OCC EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of its Energy Efficiency and Peak Demand Reduction Portfolio of Programs.	))))	Case No. 13-431-EL-POR

DIRECT TESTIMONY
OF
WILSON GONZALEZ

On Behalf of
The Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
(614) 466-9541

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Wilson Gonzalez. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio, 43215-3485. I am employed by the Office of the Ohio Consumers' Counsel ("OCC") as a Senior Energy Policy Advisor.

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A2. I have a Bachelor of Arts degree in Economics from Yale University, and a Master of Arts degree in Economics from the University of Massachusetts at Amherst. I have also completed coursework and passed my comprehensive exams towards a Ph.D. in Economics at the University of Massachusetts at Amherst.

I have been employed in the energy industry since 1986. I was first employed by the Connecticut Energy Office (as a Senior Economist, 1986-1992). Then I was employed by Columbia Gas Distribution Companies ("Columbia Gas") (as an Integrated Resource Planning Coordinator, 1992-1996). Finally, I was employed by American Electric Power ("AEP") (as a Marketing Profitability Coordinator and Market Research Consultant, 1996-2002). I have been managing the Resource Planning activities within OCC since 2004, and have been involved in

numerous electric industry cases before the Public Utilities Commission of Ohio ("PUCO" or "Commission").

Q3. WHAT HAS BEEN YOUR EXPERIENCE IN PUCO PROCEEDINGS REGARDING UTILITY PORTFOLIOS FOR ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION ("EE/PDR")?

A3. I have been directly involved in settlements reached and approved by the Commission in Ohio Power Company's ("AEP-Ohio") two EE/PDR Portfolio Cases (09-1089-EL-POR, et al., and 11-5568-EL-POR et al.). In addition, I filed testimony in Duke Energy Ohio's ("Duke" or the "Utility") EE/PDR Portfolio Case, 09-1999-EL-POR, and participated in Duke's 11-4393-EL-RDR case. I was also involved with the Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company's (collectively, "FirstEnergy") first EE/PDR Portfolio Case, 09-1947-EL-POR, and filed testimony in FirstEnergy's second Portfolio Case, 12-2190-EL-POR.

Q4. WHAT HAS BEEN YOUR EXPERIENCE IN OTHER REGULATORY PROCEEDINGS?

A4. I have been involved with many aspects of electric utility regulation since 1986 including, but not limited to, rate design and integrated resource planning, including transmission and non-transmission alternative planning. While at the Connecticut Energy Office, I was involved in one of the first demand-side management ("DSM") collaborative processes in the country (Connecticut Department of Public Utility

Control ("CDPUC") Docket No. 87-07-01). I analyzed the performance and cost-effectiveness of many efficiency programs for Connecticut's electric and gas utilities that led to demonstration projects, policy recommendations, DSM programs (including rate design recommendations) and energy efficiency standards. I also performed all the analytical modeling for United Illuminating's first integrated resource plan filed before the CDPUC in 1990.

At Columbia Gas, I was responsible for coordinating its Integrated Resource Plan within the corporate planning department and DSM program development activities in the marketing department. I designed and managed residential DSM programs in Maryland and Virginia.

While at AEP, I conducted numerous cost-benefit analyses of programs sponsored by AEP's corporate marketing department, including their residential load control water heater program.

For the past 8 years at OCC, I have (among other matters):

- Been involved in DSM negotiations with Ohio's investor-owned utilities resulting in millions of dollars in energy efficiency programs;
- Prepared DSM-related testimony in many PUCO cases;
- Testified before the Ohio House Alternative Energy Committee and Senate Energy and Public Utilities

Committee in support of energy efficiency, demand response and resource planning;

- Assisted in the preparation of energy efficiency and renewable energy testimony and amendments for S.B. 221, H.B. 357, S.B. 315 and S.B. 58;
- Testified before the PUCO on rate design issues; and
- Worked extensively on a range of topics regarding FirstEnergy's Standard Service Offer proposals, including energy efficiency, distribution lost revenue recovery and industrial customer interruptible rider cost allocation.

Q5. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?

A5. Yes. A list of my testimony before the PUCO is attached as Exhibit WG-1.

Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR TESTIMONY?

A6. I have reviewed the Utility's EE/PDR Portfolio Application filed on April 15, 2013. In addition, I reviewed the Direct Testimony of the Utility's witnesses. I have also reviewed Duke's responses to certain discovery and data requests in this case. Finally, I have reviewed the Objections filed by parties on July 1, 2013.

