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 Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan	:	Case No. 14-1297-EL-SSO

PREFILED TESTIMONY
OF

GREGORY C. SCHECK

RATES AND ANALYSIS DEPARTMENT
FORECASTING, MARKETS & CORPORATE OVERSIGHT DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit _____

September 18, 2015

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INTRODUCTION

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, 43215-3793.

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

A. I am a Utilities Specialist 3 in the Forecasting, Markets and Corporate Oversight Division of the Rates and Analysis Department. I have been responsible for analyzing issues and providing recommendations pertaining to electric utility energy efficiency programs, including peak demand reductions, demand response, and smart grid 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 smart grid utility issues. I have testified and provided Staff comments in numerous cases before the Commission. I hold an M.A. in Economics from Ohio University.

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

A. The purpose of my testimony will be to address a few areas of the electric security plan (ESP) filing of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company (collectively the Companies or FirstEnergy). Those areas include the Companies' Community Connections Program, the elimination of all time-of-day rates for standard service offer (SSO) customers in the smart grid pilot area, payments to be made to various organizations for energy efficiency and low income customers, the resurrection of the Economic Load Response Rider (Rider ELR) in the December 22, 2014 stipulation,[1] and the inclusion of a special time-of-use rate for certain well-defined customers listed in the companies' second stipulation and recommendation filed on June 4, 2015.[2]

COMMUNITY CONNECTIONS – LOW INCOME PROGRAM

5. Q. Can you please summarize your knowledge of the Companies' Community Connections Program?

A. The Companies' Community Connections Program helps low income, qualifying customers to reduce their electric bill through an in-home energy

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[1] *In Re FirstEnergy*, Case No. 14-1297-EL-SSO (Stipulation and Recommendation) (Dec. 22, 2014) (Stipulation).

[2] *In Re FirstEnergy*, Case No. 14-1297-EL-SSO (Second Stipulation and Recommendation) (Jun. 4, 2015) (Second Stipulation)

use evaluation and energy-savings home improvements. The Companies have had this Community Connections Program for a number of years, during which time it has been administered by the Ohio Partners for Affordable Energy (OPAE). The Companies' ESP IV application indicates a funding level of $5 million per year over the life of the ESP. This is at the same level of funding for the Companies' prior ESP term.

6. Q. Has the Community Connections Program been implemented efficiently?

A. That question is difficult to answer because the performance of the Companies' Community Connections Program has been administered by OPAE, rather than the Companies, for quite some time. Therefore, it would be difficult to determine if the Community Connections Program administered by OPAE has been efficiently run. However, the reported impacts of the verified ex-post savings done by ADM Associates in May, 2014 on behalf of the Companies have come fairly close to the Companies' projected ex-ante savings for the program. Still, the Staff does not know if these savings were achieved in the most cost-effective and efficient manner.

7. Q. What would you recommend the Companies do with respect to the Community Connections low income program?

A. The Staff does not believe that the Community Connections Program has been competitively sourced in the past. The Staff recommends that the

Community Connections Program be competitively bid out as a way to achieve the maximum of savings per dollar spent by the Companies to acquire the benefits of reducing low income customers bills. In many cases, low income customers are percentage of income payment plan (PIPP) customers as well, so reducing their costs through the Community Connections Program would also net a reduction in the costs paid by all other customers who pay into the universal service fund that funds the PIPP program.

8. Q. What are possible ways in which the Community Connections Program could be bid out?

A. I know of two possible ways in which the Community Connection Program could be bid out; however there may also be others. The Companies could structure the bid to have bidders provide the maximum savings through the leveraging of a set amount of utility dollars (*e.g.* $5 million/year) for the Community Connections Program or the Companies could structure the bid to have bidders achieve a certain amount of minimum annual savings at the lowest bid cost. Through either of these bidding processes, in many cases the utility funds used to service energy efficiency programs for low income customers could be leveraged with other sources to increase the savings to these customers. There may be other bid structures that could work as well. If the Commission were to require the Companies to use a bid process for their Community Connections Program, it should direct the Companies to inform the Staff what bid structure was selected, who won the bid, and the projected savings.

RIDER ELR PROVISIONS

9. Q. According to the Companies' stipulation filed in this case on December 22, 2014, the Companies are proposing to resurrect and expand the Rider ELR for qualified customers with a few modifications.[3] Does the Staff agree with the Rider ELR modifications in the filed stipulation?

