

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)	
Energy Ohio, Inc., for Approval of a)	Case No. 11-5905-EL-RDR
Distribution Decoupling Rider)	
)	
In the Matter of Aligning Electric)	
Distribution Utility Rate Structure with)	Case No. 10-3126-EL-UNC
Ohio's Public Policies to Promote)	
Competition, Energy Efficiency and)	
Distributed Generation.)	

PROPOSAL IN RESPONSE TO COMMISSION ORDER OF DUKE ENERGY OHIO, INC.

I. Introduction

This proceeding was initiated by Duke Energy Ohio, Inc. (Duke Energy Ohio) with the filing of an application for approval of a decoupling rider on December 8, 2011. After receiving comments and reply comments, the Public Utilities Commission of Ohio (Commission) issued its Opinion and Order (Order) approving the application subject to modifications. The Commission directed that the Company work with stakeholders to prepare a detailed proposal regarding the type of data proposed to be obtained, how the data will be obtained, and metrics to evaluate the success of the pilot program. Further, the Order stated that the proposal should be filed in Case No. 10-3126-EL-UNC within six months of the issuance of the Order.

Duke Energy Ohio and its interested stakeholders appreciate the ability to provide input on the type of data, how the data will be obtained, and metrics to evaluate the success of the pilot revenue decoupling program. While Duke Energy Ohio has addressed the questions put forth in

the Commission's Order, Duke Energy Ohio will continue to work with stakeholder through the Duke Energy Community Partnership to develop additional means to evaluate the decoupling mechanism pilot and will share those with the Commission in the future as they are vetted and implemented. The information, data and analysis provided by Duke Energy Ohio will be on an aggregate rate class basis and the Company will not be reporting any individual customer usage or billing data.

Below, please find the Company's responses, proposed methodologies and data sources that will be used to address the Commission's questions included in the Attachment to its May 30, 2012, Order. The responses were developed with the input of interested stakeholders.

II. Responses

1. Has the decoupling mechanism had any discernible impact on customer shopping habits?
 - a. **Type/Method:** Given that the decoupling mechanism is designed to decouple distribution revenues, and the mechanism will be recovered or credited to all customers in the participating rate classes regardless of generation service provider, the decoupling mechanism should not have a discernible impact on customer shopping habits. Since the decoupling rider will be seen by customers in the form of a non-bypassable charge for all customers within the participating classes, the Company will have no way to isolate or control for any impact that decoupling mechanism may have on shopping behavior.

- b. **Source:** Duke Energy Ohio will continue to track and report shopping statistics within its service territory during the term of the decoupling pilot.
- 2. Did customers receive both refunds and surcharges under the mechanism?
 - a. **Type/Method:** Annually, during the course of the decoupling pilot, the Company will calculate the decoupling credit or surcharge that will be recovered through Rider DDR.
 - b. **Source:** Duke Energy Ohio will track the appropriate data and report the supporting calculations that were used to determine the annual surcharge or credit in Rider DDR. The first set of these calculations will be performed in early 2013 after the actual collections are determined for 2012.
- 3. What was the total distribution revenue collected each month?
 - a. **Type/Method:** The Company tracks distribution revenues collected by from each rate class. The sum of the twelve months of class distribution revenue from participating classes will be used in the calculation of the credit or surcharge to be collected through Rider DDR.
 - b. **Source:** Duke Energy Ohio will track the monthly distribution revenues collected from the participating classes by extracting the distribution revenues collected through its billing systems.
- 4. What is the total deviation in distribution revenue from the monthly target?
 - a. **Type/Method:** The Company will use its best efforts to estimate the monthly base distribution revenue for the participating customer classes.

This estimated monthly base distribution revenue will be compared to the actual distribution revenue collected by class and allow the Company to estimate and analyze the deviation from the projected monthly target.

- b. **Source:** Duke Energy Ohio will use the Company's monthly sales and customer count forecast for the purposes of converting the annualized base distribution revenue requirement established in the most recently approved distribution rate case. It will use the actual monthly distribution revenues collected from the participating classes through its billing systems for comparison.

5. What is the average customer bill impact per each rate class?

- a. **Type/Method:** The Company will apply the annual rate included in Rider DDR for each class to the annual estimated usage (kWh/year) to determine an estimate for the annual bill impact per customer for the decoupling mechanism. For purposes of estimating the impact on an overall bill, customers are assumed to be non-shoppers and taking service at the Company's SSO rates.
- b. **Source:** Duke Energy Ohio will calculate Rider DDR applicable beginning in 2013 for the 2012 calendar year. Upon calculating the annual surcharge or credit by class the Company will be able to apply the average customer usage for the class to determine the bill impact.