II. PURPOSE OF TESTIMONY AND RECOMMENDATIONS

Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A7. The purpose of my testimony is to: 1) address Duke's request for customers to continue to pay a share of the savings from its energy efficiency programs, for the additional year of 2016, and 2) propose a conceptual framework for Duke to bid its eligible EE/PDR into future PJM Reliability Pricing Model ("RPM") Base Residual Auctions ("BRA") so that customers more fully benefit from energy efficiency.

Q8. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A8. I recommend that the PUCO reject Duke's proposal to extend its shared savings incentive mechanism (that features payments from customers to Duke) into 2016, for the following reasons:

1. Duke's proposal is a violation of the settlement it signed with OCC and others in PUCO Case 11-4393-EL-RDR, because the settlement prohibited consideration of the issue prior to the third quarter of 2014.
2. Duke's proposal, if the PUCO considers this issue despite the prohibition in the settlement, asks too much of customers who have to pay the shared savings to Duke. If the PUCO allows Duke to collect shared savings incentives from customers in 2016, then the PUCO should limit Duke to a more modest apportionment of the shared savings over a different tiered arrangement than the

existing tiers for EE/PDR savings that exceed Ohio's legal requirements contained in R.C. 4928.66(A)(1)(b).

3. Any incentive awarded to the Utility should be:

a. subject to a cap of eight percent of program spending;

b. be calculated on a pre-tax basis;

c. use the Total Resource Cost Test ("TRC") net benefits rather than the Utility Cost Test ("UCT") net benefits;

d. use net, rather than gross savings; and

e. be net of portfolio monitoring and verification cost.

In addition, I propose that the Utility be required to bid eligible EE/PDR into the PJM RPM BRA in a manner that maximizes customer benefit and reduces the Utility's risk.

III. EVALUATION OF DUKE'S PROPOSED SHARED SAVINGS INCENTIVE MECHANISM.

Q9. IS THERE A COST TO CUSTOMERS FOR DUKE'S SHARED SAVINGS INCENTIVE MECHANISM?

A9. Yes. Duke's shared savings incentive mechanism is a regulatory device that allows Duke to collect revenues by charging customers for energy savings that exceed the statutory benchmarks contained in R.C. 4928.66. But once Duke

exceeds the statutory benchmarks, Duke can also charge customers for its energy savings below the statutory benchmark.

Q10. IS DUKE PROPOSING TO EXTEND THE SHARED SAVINGS INCENTIVE MECHANISM, THAT CUSTOMERS PAY, FOR AN ADDITIONAL YEAR INTO 2016?

A10. Yes. As part of the Application in this case, Duke proposes to extend for an extra year (2016) the shared savings incentive mechanism approved in Case No. 11-4393-EL-RDR. The current incentive mechanism that Duke is seeking to extend has the following tiered structure:[1]

Incentive Tier	Compliance Percentage	Incentive Percentage
1	< 100%	0.0%
2	>100-105%	5.0%
3	>105-110%	7.5%
4	> 110-115%	10.0%
5	> 115%	13.0%

The shared savings incentive mechanism that Duke is seeking to extend allows the Utility to collect from customers up to a maximum of 13 percent of the avoided energy and capacity costs of EE/PDR (minus utility program costs) if Duke achieves more than 115 percent of the statutory benchmark. If Duke does not meet the annual benchmark, it receives no incentive and is subject to a penalty.[2] But the Utility receives an incentive on the entire amount of shared

[1] Case No. 13-431-EL-POR, Timothy Duff Direct Testimony at 9-10.

[2] R.C. 4928.66(C).

savings (including that part which the Utility is statutorily required to perform up to the benchmark) if it exceeds the benchmark.

Q11. IS IT APPROPRIATE FOR DUKE TO EXTEND INTO 2016 THE SHARED SAVINGS INCENTIVE THAT CURRENTLY EXISTS FOR ITS EE/PDR PORTFOLIO?

A11. No. In the Stipulation resolving Case No. 11-4393-EL-RDR, that the PUCO approved, the Signatory Parties, including Duke and OCC, agreed that the shared savings mechanism shall expire at the end of 2015.[3] In addition, the Signatory Parties agreed that the shared savings mechanism would be "reevaluated by all interested parties **no sooner than the third quarter of 2014** to allow interested parties to assess the reasonableness and effectiveness of the incentive mechanism, and to consider whether or not they support its further use for the remaining year of the five year portfolio."[4] Therefore, Duke's request for approval of a shared savings mechanism for 2016 is premature by at least a year, violating the terms of the 11-4393 Stipulation. In addition to Duke's agreement that this issue will not yet be considered, it makes sense under the agreement to provide interested parties with time to evaluate the reasonableness and effectiveness of a shared savings mechanism for Duke.

