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FILE

DUKE ENERGY OHIO EXHIBIT________

BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Recovery of Program Costs, Lost Distribution Revenue and Performance Incentives Related to its Energy Efficiency and Demand Response Programs.	)))))	Case No. 13-753-EL-RDR

DIRECT TESTIMONY OF

TIMOTHY J. DUFF

ON BEHALF OF

DUKE ENERGY OHIO, INC.

March 28, 2013

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Timothy J. Duff. My business address is 526 South Church Street, Charlotte, North Carolina 28202.

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

A. I am employed by Duke Energy Business Services, LLC (DEBS), as Director Regulatory Strategy and Collaboration. DEBS provides various administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or the Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from Michigan State University with a Bachelor of Arts in Political Economics and a Bachelor of Arts in Business Administration, and received a Master of Business Administration from the Stephen M. Ross School of Business at the University of Michigan. I started my career with Ford Motor Company and worked in a variety of roles within the Company's financial organization. After five years with Ford Motor Company, I began work with Cinergy in 2001, providing business and financial support to plant operating staff. Eighteen months later, I joined Cinergy's Rates Department, where I provided revenue requirement analytics and general rate support for the company's transfer of three generating plants. After my time in the Rates Department, I spent a short period of time in the Environmental Strategy Department, and then I joined Cinergy's

Regulatory and Legislative Strategy Department. After Cinergy merged with Duke Energy in 2006, I worked for four years as Managing Director, Federal Regulatory Policy. In this role, I was primarily responsible for developing and advocating Duke Energy's policy positions with the Federal Energy Regulatory Commission. I assumed my current position in 2010.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?

A. Yes. I have testified in previous cases related to energy efficiency, a revenue decoupling pilot and Duke Energy Ohio's SmartGrid deployment.

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

A. The purpose of my testimony in this proceeding is to discuss the history of Rider EE-PDR, Duke Energy Ohio's energy efficiency programs, and the success Duke Energy Ohio has had with its current portfolio of programs. Duke Energy Ohio witness Ashlie J. Ossege will discuss how the Company determines program cost-effectiveness and explain the Company's evaluation, measurement and verification process used to verify the results of its portfolio of programs, and Duke Energy Ohio witness James E. Ziolkowski will explain Rider EE-PDR and how it is applied to the programs to determine cost recovery.

II. <u>HISTORY OF RIDER EE-PDR</u>

Q. PLEASE EXPLAIN THE HISTORY OF RIDER EE-PDR AND HOW IT IS STRUCTURED.

A. Duke Energy Ohio proposed the Rider EE-PDR energy efficiency and peak demand cost recovery mechanism in its 2011 filing in Case No. 11-4393-EL-RDR that was filed on July 20, 2011. The Company's application requested approval to: implement Rider EE-PDR to replace Rider DR-SAW, which was due to expire on December 31, 2011; maintain a mechanism by which to recover the costs it incurs in achieving the energy efficiency and peak demand reduction targets set by SB 221; and provide the Company with an incentive to exceed the targets. After addressing the procedural issues created by the misalignment between its Rider DR-SAW recovery mechanism established in Case No. 08-920-EL-SSO and its approved portfolio of programs established in 09-1999-EL-POR, the Public Utilities Commission of Ohio (Commission) approved a Stipulation and Recommendation resolving intervening parties' concerns and establishing Rider EE-PDR on August 15, 2012.

Q. PLEASE SUMMARIZE THE COST RECOVERY AND INCENTIVE MECHANISM UNDERLYING RIDER EE-PDR THAT WAS APPROVED IN CASE NO. 11-4393-EL-RDR.

A. Under Rider EE-PDR, the Company is entitled to recover the costs incurred to deliver energy efficiency and peak demand reduction. Additionally, under Rider EE-PDR, the Company is entitled to earn a shared savings incentive based upon its ability to exceed its annual efficiency savings targets that are required of all electric distribution utilities by Ohio law. In Case No. 11-4393-EL-RDR, Duke Energy Ohio was also given the ability to recover lost distribution margins from all customer classes not included in the Company's pilot distribution decoupling rider (i.e., those customers receiving service under Rates DS, DP, and TS) that was approved by the Commission on May 30, 2012 in Case No. 11-5905-EL-RDR.

