Company Exhibit_______

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter Of The 2014 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	)	Case No. 13-2173-EL-RDR
In The Matter Of The 2015 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	)	Case No. 14-1947-EL-RDR
In The Matter Of The 2016 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	)	Case No. 15-1843-EL-RDR
In The Matter Of The 2017 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	)	Case No. 16-2167-EL-RDR
In The Matter Of The 2018 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	)	Case No. 17-2277-EL-RDR

DIRECT TESTIMONY OF

EREN G. DEMIRAY

ON BEHALF OF

OHIO EDISON COMPANY
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
THE TOLEDO EDISON COMPANY

June 22, 2020

INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Eren G. Demiray, and my business address is 76 South Main Street, Akron, Ohio 44308. I am the Manager of the Reporting Group in the Energy Efficiency Department of FirstEnergy Service Company.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. For the past 19 years, I have been employed either by FirstEnergy Service Company or other FirstEnergy Corp. ("FirstEnergy") subsidiaries. During this time, I have held positions in Customer Services, Sales & Marketing, Price Forecasting & Market Analytics, Business Analytics, and Rates & Regulatory Affairs. In 2009, I began working as an Analyst in the Compliance & Development group in the Energy Efficiency Department. In 2012, I was promoted to Manager of the Energy Efficiency Reporting Group, my current position. I hold a Bachelor of Arts degree in Psychology, Classical Humanities, and Ancient Greek from Miami University, and a Master of Business Administration degree with a Finance concentration from Kent State University.

Q. WHAT ARE YOUR CURRENT JOB DUTIES AND AREAS OF RESPONSIBILITY?

A. I lead a team that is primarily responsible for developing regulatory filings that report progress and demonstrate compliance with state laws or regulatory commitments related to Energy Efficiency ("EE") and Peak Demand Reduction ("PDR") programs for the FirstEnergy utilities in Maryland, New Jersey, Ohio, Pennsylvania and West Virginia. In addition, the reporting team develops, maintains, and administers the utilities' centralized energy efficiency tracking & reporting repository that houses transactional data related to energy efficiency activity for all of the utilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?

A. Yes. I have provided direct and rebuttal testimony in support of portions of the Companies' 2013-2015 Energy Efficiency and Peak Demand Reduction ("EE/PDR") Portfolio Plans and 2017-2019 EE/PDR Portfolio Plans that were the subject, respectively, of Case Nos. 12-2190-EL-POR, *et al*. and 16-743-EL-POR. I also regularly appear before the Maryland Public Service Commission on EE and PDR matters.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony addresses the recovery by Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, the "Companies") through the Demand Side Management and Energy Efficiency Rider ("Rider DSE") of certain EE/PDR program costs for years 2014 through 2018, inclusive (the "Review Years"). Specifically, I address the following topics raised in Staff's Review and Recommendation for the Review Years:

- the recovery of program costs in 2015 and 2016 that were incurred in previous calendar years, which Staff characterizes as "out-of-period expenses;"
- the inclusion of fully-loaded labor costs, including the cost of employee incentive plans, in Rider DSE as authorized by the Commission in the Companies' EE/PDR Portfolio Plan proceedings and the Companies' fourth Electric Security Plan proceeding, Case No. 14-1297-EL-SSO ("ESP IV");

- the recovery of meal, refreshment and miscellaneous expenses directly incurred in support of EE/PDR programs; and
- aspects of Staff's recommendation to limit the recovery of lost distribution revenue.

<u>OUT-OF-PERIOD EXPENSES</u>

Q. WHAT ARE THE "OUT-OF-PERIOD" EXPENSES THAT STAFF RECOMMENDS SHOULD BE DISALLOWED IN 2015 AND 2016?

A. In the Staff Report for Case No. 14-1947-EL-RDR, Staff recommends disallowance of $12,331 for what Staff characterizes as "out-of-period expenses" from 2014. In the Staff Report for Case No. 15-1843-EL-RDR, Staff recommends disallowance of $63,379 in "out of period" expenses incurred in 2013 and 2014. Staff did not find that any of these costs were imprudently incurred or otherwise not directly related to the Companies' EE/PDR programs.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDED DISALLOWANCE?

A. No. All charges included in the rider and identified by Staff were directly related to offering EE programs in line with Commission approval in Case Nos. 12-2190-EL-POR, *et al*. The expenses were incurred in offering the programs identified in the Companies' approved EE/PDR Plans and were covered within the scope and total dollar value of budgets approved by the Commission.

Q. WHY WERE THESE "OUT-OF-PERIOD EXPENSES" INCLUDED IN RIDER DSE FOR COLLECTION?

A. These expenses were incurred by the Companies for conducting EE programs in their Commission-approved EE/PDR Portfolio Plans for 2013-2016. As explained further by

Companies' Witness McMillen, Rider DSE is the rider through which the Commission authorized the Companies to recover these expenses.