[3] Case No. 11-4393-EL-RDR, Stipulation and Recommendation at 5 (November 18, 2011).

[4] Case No. 11-4393-EL-RDR, Stipulation and Recommendation at 5 (November 18, 2011).

Q12. WHAT IS YOUR RECOMMENDATION CONCERNING THE PROPOSAL TO EXTEND DUKE'S EXISTING INCENTIVE MECHANISM INTO 2016, WHICH WILL CONTINUE TO RESULT IN CHARGES TO CUSTOMERS?

A12. The mechanism should not be approved. It is a violation of the 11-4393-EL-RDR settlement for Duke to raise this issue now. However, even if the PUCO decided to consider the extension in this proceeding, the existing shared savings mechanism should be rejected for other reasons.

Q13. WHAT ARE YOUR RECOMMENDATIONS FOR CUSTOMER PROTECTIONS, IF THE PUCO CONSIDERS EXTENDING THE PROGRAM FOR ANOTHER YEAR?

A13. As I explain in detail below, I have the following recommendations for changes to Duke's proposal to extend its existing incentive mechanism:

1. The tiered incentive percentage levels should be reduced to protect customers from paying exorbitant charges.
2. Duke should use the TRC instead of the UCT to determine the net avoided costs to which the incentive percentage is applied, because the TRC is a more comprehensive cost-effectiveness test than the UCT and leads to lower costs to customers.
3. The determination of possible electricity savings used in the shared savings calculation should be altered to protect customers by including free riders and spillover effects.

4. Duke should use a pre-tax rather than an after-tax calculation of the shared savings.
5. The shared savings awards to Duke (that customers pay) should be reduced by monitoring and verification costs.
6. There should be an overall "hard" dollar cap on Duke's potential shared savings award, to protect customers from paying exorbitant charges.

Q14. HOW IS DUKE CALCULATING THE SHARED SAVINGS INCENTIVE MECHANISM THROUGH WHICH IT SEEKS TO CHARGE CUSTOMERS FOR 2016?

A14. Under the current incentive mechanism, every decision point benefits Duke and increases Duke's revenues through higher customer costs. Duke uses the Utility Cost Test ("UCT") to calculate its shared savings. Under the UCT, the incentive percentage is applied to avoided energy and capacity costs net of utility program costs. Using the TRC would lower customer costs. Moreover, Duke's existing shared savings incentive mechanisms is calculated in after-tax dollars, includes savings associated with free riders, and excludes measurement and verification costs from program costs. All of these elements increase customers' electric bills.

Q15. DOES DUKE'S SHARED SAVINGS INCENTIVE MECHANISM, THAT IT SEEKS TO EXTEND INTO 2016, CONTAIN A MAXIMUM DOLLAR "CAP" ON WHAT CUSTOMERS WOULD HAVE TO PAY TO DUKE?

A15. No. Duke's shared savings incentive mechanism, as it was approved in the 11-4393-EL-RDR case, does not contain a "hard" dollar cap on what Duke can charge to customers.[5]

Q16. SHOULD DUKE'S SHARED SAVINGS INCENTIVE MECHANISM, THAT IT SEEKS TO EXTEND INTO 2016, CONTAIN A MAXIMUM DOLLAR "CAP" ON WHAT CUSTOMERS WOULD HAVE TO PAY TO DUKE?

A16. Yes. Such a cap would protect Duke's customers from unintended exorbitant shareholder profits.

Q17. HAS DUKE PROVIDED AN EXAMPLE OF HOW THE INCENTIVE WOULD OPERATE?

A17. Yes. In his Direct Testimony Duke witness Timothy Duff provides an example illustrating the proposed incentive mechanism.[6]

[5] Timothy Duff Direct Testimony at 9-10.

[6] Direct Testimony of Timothy Duff at 8.

Q18. HAS DUKE PROVIDED PROJECTED INCENTIVE LEVELS BASED ON THE ESTIMATED SAVINGS LEVELS CONTAINED IN ITS PORTFOLIO FILING?

A18. Yes. In response to OCC discovery, Duke provided a table projecting its annual incentives, which are reproduced below.[7] These "incentives" mean that customers would be paying Duke the following amounts:

Year	Projected Annual Dollar Incentives
2013	$5,903,534
2014	$6,392,809
2015	$7,256,153
2016	$8,320,777
Total	$27,873,273

Q19. DO YOU HAVE CONCERNS WITH DUKE'S PROJECTED INCENTIVE LEVELS?