Q. PLEASE DESCRIBE HOW THE COMPANY'S APPROVED SHARED SAVINGS MECHANISM WORKS.

A. The Company's shared savings incentive structure is designed to incentivize the Company for exceeding its annual energy efficiency targets in the most cost-effective manner possible. Under this incentive structure, the level of incentive, or the magnitude of the percentage of the net system benefits (avoided costs less the costs of delivering the efficiency) that the Company may earn, is tiered and can range from 5.0% up to 13%, depending on the degree by which the actual efficiency savings exceed the annual target. Please see Table 1 below.

Table 1	
Achievment of Annual Target	After-Tax Shared Savings
≤ 100	0.0%
≥ 100 - 105	5.0%
≥ 105 - 110	7.5%
≥ 110 - 115	10.0%
≥ 115	13.0%

This shared savings mechanism allows Duke Energy Ohio an opportunity to recover its costs and earn an incentive for exceeding the mandated benchmarks.

Q. PLEASE DESCRIBE THE LOST DISTRIBUTION MARGIN RECOVERY ELEMENT CONTAINED IN THE CALCULATION OF RIDER EE-PDR.

A. The calculation of Rider EE-PDR includes the recovery of lost distribution margins for customers billed under schedules Rate DP, Rate DS, and Rate TS. Unlike all other customers being billed under Rider EE-PDR, the customers under these three rate schedules were excluded from the distribution revenue decoupling pilot being recovered through Rider DDR. In order to eliminate the disincentive created by the under-recovery of fixed costs from the customers who are not served under the decoupling pilot, the Commission's order in 11-4393-EL-RDR has authorized the Company to collect thirty-six months of lost distribution margins associated with the impacts of its energy efficiency programs for these customers.

Q. DID THE STIPULATION INCLUDE A PROVISION FOR RECEIVING CARRYING COSTS FOR OVER- OR UNDER-COLLECTION OF LOST MARGINS?

A. No. Any over- or under-collection of lost margins is to be determined without including carrying costs.

Q. WHAT ENERGY EFFICIENCY AND DEMAND RESPONSE PROGRAMS WERE ULTIMATELY OFFERED TO DUKE ENERGY OHIO CUSTOMERS UNDER RIDER EE-PDR?

A. The portfolio of programs approved for inclusion in Rider EE-PDR included the following programs:

- Residential Energy Assessments
- Smart Saver® for Residential Customers
- Low Income Services

- Energy Efficiency Education Program for Schools
- Power Manager for Residential Customers
- Home Energy Comparison Report
- Nonresidential Energy Assessments
- Smart Saver® for Nonresidential Customers
- Power Share for Nonresidential Customers
- Low Income Neighborhood Program
- Appliance Recycling Program
- Home Energy Solutions

The Company's Low Income Neighborhood, Appliance Recycling, and Home Energy Solutions Programs are new programs that were not added to the Company's existing approved portfolio of programs until the Commission's August 15, 2012 Order in Case No. 11-4393-EL-RDR. Due to customer acquisition strategy, ramp-up time, and vendor sourcing issues affected by the delay in the approval of these three new programs, only the Company's Appliance Recycling Program was offered in 2012 to Duke Energy Ohio customers.

Q. DID DUKE ENERGY OHIO OFFER ANY OTHER PROGRAMS DURING 2012 THAT WERE NOT INCLUDED IN CASE NO. 11-4393-EL-RDR?

A. Yes. Consistent with Rule 4901:1-39-05(G), and the Commission's Opinion and Order in Case No. 10-834-EL-POR, Duke Energy Ohio has offered eligible customers the opportunity to participate in the Ohio Mercantile Self-Direct Rebate Program.

Q. HAS DUKE ENERGY OHIO BEEN SUCCESSFUL IN MEETING ITS TARGETED MANDATES FOR ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION?

A. In 2012, Duke Energy Ohio was again successful in meeting and exceeding its annual targeted mandates for energy efficiency and peak demand reduction. Including the impacts from its base rate weatherization programs and its Mercantile Self Direct Rebate Program, the Company exceeded its annual energy efficiency mandate of 167,149 MWh by over 95,000 MWh and its annual peak reduction mandate of 32.5 MW by almost 18 MW. The performance of Duke Energy Ohio's energy efficiency portfolio of programs over the four year period from 2009 through 2012 was extremely successful in regard to delivering cost-effective energy efficiency and demand response programs to customers. In each of the four years, the company not only met, but exceeded its mandated targets for energy efficiency and peak demand reduction. Over the four year period, Duke Energy Ohio has cumulative mandated target energy efficiency target of 495,777 MWh. During the same period of time, the Company was able to achieve 752,685 MWh of energy efficiency impacts through its portfolio of energy efficiency programs to customers and 47,579 MWh through its mercantile self-direct program. This equates to achievement of nearly 186% of the Company's mandated target over the 4 year period. Additionally, during the four year period, the Company has exceeded its mandated capacity reduction targets of 144.0 MW by 259.4MW.