6. What are the total number and percent of customer complaints/inquiries regarding the decoupling mechanism?

- a. **Type/Method:** The Company will work with its Consumer Affairs Group to determine the number of escalated inquiries or complaints received regarding the application of Rider DDR beginning in 2013. The Company will also work with Commission Staff to determine if any complaints or concerns have been registered directly with the Commission.
 - b. **Source:** Duke Energy Ohio will report on an annual basis the number of escalated complaints or inquiries received by its Consumer Affairs Group regarding Rider DDR at the time of its annual filing to update the surcharge or Credit to be recovered through Rider DDR.
- 7. Has the decoupling mechanism had any effect on Duke's energy efficiency budget and results for the effected rate classes, independent of the increasing benchmarks?
 - a. **Type/Method:** Due to the aggressive nature of the mandated energy efficiency benchmarks, the Company has planned and budgeted toward achieving and exceeding its annual benchmark independent of the decoupling mechanism. Prior to the approval of the decoupling pilot, the Company was able to recover lost distribution revenues from the customers now included in the decoupling pilot, so Duke does not believe the decoupling mechanism will have any impact on the Company's energy efficiency program budgets.
 - b. **Source:** Duke Energy Ohio will report on an annual basis its actual program energy efficiency program spending in its annual true-up of Rider EE PDR.

8. Did the decoupling mechanism result in energy efficiency budget shifts between residential and commercial rate classes?
 - a. **Type/Method:** The Company does not believe that the decoupling mechanism will have any impact on the energy efficiency budgets by customer class. While only residential customers and very small commercial customers are included in the decoupling mechanism pilot, the Company is permitted to collect lost distribution revenues from non-residential customers in rate classes DP, DS, and TS through the mechanism provided for in Rider EE PDR. Since the volumetric disincentive to offer EE Programs is eliminated for all customers, albeit through two different mechanisms, the Company does not believe the decoupling pilot will have any impact related to shifting budgets between customer classes.
 - b. **Source:** Duke Energy Ohio will report on an annual basis its actual energy efficiency program spending in its annual true-up of Rider EE PDR.
9. Is there a difference in energy efficiency and peak-demand reduction program participation rates between the standard service offer (SSO) customers and the competitive retail electric service (CRES) customers? If yes, to what is this difference attributed?
 - a. **Type/Method:** The Company has not tracked participation in its EE programs by generation service provider. Since it is not a requirement for any program participation, the programs are offered to all of its distribution customers, the Company does not link generation service with

program participation in its data base. It does not believe the decoupling mechanism will have any impact on program participation regardless of generation service provider

- b. **Source:** Duke Energy Ohio does not believe it can accurately answer this question.

10. Does this decoupling mechanism achieve the desired goals? Are there better approaches to achieve desired results?

- a. **Type/Method:** Duke Energy Ohio will attempt to determine if the mechanism effectively removes the Company's disincentive to offer energy efficiency programs associated with the volumetric nature of distribution rates. Duke Energy Ohio will compare the results of the decoupling pilot for the affected customer classes with the estimated results that would have occurred if there had been lost distribution revenue collection, a straight fixed variable rate design and potentially a formulaic approach. However, this will be for illustrative purposes only, as the straight fixed variable rate design and formula rate approach will simply be based upon assumptions rather than an approved rate design or a recovery formula and the analysis will also lack the ability to recognize how either approach would impact price signals to customers. Duke Energy Ohio will also compare the actual decoupling adjustment to the adjustment that would have occurred had the Company compared *non-weather adjusted* actual revenues to the revenue requirement, instead of

using weather-adjusted revenues in the calculation of over- and under-recovery.

- b. **Source:** Duke Energy Ohio will undertake to model a hypothetical straight fixed variable rate design, based upon its most recent rate case and actual sales, to estimate what would have been recovered from customers. It will also estimate what the lost distribution revenues would have been by multiplying the actual energy efficiency impacts achieved through its programs by the non variable O&M component of the volumetric distribution rate. Finally the Company will apply its actual distribution costs and distribution sales to a formula rate to establish an estimate of what the rate would be charged to customers.

- 11. How well does this decoupling mechanism work compared to other mechanisms, i.e., a fixed customer charge for distribution or a formulaic approach? Provide a comparison of the bill impacts of this decoupling mechanism to a straight fixed variable mechanism for low-, average-, and high use customers in the affected rate classes.