A19. Yes. The projected incentive levels, that Duke seeks to collect from customers, are exorbitant relative to the program size, relative to other Ohio utilities, and significantly exceed utility energy efficiency incentive awards nationwide**.**

[7] Duke Response to OCC-INT-02-021 Supplement, Attachment 1.

Q20. WHAT ARE THE CURRENT APPROVED MAXIMUM DOLLAR INCENTIVE LEVELS FOR OTHER OHIO ELECTRIC UTILITIES?

A20. Currently, the Dayton Power and Light Company ("DP&L") has no energy efficiency incentive mechanism. While the PUCO approved shared savings mechanisms for AEP-Ohio and FirstEnergy, those incentive mechanisms are capped at $20 million and $10 million, respectively, on what customers would pay to the utilities.

Q21. WHAT IS THE NATIONAL AVERAGE AMOUNT OF ENERGY EFFICIENCY INCENTIVES THAT HAVE BEEN AWARDED TO UTILITIES FOR THEM TO COLLECT FROM CUSTOMERS?

A21. The incentive mechanism and awards being received nationwide for utility energy efficiency programs vary by state and by utility company. The average incentive earned is 10 to 11 percent of program spending.[8] In its 2013 EE/PDR Rider filing, Duke requests $12.5 million in shared savings incentives after spending $23.5 million on EE/PDR programs in 2012 alone, which represents an astounding 53 percent of program spending.[9] In other words, customers would be paying Duke for the energy efficiency program costs plus a hefty amount of additional revenues through the Shared Savings Incentive Mechanism.

[8] Hayes et al, Carrot for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency, ACEEE, January 2011 at 10.

[9] Direct Testimony of James E. Ziolkowski, Case No. 13-753-EL-RDR, Attachment JEZ-1, page 3 of 10. Duke is also collecting an incentive of $14 million from its Save a Watt cost recovery mechanism. See the Direct Testimony of James E. Ziolkowski, Attachment JEZ-2, page 2 of 6 in Case No. 12-1857-EL-RDR ("13-753 filing").

Q22. WHAT ARE THE THREE COMPONENTS OF ENERGY EFFICIENCY PROGRAM COSTS THAT UTILITIES SEEK TO RECOVER FROM CUSTOMERS?

A22. The three components of an energy efficiency program that a utility may charge customers according to PUCO rule are (1) the recovery of program costs, (2) the collection of some program-induced lost revenues, and (3) a shared savings performance incentive.[10] Together, these three components make up a utility's total cost-recovery.

Q23. DOES DUKE'S PORTFOLIO APPLICATION CONTAIN ALL THREE ELEMENTS OF COST-RECOVERY FROM CUSTOMERS?

A23. No. The Utility's Portfolio Application contains a budget for programs to be implemented in the years 2014 through 2016 and to be recovered in pre-existing Rider EE-PDR. The Application also contains a request to extend the existing performance incentive for the year 2016. Since Duke has a three-year pilot decoupling mechanism, the recovery of energy efficiency-induced distribution lost revenues are not a part of this Application because they were addressed in Duke's recent decoupling Case, No. 11-5905-EL-RDR.[11]

[10] 4901:1-39-07.

[11] Finding and Order in Case No. 11-5905-EL-RDR (5/30/12).

Q24. IS IT REASONABLE FOR DUKE TO COLLECT FROM CUSTOMERS THE TIERED SHARED SAVINGS INCENTIVE PERCENTAGE LEVELS THAT IT IS SEEKING TO EXTEND INTO 2016?

A24. No. The shared savings incentive percentages the Utility seeks to extend are too excessive to collect from customers. The collections from customers should be reduced as follows:

OCC's Proposed Incentive Structure

Incentive Tier	Compliance Percentage	Incentive Percentage
1	< or = 100%	0.0%
2	>100-105%	2.0%
3	>105-110%	4.0%
4	> 110-115%	6.0%
5	> 115%	7.0%

Seven percent of net benefits are a reasonable top tier because it is within the range being offered to other utilities nationwide.[12] The lower percentages recommended are also appropriate since the shared savings award is calculated over the total net benefits and not just over the incremental net benefits exceeding the Ohio energy efficiency requirements.[13]

[12] See "Aligning Utility Incentives with Investment in Energy Efficiency," National Action Plan for Energy Efficiency, November 2007, pages 6-1 through 6-2. For example, Hawaii's shared savings award is 5 percent and in Georgia it is 15 percent for one program.

[13] Not all utilities nationwide have a legislative energy efficiency requirement as Ohio, and therefore can negotiate a higher incentive in return for implementing energy efficiency programs. The existing incentive mechanism is generous in that it awards Duke the full net benefit generated from savings that are required by law.

