

FILE

25

RECEIVED-DOCKETING DIV

2008 JUL 31 PM 5: 08

DE-OHIO EXHIBIT _____

PUCO

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of the Application of Duke Energy Ohio for Approval of an Electric Security Plan)))	Case No. 08-920-EL-SSO
In the Matter of the Application of Duke Energy Ohio for Approval to Amend Accounting Methods)))	Case No. 08-921-EL-AAM
In the Matter of the Application of Duke Energy Ohio for Approval of a Certificate of Public Convenience and Necessity to Establish an Unavoidable Capacity Charge)))))	Case No. 08-922-EL-UNC
In the Matter of the Application of Duke Energy Ohio for Approval to Amend its Tariffs)))	Case No. 08-923-EL-ATA

DIRECT TESTIMONY OF

SANDRA P. MEYER

ON BEHALF OF

DUKE ENERGY OHIO

July 31, 2008

233329

This is to certify that the images appearing are an
accurate and complete reproduction of a case file
document delivered in the regular course of business.
Technician DM Date Processed 7/31/2008

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction and Purpose	1
II. DE-Ohio Overview.....	3
III. Background for DE-Ohio's Electric Security Plan	4
IV. Duke Energy's Long-Term Plan for Electric Service	7
V. DE-Ohio's Electric Security Plan Proposal	10
VI. State Policy for Electric Service and Aggregate Benefits of DE-Ohio's Electric Security Plan	15
VII. Introduction of Witnesses	20
VIII. Conclusion	23

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Sandra P. Meyer and my business address is 139 East Fourth Street,
3 Cincinnati, Ohio 45202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by the Duke Energy Business Services as President of Duke
6 Energy Ohio (DE-Ohio) and its subsidiary, Duke Energy Kentucky (DE-
7 Kentucky).

8 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL
9 QUALIFICATIONS.**

10 A. I earned a Bachelor of Science degree in Accounting from Louisiana State
11 University. I have completed Harvard University's Advanced Management
12 Program. I am a certified public accountant in North Carolina and Texas. I am a
13 member of the North Carolina Association of Certified Public Accountants and
14 the American Institute of Certified Public Accountants. I have served as advisory
15 director of the Houston Chapter of the Texas Society of Certified Public
16 Accountants. I am also a past regional director and past president of the Charlotte
17 and Houston Chapters of Financial Executives International, a professional
18 society of chief financial officers and other financial executives.

19 **Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.**

20 A. I joined Texas Eastern Corporation (Texas Eastern) in 1976 as a junior
21 accountant. I held positions of increasing responsibility with Texas Eastern and
22 its successor, PanEnergy Corp. (PanEnergy). I was elected vice president and

1 controller of PanEnergy in 1994, and I was named to the additional position of
2 treasurer in 1996. Following the 1997 merger of Duke Energy and PanEnergy, I
3 held various financial leadership positions with Duke Energy until 2001, when I
4 was named senior vice president of retail services. In 2003, I became group vice
5 president of customer service, sales and marketing for Duke Power, a business
6 unit of Duke Energy. I was named to my current position in April 2006.

7 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS PRESIDENT OF DE-**
8 **OHIO.**

9 A. As President of DE-Ohio, I am responsible for ensuring that our consumers continue
10 to have access to safe, reliable, and reasonably priced gas and electric service, and
11 that these services are provided in accordance with applicable federal and state laws
12 and regulations.

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

15 A. My testimony provides an overview of DE-Ohio's electric distribution business. I
16 next discuss the background for the Company's Electric Security Plan (ESP)
17 proposal. I explain DE-Ohio's long-term plan for electric service, and how the
18 ESP fits within our long-term plan. I discuss the ESP's benefits, in the aggregate,
19 compared to the market prices that consumers would otherwise have available
20 under a Market Rate Option (MRO). I also discuss how the ESP meets Ohio's
21 policy for electric service. Finally, I introduce DE-Ohio's other witnesses and
22 summarize their testimony.

23

1 **II. DE-OHIO OVERVIEW**

2 **Q. PLEASE GENERALLY DESCRIBE DUKE ENERGY CORPORATION.**

3 A. DE-Ohio is a subsidiary of Duke Energy Corporation (Duke Energy), one of the
4 largest electric power companies in the United States. Duke Energy supplies and
5 delivers energy to approximately 3.9 million consumers in five states. Duke
6 Energy owns the second largest hydroelectric, the third largest coal and the fourth
7 largest fleet of nuclear generating capacity assets in the U.S. Duke Energy is also
8 quickly becoming a leading wind developer, as I discuss later in my testimony.

