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DE-OHIO EXHIBIT___

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

SUPPLEMENTAL DIRECT TESTIMONY OF

PAUL G. SMITH

ON BEHALF OF

DUKE ENERGY OHIO

September 16, 2008

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Attachments:

Supplemental PGS-1 RIDER DR-SAW

I. INTRODUCTION AND PURPOSE

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

2 A. My name is Paul G. Smith and my business address is 139 East Fourth Street,
3 Cincinnati, Ohio 45202.

4 **Q. ARE YOU THE PAUL G. SMITH WHO PREVIOUSLY SUBMITTED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A. Yes.

7 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

8 A. The purpose of my supplemental testimony in this proceeding is to amplify my
9 prior direct testimony in two areas and to update certain information regarding our
10 SmartGrid initiative. First, I provide additional information regarding the
11 implementation and pricing impact of Rider DR-SAW by Duke Energy Ohio, Inc.
12 ("DE-Ohio" or the "Company"). Second, I provide additional discussion
13 regarding DE-Ohio's implementation of its ESP in the event the Commission is
14 unable to issue a timely order in these proceedings or issues an order unacceptable
15 to DE-Ohio.

16 **II. RIDER DR-SAW**

17 **Q. PLEASE DESCRIBE RIDER DR-SAW.**

18 A. Attached to my supplemental testimony as Supplemental Attachment PGS-1 is
19 Rider DR-SAW. Rider DR-SAW contains the formulas and numbers used to
20 calculate the projected billing factors for DE-Ohio's residential and non-
21 residential customers for the three-year term of the Company's proposed Electric
22 Security Plan ("ESP"). Attachment PGS-5 to my pre-filed direct testimony

1 previously contained a narrative description of these formulas.

2 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY ON RIDER**
3 **DR-SAW.**

4 A. The purpose of my testimony on Rider DR-SAW is primarily to sponsor the
5 projected billing factors. Details on the inputs used to calculate the billing factors
6 under the Company's avoided cost methodology are addressed by DE-Ohio
7 Witnesses Stevie and Schultz.

8 **Q. ARE THERE ANY DIFFERENCES BETWEEN THE FORMULAS IN**
9 **SUPPLEMENTAL ATTACHMENT PGS-1, RIDER DR-SAW, AND THE**
10 **NARRATIVE DESCRIPTIONS PREVIOUSLY FILED IN ATTACHMENT**
11 **PGS-5?**

12 A. Yes, one of the narrative descriptions in PGS-5 should be corrected. The "TRUE-
13 UP OF ACTUAL SAVINGS AND LOST MARGINS" describes the true-up
14 process related to the earnings cap. Item "c" in that description describes the
15 cumulative net income the Company would earn over three years from the save-a-
16 watt program. That description includes revenues for lost margins and lost
17 margins in the calculation and should not. The second sentence in item "c"
18 should be: "This calculation equals total revenues the Company is entitled to
19 collect for actual kW and kWh savings minus actual program costs minus
20 revenue-related taxes and income taxes."

21 **Q. HOW DID DE-OHIO CALCULATE THE REVENUE REQUIREMENT**
22 **FOR RIDER DR-SAW?**

23 A. Consistent with the description provided in Attachment PGS-5, DE-Ohio

calculated the revenue requirement for Rider DR-SAW by combining the sum of (1) annual avoided capacity cost savings generated by demand response programs multiplied by the Demand Response Sharing Percentage, (2) the net present value ("NPV") of avoided energy and capacity costs applicable to conservation programs multiplied by the Conservation Sharing Percentage, and (3) lost margins associated with the implementation of energy conservation measures for a period of three years for each vintage of a measure.

Q. WHAT DEMAND RESPONSE SHARING PERCENTAGE AND CONSERVATION SHARING PERCENTAGE DID THE COMPANY USE TO CALCULATE THE REVENUE REQUIREMENT?

A. DE-Ohio used 75% for the Demand Response Sharing Percentage and 50% for the Conservation Sharing Percentage.

Q. WHAT IS THE SOURCE OF DATA USED BY DE-OHIO TO DETERMINE THE VALUE OF AVOIDED CAPACITY AND ENERGY COSTS ASSOCIATED WITH ENERGY EFFICIENCY?

