

The Public Utilities Commission of Ohio

Thomas W. Johnson, Chairman

Energy Mandates Study Committee

December 8, 2014



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

As you know, my name is Tom Johnson and I serve as the chairman of the Public Utilities Commission of Ohio. My intention today is to answer many of the questions the Committee raised during my testimony on November 24.

In an attempt to best address your concerns, I have organized the questions into subject matter categories of costs to ratepayers and riders, third-party administrators, jobs and the PUCO's analysis of the U.S. EPA's Clean Power Plan. As I discussed with Chairmen Balderson and Stautberg, the PUCO will defer answering some questions until a later date, as these require further time for review and analysis. For example, to answer the more complicated questions about increased grid congestion and advanced energy, we simply need more time.

First I'll address the issue of the cost to ratepayers to comply with alternative energy and energy efficiency requirements. The PUCO would in main part direct you to riders to demonstrate the costs to ratepayers.

Riders are generally single-issue mechanisms designed to transparently recover specific costs. They are advantageous from a regulatory perspective because they allow the PUCO to examine specific costs without going through a lengthy distribution rate case process. In addition they allow for periodic reviews to ensure accuracy, and that only appropriate costs are being recovered by ratepayers. Often times riders are per kilowatt charges, but can also be fixed monthly charges, or a percentage of other costs. It is also important to note that a rider can provide a credit to customers. You also requested a list of the riders currently in place for electric distribution

utilities. You will find that list included with other attachments to my testimony.

With regard to alternative energy, both electric distribution utilities and competitive retail electric suppliers must annually show a certain percentage of their sales that come from renewable energy sources. To achieve compliance with these requirements, electric utilities and suppliers purchase renewable energy credits, or RECs, from PUCO-certified renewable generators. The costs of these RECs are determined by the open market between buyers and sellers. I have provided a chart as an attachment labeled as **Exhibit A**, illustrating the 2012 report to the General Assembly regarding the average costs of RECs. The electric utilities and suppliers must demonstrate to the PUCO that they fulfilled their statutory requirements annually. The PUCO verifies and audits purchases of RECs from all companies that serve load in Ohio. In the case of utilities, costs are passed onto ratepayers of electric distribution utilities through alternative energy riders. Customers pay a per kilowatt hour charge assessed in each monthly bill, depending on their utility service territory and customer rate class. The average monthly charge for alternative energy riders is \$0.001142 per kilowatt hour and the average monthly charge for energy efficiency and peak demand reduction riders is \$0.007225 per kilowatt hour. Average monthly costs for the alternative energy riders are demonstrated in the attachment labeled **Exhibit B**. This particular type of rider is known as bypassable, which means that if a customer selects a competitive retail electric supplier they no longer pay the alternative energy rider charged by the electric distribution utility.

As I previously noted, competitive retail electric suppliers also must comply with renewable benchmarks, and comply the same way—by purchasing RECs. Competitive retail electric suppliers' rates are not set or approved by

the Commission; therefore, they account for all of their costs in their price offers.

The cost to comply with energy efficiency and peak demand reduction standards works slightly differently. To better understand what qualifies to meet the energy efficiency and peak demand reduction standards, I'll define both. Energy efficiency (EE) means to reduce the amount of electrical energy consumed while maintaining, or improving the customer's existing level of functionality. Peak demand reduction (PDR) is the electrical energy usage reduction which the utility company is capable of achieving through actions taken by their customers at specific times. Because energy efficiency and peak demand reduction requirements apply only to electric distribution utilities, these costs are recovered through a nonbypassable rider. A nonbypassable rider is recovered from all customers of an electric distribution utility regardless of whether they shop for electric generation with the exception of those mercantile customers that pursued a rider exemption pursuant to provisions found in Senate Bill 221. The associated energy efficiency and peak demand reduction riders vary by utility and rate class. As an example, costs for residential customers range from \$0.00189 to \$0.0045666 per kilowatt hour. Using a residential average usage of 750 kilowatt hours per month that amounts to \$1.42 to \$3.42 per monthly bill. I've provided you with a breakdown of the energy efficiency rider costs based on average usage for all of Ohio's electric distribution utilities in the attachment labeled **Exhibit C**. However, I would keep in mind that people would debate whether all the costs in the EE/PDR riders are actually costs related to the mandates. I am providing you with total bill impacts range from 1.82% to 4.75%, as demonstrated in the attachment labeled **Exhibit D**.