9 **Q. PLEASE DESCRIBE DE-OHIO'S ELECTRIC DISTRIBUTION**
10 **BUSINESS.**

11 A. DE-Ohio serves 680,000 electric and 420,000 gas consumers in seven counties in
12 southwest Ohio, including Greater Cincinnati. According to Edison Electric
13 Institute's most recent comparative data, our electric prices are below the national
14 average. Our customer satisfaction score is at the regional midpoint, based on the
15 J.D. Power 2008 Electric Utility Residential Customer Satisfaction Study, which
16 ranked Duke Energy's Midwest operations (Ohio, Kentucky and Indiana) eighth
17 out of 15 large midwestern companies.

18 DE-Ohio's approximately 3,565 employees work at its Cincinnati
19 corporate offices, district offices, power plants and operating centers. DE-Ohio
20 owns or partially owns fifteen generating plants, principally in Ohio, with owned
21 capacity of 7,854 MWs. We own 24,000 miles of transmission and distribution
22 lines in Ohio.

23 DE-Ohio has an experienced economic development team. *Site Selection*

1 magazine recognizes Duke Energy as one of the top ten utility leaders in economic
2 development. *Site Selection* magazine ranked the Greater Cincinnati area as the
3 metropolitan area in the U.S. with the second best economic development results
4 in 2007. The area has ranked in the top ten U.S. regions for economic
5 development for the past six years.

6 We are committed to our community. Since 1996, DE-Ohio and the Duke
7 Energy Foundation, formerly the Cinergy Foundation, have contributed over \$41
8 million to Ohio charitable organizations. We budgeted \$4 million to support Ohio
9 and Kentucky charities in 2008. Our employees help lead many community
10 organizations and actively volunteer. During the 2008 Global Service Event, DE-
11 Ohio provided grants for 126 volunteer projects performed by employees, retirees
12 and their families. For example, during the July 2008 Extreme Home Makeover
13 in West Chester, 200 Duke Energy employees volunteered to help build the home,
14 coordinate community support and provide around-the-clock safety oversight.
15 DE-Ohio also supports HeatShare, a program designed to help those in need of
16 heating bill assistance.

17 **III. BACKGROUND FOR DE-OHIO'S ELECTRIC SECURITY PLAN**

18 **Q. HOW WERE DE-OHIO'S CURRENT ELECTRIC PRICES**
19 **ESTABLISHED?**

20 **A.** DE-Ohio froze its residential electric service prices for five years, and its non-
21 residential electric service prices for four years, beginning January 1, 2001, during
22 the market development period required for all utilities under the 1999 Electric
23 Restructuring Law. Before the price freeze, DE-Ohio had last increased its

1 electric rates in 1993.

2 The Commission became concerned in 2003 that the competitive retail
3 electric service market was developing slower than anticipated. Several factors
4 contributed to the Commission's concerns including: the California energy crisis;
5 electric utility and merchant generator bankruptcies/credit downgrades; the
6 August 2003 electric blackout; and the Enron scandal.

7 The Commission addressed its concerns by asking the Ohio investor-
8 owned electric distribution utilities to voluntarily submit rate stabilization plans
9 (RSPs) to establish market-based standard service offer (MBSSO) prices. The
10 Commission asked the companies to balance three factors in the RSP-MBSSOs:
11 providing price certainty for consumers, preserving the utilities' financial stability,
12 and continuing to develop a competitive retail electric service market.

13 DE-Ohio proposed an RSP-MBSSO that the Commission initially
14 modified and approved in August 2004. The RSP established generation pricing
15 through 2008. Since 2004, the RSP has been modified in proceedings before the
16 Commission, but remains in effect.

17 **Q. WHAT HAPPENED AFTER THE COMMISSION APPROVED DE-**
18 **OHIO's RSP-MBSSO IN 2004?**

19 A. Because DE-Ohio's-MBSSO represented a low market price, the competitive
20 retail electric service market continued to develop slowly. In addition, few
21 companies built new generation. Rate caps expired in certain states, such as
22 Illinois and Maryland, and consumers experienced sharp price spikes because
23 prices had been held artificially low. Some states, such as Virginia and Delaware,

1 re-regulated electric generation service. Certain stakeholders challenged the
2 Commission's legal authority to approve RSPs by filing numerous appeals to the
3 Supreme Court of Ohio.

4 In light of these factors, Governor Strickland and the General Assembly
5 worked together to pass Amended Substitute Senate Bill 221 (S.B. 221 or New
6 Electric Restructuring Law). The New Electric Restructuring Law provides that
7 electric distribution utilities may serve consumers under an ESP or MRO. The
8 Commission may approve reasonable generation prices negotiated with an electric
9 utility after considering cost and financial conditions specific to each utility, to
10 approve the new dedication of capacity to Ohio, and to approve structures
11 necessary to maintain distribution system reliability and modernization. The new
12 law also establishes alternative energy resource benchmarks permitting the
13 Commission to encourage the development of renewable energy and energy
14 efficiency resources.