Q. WHAT PROGRAMS WERE THE PRIMARY DRIVERS FOR THE COMPANY'S SUCCESS DURING THE THREE YEAR PERIOD?

A. While the Company is pleased with the performance of its overall portfolio of programs that, as discussed by Witness Ossege, were deemed cost effective by the total resource cost test, two programs that continued to deliver the most favorable results were the Company's two Smart Saver Programs: Smart Saver for Residential Customers and Smart Saver for Nonresidential Customers. Together these two programs accounted for over 160,000 MWh, or over 60%, of the total impacts recognized in 2012. These programs continued to flourish in large part due to the attractiveness of lighting measures. In 2012, the Company also commercialized its Home Energy Comparison Report Program, which was well received by customers and performed well, accounting for another 16% of the total annual energy efficiency impacts.

Q. IS DUKE ENERGY OHIO'S ACHIEVEMENT LEVEL VERSUS ITS ANNUAL TARGETED BENCHMARKS THE SAME ACHIEVEMENT THAT THE COMPANY IS USING TO CALCULATE ITS ANNUAL PERFORMANCE FOR THE PURPOSES OF CALCULATING ITS EARNED INCENTIVE LEVEL?

A. No, the Company's calculation of its annual energy efficiency achievement level versus its annual mandates for the purposes of determining its level of shared savings incentive is performed consistent with the methodology agreed to and approved by the Commission in the Stipulation in Case No. 11-4393-EL-RDR. Under the Stipulation, for the purposes of determining its annual earned incentive level, the Company excludes annual impacts achieved through its Mercantile Self-Direct Rebate Program (47,524 MW) and base rate-funded low income weatherization programs (3,787 MWh). After making the agreed upon adjustments to the annual impacts, the Company has recognized an annual impact achievement of 211,126 MWh to determine its shared savings percentage incentive. In addition to adjusting the annual impact achievements, consistent with the Stipulation, the Company also adjusted its annual mandated target by reducing its three-year average annual sales baseline for the load of the customers participating in the Mercantile Self-Direct Rebate Program. This adjustment to the three-year average sales baseline reduces its annual mandate by 6,064 MWh to establish an annual mandate for determining the incentive of 161,085. After making the appropriate adjustments to both the annual impacts and annual mandate target, the Company calculated an annual achievement of 131%, which equates to allowing the Company to earn a 13% after-tax shared savings incentive.

Q. GIVEN THE LEVEL OF ACHIEVEMENT FOR THE PURPOSES OF DETERMINING DUKE ENERGY OHIO'S INCENTIVE PREVIOUSLY DISCUSSED, WHAT INCENTIVE LEVEL WAS DUKE ENTITLED TO UNDER RIDER EE-PDR FOR 2012?

A. During the 2012, the Company overachieved versus its annual mandates by over 31%, which entitles it to have the ability to collect an incentive of 13% of the net benefit achieved through its programs.

Q. PLEASE DESCRIBE HOW THE COMPANY'S MERCANTILE SELF-DIRECT REBATE PROGRAM HAS BEEN FACTORED INTO THE CALCULATION OF RIDER EE-PDR.

A. As previously mentioned, 47,524 MWh of energy savings and 9.1 MW of capacity savings achieved through the Company's Mercantile Self-Direct Rebate Program have been excluded from the 211,125,780 KWh energy savings recognized for determining the Company's performance versus its annual SB 221 benchmarks. Additionally, consistent with the approved Stipulation in Case No. 11-4393-EL-RDR, the avoided cost savings associated with the Mercantile Self-Direct Rebate Program have not been included in the calculation of its shared savings incentive. While the impacts and associated avoided cost from the Mercantile Self-Direct Rebate Program have been excluded from the calculation of the Company's shared savings incentive, the program costs associated with Mercantile Self-Direct Rebate Program are included for recovery in the calculation of Rider EE-PDR.

Q. HAS THE COMPANY INCLUDED ANY COSTS OR IMPACTS FROM TRANSMISSION AND DISTRIBUTION INVESTMENTS THAT REDUCE LINE LOSSES IN THE CALCULATION OF ITS SHARED SAVINGS INCENTIVE IN RIDER EE-PDR?

