



M E M O R A N D U M

Date: November 30, 2020

To: The Ohio Manufacturers' Association

From: John Seryak, PE and Ryan Schuessler (RunnerStone, LLC)

RE: H.B. 6 Decoupling Provision Update – An \$85 Million Increase Beginning Jan. 1, 2021

H.B. 6's abstruse decoupling provision will increase some Ohioans' electricity bills by \$85 million beginning January 1, 2021. The cost increase will be fully borne by residential and small commercial and industrial customers in FirstEnergy's electric distribution territories in Ohio, unlike other H.B. 6 provisions that impact customers across the state. FirstEnergy filed the so-called decoupling rate increase on November 3, 2020 with the Public Utilities Commission of Ohio, increasing the collection of its Rider CSR from \$17 million in 2020, to \$102 million in 2021, as shown in Table 1.¹

Collection Year	Base Distribution Revenue Decoupling	Lost Revenue Decoupling	Total Decoupling
2020	\$ 21,916,065	\$ (4,795,659)	\$ 17,120,406
2021	\$ 35,382,840	\$ 66,495,247	\$ 101,878,087
Year-over-Year Increase	\$ 13,466,776	\$ 71,290,905	\$ 84,757,681

Table 1. FirstEnergy Decoupling Year-Over-Year Rate Increase

The rate increase is fully borne by residential customers and small commercial and industrial customers, including small-to-mid-sized manufacturers, small businesses like restaurants and lodging, but also churches and schools. Table 2 shows typical costs these customers will pay for H.B. 6's decoupling provision in 2021. Electricity users with higher voltage service are exempt from the decoupling charges.

	2021 Decoupling Cost (\$/year)
Small Manufacturer	\$ 2,500
Lodging	\$ 1,350
School	\$ 1,320
Restaurant	\$ 420
Small Retail	\$ 400
Church	\$ 160
Residential	\$ 40

Table 2. H.B. 6 Decoupling Customer Impact

¹ In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Approval of a Decoupling Mechanism, Case No. 19-2080-EL-ATA



FirstEnergy's decoupling rider provides no benefits to customers and offsets no costs. Thus, it will accrue to FirstEnergy as bottom-line profit. House Bill 772, which is currently before Ohio's General Assembly, could halt the cost collection if it is passed with an emergency clause yet this year.

The decoupling rate increase is about \$15 million greater than we previously estimated in our memo of August 20, 2020.² In this memo we estimated H.B. 6's decoupling provision to cost customers \$355 million from 2020 – 2024. The 2021 increase in one component of decoupling, "lost revenue", was expected and accurately estimated in our previous memorandum. However, the increase in the base distribution revenue component of the decoupling rider was much greater than we had estimated, likely due to decreased electricity sales from milder weather and from the COVID-19 pandemic.

H.B. 6's decoupling provision is a distortion of a complex electric policy concept. Our September 17, 2020 memorandum provides an overview of a typical decoupling policy and how H.B. 6's version deviates from standard practices.³

Customers and policymakers may find interesting a broader view of H.B. 6's decoupling provision, with the context of a prior law change from 2014's controversial Senate Bill 310 (S.B. 310), and a post-H.B. 6 *sua sponte* action of Ohio's public utility Commissioners.

A significant component of the H.B. 6 decoupling provision is that it allows "revenue resulting from implementation of 4928.66 of the Revised Code, excluding program costs and shared savings" in select cases.⁴ In effect, this opaque language allows FirstEnergy to collect \$66 million per year in revenue from "lost distribution" sales associated with FirstEnergy's energy efficiency programs, in addition to the decoupled base distribution revenue. What readers should know is that this \$66 million is itself unusual. It is likely FirstEnergy can collect this much lost distribution revenue due to a series of law changes to how energy-efficiency was "counted" by the electric utilities. The changes occurred in the controversial Senate Bill 310, signed into law on June 13, 2014. The law changes benefitted electric utilities at the cost of customers, by allowing the electric utilities to receive credit for customer efficiency investments of which the utility was not involved, and charge customers back for "lost distribution revenue". At the time, these "counting provisions" were billed by proponents as cost saving actions. The OMA rightly warned that these provisions could be used to create new costs to customers.