15 **Q. DID THE RSP-MBSSOs ACCOMPLISH THE OBJECTIVES INTENDED**
16 **BY THE COMMISSION?**

17 **A.** Yes, to a large extent, the Commission was successful because RSPs provided
18 consumers with low stable prices. Although electric prices increased in Ohio, due
19 in part to rapidly increasing fuel prices and environmental compliance costs, the
20 increases in Ohio did not occur as sharply or as quickly as in many other states.
21 Ohio successfully avoided the significant price spikes that occurred in some other
22 states. At the same time the retail electric service market has active Competitive
23 Retail Electric Suppliers (CRES) in the DE-Ohio region.

1 Q. WHEN REVIEWING ESPs, SHOULD THE COMMISSION CONTINUE
2 TO CONSIDER THE SAME THREE FACTORS THAT WERE USED TO
3 DEVELOP RSPs?

4 A. Yes. These three factors – providing reasonable stable prices, ensuring financial
5 stability for utilities and supporting the continued development of the competitive
6 market – remain grounded in Ohio’s policies for retail electric service. The New
7 Electric Restructuring Law modified these State policies slightly but did not alter
8 these three factors as the foundation for the State policies.

9 IV. DUKE ENERGY’S LONG-TERM PLAN FOR ELECTRIC SERVICE

10 Q. PLEASE DESCRIBE DUKE ENERGY’S STRATEGIC PLANNING
11 PROCESS.

12 A. Duke Energy has a robust planning process. Keith Trent is Group Executive and
13 Chief Strategy, Policy and Regulatory Officer. He reports directly to Jim Rogers,
14 our Chief Executive Officer. The presidents of our other utility operating
15 companies and I report to Keith Trent. The Company has a mission statement and
16 strategic objectives that Duke Energy’s board of directors has reviewed and
17 approved. We develop detailed strategic plans for each individual state. The
18 presidents of each utility operating company participate in the state strategic
19 planning process which occurs annually.

20 Q. WHAT IS DUKE ENERGY’S MISSION STATEMENT?

21 A. Duke Energy’s mission statement provides:

22 *We make people’s lives better by providing gas and*
23 *electric services in a sustainable way. This requires us to*
24 *constantly look for ways to improve, to grow and to*
25 *reduce our impact on the environment.*

1 Duke Energy's mission statement is grounded in the concept of
2 sustainability which simply means doing business responsibly. When providing
3 our services, Duke Energy works to protect the environment and balance the
4 interests of our customers, employees, communities and investors, including
5 consideration of price impacts. DE-Ohio developed our long-term plan to be
6 consistent with this mission statement.

7 **Q. DID DE-OHIO IDENTIFY ANY INDUSTRY TRENDS THAT IT**
8 **ADDRESSED IN ITS LONG-TERM PLAN?**

9 A. Yes. DE-Ohio believes that the next several years will be a time of increasing
10 energy prices and growing customer demand for new service options.

11 **Q. WHAT STRATEGIC INITIATIVES HAS DE-OHIO ADOPTED TO**
12 **ADDRESS THESE INDUSTRY TRENDS?**

13 A. The Company developed four major strategic initiatives and long-term aspirations
14 to meet these industry trends:

- 15 • Modernize our generation fleet to reduce its environmental footprint;
- 16 • Expand our renewable energy portfolio;
- 17 • Deploy energy efficiency programs; and
- 18 • Develop a smart grid (SmartGrid).

19 I will discuss our progress on each of these initiatives and how the ESP fits within
20 our long-term plan.

21 **Q. WHAT ACTIONS IS DE-OHIO TAKING TO MODERNIZE ITS**
22 **GENERATING FLEET AND REDUCE ITS ENVIRONMENTAL**
23 **FOOTPRINT?**

1 A. We have invested substantial capital in our generating plants to meet
2 environmental compliance requirements in an efficient manner. DE-Ohio has not
3 built new generation in many years. However, we recently issued two requests for
4 proposals (RFPs) to expand our long-term generation supply: an RFP for
5 renewable resources and an RFP for traditional generating capacity. These RFPs
6 will allow us to meet S.B. 221's renewable energy requirements and obtain an
7 adequate supply of power for our ESP period and beyond.