Q25. IS THE UCT, THAT DUKE USED TO CALCULATE NET BENEFITS, APPROPRIATE FOR CALCULATING THE SHARED SAVINGS INCENTIVE THAT DUKE SEEKS TO CHARGE TO CUSTOMERS?

A25. No. The UCT is a benefit-cost test that measures the net avoided cost of a program from the utility perspective and excludes any incremental costs of the more efficient measure paid by the consumer. The downfall of the UCT is that it is a partial benefit-cost analysis and only captures the benefits of the programs to the utility and not to utility customers as a whole. The UCT fails to take into account significant participant (customer) costs and therefore cannot be used to determine the complete net benefit of the program. The Utility's use of the UCT negatively impacts customers because it leads to a higher net benefit to the utility and correspondingly higher costs to customers.

Q26. WHAT TEST SHOULD THE PUCO USE TO CALCULATE THE NET BENEFITS OF DUKE'S SHARED SAVINGS INCENTIVE MECHANISM?

A26. The Total Resource Cost ("TRC") test.

Q27. WHY SHOULD THE COMMISSION USE THE TOTAL RESOURCE COST TEST INSTEAD OF THE UTC, TO PROTECT CUSTOMERS?

A27. The PUCO should use the TRC test because it is the only analytical tool that accounts for **all** costs and benefits of the utility programs, and in doing so reduces what customers pay. To this end, the TRC is a benefit-cost test that measures the net avoided costs of a program based on considering the total costs of the

program, including both the participants' and the utility's costs. Using the TRC would result in the utility incentives taking into consideration the total net benefit the programs provide, not just the net benefits provided only to the utility.

Some parties have argued in past EE/PDR proceedings that the use of the UCT will encourage utilities to keep program administrative costs low to maximize net benefits.[14] But a utility would have the same incentive to keep administrative costs low under a TRC. Use of the UCT can also serves to limit the amount of incentives provided to participating customers because the UCT only factors in the program costs paid by the Utility. The TRC, on the other hand, factors in the utility-paid costs as well as the customer-paid costs of the program. Therefore, under the UCT, the more a customer pays of a measure's incremental cost, the higher the UCT results, which results in higher customer costs. This can create a disincentive for utilities to implement programs that may be economical and yield deeper savings but require higher utility incentives (E.g. CFLs and energy kits versus a Whole Home Performance Approach).

The benefit of using the TRC over the UCT is not a trivial theoretical matter for customers. The Utility's net benefits using the UCT are $220 million, 18 percent greater than the $186 million calculated by using the TRC.[15] Use of the UCT instead of the TRC would force Duke's customers to pay a larger shared savings award to Duke due to the failure of the incentive mechanism calculation to take

[14] See, for example, Staff Exhibit 1 at 10 in Case No. 12-2190-EL-POR.

[15] Duke Responses to OCC INT -02-016 and 02-017.

into consideration all of the costs of the programs, both utility and participant costs.

Q28. ARE THE POTENTIAL ELECTRIC SAVINGS USED IN DUKE'S SHARED SAVINGS CALCULATION OVERSTATED?

A28. Yes. While gross energy savings are appropriate for determining utility compliance with the Ohio energy efficiency requirements, for the purposes of collecting from customers a shared savings award, there should be a net to gross savings adjustment that accounts for free riders and spillover effects.[16] The PUCO has stated that "… where an energy efficiency program is implemented by a utility, and customers have already taken the steps promoted by the program, the net savings methodology may be more appropriate."[17] The PUCO should find guidance from the California Energy Commission, which uses .80 percent overall net-to-gross figure.[18]

[16] The main difference between a gross savings and net savings approach is that a net savings approach takes the gross savings and reduces the savings to account for DSM program "free riders"(customers who would have undertaken the desired energy efficiency action anyway without the utility program), and supplements the savings by "free drivers" (participating or non-participating customers who undertake the desired or additional energy efficiency actions because of the utility program but who do not claim financial or technical assistance for additional measure installations, causing "spillover" savings). On balance, and traditionally, free rider effects are greater than spillover effects.

[17] October 15, 2009 Finding and Order in Case No. 09-512-GE-UNC, page 5.

[18] http://deeresources.com/deer2008exante/downloads/DEER%200607%20Measure%20Update%20Report.pdf, page 1-3.

Q29. IS DUKE'S CALCULATION OF THE SHARED SAVINGS INCENTIVE ON AN AFTER-TAX BASIS A CONCERN?

