

OCC EXHIBIT NO. _____

**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) Case No. 13-753-EL-RDR
and Performance Incentives Related to its)
Energy Efficiency and Demand Response)
Programs.)

**DIRECT TESTIMONY
OF
WILSON GONZALEZ**

On Behalf of
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September 9, 2013

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SCHEDULES:

Exhibit WG-1: List of Cases for Past Testimony before PUCO

1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.***

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

7

8 ***Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND***
9 ***PROFESSIONAL EXPERIENCE.***

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

15

16 I have been employed in the energy industry since 1986. I was first employed by
17 the Connecticut Energy Office as a Senior Economist from 1986 to 1992. Then I
18 was employed by Columbia Gas Distribution Companies ("Columbia Gas") as an
19 Integrated Resource Planning Coordinator from 1992 to 1996. Next, I was
20 employed by American Electric Power ("AEP") as a Marketing Profitability
21 Coordinator and Market Research Consultant from 1996 to 2002). I have been
22 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 OR RIDER CASES FOR ENERGY
EFFICIENCY AND PEAK DEMAND REDUCTION?***

A3. I have been directly involved in settlements reached and approved by the
Commission in AEP Ohio’s two Energy Efficiency/Peak Demand Reduction
(“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 and 13-431-EL-POR cases. I was also involved with the first
EE/PDR Portfolio case of Cleveland Electric Illuminating Company, Ohio Edison
Company, and The Toledo Edison Company (collectively, “FirstEnergy”), 09-
1947-EL-POR, and filed testimony in FirstEnergy’s second Portfolio case, 12-
2190-EL-POR. Finally, I filed testimony concerning Dayton Power and Light’s
(“DP&L”) energy efficiency Portfolio in their first ESP, 08-1094-SSO, and I am
currently participating in DP&L’s Portfolio case 13-833-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,

1 including transmission and non-transmission alternative planning. While at the
2 Connecticut Energy Office, I was involved in one of the first demand-side
3 management (“DSM”) collaborative processes in the country (Connecticut
4 Department of Public Utility Control (“CDPUC”) Docket No. 87-07-01). I
5 analyzed the performance and cost-effectiveness of many efficiency programs for
6 Connecticut’s electric and gas utilities that led to demonstration projects, policy
7 recommendations, DSM programs (including rate design recommendations) and
8 energy efficiency standards. I also performed all the analytical modeling for
9 United Illuminating’s first integrated resource plan filed before the CDPUC in
10 1990.

11
12 At Columbia Gas, I was responsible for coordinating its Integrated Resource Plan
13 within the corporate planning department and DSM program development activities
14 in the marketing department. I designed and managed residential DSM programs in
15 Maryland and Virginia.

16
17 While at AEP, I conducted numerous cost-benefit analyses of programs sponsored
18 by AEP’s corporate marketing department, including its residential load control
19 water heater program.

1 For the past 9 years at OCC, I have (among other matters):

- 2 • Been involved in DSM negotiations with Ohio's investor-
3 owned utilities resulting in millions of dollars in energy
4 efficiency programs;
- 5 • Prepared DSM-related testimony in many PUCO cases;
- 6 • Testified before the Ohio House Alternative Energy
7 Committee and Senate Energy and Public Utilities
8 Committee in support of energy efficiency, demand
9 response and resource planning for H.B. 357, S.B. 221, S.B.
10 315 and S.B. 58;
- 11 • Testified before the PUCO on rate design issues; and
- 12 • Worked extensively on a range of topics regarding
13 FirstEnergy's Standard Service Offer proposals, including
14 energy efficiency, distribution lost revenue recovery and
15 industrial customer interruptible rider cost allocation.