8 **Q. WHAT ACTIONS IS DE-OHIO TAKING TO EXPAND ITS RENEWABLE**
9 **ENERGY PORTFOLIO?**

10 A. In addition to issuing an RFP for renewable resources, DE-Ohio has implemented
11 a green energy tariff that allows consumers to purchase power produced by
12 renewable resources. We have also installed solar energy facilities on several
13 buildings. In recognition of our efforts to develop renewable energy, Green
14 Energy Ohio named DE-Ohio as "Ohio Business of the Year 2007."

15 **Q. WHAT ACTIONS IS DE-OHIO TAKING TO DEPLOY ENERGY**
16 **EFFICIENCY PROGRAMS?**

17 A. Duke Energy is a leading proponent of energy efficiency. Jim Rogers, Duke
18 Energy's Chief Executive Officer, co-chaired the National Action Plan for Energy
19 Efficiency in 2006 and currently serves as co-chair for the Alliance to Save
20 Energy. Locally, Duke Energy belongs to the Midwest Energy Efficiency
21 Alliance and DE-Ohio actively participates in the Greater Cincinnati Green
22 Partnership and the Mayor's Climate Protection Steering Committee, whose
23 objectives include increasing the use of energy efficiency. Finally, the Duke

1 Energy Community Partnership helps design energy efficiency programs for DE-
2 Ohio's certified territory.

3 DE-Ohio was the first electric investor-owned utility in Ohio to implement
4 energy efficiency programs following deregulation. We will continue the existing
5 effective energy efficiency programs and add additional energy efficiency
6 programs in the future, as I discuss in more detail later in the context of our ESP.

7 **Q. WHAT ACTIONS IS DE-OHIO TAKING TO DEVELOP A SMARTGRID?**

8 A. DE-Ohio is deploying the SmartGrid system as discussed more fully by DE-Ohio
9 witness Todd W. Arnold. We have also developed a plan for modernizing our
10 aging distribution infrastructure, many components of which are nearing the end
11 of their useful lives.

12 **V. DE-OHIO'S ELECTRIC SECURITY PLAN PROPOSAL**

13 **Q. HOW DOES DE-OHIO'S ESP PROPOSAL FIT WITH DE-OHIO'S LONG-
14 TERM PLAN?**

15 A. We developed DE-Ohio's ESP proposal consistent with DE-Ohio's long-term
16 strategic plan. A copy of DE-Ohio's long-term plan is set forth at Part F of DE-
17 Ohio's ESP Application.

18 **Q. HOW DID DE-OHIO DEVELOP ITS ESP PROPOSAL CONSISTENT
19 WITH DE-OHIO'S LONG-TERM PLAN?**

20 A. Our immediate concern is that DE-Ohio is short of generating capacity. DE-Ohio
21 purchases approximately 25% of its peak capacity today.

22 Our first step in developing the ESP was to design a generation supply
23 plan based upon an Integrated Resource Plan (IRP) process. We used traditional

1 forecasting and planning principles for the supply plan. We assumed that the
2 capacity of DE-Ohio's legacy plants, which were formerly under Ohio rate
3 regulation, continues to be dedicated to consumers at first call under the ESP. We
4 also assumed that we would fully meet our renewable resources and energy
5 efficiency benchmarks. As further explained by witness James S. Northrup, the
6 supply plan identified two 600 MW combustion turbine/combined cycle plants as
7 the recommended solution for our long-term needs.

8 **Q. HOW DOES DE-OHIO PROPOSE TO OBTAIN ADEQUATE SUPPLY TO**
9 **SERVE CONSUMERS UNDER THE ESP?**

10 A. Based on the supply plan, DE-Ohio issued an RFP for up to 1,400 MW of
11 intermediate or peaking generating capacity. We also issued an RFP for
12 renewable resources in an attempt to meet S.B. 221's initial renewable resource
13 requirements. The Company hired Burns & McDonnell, an independent
14 consultant, as the independent monitor for these RFPs.

15 **Q. HOW WILL DE-OHIO MEET ITS ENERGY EFFICIENCY AND PEAK**
16 **DEMAND TARGETS DURING THE ESP?**

17 A. As explained further by DE-Ohio witness Theodore E. Schultz, DE-Ohio will
18 embark upon a robust initiative to develop new energy efficiency and peak
19 demand reduction programs in addition to continuing effective existing energy
20 efficiency/peak demand programs that the Commission approved in 2007. We
21 estimate that these existing programs will enable us to meet S.B. 221's initial
22 energy efficiency and peak demand targets. The new programs will be reviewed
23 with the Duke Energy Community Partnership. This is a collaborative stakeholder

1 team with participation by Commission Staff, the Ohio Consumers' Counsel and
2 non-profit organizations that provide weatherization and energy efficiency
3 services for low-income consumers. DE-Ohio also intends to deploy a SmartGrid,
4 which will provide a platform that will allow us to implement additional energy
5 efficiency programs in order to meet future targets.