A. No, consistent with the terms included in Stipulation approved in Case No. 11-4393-EL-RDR, Duke Energy Ohio has not counted any impacts from investments in transmission and distribution systems that reduce line losses in the calculation of its annual performance, or in the calculation of avoided costs for the purposes of calculating its shared savings incentive.

Q. HAS THE COMPANY COMPLIED WITH ALL OF THE DIRECTIVES FROM THE COMMISSION IN ITS OPINION AND ORDER IN THE 11-4393-EL-RDR CASE?

A. Yes. Duke Energy Ohio believes that it has complied with the directives set forth in that Opinion and Order and followed all Commission procedures. For example, the Commission directed the Company to continue to work with its Collaborative and to file specific information in its status reports. The Company has held Collaborative meetings, with significant participation on 03/08/12, 05/31/12, 08/21/12, 12/06/12, and 02/07/13. Consistent with the terms of the Stipulation in Case 11-4393-EL-RDR, Duke Energy Ohio has invited GreenStreet Solutions to these meetings.

Additionally, the Company has filed full and complete status reports in Case Nos. 10-0317-EL-EEC, 11-1311-EL-EEC, and 12-1477-EL-EEC. Finally, the Company is filing this true-up in accordance with the Stipulation and Recommendation and the Commission's Order in Case No. 11-4393-EL-RDR. The Company will file a revised portfolio on or before April 15, 2013 including an Assessment of Potential for energy efficiency and demand response programs during the next portfolio period. While Duke Energy Ohio has already vetted a summary of the assessment of potential at a meeting of the Duke Energy Community Partnership, per the request of its participants, the Company filed its updated assessment of potential early under Case No. 13-0431-EL-POR, so that the Parties could review the full report well in advance of the Company's new portfolio application.

Q. PLEASE EXPLAIN WHY THE COMPANY CONTINUED TO BILL CUSTOMERS UNDER RIDER DR-SAW IN 2012.

Although the Company's application for approval of a new cost recovery mechanism was filed in July of 2011 with the intention of having a new cost recovery mechanism in place prior to the expiration of Rider DR-SAW, the Company's application was not approved by the Commission until August of 2012. For this reason, the Company continued to charge customers under Rider DR-SAW in 2012 until its new cost recovery rider was approved. It was necessary to do so for three reasons. First, the Company believed that it was required to maintain its approved portfolio of energy efficiency and demand response programs in order to meet its annual energy efficiency mandate targets. Second, Duke Energy Ohio was concerned that if it did not continue to collect under Rider DR-SAW that there would be unnecessary rate volatility in 2013 due to a the true-up that would be required if customers did not pay any rider associated with energy efficiency until Rider EE-PDR was approved. The Company felt that continuing to collect Rider DR-SAW in 2012, until Rider EE-PDR was approved, was a conservative way to minimize the magnitude of a true-up in 2013. In fact, applying the Rider DR-SAW rates to the projected annual billing determinants for 2012 that were used to calculate the rates for Rider EE-PDR would cause the Company to only recover approximately 70% of the estimated Rider EE-PDR revenue requirement. Finally, when it became clear that the Company would not get approval of Rider EE-PDR in January 2012, Duke Energy Ohio reached out to Commission Staff to obtain guidance. The Commission Staff recommended that the Company continue to bill under Rider DR-SAW until Rider EE-PDR was approved, and then address the difference in collections when the Company performed the true-up of Rider EE-PDR in the 1st Quarter of 2013.

Q. EXPLAIN HOW THE COMPANY ACCOUNTED FOR THE COLLECTION RIDER DR-SAW IN THE CALCULATION OF THE TRUE-UP RIDER EE-PDR.

A. For the purposes of performing the true-up of Rider EE-PDR, the Company compared the actual revenues it collected from customers through both Rider DR-SAW and Rider EE-PDR during 2012 to the revenue that it was eligible to earn under Rider EE-PDR for its actual results in 2012.

III. CONCLUSION

Q. PLEASE DESCRIBE THE COMPANY'S OVERALL ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION PORTFOLIO PERFORMANCE IN 2012.

A. Duke Energy Ohio is extremely pleased with its performance during 2012 under its new recovery mechanism, Rider EE-PDR. Duke Energy Ohio has dramatically exceeded its energy efficiency and demand response mandates. This success has allowed customers that participated in its programs to take control of their energy usage and realize significant bill savings, as well as and allowing all Duke Energy Ohio customers to realize the benefits of millions of dollars of avoided system costs. In fact, the net present value of the system avoided costs associated with the 2012 energy and capacity achievements from its portfolio of programs is over 3.5 times the cost incurred to achieve the impacts.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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