- a. **Type/Method:** Duke Energy Ohio will compare the results of the decoupling pilot for effected customer classes with the estimated results that would have occurred with lost distribution revenue collection, a straight fixed variable rate design and potentially a formulaic approach, however, this will be for illustrative purposes only, as the straight fixed variable rate design and formula rate approach will simply be based upon assumptions rather than approved rate design or a recovery formula and

the analysis will also lack the ability to recognize how either approach would impact price signals to customers.

- b. **Source:** Duke Energy Ohio will go through the exercise of modeling what a hypothetical straight fixed variable rate design, based upon its most recent rate case and actual sales, to estimate what would have been recovered from customers. It will also estimate what the lost distribution revenues would have been by multiplying the actual energy efficiency impacts achieved through its programs by the non variable O&M component of the volumetric distribution rate. Finally the Company will plug its actual distribution costs and distribution sales into a formula rate to establish an estimate of what the rate would be charged to customers.

12. How would this decoupling mechanism be affected if CRES providers provided consolidated billing? If CRES providers did consolidated billing, could they incorporate this decoupling mechanism into their billing systems?

- a. **Response:** Duke Energy Ohio does not believe that the decoupling mechanism would be impacted by a CRES provider performing consolidated billing. The CRES providers consolidated bill would still need to reflect Duke Energy Ohio's Commission approved distribution charges; so, the Company does not believe that CRES Provider offering consolidated billing would impact the decoupling mechanism.

13. Would this decoupling mechanism provide for the electric distribution utility to elect not to offer generation services to retail customers?

- a. **Response:** Duke Energy Ohio does not believe that the decoupling mechanism is tied in any way to its ability or inability to offer generation service to customers under a standard service offer. The decoupling pilot is directly tied to distribution revenue requirement recovery and is completely independent of the generation service provider or generation costs.
14. Would this decoupling mechanism change if all generation was served by a CRES provider?
- a. **Response:** Duke Energy Ohio does not believe that the decoupling mechanism would change if all customers were served by CRES providers. The decoupling mechanism is directly tied to distribution revenue requirement recovery and is completely independent of the generation service provider or generation costs.
15. Is the decoupling mechanism more critical or less critical to Duke's incentive to provide energy efficiency programs depending on the source of generation supply, and if so, by how much?
- a. **Response:** Duke Energy Ohio does not believe the importance or necessity of the decoupling mechanism would vary depending on the source of generation supply. The decoupling mechanism is directly tied to distribution revenue requirement recovery and is completely independent of the source of generation service supply.
16. To what extent did having the decoupling mechanism cause Duke Energy Ohio to embrace, to a greater extent, distributed generation technologies?

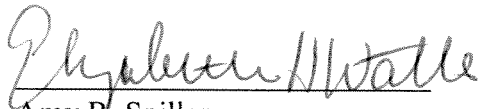
- a. **Type/Method:** Duke Energy Ohio does not believe that the decoupling mechanism will have any discernible effect on the extent to which Duke Energy Ohio embraces distributed generation. Duke Energy Ohio has been supportive of Ohio State Policy concerning distributed generation and does not foresee that changing. For participating customer classes, the decoupling mechanism would allow the Company to be made whole with respect to the under recovery of its distribution revenue requirement that could occur because of a reduction in distribution sales, but the Company does not foresee it leading to any changes with respect to its policies directed toward distributed generation.
 - b. **Source:** Duke Energy Ohio will attempt to track any increases in distributed generation in its service territory, but does not believe that it will be able to isolate the impact of decoupling versus other variables such as improving technology and increasing wholesale and retail generation prices.
17. If it matters, what is the sensitivity of the over- and under-collection amounts (in terms of dollars and in terms of percentages of volumetric distribution charges) to generation by CRES supplier and to SSO supply. That is to say, is the decoupling mechanism more critical or less critical depending on the source of generation supply, and if so, by how much?
- a. **Response:** Duke Energy Ohio does not believe importance or necessity of the decoupling mechanism would vary depending on the source of generation supply. The decoupling mechanism is directly tied to

distribution revenue requirement recovery and is completely independent of the source of generation service supply.

III. Conclusion

Duke Energy Ohio, after consulting with interested stakeholders, respectfully offers the preceding proposal to assist the Commission in its review of the Duke Energy Ohio distribution revenue decoupling mechanism pilot.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Elizabeth H. Watts", written over a horizontal line.

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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was delivered via U.S. mail (postage prepaid), personal, or electronic mail delivery on this the 29th day of November , 2012, to the following:



Elizabeth H. Watts

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