A. As discussed by Company Witness Stevie in his supplemental testimony and exhibits, DE-Ohio used an estimate of the green-field construction cost for new peaking plant capacity for purposes of valuing energy efficiency capacity. For avoided energy costs, the Company used a projection of energy costs that was also utilized in the DE-Ohio's Integrated Resource Plan.

1 **Q. WHAT IS THE PROJECTED REVENUE REQUIREMENT FOR DE-**
2 **OHIO'S ENERGY EFFICIENCY PLAN FOR THE THREE-YEAR TERM**
3 **OF THE ESP?**
4 A. The total projected energy efficiency revenue requirement is $132 million in
5 nominal dollars[1]. The total energy efficiency revenue requirement includes the
6 percent of avoided costs for energy conservation and demand response, as well as
7 lost margins.
8 **Q. WHAT ARE THE PROJECTED RESIDENTIAL AND NON-**
9 **RESIDENTIAL BILLING FACTORS PROPOSED BY THE COMPANY**
10 **UNDER RIDER DR-SAW?**
11 A. The projected billing factor in 2009 to recover the total energy efficiency revenue
12 requirement is 0.001965¢/kWh for residential customers and 0.001236¢/kWh for
13 non-residential customers.
14 **Q. HOW WILL THE COMPANY INCORPORATE THE EFFECTS OF AN**
15 **OPT-OUT OPTION ON RATES CHARGED TO CUSTOMERS UNDER**
16 **RIDER DR-SAW?**
17 A. As stated in the pre-filed direct testimony of DE-Ohio Witness Schultz, the
18 Company is proposing to change the existing automatic opt-out for transmission-
19 served consumers and non-metered accounts to a consumer-initiated opt-out. As
20 a result, the Company has no history upon which to base an estimate of the level
21 of opt out for these consumers that may occur during the period that energy
22 efficiency rates in this proceeding would be in effect. Therefore, the initial Rider

[1] Note that some of this $132 million includes lost margins that will be recovered in the fourth and fifth years after the ESP.

1 DR-SAW billing factors proposed by the Company will not reflect any effects of
2 the opt-out provisions. The Company plans to capture the effect of actual
3 customer elections to opt out of the energy efficiency programs as part of the
4 balance adjustment mechanism that is incorporated in Rider DR-SAW.

5 **Q. HOW DOES THE COMPANY PROPOSE TO DEAL WITH DSM COSTS**
6 **CURRENTLY INCLUDED IN RATES PURSUANT TO RIDER-DSM?**

7 A. Upon the implementation of Rider DR-SAW effective January 1, 2009, DE-Ohio
8 will eliminate the existing charge in consumer rates for Rider DSM. On or before
9 March 31, 2009, DE-Ohio proposes to file a final report and reconciliation for the
10 period July 1, 2008 through December 31, 2008, which represents the period that
11 would not be covered by the upcoming November 15, 2008 Annual Report filing.
12 To effectuate a final true-up of Rider DSM, DE-Ohio would seek the
13 Commission's approval in its March 31, 2009 filing to add or subtract the
14 resulting true-up from the July – December 2008 period to Rider DR-SAW at that
15 time. The resulting adjustment to Rider DR-SAW would effectuate the close-out
16 of Rider DSM.

17 **Q. PLEASE EXPLAIN ANY PERTINENT FINANCIAL ACCOUNTING**
18 **ISSUES THAT RELATE TO THE ENERGY EFFICIENCY PLAN.**

19 A. Accounting rules and regulations will require that DE-Ohio monitor, on an on-
20 going basis, the difference between financial results applicable to the save-a-watt
21 energy efficiency programs and the financial results recorded on the Company's
22 books that result from the recovery of costs via Rider DR-SAW. DE-Ohio will
23 record a regulatory asset on its books if it appears that the level of revenues that

will ultimately be recoverable are greater than the level of revenues billed via Rider DR-SAW. On the other hand, the Company will record a regulatory liability if the level of revenues billed customers is in excess of the level of revenues that is estimated to be ultimately recoverable.