6 **Q. WHAT IS DE-OHIO'S PLAN FOR DEPLOYING SMARTGRID UNDER**
7 **THE ESP?**

8 A. We have already started pre-deploying our SmartGrid system and will begin full
9 deployment in 2009. The SmartGrid system is a critical infrastructure
10 improvement, similar to programs that the Commission has approved for
11 replacing cast iron/bare steel gas mains and at-risk risers for Ohio's gas utilities.
12 Installing SmartGrid will provide a platform for consumer interaction that will
13 expand energy efficiency program development. DE-Ohio witness Todd W.
14 Arnold explains this project in detail.

15 **Q. PLEASE DESCRIBE THE PRICING FOR DE-OHIO'S ESP PROPOSAL.**

16 A. DE-Ohio proposes a three-year ESP consisting of generation, transmission and
17 distribution charges. While the vast majority of the generation charges and all
18 transmission charges are avoidable, some of the generation charges and all of the
19 distribution charges are unavoidable. DE-Ohio witness Paul G. Smith discusses
20 the components of the plan in more detail.

21 **Q. DOES THE ESP HAVE ANY FEATURES THAT PROMOTE THE**
22 **CONTINUED DEVELOPMENT OF THE COMPETITIVE MARKET?**

23 A. Yes. DE-Ohio proposes to implement an electronic bulletin board (EBB) that

1 permits each consumer to accept a market price that may be posted by DE-Ohio or
2 a CRES provider. If the consumer chooses the EBB price they shall pay only the
3 EBB price plus the unavoidable charges and must continue on a market price from
4 DE-Ohio or a CRES provider for the duration of the ESP. DE-Ohio witness
5 Richard G. Stevie discusses this proposal in more detail.

6 Also, the ESP includes a 5% discount for governmental aggregators for
7 Rider SRA-SRT and Rider SRA-CD. This discount is a proxy for the standby
8 service charge that governmental aggregators can avoid under S.B. 221. DE-Ohio
9 witness James B. Gainer discusses this discount in more detail.

10 **Q. WILL DE-OHIO MAKE ANY COMMITMENTS FOR PROGRAMS THAT**
11 **BENEFIT CONSUMERS UNDER THE ESP?**

12 **A.** Yes, DE-Ohio commits to the following programs during the three-year term of
13 the ESP:

- 14 • DE-Ohio's will increase its annual investment for weatherization programs to
15 help low-income customers reduce energy usage from approximately
16 \$850,000 to \$1 million.
- 17 • DE-Ohio will implement a low-income pilot program similar to the low-
18 income pilot program the Commission recently approved in DE-Ohio's gas
19 distribution base rate case. Under this program, 10,000 low-income customers
20 will have their monthly demand charge for electric distribution rates reduced
21 by \$4.00 during the three-year term of the ESP. This will reduce the impact of
22 charges for EE programs and rising energy costs by approximately \$1.5
23 million during the next three years.

- 1 • DE-Ohio commits to establish an Economic Competitiveness Fund during the
2 three-year term of the ESP to encourage investments in economic
3 development and public green infrastructure projects, including mass transit,
4 that reduce the region's environmental impact. DE-Ohio commits to invest a
5 total of \$1 million for public green infrastructure projects under this program,
6 for which it will not seek cost recovery. These programs are discussed in
7 further detail in the testimony of DE-Ohio witness Barry W. Wood, Jr.

8 **Q. PLEASE EXPLAIN DE-OHIO'S PROPOSAL TO TRANSFER ITS**
9 **GENERATING ASSETS TO AFFILIATED COMPANIES.**

10 A. DE-Ohio seeks the Commission's approval to transfer its generating plants to
11 affiliates as part of its ESP proposal. DE-Ohio proposes that it would enter into a
12 wholesale power contract with the affiliates, subject to FERC approval, that
13 provides DE-Ohio and consumers the same pricing as the ESP. This transfer
14 benefits consumers because they continue to have access to DE-Ohio's legacy
15 generating assets in the future under either ESP pricing or a reasonable market
16 transition pricing structure. DE-Ohio's gas-fired generating plants have never
17 been under the Commission's rate regulation and are not dedicated to serve Ohio
18 load. DE-Ohio witness James B. Gainer explains this proposal in more detail.

19 **Q. HOW DOES DE-OHIO'S PROPOSED ESP PRICE COMPARE WITH**
20 **THE PRICE THAT WOULD BE EXPECTED UNDER A MARKET RATE**
21 **OPTION?**

22 A. DE-Ohio's ESP price is below the competitive retail electric service market price.
23 Additionally, DE-Ohio's ESP price-to-compare is lower than the expected

1 competitive retail electric service price under a MRO, as explained more fully in
2 the testimony of DE-Ohio witnesses Paul G. Smith and Judah L. Rose.

