The Public Utilities Commission of Ohio

Thomas W. Johnson, Chairman

Energy Mandates Study Committee
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Ohio | Public Utilities Commission

Chairman Balderson, Chairman Stautberg, members of the committee, thank you for the opportunity to serve on and provide testimony to the Energy Mandates Study Committee on behalf of the Public Utilities Commission of Ohio.

My name is Tom Johnson and I serve as chairman of the PUCO. The PUCO is comprised of five commissioners, and is staffed by professional engineers, economists, accountants, attorneys, auditors and safety investigators. The PUCO is responsible for, among other things, ensuring access to adequate, safe and reliable service to Ohio's utility consumers.

I want to express my gratitude to the Members of the General Assembly for my inclusion as an ex officio member of this committee. I am happy to be here and to serve as a resource. Before I begin my comments, I want to note that during the study committee many of the topics to be considered may also come before the Commission, and therefore, for legal reasons, I may have limitations in discussing such matters. That being said, I hope to be as helpful as possible when called upon for the PUCO's expertise and knowledge.

As you know, I have been asked to report information available to the PUCO regarding payments made by electric distribution utilities to third-party administrators to promote energy efficiency and peak demand reduction to comply with statutory obligations. These requirements were first established by Senate Bill 221 in 2008.

As an initial matter, let me describe a third-party administrator. These are organizations that partner with utilities to find potential qualifying energy efficiency work or projects that will assist a utility in meeting its statutory obligations. Such administrators are often trade associations who are able to help facilitate finding energy efficiency savings through their unique relationships with and knowledge of their members' operations.

In addition to procuring energy efficiency achievements, third-party administrators may also help educate their members about the benefits of energy efficiency and the availability of rebates. These third-party administrators are what the remainder of my comments will discuss.

The PUCO first observed the use of third-party administrators as part of settlement agreements in electric security plan (ESP) cases. Settlement

agreements are typically called stipulations when they are before the Commission. An electric security plan is a utility's three-year plan that ultimately determines the structure and methods by which it will supply electricity to its customers. A utility must submit an application to the PUCO, and after an extensive, open and inclusive hearing process, the plan is then subject to Commission approval.

A stipulation is a negotiated arrangement that is the result of bargaining among the parties in a case, much like an agreed-upon bill here at the Statehouse. Any group can intervene in cases before the PUCO so long as they show a real and substantial interest in the proceeding. Stipulations, once agreed upon, are filed publically in the case record and are ultimately subject to Commission approval. All stipulations go through the same rigorous review.

For example, in FirstEnergy's initial ESP stipulation was agreed to or unopposed by all 30 parties in the case. FirstEnergy agreed to use third-party administrators to commit energy efficiency savings and peak demand reductions on behalf of their members.

Generally speaking through stipulations, third-party administrators may be afforded lump sum, periodic, or performance-based payments in exchange for their services. Instances vary case-by-case, but are often tied to performance. Performance is measured as a nominal amount for every kilowatt hour of actual realized energy savings. These performance payments to third-party administrators are paid by the utility, whose expenses are recovered directly from ratepayers.

Over the previous five years, FirstEnergy paid approximately $5.5 million to various third-party administrators. The administrators delivered approximately 507 million kilowatt hours saved at an average cost of about 1.1 cents per kilowatt hour.

American Electric Power (AEP Ohio) has similar arrangements with third-party administrators as well; and was also established in a stipulation through negotiations between parties.

Since 2009, AEP Ohio paid administrators approximately $845,000 to deliver an annual savings of over 328 million kilowatt hours at an average cost of about a quarter of a cent per kilowatt hour.

I want to stress that these figures specifically relate to the third-party administrators' role in assisting utilities meet their statutory obligations, and represent only a slice of the larger energy efficiency conversation.

Chairmen and fellow members of the committee, thank you for the opportunity to participate in this important study committee.