Q. DOES THIS ACCOUNTING TREATMENT FOLLOW GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")?

A. Yes, it does.

Q. IS THE COMPANY REQUESTING SPECIFIC COMMISSION APPROVAL OF THIS ACCOUNTING PRACTICE?

A. Yes. DE-Ohio requests that the Commission order approving the Company's ESP clearly acknowledge that future rates may be adjusted in accordance with the Company's proposed financial accounting practices outlined above.

III. RIDER DR-SAW PROGRAM AND PRICE ADJUSTMENT

Q. THE CURRENT RIDER DSM INCLUDES A PROGRAM ENTITLED GAS FURNACES. SHOULD THIS PROGRAM BE INCLUDED FOR RECOVERY AS PART OF RIDER DR-SAW?

A. No. The Gas Furnace program is a valuable program for customers but is not a traditional electric energy efficiency program. As a gas energy efficiency program it should be transferred for recovery to Rider DR-IM. The cost recovery methodology would remain the same as it is today with no effect on customers' rates.

Q. WHY NOT SIMPLY RECOVER THE GAS FURNACE PROGRAM THROUGH RIDER DR-SAW?

A. First, there are no electric avoided costs associated with the Gas Furnace program.

1 Second, Rider DR-SAW does not have a program cost recovery component, which
2 is an essential requirement for DE-Ohio to maintain the Gas Furnace program.

3 **IV. SMARTGRID UPDATE**

4 **Q. HAS DE-OHIO MADE ANY CHANGES TO ITS SMARTGRID**
5 **ANALYSIS SINCE IT WAS FILED IN THIS CASE?**

6 A. Yes. Our cost/benefit analysis is evolving continuously as we move forward with
7 the deployment and as we gain experience with the overall program. As a result,
8 some of the assumptions in the cost/benefit analysis have been updated.

9 **Q. WHAT ASSUMPTIONS HAVE BEEN UPDATED IN THE**
10 **COST/BENEFIT ANALYSIS?**

11 A. A few changes have been made to the model resulting in a more accurate
12 accounting of the costs and benefits. The primary changes are listed below in the
13 order of their magnitude:

14 • IT Back-Office Costs (capital and O&M) - Information technology back-
15 office costs have been reallocated based on where the new systems would
16 be used and where the benefits would be realized. This update represents
17 a more accurate allocation of costs; a portion of these costs are allocated
18 among all five states, a portion is allocated among just the three Midwest
19 states where full deployment is scheduled during the next five years, and a
20 small portion is allocated to just those states with gas customers.
21 Additionally, the IT deployment timeline was adjusted slightly in order to
22 match current plans. The overall impact increases the IT back-office
23 capital costs by approximately $16 million over the deployment period

(2009-2013) and $28 million over the life of the project. The associated IT back-office O&M (calculated as a percentage of total IT Back-Office capital) increased $63 million over the 20-year life of the project.

- Billing Management Fee (O&M) – A billing management cost related to the wireless transfer fees has been added. This fee is estimated to be $0.25 per modem per month. The overall impact was to increase the Communications O&M costs by $16 million over the life of the project.
- Data Transfer Costs / Wireless Network Fees (O&M) – The data transfer costs are calculated using a tiered pricing scheme that is based on the cumulative megabytes ("MB") of data transferred across the Duke Energy system. Excluding North Carolina and South Carolina from the current deployment plan reduces the number of meters, capacitors, and reclosers supplying data to the communications infrastructure, thus the total amount of data transferred is reduced. The resultant effect was to place Duke Energy in a slightly higher pricing tier ($ per MB). The modeled price increase between the filed model and the current version is $1.00 per MB in 2009, $0.25 per MB in 2010-2012, and $0.50 per MB in 2013-2028. The overall impact was to increase the Communications O&M costs by $9.97 million over the life of the project. (Note: When North Carolina and South Carolina deployments are scheduled and implemented, a lower cost pricing tier will be achieved, resulting in lower data transfer costs (per MB) across all five states.)
- Project Management Office (PMO) Costs (Capital) - The initial total PMO

costs were reduced to reflect the small pilot deployments in North Carolina and South Carolina. The net impact was to increase the PMO capital costs by $4 million over the life of the project.