Q. HOW DO YOU RESPOND TO STAFF USING THE CALENDAR YEAR AS THE RELEVANT PERIOD FOR BOTH INCURRING AND COLLECTING EE/PDR EXPENSES?

A. As part of the Rider DSE calculation, estimated costs of implementing Section 4928.66, Revised Code, are included for recovery on a projected basis, and subsequently trued-up and reconciled to actual expenses once they are known and recorded by the Companies. It is not appropriate to only recognize those expenses incurred and collected within a calendar year. Doing so runs counter to the Companies' approved Rider DSE tariff and reconciliation process described by Companies' witness McMillen, and would place undue constraints on the ability of the Companies to offer effective efficiency programs.

Staff's report in Case No. 14-1947 identifies $12,331 in "out of period" expenses. This amount is almost entirely the net impact of accrual reversals and expenses that were recognized in January and February of 2015. The Companies, in the course of running their efficiency programs and in line with standard business principles, accrued in 2014 for estimated liabilities of vendor services in the procurement of MWh associated with 2014 energy efficiency program activities. The accruals were subsequently reversed and replaced with actual expenses when the true costs were known and invoiced by the vendors in early 2015. This general accrual/reversal practice is necessary to align program expenses and savings for energy efficiency portfolio reporting and cost-effectiveness tests.

Staff's report in Case No. 15-1843-EL-RDR identifies $63,379 of out-of-period expenses. This amount is the result of adjustments made by the Companies to correct prior accounting and properly identifies the actual costs of running their energy efficiency programs. It consists of costs incurred in the provision of energy efficiency programs but previously not recognized as such and therefore not recovered through Rider DSE.

In both cases, disallowing these true-up transactions because they were recognized after the energy efficiency portfolio program year(s) with which they are associated would cause the Companies to forego recovery of valid program expenses, contrary to the plain language of their Rider DSE tariffs. Further, if timing alone would subject these types of true-up transactions to potential disallowance, it would create an environment that discourages performing program activities near the end of the calendar year due to the risk of not receiving the associated invoice until the following year.

Q. WERE THE EXPENSES CHALLENGED BY STAFF AS OUT-OF-PERIOD EXPENSES APPROPRIATE FOR COLLECTION THROUGH RIDER DSE?

A. Yes. All of the costs ultimately charged were directly related to the Companies' energy efficiency programs and are appropriately recovered under Rider DSE pursuant to the Commission approved tariff. As noted above, Staff did not find these costs were imprudently incurred or otherwise not directly related to the Companies' EE/PDR programs.

SHORT TERM INCENTIVE PROGRAM COSTS

Q. WHAT IS THE INCENTIVE PAY THAT STAFF RECOMMENDS SHOULD BE DISALLOWED IN 2018?

A. For the 2018 review year, Staff found that Short-Term Incentive Program ("STIP") incentive pay was ineligible for recovery and recommended disallowance of incentive expenses totaling $190,425. Staff concluded that the STIP is entirely a financial goal because safety and operational incentives are paid only if the financial threshold is achieved to cover a STIP payout. Staff also questioned portions of the safety and operations goals that are related to the Companies' financial performance, generation activities, and/or non-distribution related activities.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION TO DISALLOW ALL INCENTIVE PAY IN 2018?

A. No. The EE/PDR portfolio plan approved by the Commission in Case No. 16-743-EL-POR includes costs associated with all dedicated labor for the administration and implementation of the Companies' EE/PDR programs which include, among other items, the estimated expense of benefits and incentive programs for employees directly supporting the Companies' EE/PDR programs. Standard labor rates are charged to the Companies and recovered through Rider DSE. The standard labor rates do not vary based on the STIP earnings goal performance referenced by Staff in its 2018 Report. There is no legitimate basis for carving out of the standard labor rate some or all of the estimated expense based on Staff's distinction between financial and non-financial incentives. Indeed, the actual STIP payments, which in 2018 were significantly higher than the estimated expense, were not included in the labor rate and not recovered through Rider DSE. Thus, Staff's focus on the financial and non-financial incentives that impact actual STIP payments is irrelevant here.

Q. PLEASE EXPLAIN HOW DEDICATED LABOR COSTS ARE RECOVERED THROUGH RIDER DSE.

A. Rider DSE cost recovery in 2018 included charges for employee compensation that directly supports the Companies' EE/PDR programs that were authorized by the Commission in each of the applicable EE/PDR Portfolio Plans. Standard labor cost estimates, which included all direct compensation as well as costs of benefits such as, but not limited to, STIP, health care, insurance, etc., were included in the Utility Administration category of the Companies' Portfolio Plan budgets for 2018 that were approved by the Commission as reasonable in Case No. 16-0743-EL-POR. Further, the Third Supplemental Stipulation approved by the Commission in ESP IV provides: "All costs incurred, including dedicated energy efficiency/demand response internal labor, for such programs shall be recovered through Rider DSE." The reference to "such programs" is to the Companies' EE/PDR Portfolio Plan programs, including their 2017-19 Portfolio Plans. The STIP expenses are dedicated EE/PDR internal labor costs incurred for such programs.