A29. Yes. The calculation of Duke's shared savings incentive should be on a pre-tax basis. Grossing up for taxes effectively grants Duke a top-tier shared savings of over 20 percent of the net benefits. Duke's approach thereby forces its customers to pay an additional 7 percent of the net benefits. While grossing up for taxes is common in distribution rate cases where utilities are given the opportunity to earn an authorized rate of return, it is not appropriate for a discretionary energy efficiency shared savings mechanism.[19] Using an after-tax calculation is a concern for customers because they will not only pay the Utility an incentive on its shared savings, but will also be asked to pay for Duke's tax liability.

Q30. DOES THE LACK OF AN OVERALL "HARD" DOLLAR CAP IN THE UTILITY'S SHARED SAVINGS PROPOSAL PUT CUSTOMERS AT RISK?

A30. Yes. A hard cap protects consumers from paying for excessive shareholder profits, or other unintended negative consequences of a shared savings-type mechanism. For example, an unexpected and unprecedented increase in avoided cost, or the introduction of a revolutionary technology may lead to excessive utility returns on its EE/PDR expenditures that could result in customer backlash. In fact, in its recent 2013 Energy Efficiency Rider filing, Duke is requesting $12.5 million in shared savings incentives after spending $23.5 million on EE/PDR

[19] Under OAC 4901:1-39-07(A), a utility incentive is permissive.

programs in 2012 alone.[20] The $12.5 million incentive that Duke requested for 2012 is 178 percent above Duke witness Duff's estimated projection and 52 percent over his projected maximum shared savings award.[21] The incentive represents 53 percent of Duke's total expenditure (expenditures that Duke seeks to charge to customers). Such exorbitant savings that Duke seeks to collect are a direct result of the fact that Duke's shared savings incentive ***does not have a cap***.

The table contained earlier in my response to Question 18 reveals that Duke has projected it will collect $8.3 million from customers in 2016.[22] As explained earlier, this projected incentive level is too high given the erroneous manner in which it is calculated. The PUCO has also indicated that it is wary of an uncapped shared savings incentive mechanism. FirstEnergy filed an Application for their EE/PDR Portfolio in 2012, which included an uncapped shared savings incentive mechanism similar to Duke's.[23] Despite FirstEnergy's resistance, the

[20] Direct Testimony of James E. Ziolkowski, Case No. 13-753-EL-RDR, Attachment JEZ-1, page 3 of 10. Duke is also collecting an incentive of $14 million from its Save a Watt cost recovery mechanism. See the Direct Testimony of James E. Ziolkowski, Attachment JEZ-2, page 2 of 6 in Case No. 12-1857-EL-RDR. ("13-753 filing").

[21] Transcript of June 7, 2012, in Case No. 11-4393-EL-RDR at 37.

[22] Duke Response to OCC-INT-02-021 Supplement attached.

[23] *In the Matter of the Application of The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Plans for 2013 through 2015*, Case Nos. 12-2190-EL-POR, 12-12191-EL-POR, and 12-2192-EL-POR, Application at 12-13 (Jan. 31, 2012).

PUCO instituted a $10 million annual cap on the amount of shared savings that could be collected under the incentive mechanism.[24]

For all the reasons listed above, I recommend that Duke's incentive should be capped at eight percent of projected program cost, or $3 million in 2016.[25] This cap should apply on a before-tax basis. Moreover, the eight percent of spending cap is within the range being offered to other utilities nationwide.[26] Of course, my primary recommendation is that it would be a violation of the settlement in the electric security plan case for Duke to be proposing, and for the PUCO to be considering, a mechanism at this time,

IV. THE BIDDING OF ENERGY EFFICIENCY AND LOAD MANAGEMENT RESOURCES INTO FUTURE PJM RPM BRA.

Q31. CAN THE ELECTRICITY DEMAND SAVINGS GENERATED FROM A UTILITY'S ENERGY EFFICIENCY AND LOAD MANAGEMENT PROGRAMS BE BID INTO THE PJM RPM BRA?

A31. Yes, as long as the program savings meet the Measurement & Verification ("M&V") protocols in PJM Manual 18b for energy efficiency ("EE") resources,

[24] *In the Matter of the Application of The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Plans for 2013 through 2015*, Case Nos. 12-2190-EL-POR, 12-12191-EL-POR, and 12-2192-EL-POR, Opinion and Order at 16 (Mar. 20, 2013).

[25] $39,042,765 x 0.08 = 3,123,421.