16
17 ***Q5. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE***
18 ***PUBLIC UTILITIES COMMISSION OF OHIO?***

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

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

3 **A6.** I have reviewed Duke's EE/PDR Rider Application cases, 13-753-EL-RDR and
4 11-4393-EL-RDR, filed on March 28, 2013 and July 20, 2011, respectively. In
5 addition, I reviewed the Direct Testimony of the Utility's witnesses in both cases
6 and Duke's responses to certain discovery and data requests in these cases.
7 Further, I have reviewed the Comments filed by parties in this case on July 1,
8 2013 and Duke's Reply Comments filed on July 16, 2013. Finally, I have also
9 reviewed the Comments filed by parties in Case No. 11-4393-EL-RDR on
10 September 21, 2011, the Reply Comments filed in that case on October 5, 2011
11 and the Stipulation approved in that proceeding.¹

12
13 **II. PURPOSE OF TESTIMONY AND RECOMMENDATIONS**

14
15 **Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 **A7.** The purpose of my testimony is to: 1) address Duke's exclusion of EE/PDR
17 measurement and verification ("M&V") costs from the total costs of
18 administering the EE/PDR program in determining Duke's shared savings
19 incentive², and 2) demonstrate that the Stipulation in Case No. 11-4393-EL-RDR

¹ *In the Matter of the Application of Duke Energy Ohio, Inc. for an Energy Efficiency Cost Recovery Mechanism and for Approval of Additional Programs for Inclusion in Its Existing Portfolio*, Case No. 11-4393-EL-RDR, Stipulation and Recommendation (November 18, 2011).

² M&V is part of the cost of administering the EE/PDR program. Administrative costs are a subset of total utility program cost. The shared savings incentive is derived by netting out the total utility program cost from the utility avoided costs once the compliance threshold has been exceeded.

intended that Duke's EE/PDR M&V costs should be included in the total cost of administering the EE/PDR program in determining Duke's shareholder incentives. Duke's exclusion of its measurement and verification costs from the total costs of administering its EE/PDR program allows Duke to collect more money from its customers. I will explain why Duke should return that money to customers.

Q8. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A8. I recommend that the PUCO reject Duke's calculation of its shared savings incentive, because Duke's calculation allows it to collect too much money from customers. And I recommend that the PUCO order Duke to recalculate the incentive. The recalculation of the incentive should be made in a manner that includes the relevant EE/PDR M&V costs in the total cost of administering the EE/PDR program, which are then subtracted from the Utility's avoided cost. Such a recalculation will reduce the shared savings incentive that customers would have to pay Duke by \$238,027 for 2012 and by \$199,963 for 2013.

**III. EVALUATION OF DUKE'S PROPOSED SHARED SAVINGS
INCENTIVE CALCULATION**

Q9. WHAT IS THE PURPOSE OF DUKE'S EE/PDR RIDER APPLICATION?

A9. In its application, Duke proposes to increase the charges it collects from customers related to its EE/PDR program, through Rider EE-PDRR. Through the

1 Rider, Duke seeks to collect actual EE/PDR program costs for 2012, a revenue
2 requirement for 2013 program costs, lost distribution margins associated with
3 some non-residential rate classes and shared savings incentives for meeting
4 program goals that the PUCO approved in Case No. 11-4393-EL-RDR.³

5
6 ***Q10. IS THE DUKE SHARED SAVINGS CALCULATION ACCURATE?***

7 ***A10.*** No. The total amount of shared savings that Duke used to calculate its incentive
8 should have been, but was not, reduced by its M&V costs.⁴ As a result of Duke's
9 calculation, Duke's customers would pay more than they should through the
10 Rider, if the application is approved as Duke filed it. In order to protect
11 consumers, the PUCO should make the necessary reduction in what customers
12 will pay to Duke.

13
14 ***Q11. WHAT IS THE IMPACT OF DUKE'S PROPOSAL FOR THE EE/PDR***
15 ***RIDER ON RESIDENTIAL CUSTOMERS?***

16 ***A11.*** As proposed in the application, the amount Duke would collect from residential
17 customers under Rider EE-PDRR would increase 49.97%, from the present

³ See Application at 3.

⁴ See Application, Direct Testimony of James E. Ziolkowski, Attachment JEZ-1.