- Capacitor Bank Automation Costs (Capital) – Updated the materials costs (labor costs stayed the same) associated with automation of the capacitor banks. The per capacitor bank materials cost was increased from $1,700 per capacitor bank to $1,950 per capacitor bank. The overall impact was to increase the Distribution Automation capital costs by $1 million over the life of the project.

Q. WHAT IS THE NET EFFECT OF THESE CHANGES IN THE SMARTGRID COST BENEFIT ANALYSIS?

A. The net effects of these changes can be measured across several parameters:

- Capital expenditures increased from $432 million to $452 million in the five-year deployment period (2009-2013) and increased from $715 million to $746 million over the twenty-year life of the project. In terms of 20-year NPV, capital expenditures increased from $463 million to $484 million.
- O&M expenditures increase from $52 million to $65 million in the five-year deployment period (2009-2013) and increase from $313 million to $405 million over the twenty-year life of the project, driven primarily by the IT back-office O&M costs. In terms of 20-year NPV, O&M expenditures increased from $142 million to $183 million.
- Excluding all customer and societal benefits, the overall operational cost /

1 benefit model of the SmartGrid Initiative increases from ($294 million) to
2 ($335 million). Inclusion of the customer / societal benefits continues to
3 result in an overall positive NPV.

4 **V. REQUESTED RELIEF**

5 **Q. WHAT APPROVAL DOES DE-OHIO SEEK FROM THE COMMISSION**
6 **IN THIS PROCEEDING?**

7 A. As I stated in my Direct Testimony, DE-Ohio requests that the Commission approve
8 its ESP application in a manner permitting it to implement the ESP by January 1,
9 2009.

10 **Q. IF THE COMMISSION IS UNABLE TO APPROVE THE ESP BY**
11 **JANUARY 1, 2009, WHAT APPROVAL DOES DE-OHIO SEEK?**

12 A. If the Commission is unable to review and approve DE-Ohio's ESP by January 1,
13 2009, then DE-Ohio requests approval to continue its current Rate Stabilization Plan
14 ("RSP") market-based standard service offer ("MBSSO"), including normal
15 adjustments, until the ESP is approved. To ensure timely recovery of costs, such
16 normal adjustments should be approved on, or before, January 1, 2009.

17 **Q. WHAT IF THE COMMISSION IS UNABLE TO ISSUE AN ORDER**
18 **PERMITTING DE-OHIO TO CONTINUE ITS RSP-MBSSO, OR TO**
19 **APPROVE THE NORMAL ADJUSTMENTS, BY JANUARY 1, 2009?**

20 A. DE-Ohio proposes to implement its ESP Application subject to refund with only
21 minor amendments. DE-Ohio proposes to implement Rider PTC-BG as proposed in
22 its Application. All of the remaining ESP Riders have counterparts under its current
23 RSP and adjustments would continue in any event with all parties having the

1 opportunity to participate in an annual due process. DE-Ohio would not implement
2 its proposed Distribution Riders as the Commission will make a determination
3 concerning those Riders in DE-Ohio's pending Distribution rate case.

4 **Q. WHAT MINOR ADJUSTMENTS TO THE ESP WILL DE-OHIO MAKE?**

5 A. Absent a Commission order there are several consumer benefits that DE-Ohio will
6 not implement in addition to the Distribution Riders as previously discussed. First,
7 DE-Ohio will not seek an accounting deferral to levelize the ESP price impact to
8 non-residential consumers. Second, DE-Ohio will not contribute $1 million toward
9 economic development projects. Third, DE-Ohio will not increase funding for home
10 energy and weatherization programs to $1 million per year. Finally, DE-Ohio will
11 not implement the low income pilot or provide the 5% discount for government
12 aggregators.