[26] See "Aligning Utility Incentives with Investment in Energy Efficiency," National Action Plan for Energy Efficiency, November 2007, pages 6-1through 6-2 and ACEEE Report at 10. The percentage of program spending for states that impose a cap in this study range from 5 to 20 percent nationwide.

and PJM Manual 18 Section 4.3, Load Management ("LM") Products (and all PJM manuals referred therein) for load management resources ("EE & LM").[27]

Q32. WHAT ARE THE CONSUMER BENEFITS OF BIDDING ENERGY EFFICIENCY AND LM RESOURCES INTO FUTURE PJM RPM BRA?

A32. Bidding energy efficiency savings and peak-demand reduction by an EDU into the PJM Base Residual Auctions ("BRA") can reduce customers' bills in two ways. First, PJM pays EDUs for energy efficiency that is offered and clears the auction. Those payments then reduce the costs that customers pay for energy efficiency programs. For example, FirstEnergy cleared 36 MW of energy efficiency in the 2015/2016 auction and will receive a payment of $4.7 million from PJM for this resource.[28] Similarly, AEP-Ohio bid 202 megawatts into the same auction and will receive $10 million from PJM in return.[29] The two utilities will then credit this money to their respective energy efficiency and peak-demand reduction riders that customers pay for energy efficiency programs.

Second, the energy efficiency and peak-demand megawatts that are accepted in the auction represent an increased supply relative to demand that can lower the

[27] This is what is meant by "eligible" EE & LM for the remainder of my testimony.

[28] *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. §4928.143 in the Form of an Electric Security Plan*, Case No. 12-1230-EL-SSO, Tr. Transcript ESP III, Vol. I, at 301 (Neme) (June 4, 2012). 36 MW * $357 MW/day *365 days = $4,690,890.

[29] Jon Williams, AEP-Ohio, Bidding EE Resources in the PJM Capacity Market, Presentation to the AEP-Ohio Energy Efficiency Collaborative, November 14, 2012, Slide 6.

PJM auction capacity prices.[30] Since capacity prices represent a material portion of electricity prices, customer bills are reduced accordingly. In fact, the PUCO has recognized such benefits and recently required FirstEnergy to bid 75% of its planned energy efficiency resources into the PJM Base Residual Auction.[31]

Q33. WHAT IS DUKE'S COMMITMENT TO BIDDING THE ENERGY EFFICIENCY AND LM RESOURCES GENERATED BY THEIR PORTFOLIO INTO FUTURE PJM RPM BRA?

A33. Duke witness Timothy Duff acknowledges in his testimony that Duke has had discussions with its EE/PDR Collaborative regarding the bidding of EE/PDR resources into the PJM BRA. Utility witness Duff even indicates that the ". . . Company plans to file for Commission approval of a new pilot program that will create a mechanism to capture all the costs and benefits of PJM auction participation."[32]

The implementation of the PJM bidding program is essential as Duke merely bid, and PJM accepted, 2.6 MW of energy efficiency and zero demand resources in the 2016/2017 PJM BRA.[33] Duke's development and implementation of a

[30] *"Based on actual auction clearing prices and quantities and the make-whole MW, total RPM market revenues for the 2013/2014 delivery year were$6,708,567,045. If no. DR or EE had been offered into the auction, total RPM market revenues for the 2013/2014 delivery year would have been*$18,535,847,876, a *difference* of *$11,827,280,831 compared to the total based on actual results."*- PJM Market Monitor, Analysis of the *2013/2014* RPM Base Residual Auction Revised and Updated, September 2010

[31] Opinion and Order, Case No. 12-2190-EL-POR, at 20-21.

[32] Direct Testimony of Timothy Duff at 15.

[33] 6/11/2013 and 6/12/2013 email from Duke to OCC regarding Duke's energy efficiency and demand response bid in the 2016/2017 PJM Base Residual Auction.

bidding Strategy will benefit customers and avoid denying these benefits to customers as is occurring in Duke's present approach. Given these benefits, the PUCO should require Duke to bid a percentage of its installed and planned energy efficiency into the PJM BRA.[34] If this approach is implemented by the PUCO, I recommend that Duke be required to bid 85 percent of its installed and planned energy efficiency that is cost-effective as that should provide sufficient protection to Duke if a small amount of the cleared megawatts fail to materialize. This buffer is in addition to the existing incremental auctions used for balancing capacity demand and supply and where a bidder can shore up their capacity positions before the delivery year.

Q34. WHAT IS YOUR RECOMM ENDATION REGARDING WHETHER THE COMMISSION SHOULD ALLOW DUKE TO SHARE IN THE PJM REVENUES GENERATED FROM THE CLEARED EE/PDR MEGAWATTS?