3 **Q. HOW DOES DE-OHIO'S PROPOSED ESP PRICE COMPARE WITH DE-**
4 **OHIO'S CURRENT PRICE FOR ELECTRIC SERVICE UNDER THE**
5 **RSP?**

6 A. DE-Ohio's prices will increase over current total RSP average prices by
7 approximately 6.2%, effective January 1, 2009. This proposed price adjustment
8 includes increases to generation components that will not flow through rate
9 trackers and also reflects the elimination of the residential RTC. The estimated
10 price proposal excludes adjustments that will occur in rate trackers for generation,
11 transmission and distribution. To mitigate the impact of the initial increase, DE-
12 Ohio has deferred a portion of the initial increase until the third year of the ESP.
13 This price increase reflects reasonable compensation for DE-Ohio and a
14 significant discount to market prices to benefit consumers. DE-Ohio witness Paul
15 G. Smith discusses the drivers of the price increase in more detail.

16 **VI. STATE POLICY FOR ELECTRIC SERVICE AND**
17 **AGGREGATE BENEFITS OF DE-OHIO'S ELECTRIC SECURITY PLAN**
18

19 **Q. ARE THE BENEFITS AVAILABLE UNDER THE ESP GREATER, IN**
20 **THE AGGREGATE, THAN THE BENEFITS THAT WOULD**
21 **OTHERWISE BE AVAILABLE UNDER AN MRO?**

22 A. Yes, consumers would receive the following benefits under the ESP that they
23 would not receive under an MRO:

24 **Dedicated Reliable Generation Service:**

- 1 • Consumers would receive continued dedicated access to DE-Ohio's reliable
2 legacy generation assets during a time of shrinking reserve margins and rising
3 construction costs.
- 4 • The ESP provides clear, transparent process for securing additional long-term
5 generation capacity through a competitive bidding process.
- 6 **Competitive Predictable Prices:**
- 7 • DE-Ohio's ESP proposal provides transparent, predictable prices that avoid
8 rate shock for consumers.
- 9 • The ESP proposal offers to defer \$20 million of the initial increase for non-
10 residential customers to the third year of the plan to mitigate volatility.
- 11 • Consumers receive the benefits of DE-Ohio's existing coal positions, which
12 significantly reduce their exposure to today's higher coal prices.
- 13 • The Electronic Bulletin Board provides a voluntary opportunity to participate
14 in further developing the competitive retail market.
- 15 **Energy Efficiency:**
- 16 • The ESP provides proper incentives to enable DE-Ohio to attempt to meet
17 S.B. 221's energy efficiency targets. Duke Energy intends to develop and
18 deliver innovative programs that help customers lower their energy usage and
19 manage their bills.
- 20 **Renewable Energy:**
- 21 • The ESP provides consumers the benefits of renewable energy purchased at
22 least-cost through a competitive RFP process and Duke Energy plans to
23 develop dedicated capacity programs to provide long-term renewable energy
24 sources.
- 25 **Newly Dedicated Capacity:**
- 26 • The ESP includes a documented supply plan to obtain competitively-priced
27 traditional sources of capacity through an RFP bid process. The long-term
28 supply plan assumes DE-Ohio will achieve Ohio's new energy efficiency and
29 renewable energy targets.
- 30 **Investments to support our Community:**
- 31 • The ESP includes approximately \$1 million towards weatherization and
32 energy efficiency programs that help low-income customers reduce energy
33 usage.
- 34 • DE-Ohio has committed to a low-income pilot program that reduces the
35 impact of rising energy costs by \$1.5 million over the next three years.

- 1 • The ESP provides for an Economic Competitiveness Fund, in which DE-Ohio
2 will commit \$1 million towards public green infrastructure projects including
3 mass transit and renewable energy. The ECF also provides a mechanism to
4 support job creation and retention efforts.

5 **Q. IS THE ESP CONSISTENT WITH OHIO'S POLICIES FOR ELECTRIC**
6 **SERVICE AS SET FORTH IN R. C. 4928.02?**

7 A. Yes, The State policies set forth in R.C. 4928.02 encompass four basic policy
8 objectives: (1) Encourage a reliable reasonably priced retail electric service
9 supply for all consumers; (2) Encourage the development of competition through
10 information, technology, and supply choices; (3) Encourage the development of
11 diverse supply options; and (4) Encourage economic development in Ohio. Some
12 of the specific policies overlap and others have competing goals; for example a
13 low-priced generation supply from the electric utility makes it more difficult for
14 CRES providers to enter the competitive retail electric service market. But, with
15 that qualification, DE-Ohio's ESP strikes a reasonable balance and is consistent
16 with each State policy.