1 charge of \$0.002317 per kWh to \$0.003475 per kWh.⁵ This would add \$1.16 to
2 the monthly bill of a residential customer using 1,000 kWh per month.⁶
3

4 ***Q12. DID OCC FILE OBJECTIONS TO DUKE'S EE/PDR RIDER***
5 ***APPLICATION?***

6 ***A12.*** Yes. On April 29, 2013, OCC filed Objections to Duke's application, which are
7 incorporated herein by reference. In its Objections, OCC noted that Duke, in its
8 shared savings calculation, did not include its M&V cost of the EE/PDR programs
9 in total program costs, and thus the M&V costs were not properly netted against
10 the programs' avoided costs.⁷
11

12 ***Q13. WAS THE NETTING OF PROGRAM COSTS (INCLUSIVE OF M&V***
13 ***COSTS) APPROVED IN CASE NO. 11-4393-EL-SSO?***

14 ***A13.*** Yes. The netting of program costs is required under the Stipulation that the
15 PUCO approved in Case No. 11-4393-EL-RDR. Duke, OCC and others signed
16 that Stipulation. The Stipulation provides that "Duke Energy Ohio's rates shall
17 also be subject to an incentive mechanism that includes shared savings as
18 proposed by members of the Ohio Consumer and Environmental Advocates
19 (OCEA) in Comments submitted to the Commission in this proceeding on

⁵ Id., Direct Testimony of James E. Ziolkowski, Attachment JEZ-2.

⁶ Under the present rate, a residential customer using 1,000 kwh per month is charged \$2.32 (\$0.002317 x 1,000) under the Rider. That would increase to \$3.48 (\$0.003475 x 1,000) if the application is approved without modification.

⁷ OCC's Objections at 2.

1 September 21, 2011.”⁸ The OCEA Comments that were incorporated into the
2 Stipulation set forth that a shared savings mechanism takes program costs into
3 consideration, as follows: “A ‘shared savings’ incentive allows a utility to retain a
4 portion of the net bill savings its programs create for customers (**program costs**
5 **and incentives or incremental costs** subtracted from avoided cost impacts) when
6 it reaches a threshold of program performance.”⁹

7

8 ***Q14. IN ITS REPLY COMMENTS FILED JULY 16 , 2013, DUKE ALLEGES***
9 ***THAT MR. ZIOLKOWSKI’S INITIAL TESTIMONY IN 11-4393-EL-SSO IS***
10 ***BINDING IN SETTING FORTH THE CALCULATION OF THE SHARED***
11 ***SAVINGS INCENTIVE.***¹⁰ ***DO YOU AGREE WITH DUKE’S***
12 ***CHARACTERIZATION?***

13 ***A14.*** No. As stated above, the OCEA comments concerning the Shared Savings
14 mechanism were specifically referenced in the Stipulation and were filed after Mr.
15 Ziolkowski’s initial testimony, which was filed with the application in that
16 proceeding. The Stipulation, with its incorporation of the calculation method in
17 the OCEA comments, modified the Shared Savings mechanism in Duke’s
18 Application. The Stipulation’s adoption of the calculation method in OCEA’s
19 comments modified the Shared Savings mechanism that was referenced in Mr.
20 Ziolkowski’s initial testimony. In addition, the only reference to Mr.

⁸ Stipulation at 4.

⁹ Case No. 11-4393-EL-RDR, OCEA Comments (September 21, 2011) at 8-9 (emphasis added).

¹⁰ Reply Comments of Duke Energy Ohio at 2-4.

1 Ziolkowski's testimony in the Stipulation was for purposes of allocating program
2 costs among customer classes,¹¹ not for calculating shared savings.
3

4 **Q15. ARE M&V COSTS GENERALLY INCLUDED IN PROGRAM COSTS?**

5 **A15.** Yes. M&V costs are included in program costs. As stated in the National Action
6 Plan government report on energy efficiency incentive mechanisms, energy
7 efficiency program cost recovery includes the "recovery of the direct costs
8 associated with program administration (*including evaluation*), implementation,
9 and incentives to program participants."¹²
10

11 The PUCO has made determinations that are similar to the statements in the
12 National Action Plan report, for setting the protocols for measurement and
13 verification of EE/PDR programs:

14 The administration costs of the energy efficiency program are
15 those costs that are required to operate the utility program,
16 including energy efficiency staff, marketing and outreach
17 expenses, planned evaluation, ***measurement and verification***, and
18 other costs that would be recovered in the utility revenue

¹¹ Stipulation at 6.