13 **VI. RIDER SRA-NDC**

14 **Q. WILL DE-OHIO DEDICATE GENERATING ASSETS NEVER**
15 **PREVIOUSLY USED AND USEFUL TO SERVE LOAD IN ITS CERTIFIED**
16 **TERRITORY ABSENT RIDER SRA-NDC?**

17 **A.** No. Rider SRA-NDC provides an opportunity for DE-Ohio to dedicate capacity
18 and/or energy to serve load in its certified territory at a reasonable price to
19 consumers and with a risk profile similar to that available in the competitive electric
20 service market. Absent Rider SRA-NDC, DE-Ohio would assume more risk and
21 receive a lower price than that available to it in the competitive electric market.
22 Under such circumstances DE-Ohio is unable to invest in capacity dedicated to serve
23 its load and must continue to purchase its short capacity position from the

1 competitive electric market.

2 **VII. CONCLUSION**

3 **Q. WAS SUPPLEMENTAL ATTACHMENT PGS-1 PREPARED BY YOU OR**

4 **UNDER YOUR DIRECTION AND SUPERVISION?**

5 A. Yes.

6 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL DIRECT**

7 **TESTIMONY?**

8 A. Yes.

RIDER DR-SAW

ENERGY EFFICIENCY COST RECOVERY RIDER

APPLICABILITY

Applicable to service rendered under the provisions of Rates RS, TD and ORH (residential class) and Rates DS, DM, DP, EH, GS-FL, SFL-ADPL, RTP and CUR (non-residential class). A non-residential customer, whose total aggregate load in the Company's certified service territory exceeds 25 MW, may opt out of the tariff. The customer must provide written notification which will list all of their accounts to be "opted-out" of this tariff. Customers electing to opt-out of the program will not be credited for any periods previously billed. The written notification can be e-mailed to the Business Service Center at BSCteam@duke-energy.com or sent to Business Service Center c/o Duke Energy, P.O. Box 960, Suite EY575, Cincinnati, OH 45202.

If the customer later decides to participate in an energy efficiency program, they must pay the Rider DR-SAW for all period they "opted-out" of.

CHARGES

The monthly amount computed under each of the rate schedules to which this rider is applicable shall be increased or decreased by the energy DR-SAW Charge at a rate per kilowatt-hour of monthly consumption and, where applicable, a rate per kilowatt of monthly billing demand, in accordance with the following formula:

DR-SAW (residential) =

$$\frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the residential class of customers}}{S_{residential}}$$

DR-SAW (nonresidential) =

$$\frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the nonresidential class of customers}}{S_{nonresidential}}$$

Where,
DR-SAW = Energy Efficiency Adjustment Amount
ACDRC = Avoided Cost of Capacity for Demand Response Revenue Requirement
ACCOE = Avoided Cost of Energy for Conservation Revenue Requirement
ACCOC = Avoided Cost of Capacity for Conservation Revenue Requirement
LM = Lost Margins
TUA = True-up Adjustment to be included in the fourth year of the rider only
S = Projected kWh Sales for the Rider Period for the class (residential or nonresidential) of Ohio retail customers

DR-SAW is calculated for a 12 month period, referred to as the Rider Period.
DR-SAW will be grossed-up for applicable revenue related taxes.

ACDRC = PDRC x ACC x X%
Where,
PDRC = Projected Demand impacts for the measure/program for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity Market-Based Rate, in $/year for the year of the Rider Period
X% = Percentage of avoided costs for demand response to be collected through the rider

ACCOE = (NPV at the after-tax weighted average cost of capital of (PCOE x ACE) for each year for the life of the measure/program) x Y%
Where,
PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis
Y% = Percentage of avoided costs for conservation to be collected through the rider

ACCOC = (NPV at the after-tax weighted average cost of capital of (PCOC x ACC) for each year for the life of the measure/program) x Y%
Where,

PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity Market-Based Rate, in $/year by year for the life of the measure/program escalated at Z.ZZ% per year
Y% = Percentage of avoided costs for conservation to be collected through the rider

LM = PLME x LMR
Where,
PLME = Projected Energy impacts for all measures/programs for the vintage applicable to the Rider Period
LMR = Average Retail $/kwh excluding fuel

In the fourth Rider Period, a true-up amount will be included in the Rider DR-SAW rate as follows:

TUA = ACT + LMT + ECT
Where,
ACT = Avoided Cost True-up
LMT = Lost Margins True-up
ECT = Earnings Cap True-up

ACT = ADRCT + ACOET + ACOCT
Where,
ADRCT = Avoided Demand Response Capacity True-up
ACOET = Avoided Conservation Energy True-up
ACOCT = Avoided Conservation Capacity True-up

ADRCT = (Year 1((ADRC – PDRC) x ACC) + Year 2((ADRC – PDRC) x ACC) + Year 3((ADRC – PDRC) x ACC)) x X%
Where,
ADRC = Actual Demand impacts for the measure/program for each vintage year
PDRC = Projected Demand impacts for the measure/program for each vintage year as used in the Rider DR-SAW calculation for each year
ACC = Annual Avoided Capacity Market-Based Rate, in $/year for the each vintage year as used in the Rider DR-SAW calculation each year
X% = Percentage of avoided costs for demand response collected through the rider

ACOET = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOE – PCOE) x ACE) for each year for the life of the measure/program) x Y%
Where,
ACOE = Actual Energy impacts for the measure/program by year for the life of the measure/program for years 1-3 and projected Energy impacts for the measure/program for the remaining years of the life of the measure/program by vintage year
PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for each vintage as used in the Rider DR-SAW calculation each year
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis as used in the Rider DR-SAW calculation each year
Y% = Percentage of avoided costs for conservation collected through the rider

ACOCT = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOC – PCOC) x ACC) for each year for the life of the measure/program) x Y%
Where,
ACOC = Actual Demand impacts for the measure/program by year for the life of the measure/program for years 1-3 and projected Demand impacts for the measure/program for the remaining years in the life of the measure/program by vintage year
PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage as used in the Rider DR-SAW calculation each year

ACC = Annual Avoided Capacity Market-Based Rate, in $/year by year for the life of the measure/program escalated at Z.ZZ% per year as used in the Rider DR-SAW calculation each year
Y% = Percentage of avoided costs for conservation to be collected through the rider

LMT = Year 1(ALME – PLME) x LMR + Year 2(ALME – PLME) x LMR + Year 3(ALME – PLME) x LMR
Where,
ALME = Actual Energy impacts for all measures/programs for the vintage
PLME = Projected Energy impacts for all measures/programs for the vintage as used in the Rider DR-SAW calculation each year
LMR = Average Retail $/kwh excluding fuel as used in the Rider DR-SAW calculation each year

ECT = NIC minus (Greater of NIC or CNI) grossed-up for applicable income and revenue related taxes
Where,
NIC = Net Income Cap
CNI = Calculated Net Income

NIC = PTCP x APC
Where,
PTCP = Performance Target Cap Percentage
APC = Actual Program Costs for the Years 1-3

PTCP is derived from the following table:

Percentage Actual Target Achievement (PATA)	Performance Target Cap Percentage (PTCP)
>=105%	18%
80% to 104%	15%
< 80%	9%

PATA = AACS / TACS
Where,
AACS = Actual Avoided Cost Savings
TACS = Targeted Avoided Cost Savings

AACS = (Sum of Years 1-3 (ACDRC + ACCOE + ACCOC)) + ACT

CNI = AACS grossed-up for applicable revenue related taxes – Sum Years 1-3 APC – RRT – IT
Where,
RRT = Revenue related taxes calculated as the appropriate revenue related tax rate x AACS
IT = Income taxes calculated as the appropriate composite income tax rate x (AACS – Sum Years 1-3 APC – RRT)

DEMAND RATCHETS

Customer served under the provisions of Rate DS or Rate DP may be eligible to have their billing demand re-determined in recognition of a permanent change in load due to the installation of load control equipment or other measures taken by the customer to permanently reduce the customer's demand.

SERVICE REGULATIONS

The supplying of, and billing for, service and all conditions applying thereto, are subject to the jurisdiction of the Public Utilities Commission of Ohio, and to Company's Service Regulations currently in effect, as filed with the Public Utilities Commission of Ohio, as provided by law.