ohio's policy goals of energy efficiency and distributed generation.

### **III. Conclusion**

For the reasons set forth above, ELPC respectfully requests that the Commission grant rehearing and reconsider its endorsement of the SFV rate design.

Respectfully submitted,

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## CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Application for Rehearing*, submitted on behalf of the Environmental Law & Policy Center, was served by electronic mail upon the following Parties of Record, this 20<sup>th</sup> day of September, 2013.

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