¹² "Aligning Utility Incentives with Investment in Energy Efficiency," National Action Plan for Energy Efficiency, November 2007, at 2-2 (emphasis added).

1 requirement as a result of the energy efficiency program that are
2 not captured in the utility incentive costs above.¹³

3 I would note that, in at least one other forum, Duke itself has recognized that
4 M&V costs are part of program costs.¹⁴ In a case in Indiana, Duke's witness
5 answered a question as follows:

6 Q. WERE THE RATES YOU HAVE DEVELOPED AND ARE
7 SPONSORING IN THIS PROCEEDING DEVELOPED AS YOU
8 HAVE EXPLAINED?

9 A. Yes.

10 Q. WHAT WAS THE SOURCE FOR THE ESTIMATED COSTS
11 YOU HAVE INCLUDED IN YOUR RATE DEVELOPMENT?

12 A. Mr. Goldenberg supplied the program costs, *which include*
13 *EM&V costs*, and Ms. Ossege supplied the amounts for lost
14 revenues. The incentive amounts were calculated by the
15 Company's Business Services and Customer Analytics group by
16 applying the estimated incentive percentage of 12%, which was
17 provided by Mr. Duff, to program costs, *including EM&V costs*,
18 and were reviewed by my staff for reasonableness.¹⁵

¹³ *In the Matter of the Protocols for the Measurement and Verification of Energy Efficiency and Peak Demand Reduction Measures*, Case No. 09-512-GE-UNC, Finding and Order (October 15, 2009), Appendix C at 8 (emphasis added).

¹⁴ Indiana Utility Regulatory Commission Cause No. 43955, Testimony of Diana L. Douglas on Behalf of Duke Energy Indiana, Inc. (November 10, 2010) at 11.

¹⁵ *Id.*

1 Finally, the PUCO reference from its October 15, 2009 Finding and Order cited
2 above is consistent with the Ohio Administrative Code's definition of program
3 cost in defining the Total Resource Cost Test. OAC 4901:1-39-01(Y) states:
4 "Demand-side measure or program costs include, but are not limited to, the costs
5 for equipment, installation, operation and maintenance, removal of replaced
6 equipment, and *program administration*, net of any residual benefits and avoided
7 expenses such as the comparable costs for devices that would otherwise have been
8 installed, the salvage value of removed equipment, and any tax credits."
9 (Emphasis added.)

10
11 ***Q16. DOES DUKE'S EE/PDR TARIFF RECOGNIZE M&V COSTS AS***
12 ***PROGRAM COST?***

13 ***A16.*** Yes. Duke's EE/PDR tariff recognizes that M&V costs are included in program
14 costs. In its EE/PDR rider,¹⁶ Duke's tariff uses the term "PC" when referring to
15 program cost recovery and states: "For each twelve month period, the PC shall
16 include all expected costs for the energy efficiency and peak demand response
17 programs. Such program costs shall include the cost of planning, developing,
18 implementing, *monitoring and evaluating* the EE-PDR programs." (Emphasis
19 added.) Thus, by Duke's own tariff, Duke has inappropriately removed the M&V
20 costs from its shared savings calculation.

¹⁶ Duke P.U.C.O. Electric No. 19, Sheet No. 120, Page 1 of 3.

1 ***Q17. HAVE OTHER PARTIES IN THIS CASE ADDRESSED WHETHER M&V***
2 ***COSTS SHOULD BE INCLUDED IN PROGRAM COST WHEN***
3 ***CALCULATING SHARED SAVINGS?***

4 ***A17.*** Yes. Both the PUCO Staff and Ohio Partners for Affordable Energy (“OPAE”)
5 criticize Duke for not properly netting the EE/PDR M&V costs against the
6 program’s avoided cost.¹⁷ The PUCO Staff’s Comments correctly state that
7 “Duke would not incur any EM&V costs if the EE/PDRR programs did not exist.
8 Because the EE-PDRR programs must be evaluated, measured, and verified per
9 Commission rule, the EM&V costs are necessarily ‘EE-PDRR program cost’ and
10 should be included as a part of Duke’s overall EE-PDRR program costs
11 calculation. Further, including these EM&V costs in Duke’s program costs
12 incentivizes Duke to keep EM&V costs as low as possible in order to maximize
13 shared savings from the programs.”¹⁸

¹⁷ Staff Comments at 1-2 and OPAE Comments at 2.