A. The Staff does not agree that the Interruptible Credit Provision be continued at the $5/kW/month credit for qualified curtailable load. The Companies proposed that this credit continue to be recovered through the Demand Side Management and Energy Efficiency Rider 1 (Rider DSE1). This means that the customers who are paying for Rider DSE1 costs would be subsidizing those customers would receive the Interruptible Credit.

Staff believes that any Rider ELR customers under ESP IV should receive their compensation for providing interruptible service through the current PJM demand response tariffs. The Companies have previously offered Rider ELR interruptible load through PJM's base residual auction (BRA) or

[3] Stipulation at 7-9.

incremental capacity auctions. Staff believes that this is the appropriate place for the Companies and Rider ELR customers to receive compensation for the benefits of providing emergency interruptible service. By using this mechanism, instead of the one proposed by the Companies, it would eliminate this part of the rider and reduce the cross-subsidies paid by other FirstEnergy retail distribution customers.

Staff also notes that all customers who receive the $5/kW/month interruptible credit automatically receive a $5/kW/month economic development credit. The Staff does not see any reason why those customers that take the interruptible provision under Rider ELR should also automatically qualify for the Economic Development Rider (EDR) credit provision and *vice-versa*. They are two independent concepts or provisions that may or may not intersect with each other.

Furthermore, the Staff recommends that the EDR credit for Rider ELR customers be eliminated as well. In general, the purpose of any economic development rider is to create or retain jobs. Staff is not aware of any new jobs being created or retained from the Companies by Rider ELR customers through the current ESP III period. This has become another subsidized credit provided to Rider ELR customers that has not demonstrated any new or retained job growth. If a Rider ELR customer can demonstrate that there will be economic hardship (*e.g*. the closing of a business) caused by the loss of this credit, the customer and the Companies should make their case through other mechanisms available to them.

Finally, the Companies should not be offering Rider ELR service to those customers that are not taking generation service from the Companies. Those customers that have elected to go with a competitive retail electric service (CRES) supplier would most likely have chosen this option to save money relative to the SSO. Conversely, they should not be given the opportunity to come back to their SSO provider for subsidized Rider ELR credits. It is unreasonable that all distribution customers should subsidize shopping customers for what is effectively generation service. The Staff does not oppose the Companies offering RTO demand response service for any qualified FirstEnergy SSO customer, but all settlements should be performed through the PJM process, inclusive of all revenue sharing and any penalties for non-performance between the Companies and the participating customers.

10. Q. What do you mean by qualified FirstEnergy retail SSO customers?

A. What I mean by qualified retail SSO customers are those FirstEnergy SSO customers that have at least 100 kW of demand and also have an interval meter that can measure the customers' demands to qualify as a demand response resource in PJM.

11. Q. Why do you specify the minimum level of 100 kW of demand?

A. This is the same minimum level that PJM currently requires for participation of demand resources in the capacity markets.

12. Q. The Companies propose utilizing the long run cost of new entry (CONE) method for compensating Rider ELR customers for offering interruptible service. Do you think the CONE method is the appropriate way to derive credits for Rider ELR customers?

A. No. The cost of CONE represents the estimated costs of bringing on a new combustion turbine to meet peak demand requirements. CONE credit is an administratively-determined value, not a market-based one. This may be a more appropriate method for those utilities which are still vertically integrated and were intending on building a combustion turbine to meet their jurisdictional customers' peak demand. Ohio has left this cost-of-service model for some time. FirstEnergy cannot assume that it will be serving generation for all of its retail distribution customers in the near future and that such an implicit contract exists between them. Therefore, Staff does not support the CONE method for compensating Rider ELR customers for offering interruptible service. Compensation should come through the mechanisms provided through the PJM wholesale markets. In addition, the Companies' ESP is intended to be short term in nature, *i.e.* in the main, three years in length, therefore the short term PJM capacity market would be the most appropriate way to compensate Rider ELR customers. Rider ELR customers may be short term in nature as well.

RATE DESIGN – GENERAL SERVICE – PROVISION (RIDER EDR)

13. Q. What is Staff's recommendation with respect to the Companies' proposed General Service – Transmission (Rate GT) provision of Rider EDR through the ESP IV period?

A. In their currently filed application, the Companies propose to phase down the charges for Rider EDR over the ESP period. The Staff does not support the phase-down of the Rider EDR as shown in the Stipulation, but the Staff would support this phase-down approach if it was modified to a phased out approach. Therefore, Staff would support the proposal only with the added recommendation that the Companies phase out Rider EDR and state specifically that the charge would be $0.00 beginning June 1, 2019.