17 **Q. WHICH STATE POLICIES ENCOURAGE A RELIABLE REASONABLY**
18 **PRICED RETAIL ELECTRIC SERVICE SUPPLY FOR ALL**
19 **CONSUMERS?**

20 A. Revised Code Section 4928.02 (A), (E), and (L) encourage the availability of a
21 reasonably priced retail electric service supply for all consumers.

22 **Q. HOW DOES DE-OHIO'S ESP ENCOURAGE A RELIABLE**
23 **REASONABLY PRICED RETAIL ELECTRIC SERVICE SUPPLY FOR**
24 **ALL CONSUMERS?**

1 A. DE-Ohio's ESP meets the State policies set forth in R.C. 4928.02 (A), (E), and
2 (L) as follows: (1) the ESP price is below the market price; (2) the ESP provides
3 for reasonable price increases from the current RSP-MBSSO price; (3) DE-Ohio
4 will defer a portion of the price increase and recover it over a three-year time
5 period; (4) the proposal provides transparent pricing information regarding
6 generation, distribution and transmission service; (5) distribution infrastructure
7 modernization and SmartGrid deployment increase efficiency, safety, information,
8 and program availability; (6) the EBB provides an opportunity for transparent
9 competitive retail electric service at prices below the ESP price; and (7) the supply
10 plan provides for additional generating capacity to be added under a bidding
11 process to ensure least-cost pricing for long-term dedicated supplies.

12 **Q. WHICH STATE POLICIES ENCOURAGE THE DEVELOPMENT OF**
13 **COMPETITION THROUGH INFORMATION, TECHNOLOGY, AND**
14 **SUPPLY CHOICES?**

15 Revised Code Section 4928.02 (B), (C), (E), (G), (H), and (I) encourage the
16 development of competition through information, technology, and supply
17 choices.

18 **Q. HOW DOES DE-OHIO'S ESP ENCOURAGE THE DEVELOPMENT OF**
19 **COMPETITION THROUGH INFORMATION, TECHNOLOGY, AND**
20 **SUPPLY CHOICES?**

21 A. DE-Ohio's ESP meets the State policies set forth in R.C. 4928.02(B), (C), (E),
22 (G), (H), and (I) by (1) setting a reasonable, transparent price to compare
23 permitting CRES providers an opportunity to compete; (2) permitting its price to

1 compare to increase with specified costs and inflationary pressures; (3)
2 establishing an EBB with transparent pricing and information; (4) positioning
3 government aggregators a competitive advantage, and (5) developing supply
4 choices through renewable energy options, energy efficiency options, and
5 SmartGrid technology.

6 **Q. WHICH STATE POLICIES ENCOURAGE THE DEVELOPMENT OF**
7 **DIVERSE SUPPLY OPTIONS?**

8 A. Revised Code Section 4928.02(D), (F), (K), and (L) encourage the development
9 of diverse supply options.

10 **Q. HOW DOES DE-OHIO'S ESP ENCOURAGE THE DEVELOPMENT OF**
11 **DIVERSE SUPPLY OPTIONS?**

12 A. DE-Ohio's ESP meets the State policies set forth in R.C. 4928.02(D), (F), (K),
13 and (L) by (1) encouraging the development of renewable, energy efficiency and
14 other diverse supply options; (2) permitting the participation of switched load in
15 DE-Ohio's energy efficiency programs; (3) allowing innovative pricing options
16 such as load shaped pricing through the EBB; (4) modernizing DE-Ohio's
17 distribution and transmission system and developing SmartGrid; (5) maintaining
18 simple distributed generation and net metering options; and (6) providing low-
19 income pricing programs.

20 **Q. WHICH STATE POLICIES ENCOURAGE ECONOMIC**
21 **DEVELOPMENT IN OHIO?**

22 A. Revised Code Section 4928.02 (J), (M), and (N) encourage economic
23 development in Ohio.

1 Q. HOW DOES DE-OHIO'S ESP ENCOURAGE ECONOMIC
2 DEVELOPMENT IN OHIO?

3 A. DE-Ohio's ESP meets the State policies set forth in R.C. 4928.02 (J), (M) and (N)
4 as follows. The ESP (1) offers a specific public and private economic
5 development program including a \$1 million donation toward public green
6 infrastructure projects; (2) increases funding for community weatherization and
7 home energy programs; (3) implements a low income distribution rate credit to
8 encourage low-income consumers to remain economically independent; and (4)
9 makes significant, renewable energy, energy efficiency, distribution infrastructure,
10 and SmartGrid investments that will spur ancillary investment throughout Ohio's
11 economy.