¹⁸ Staff Comments at 2.

1 ***Q18. DOES ANY OTHER OHIO ELECTRIC UTILITY NET THE M&V COST***
2 ***FROM THE EE/PDR PROGRAM'S AVOIDED COST WHEN***
3 ***CALCULATING SHARED SAVINGS?***

4 ***A18.*** Yes. AEP Ohio currently embeds M&V cost in its program costs and therefore
5 nets the M&V costs from its EE/PDR program's avoided cost when calculating its
6 shared savings incentive.¹⁹

7
8 DP&L, in its latest EE/PDR Portfolio Application, when projecting its net
9 benefits, states that total cost includes EM&V.²⁰

10

11 **IV. CONCLUSION**

12

13 ***Q19. DOES THIS CONCLUDE YOUR TESTIMONY?***

14 ***A19.*** Yes. This concludes my testimony that Duke's calculation results in it collecting
15 too much money from customers. I reserve the right to incorporate new
16 information and/or discovery responses that may subsequently become available.

17 I also reserve the right to supplement my testimony in response to positions taken
18 by Duke or other participants in this proceeding.

¹⁹ See AEP Ohio Application in Case No. 13-1201-EL-RDR at Schedules 1 through 3. Also Volume 1, page 14 of AEP Ohio's 2012-2014 EE/PDR Portfolio (Case No. 11-5568-EL-POR) states: "The formulas used to determine the net benefits for each benefit-cost test are provided in Table 10. All tests are evaluated by calculating the net present values over the lifetimes of the measures covered by the programs. The total net benefits for each benefit-cost test for the 2012-2014 EE/PDR Plan are calculated by subtracting the value(s) in the denominator of each formula from the value(s) in the numerator. For example, subtracting both *Administrative Costs* (B) and Incentive Costs (C) from the Avoided Costs (A) results in the the [sic] Utility [sic] Cost Test (UCT) net benefits." (Emphasis added.)

²⁰ DP&L EE/PDR Portfolio filed on April 15, 2013 in Case No. 13-833-EL-POR at 91.

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 9th day of September, 2013.

/s/ Terry L. Etter

Terry L. Etter
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List of Cases for Past Testimony before PUCO

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

1. Vectren Energy Delivery of Ohio, Case No. 04-571-GA-AIR
2. Dominion East Ohio, Case No. 05-474-GA-ATA
3. Dominion East Ohio, Case No. 07-829-GA-AIR
4. Vectren Energy Delivery of Ohio, Case No. 05-1444-GA-UNC
5. Columbus Southern Company/Ohio Power Company, Case No. 06-222-EL-SLF
6. Duke Energy of Ohio, Case No. 07-589-GA-AIR
7. FirstEnergy Companies, Case Nos. 07-551-EL-AIR, et al
8. Vectren Energy Delivery of Ohio, Case No. 07-1080-GA-AIR
9. FirstEnergy Companies, Case No. 08-935-EL-SSO
10. FirstEnergy Companies, Case No. 08-936-EL-SSO
11. Duke Energy of Ohio, Case No. 08-920-EL-SSO
12. AEP, Case No. 08-917-EL-SSO
13. DPL, Case No. 08-1094-EL-SSO
14. FirstEnergy Companies, Case No. 09-906-EL-SSO
15. Duke Energy of Ohio, Case No. 10-1999-EL-POR
16. FirstEnergy Companies, Case No. 10-388-EL-SSO
17. FirstEnergy Companies, Case No. 10-1128-EL-CSS
18. AEP, Case No. 11-351-EL-AIR
19. FirstEnergy Companies, Case No. 11-5201-EL-RDR
20. FirstEnergy Companies, Case No. 12-1230-EL-SSO
21. FirstEnergy Companies, Case No. 12-2190-EL-POR
22. Duke Case No. 13-431-EL-POR

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Summary: Testimony Direct Testimony of Wilson Gonzalez electronically filed by Ms. Deb J. Bingham on behalf of Etter, Terry L.