TIME OF USE RATES AND THE SMARTGRID OHIO PILOT PROJECT

14. Q. Do you support the elimination of the time-of-use rates for the Companies' SSO customers?

A. No, not entirely at this time. The Cleveland Electric Illuminating Company (CEI) has invested millions of dollars in their smart grid Ohio pilot just east of the Cleveland area. Even though the pilot is quite small, approximately 34,000 customers, the Staff believes that CEI should continue to offer a time-of-use rate with a Critical Peak Pricing (CPP) component to these customers for the foreseeable future. It is primarily in this way that those SSO customers in CEI's smart grid pilot can receive any direct benefits by shifting or reducing their higher cost peak loads. The Staff recommends that CEI continue to offer this service to its SSO customers until such time as other CRES suppliers are offering this or a similar type of service to those customers in the pilot area. From Staff's perspective, this would also be in compliance with the Commission's decision in the Retail Markets Investigation Case (Case No. 12-3151-EL-COI) that the electric distribution utilities should offer time-differentiated rates through their AMI/smart grid programs and recover their costs through their AMI/smart grid riders.

15. Q. In the Companies' Second Supplemental Stipulation and Recommendation filed on June 4, 2015 they have agreed to deploy a Commercial High Load Factor ("HLF") Experimental Time-of Use rate. Does the Staff have any concerns regarding the rate proposal?

A. Yes, the rate design requires that several criteria be satisfied before the rate offering is applicable. Specifically, the Companies propose that the rate design be restricted to: 1) commercial customers; 2) with headquarters in Ohio; 3) that have at least 30 facilities in the Companies' combined service territories; 4) with each facility consuming a minimum of 1.5 GWh annually; 5) have refrigeration as a major portion of the load; 6) with individual facilities having interval metering; 7) an average monthly load factor during the preceding 12 months of 70% or higher; and 8) must otherwise be served under the Companies' General Service – Secondary (GS) or General Service – Primary (GP) rate schedules. Staff believes these requirements to be onerous. Staff believes that any customer in the two rate classes identified by the Companies (i.e. Rate GS and Rate GP) should be eligible for this rate design offering. Staff understands the general purpose of experimental rate designs to be to encourage as many customers as possible in the rate classes to which it is offered be able to participate. Encouraging low load factor customers to improve their load factor through a time-of-use rate is a positive thing for all customers in the class as well as the participating customer itself. However, a rate design that can only be participated in by one or a few customers is more properly addressed in a reasonable rate arrangement.

16. Q. On pages 10-15 of the Stipulation, the Companies list a number of parties who are to receive a monetary payment or benefit from the Companies over

the ESP period. Do you have an issue with any of these monetary payments?

A. Yes. To the extent these costs are recovered from other or all ratepayers and there are no clear or specified benefits returning to all ratepayers, the Staff does not support cost recovery through any riders. This does not preclude the Companies from moving forward and supporting these payments from their own shareholders.

17. Q. Are there some agreements that the Staff may find acceptable within the Stipulation's list of beneficiaries in this section?

A. Potentially, yes. Specifically, Staff could find acceptable a financial agreement with the Council of Smaller Enterprises (COSE) and an agreement with the Association of Independent Colleges and Universities of Ohio (AICUO), if subject to the following changes.

With respect to the COSE agreement, Staff is cognizant that small businesses create many of the new jobs in Ohio. The provisions surrounding the COSE agreement may likely provide benefits to DSE1 customers. For example, although the Companies are willing to commit to perform 200 ASHRAE Level II audits, presumably to COSE members, over a 3-year period, audits by themselves do not necessarily lead to investment into energy efficiency. There would need to be some other form of a supplemental agreement between the Companies and COSE audit participants that would provide a nexus between the audits and investment into energy efficiency or process improvements.

The agreement with AICUO could be made acceptable if there is an explicit showing as to how these customers are going to implement cost-effective energy efficiency, rather than just using the funds only to encourage and educate AICUO members.

The Staff would recommend that both COSE and AICUO provide an annual report describing and detailing the benefits provided to all FirstEnergy customers that would be paying for these costs if they are approved by the Commission.

OTHER AREAS OF NOTE

18. Q. Do you have any other observations related to your review of the Companies' application and supplemental materials filed in this case?

A. Yes, I do. Staff presents no opinions on this language, but simply notes that Staff believes the Commission should be aware that the Stipulation proposed by the Companies and various signatory parties lists a $4.00 per kVA charge assigned to the Material Science Corporation through the ESP term. Due to the Companies' addition of this language, Staff simply notes it and brings it to the attention of the Commission for its review and analysis.

19. 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 by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 18th day of September, 2015.

/s/ Steven L. Beeler

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