12 **VII. INTRODUCTION OF WITNESSES**

13 Q. PLEASE INTRODUCE DE-OHIO'S OTHER WITNESSES AND
14 SUMMARIZE THEIR TESTIMONY.

15 A. DE-Ohio will present testimony from the following witnesses:

16 **James S. Northrup**, Director Project Analysis and Special Projects,
17 discusses DE-Ohio's existing generating plants. He supports the Integrated
18 Resource Plan that DE-Ohio developed to determine the least cost supply
19 resources to meet its supply needs. He also explains the RFP that DE-Ohio
20 recently issued for traditional generation capacity. Mr. Northrup supports DE-
21 Ohio's application for a Certificate of Public Convenience and Necessity for new
22 generation supply. Mr. Northrup discusses DE-Ohio's proposal for a competitive
23 bid process for new generation capacity to be dedicated to Ohio consumers for the

1 life of the plant.

2 **James M. Lefeld**, Alternative Energy Policy Director, explains the RFP
3 that DE-Ohio recently issued for renewable resources, and DE-Ohio's plan to
4 comply with S.B. 221's renewable resource requirements.

5 **Theodore E. Schultz**, Vice President Energy Efficiency, provides details
6 on DE-Ohio's plan to comply with the energy efficiency and peak demand
7 reduction requirements of S.B. 221. He also supports Rider Save-a-Watt, the
8 energy efficiency tracker.

9 **Richard G. Stevie**, Managing Director Customer Market Analytics,
10 discusses DE-Ohio's Electronic Bulletin Board proposal and supports the load
11 forecast used for the IRP.

12 **Charles R. Whitlock**, Senior Vice President Commercial Asset
13 Management, explains how DE-Ohio purchases capacity to obtain adequate
14 supply, and supports recovery of capacity purchase costs through Rider System
15 Resource Adequacy – System Reliability Tracker. He also explains how fuel is
16 purchased for DE-Ohio and supports the Rider Price-to-Compare Annually
17 Adjusted Component.

18 **Todd W. Arnold**, Senior Vice President Customer Service, discusses DE-
19 Ohio's plan for deploying the SmartGrid system and supports the Company's
20 request to track and timely recover the costs associated with this initiative in the
21 Distribution Rider.

22 **Chris Kiernan**, a consultant employed by KEMA, supports the
23 cost/benefit analysis for DE-Ohio's SmartGrid plan.

1 **Tony R. Adcock**, Process Manager II, explains and supports DE-Ohio's
2 plan for distribution infrastructure modernization component of the Distribution
3 Rider.

4 **William Don Wathen Jr.**, Director, Revenue Requirements, explains and
5 supports the charges for: (1) Rider Price-to-Compare Fuel and Purchased Power;
6 (2) Rider System Resource Adequacy – Newly Dedicated Capacity; (3) Rider
7 Transmission Cost Recovery; (4) the Distribution Rider – Infrastructure
8 Modernization.

9 **Daniel L. Jones**, Senior Account Manager Customer Choice, supports
10 DE-Ohio's Operational Support Plan.

11 **Barry W. Wood, Jr.**, Vice President Business and Community Relations
12 for Duke Energy Ohio/Kentucky, supports DE-Ohio's Economic Competitiveness
13 Fund program.

14 **James B. Gainer**, Vice President Federal Regulatory Policy, supports DE-
15 Ohio's corporate separation plan. He explains DE-Ohio's request for
16 Commission approval to transfer its generating plants to affiliates. He discusses
17 the proposed term sheet for a wholesale power contract that DE-Ohio would enter
18 into with its affiliates. He also explains DE-Ohio's plan for large scale
19 governmental aggregations.

20 **Judah L. Rose**, Managing Director of ICF International, provides the
21 current MISO and PJM capacity market prices available to DE-Ohio. He
22 calculates DE-Ohio's opportunity cost and risk for providing stable ESP prices.
23 He supports the charge for System Resource Adequacy – Capacity Dedication.

1 He discusses DE-Ohio's proposal for determining the market price to be
2 compared against the ESP price. Mr. Rose also explains DE-Ohio's proposal for
3 the annual earnings test for the ESP.

4 **Paul G. Smith**, Vice President, Ohio/Kentucky Rates, discusses the
5 various components of the ESP price structure and the drivers for the ESP price.
6 Mr. Smith also supports DE-Ohio's earnings test compliance and the projected
7 price impact for each customer class.

8
VIII. CONCLUSION

9 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

10 **A. Yes.**