Q. WHAT ACTION SHOULD THE COMMISSION TAKE ON STAFF'S RECOMMENDATION REGARDING THE STIP?

A. The Commission should reject Staff's recommendation. Indeed, if the Commission were to accept Staff's recommendation and examine the impact of financial and non-financial incentives on actual STIP payments made to EE employees in 2018, this could expose customers to more charges as actual 2018 STIP payments exceeded the amounts included in the standard labor rate.

MEALS, REFRESHMENTS AND MISCELLANEOUS EXPENSES

Q. IN 2014, 2015, 2016 AND 2018 STAFF RECOMMENDS AN ADJUSTMENT TO EXCLUDE CERTAIN MEALS, FOOD, DRINKS, AND OTHER EMPLOYEE EXPENSES. DO THE COMPANIES AGREE?

A. No. Staff recommends the disallowance of meal and refreshment expenses incurred in these years. However, because energy efficiency-dedicated staff and management is located throughout the states of Ohio, Pennsylvania, Maryland and New Jersey, it is necessary and appropriate to travel for meetings where topics of discussion include the Ohio portfolio plan progress, plan changes, plan reporting, strategic planning, and vendor coordination. Reasonable meals and refreshments are sometimes provided to facilitate those meetings in line with business unit policy as this promotes meeting efficiency and reduces administrative burden when compared to having individual employees submit travel expenses through alternate means. Rider DSE includes only the portion of these costs directly associated with the Companies' energy efficiency and peak demand reduction programs, and thus, are appropriately included for recovery.

<u>LOST DISTRIBUTION REVENUE</u>

Q. WHAT LIMITATIONS DID STAFF RECOMMEND REGARDING THE COLLECTION OF LOST DISTRIBUTION REVENUE?

A. Staff recommends the Commission set a time limit on the Companies' authorization to collect lost distribution revenue, proposing that the period over which energy savings of any given project are recognized for lost distribution calculations should be limited to a maximum of three years. According to Staff, its recommended three-year period "would be consistent with the period of time in which the saved energy would appear in the Companies' baselines." As explained in the testimony of Companies' witness Fanelli, this recommendation is unrelated to the purpose of these audits, and contradicts the plain language of tariffs, as well as stipulations signed by Staff and approved in the Companies' electric security plan ("ESP") proceedings.

Q. WHAT IS YOUR RESPONSE TO THE RECOMMENDATION THAT LOST DISTRIBUTION REVENUE SHOULD BE LIMITED TO THREE YEARS, CONSISTENT WITH THE COMPANIES' THREE-YEAR BASELINE?

A. The Companies' baselines are irrelevant to calculating lost distribution revenue. The Companies' three-year baseline is used to determine average annual sales for the purpose of calculating energy efficiency savings targets for statutory compliance. The baseline has nothing to do with determining distribution revenues lost by the Companies, and there is no basis for linking the two.

Q. HOW ARE THE COMPANIES' ENERGY EFFICIENCY BASELINES CALCULATED?

A. The Companies' energy efficiency baseline is based on the average of the total kilowatt hours the Companies sold in the preceding three calendar years, adjusted for weather, special contracts and customer opt outs, consistent with 4928.66, Revised Code.

Q. DO THE COMPANIES' BASELINES INCLUDE ENERGY EFFICIENCY SAVINGS EXTENDING MORE THAN THREE YEARS INTO THE PAST?

A. Yes. The annual total kilowatt hours included in the Companies' baseline would include reductions from the impacts of energy efficiency measures dating back to when those measures and associated energy efficiency savings first arose from the Companies' programs. These energy efficiency savings are not subsequently lost after three years or reconstituted back into the baseline calculation. For example, a customer that implemented an energy efficiency measure, such as a high efficiency industrial motor installation, is not going to switch back to its old low efficiency motor after three years. As a result, energy efficiency reduces the level of sales reflected in the Companies' baselines for all years going forward. Thus, Staff's assertion that saved energy appears in the Companies' baselines only for three years is incorrect.

Q. WHAT WERE THE COMPANIES' EXPECTATIONS, GIVEN THAT THE COMMISSION HAD AUTHORIZED FULL COLLECTION OF LOST DISTRIBUTION REVENUE IN THE VARIOUS ESPs?

A. Because lost distribution revenue collection was not limited by dollar amount or time period, the Companies aggressively implemented their EE/PDR programs, resulting in a weighted average compliance of over 200% at the end of 2018, ranging from 182%-229% among the Companies. Had recovery been limited to a three-year time period, the Companies' strategy and actions would have been different.

CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. I reserve the right to supplement my testimony.