This brings me to another cost question specifically raised by Senator Seitz at the last meeting. On the Industrial Energy Users of Ohio's website there is a cost calculator that allows users to input their monthly kWh usage, select

their utility and rate class and have a monthly cost calculated that they are billed for compliance with the energy efficiency requirements. At your request we have looked into the calculations and results of the calculator and we believe they are correct.

Additionally, I was asked about the difference between payments made to third-party administrators and the shared savings that utilities receive for exceeding their energy efficiency targets. It is important to note that while both relate to energy efficiency, these two items are unrelated. Third-party administrators are essentially a tool electric utilities use to implement requirements, and shared saving is an incentive mechanism for utilities to exceed requirements.

Payments made to third-party administrators are made for contracting energy efficiency savings. These administrators partner with utilities to find and coordinate potential qualifying energy efficiency work or projects that will assist a utility in meeting its statutory energy efficiency obligations.

Shared savings is a mechanism to incent the utilities to achieve energy efficiency beyond what is statutorily required. When a utility administers its portfolio plan and is able to exceed its statutory requirements, it is also able to share in the cost savings that its customers will experience from the energy savings. The PUCO has reviewed each utility's energy efficiency and peak demand reduction programs and determined that, thus far, the programs of each utility are cost effective. In other words, the total energy cost savings of the customers, in the aggregate, exceeds the total costs of the programs. Shared savings returns a portion of this savings to the electric utility when the electric utility exceeds the statutory mandates.

Regarding what savings data is monitored -- the PUCO does evaluate all costs associated with energy efficiency achievements, including payments to

third-party administrators and utilities are required to provide the PUCO with accurate data.

You also expressed interest in the data that utilities provide the PUCO, specifically related to the use of third-party administrators. The PUCO receives detailed information and data from public utilities (and from competitive suppliers) on a daily basis. Many times, the utility or other entities will claim that the information is confidential through trade secret or other legal protections. Before the PUCO publically releases or shares information of this nature, the PUCO requests the utility assert and make clear their legal grounds for protection of the information. In some instances, a utility is required to file a request for a protective order from the PUCO. Information is only kept confidential if there are legal grounds for keeping the information private. The list of third-party administrators has been determined to be public information, as this was part of the original case record. I have provided this as an attachment labeled Exhibit E.

I want to acknowledge another topic that was brought up at our last meeting. Several members of the committee wanted to know how many jobs have been created through the renewable and energy efficiency requirements. I do not have an answer to this question. As a regulatory agency, tracking and verifying jobs, whether they be green jobs or otherwise, is not considered by any PUCO processes. Nor does the PUCO have any reliable method by which it would do so.

I understand it may be of great interest to members of this committee and can offer some personal insight into the issue. My understanding is that there is no widely accepted definition of a green job. What one may consider to be, another may not.

As you know, the PUCO recently conducted technical analysis of the Clean Power Plan proposed by U.S. EPA earlier this year. The PUCO concentrated

its analysis on the plan's effect on the electric grid with a focus on costs of implementing the plan as well as the potential impact on grid reliability. Our comments were submitted last Monday, December 1. I have provided you with a copy of these comments, as an attachment to my written testimony labeled as **Exhibit F**.

Within our comments, the PUCO highlights concern that the Clean Power Plan conflicts with the Federal Power Act, and jurisdiction that Congress has vested to the Federal Energy Regulatory Commission (FERC), and subsequently through the FERC, regional transmission organizations like PJM Interconnection.

In their comments to U.S. EPA, the Ohio Attorney General and the Ohio Environmental Protection Agency raise targeted arguments on the legality of the Clean Power Plan.

The PUCO cannot predict with certainty when the Clean Power Plan will be finalized, however in accordance with the federal notice of proposed rulemaking that was filed in June 2014, U.S. EPA will issue a final rule in June 2015.

Although the Clean Power Plan's compliance period is set to commence in 2020, it is of course possible that the timing and implementation structure may change with the final rule. Potential legal challenges over the final rule may impact the implementation of the Clean Power Plan, particularly if a stay is issued by the courts.