² Seryak, J. and Worley, P., "H.B. 6 Decoupling Provision – \$355 Million for FirstEnergy through 2024, Possibly Millions More", Memorandum to the Ohio Manufacturers' Association, August 20, 2020, [https://ohiomfg.informz.net/ohiomfg/data/images/-%20OMA%20MEMO%20-%20HB%206%20Decoupling%20-%20FINAL%20\(Aug.%2014,%202020\).pdf](https://ohiomfg.informz.net/ohiomfg/data/images/-%20OMA%20MEMO%20-%20HB%206%20Decoupling%20-%20FINAL%20(Aug.%2014,%202020).pdf)

³ Seryak, J. and Worley, P., "H.B. 6's Decoupling Provision – A Primer on Decoupling and How H.B. 6 Decoupling Benefits FirstEnergy by Deviating from Best Practices", Memorandum to the Ohio Manufacturers' Association, September 17, 2020, <https://ohiomfg.informz.net/ohiomfg/data/images/-%20HB%206%20Decoupling%20101%20Memo%20-%2009.17.2020%20-%20FINAL.pdf>

⁴ Ohio Revised Code, Section 4928.471 Application to implement a decoupling mechanism.



After the passage of H.B. 6, the Commission acted in its own accord in a manner that stands to greatly benefit FirstEnergy, and only FirstEnergy. H.B. 6 limited the duration of this decoupling, stating, “the decoupling mechanism shall remain in effect until the next time that the electric distribution utility applies for and the commission approves base distribution rates for the utility.” At the time, for FirstEnergy, this would have taken place in late 2024. After the passage of H.B. 6 however, the PUCO lifted the requirement that FirstEnergy file a base distribution rate case until such time as FirstEnergy decides to. In effect, this will allow FirstEnergy to collect millions of dollars in unearned revenue via decoupling in perpetuity. It is unusual for the PUCO to act in this manner. This change was not formally requested by FirstEnergy in a filing, received no hearing, required no presentation of evidence, and allowed for no customer intervention. The Commission did not appear to act on a recommendation from their own staff. Instead, this financial windfall to FirstEnergy appears to be the initiated by the five Commissioners of the PUCO.

Typical Decoupling Costs

Table 3 presents assumptions for typical customer types that will pay FirstEnergy’s decoupling charge, Rider CSR. For non-residential customers charged Rider CSR, much of the charge is allocated to monthly demand, but only that exceeding five kilowatts (kW). We used a ballpark load factor⁵ for these customer types to estimate monthly demand. Since specific rates vary between the three Ohio FirstEnergy Distribution Companies (Ohio Edison, Cleveland Electric Illuminating, and Toledo Edison), we average these rates to calculate the impact to a typical FirstEnergy customer. For example, the costs to an example small manufacturer would be:

$$1,000,000 \text{ kWh/year} \times \$0.000788 / \text{kWh} + (285 \text{ kW} - 5 \text{ kW}) \times 12 \text{ months} \times \$0.5083 / \text{kW-month} = \$2,498 / \text{year}$$

	Load Factor (%)	Example Typical Energy Use (kWh/year)	Example Typical Demand (kW)	2021 Decoupling Rate (\$/kWh)	2021 Decoupling Rate (\$/kW)	2021 Decoupling Cost (\$/year)
Small Manufacturer	40%	1,000,000	285	\$ 0.000788	\$ 0.5083	\$ 2,498
Lodging	60%	708,400	135	\$ 0.000788	\$ 0.5083	\$ 1,350
School	35%	487,790	159	\$ 0.000788	\$ 0.5083	\$ 1,324
Restaurant	50%	206,544	47	\$ 0.000788	\$ 0.5083	\$ 420
Small Retail	35%	156,332	51	\$ 0.000788	\$ 0.5083	\$ 404
Church	20%	45,245	26	\$ 0.000788	\$ 0.5083	\$ 163
Residential		8,751		\$ 0.004947	\$ -	\$ 43

Table 3. H.B. 6 Decoupling Customer Impact Assumptions

Example energy use for each commercial customer type was derived from US Department of Energy’s Commercial Building Energy Consumption Survey (CBECS) and residential energy use is the average FirstEnergy residential customer energy use according to the US Energy Information Administration. Small manufacturer energy use varies widely, and our example small manufacturer is for illustrative purposes.

⁵ Load factor is the relationship between energy use and demand, expressed as Load Factor (%) = annual energy use (kWh/year) / (peak load (kW) x 8,760 hours/year)