A34. If the PUCO decides to offer Duke the opportunity to share in the PJM revenues, I recommend that only that percentage of the bid that surpasses 75 percent of installed and planned EE/PDR be subject to the sharing, and the sharing percentage should be no more than the top level of OCC recommended incentive tier achieved.

[34] The PUCO adopted this approach in the FirstEnergy Energy Efficiency Portfolio proceeding, Case No. 12-2190-EL-POR.

Q35. SHOULD THE DUKE COLLABORATIVE HAVE THE OPPORTUNITY TO REVIEW AND DISCUSS DUKE'S PLAN TO BID, PRIOR TO A PJM BRA?

A35. Yes. Duke should hold a Collaborative meeting at least 90 days prior to the PJM BRA to discuss Duke's PJM bidding plan.

V. CONCLUSION

Q36. DOES THIS CONCLUDE YOUR TESTIMONY?

A36. Yes. However, I reserve the right to incorporate new information and/or discovery responses that may subsequently become available. I also reserve the right to supplement my testimony in response to positions taken by the Utility or other parties.

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing the *Direct Testimony of Wilson Gonzalez on Behalf of the Office of the Ohio Consumers' Counsel* has been served electronically this 27th day of August, 2013.

/s/ Michael J. Schuler
Michael J. Schuler
Assistant Consumers' Counsel

SERVICE LIST

Devin.parram@puc.state.oh.us
Ryan.orourke@puc.state.oh.us
TDougherty@theOEC.org
CLoucas@theOEC.org
toddm@wamenergylaw.com
dboehm@BKLlawfirm.com
mkurtz@BKLlawfirm.com
jkylercohn@BKLlawfirm.com
callwein@wamenergylaw.com

Christine.pirik@puc.state.oh.us

Elizabeth.Watts@duke-energy.com
Amy.Spiller@duke-energy.com
NMcDaniel@elpc.org
cmooney@ohiopartners.org
tom@jthlaw.com
bojko@CarpenterLipps.com
Mohler@CarpenterLipps.com
Hussey@CarpenterLipps.com
Sechler@CarpenterLipps.com

Mr. Gonzalez has submitted testimony in the following cases before the Public Utility Commission of Ohio:

- Vectren Energy Delivery of Ohio, Case No. 04-571-GA-AIR
- Dominion East Ohio, Case No. 05-474-GA-ATA
- Dominion East Ohio, Case No. 07-829-GA-AIR
- Vectren Energy Delivery of Ohio, Case No. 05-1444-GA-UNC
- Columbus Southern Company/Ohio Power Company, Case No. 06-222-EL-SLF
- Duke Energy of Ohio, Case No. 07-589-GA-AIR
- FirstEnergy Companies, Case Nos. 07-551-EL-AIR, et al.
- Vectren Energy Delivery of Ohio, Case No. 07-1080-GA-AIR
- FirstEnergy Companies, Case No. 08-935-EL-SSO
- FirstEnergy Companies, Case No. 08-936-EL-SSO
- Duke Energy of Ohio, Case No. 08-920-EL-SSO
- AEP, Case No. 08-917-EL-SSO
- DPL, Case No. 08-1094-EL-SSO
- FirstEnergy Companies, Case No. 09-906-EL-SSO
- Duke Energy of Ohio, Case No. 10-1999-EL-POR
- FirstEnergy Companies, Case No. 10-388-EL-SSO

- FirstEnergy Companies, Case No. 10-1128-EL-CSS
- AEP, Case No. 11-351-EL-AIR
- FirstEnergy Companies, Case No. 11-5201-EL-RDR
- FirstEnergy Companies, Case No. 12-1230-EL-SSO
- FirstEnergy Companies, Case No. 12-2190-EL-POR

Duke Energy Ohio
Case No. 13-0431-EL-POR
OCC Second Set of Interrogatories
Date Received: August 23, 2013

OCC-INT-02-021 SUPPLEMENTAL

REQUEST:

Based on the Company's projected program costs and avoided cost benefits associated with this EE/PDR Portfolio Application, what are the projected annual dollar incentives (through the existing shared savings mechanism) for each of the years 2013, 2014, 2015, and 2016 (assuming the shared savings mechanism is extended)?

RESPONSE:

The response table should have been the following:

Year	Projected Annual Dollar Incentives
2013	$5,903,534
2014	$6,392,809
2015	$7,256,153
2016	$8,320,777

PERSON RESPONSIBLE: Jessica McShea

Summary: Testimony Direct Testimony of Wilson Gonzalez on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Schuler, Michael J.