Chairmen and fellow members of the committee, thank you for the opportunity to participate in this important study. If you or members of the committee have questions about this topic, my staff and I will be happy to answer your questions.

2012 Report to the General Assembly for Renewable Pricing

Category	Ohio Electric Distribution Utilities	Ohio Competitive Retail Electric Service Providers
	Avg. \$/REC	Avg. \$/REC
Ohio Solar	\$212.23	\$195.93
Other Solar	\$58.75	\$104.99
Ohio Non-Solar	\$33.51	\$13.08
Other Non-Solar	\$24.93	\$2.04

REC cost data were not provided by APN Starfirst, Border Energy Services, Dominion Retail, Energy Plus Holding, FirstEnergy Solutions, GDF Suez, Glacial Energy, Hess Corporation, Independence Energy Group, Linde Energy Services, Texas Retail Energy, or Verde Energy USA Ohio.

Alternative Energy Rider (AER) Typical Bill Cost as of December 4, 2014

Customer Class	AEP		Dayton Power & Light	Duke Energy	FirstEnergy		
	Columbus Southern Power	Ohio Power			Cleveland Electric Illuminating	Ohio Edison	Toledo Edison
Average Residential	\$ 1.31	\$ 0.77	\$ 0.62	\$ 0.27	\$ 1.30	\$ 1.01	\$ 0.77
Average Commercial	\$ 506.52	\$ 298.65	\$ 248.04	\$ 109.20	\$ 501.60	\$ 388.20	\$ 297.30
Average Industrial	\$ 9,928.80	\$ 5,854.20	\$ 4,960.80	\$ 2,184.00	\$ 9,738.00	\$ 7,536.00	\$ 5,778.00

Average Residential typical usage 750 kWh

Average Commercial typical usage 300,000 kWh

Average Industrial typical usage 6,000,000 kWh

Energy Efficiency and Peak Demand Rider (EE/PDR) Typical Bill Cost as of December 4, 2014

Customer Class	AEP		Dayton Power & Light	Duke Energy	FirstEnergy		
	Columbus Southern Power	Ohio Power			Cleveland Electric Illuminating	Ohio Edison	Toledo Edison
Average Residential	\$ 3.42	\$ 3.42	\$ 3.43	\$ 2.58	\$ 3.31	\$ 2.37	\$ 1.42
Average Commercial	\$ 1,001.70	\$ 1,001.70	\$ 762.27	\$ 501.00	\$ 512.40	\$ 582.30	\$ 948.90
Average Industrial	\$ 5,719.80	\$ 5,719.80	\$ 13,050.60	\$ 10,020.00	\$ 5,076.00	\$ 14,496.00	\$ 15,606.00

Average Residential typical usage 750 kWh

Average Commercial typical usage 300,000 kWh

Average Industrial typical usage 6,000,000 kWh

Alternative Energy and Energy Efficiency / Peak Demand Rider as a Percentage of Estimated Total Bill as of December 4, 2014

Customer Class	AEP		Dayton Power & Light	Duke Energy	FirstEnergy		
	Columbus Southern Power	Ohio Power			Cleveland Electric Illuminating	Ohio Edison	Toledo Edison
Average Residential	3.61%	3.20%	DPL	Duke-Ohio	4.75%	3.54%	2.25%
Average Commercial	3.59%	3.09%			2.80%	3.04%	3.54%
Average Industrial	2.47%	1.82%			2.63%	4.11%	3.89%

Average Residential typical usage 750 kWh

Average Commercial typical usage 300,000 kWh

Average Industrial typical usage 6,000,000 kWh

Third Party Administrators

FirstEnergy Ohio

Council of Small Enterprises (COSE)

County Commissioners Association

Industrial Energy Users-Ohio (IEU)

Ohio Hospital Association (OHA)

Ohio Manufacturers' Association (OMA)

Ohio Schools Council

Roth Brothers

The E Group

Association of Independent Colleges and Universities (AICUO)

AEP – Ohio

Ohio Hospital Association (OHA)

Ohio Manufacturers' Association (OMA)

Dayton Power and Light Company

Ohio Hospital Association (OHA)

Ohio Manufacturers' Association (OMA)

DUKE

Not applicable