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

PREPARED TESTIMONY
OF
GREGORY C. SCHECK

ENERGY EFFICIENCY AND RENEWABLES DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit _____

September 9, 2013

1. Q. Please state your name and your business address.

A. My name is Gregory C. Scheck. I am employed by the Public Utilities Commission of Ohio, 180 East Broad Street, Columbus, Ohio.

2. Q. What is your current position at the Commission?

A. I am a Utilities Specialist 3 in the Energy Efficiency and Renewables Division of the Energy and Environment Department. I am responsible for analyzing issues and providing recommendations pertaining to electric utility energy efficiency programs, including peak demand reductions, demand response, and smart grid infrastructure investment.

3. Q. What are your qualifications as they relate to your testimony in this proceeding?

A. I have worked at the Commission since 1985 in various capacities. Most of that time I have spent reviewing and evaluating demand forecasts, energy efficiency programs, and smart grid utility issues. I earned a Master's Degree in Economics from Ohio University in 1984.

4. Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain why Staff objects to Duke Energy Ohio, Inc.'s ("Duke") exclusion of the evaluation, measurement and verification ("EM&V") costs from the shared savings calculation. In addition, I will explain why it is important for Duke to include EM&V costs in its shared savings calculation.

5. Q. What is the purpose of shared savings payments in relation to an electric distribution utility's ("EDU") portfolio program?

A. Shared savings payments are intended to provide EDUs an earnings opportunity by offering shareholders a portion of the net benefits customers receive as a reward for excellent performance at saving energy and lowering customer bills, provided minimum performance thresholds are met. Shared savings payments reward EDUs for portfolio performance that goes above and beyond the statutory minimum requirements.

6. Q. The main issue in this case is how to account for EM&V costs. What are EM&V costs?

A. EM&V costs are the costs EDUs incur to evaluate, measure, and verify whether portfolio programs are cost-effective. EM&V costs are an unavoidable part of administering portfolio programs because it is necessary to determine whether each program is cost-effective and whether the programs need any programmatic changes to improve performance. As such, EDUs are allowed to recover all prudently incurred EM&V costs from ratepayers.

7. Q. Why is it important to include EM&V costs in program costs when calculating shared savings payments?

A. Shared savings payments are a result of the net avoided costs savings from EDUs' administration of energy efficiency programs. In order to determine the amount of net avoided costs that are a result of Duke's energy efficiency programs, Duke must include all costs necessary to administrate those programs, which include the costs to evaluate, measure, and verify savings. In the absence of an EDU's energy efficiency portfolio, it would not be necessary to spend any money for EM&V; therefore, EM&V costs are a necessary cost component to be considered by an EDU in determining the net avoided costs and, consequently, the shared savings payment.

8. Q. What effect does excluding EM&V costs from the program costs have on the shared saving calculation?

A. It decreases the "program costs" portion of the shared savings calculation. Because "program costs" are netted against the "total avoided costs", excluding EM&V costs increases the "net avoided costs", which results in an inaccurate representation of the cost-effectiveness of the EDU's portfolio program performance. Excluding EM&V from the shared savings calculation increases the amount of shared savings payments to the EDU by failing to account for all the known and unavoidable administrative costs of implementing the portfolio programs (administrative costs that ratepayers are required to pay).

9. Q. Besides Duke, how many Ohio EDUs currently have Commission-approved shared savings mechanisms?

A. AEP Ohio and First Energy currently have shared savings mechanisms that were approved by the Commission.

10. Q. Do AEP Ohio and First Energy include EM&V costs in program costs when calculating shared savings?

A. Yes. AEP Ohio has already included EM&V costs in its calculation of shared savings. First Energy recently had a shared savings mechanism approved in its most recent portfolio case. Although First Energy has not requested any shared savings payment yet, the Commission has stated that both AEP Ohio's and First Energy's shared savings calculation should be based upon the utility cost test (UCT), which includes EM&V costs in program costs.

11. Q. Does Duke's tariff currently address whether EM&V costs are considered program costs?

A. Yes. Duke's tariff states that "PC [program costs recovery] shall include all expected costs for the energy efficiency and peak demand response programs. Such program costs shall include the cost of planning, developing, implementing, **monitoring**, and **evaluating** the EE-PDR programs."[1] Based on this language, it is clear the costs of "monitoring" and "evaluating" EE-PDR programs are considered "program costs" when determining how the EE-PDR Charge is calculated.

12. Q. Does this tariff also address how program costs are factored into the shared savings payment calculation?

A. Yes. Duke's tariff states that "the "EE-PDR Program Incentive (PI) amount shall be computed by multiplying the net resource savings [total avoided costs] ... times the allowed shared savings percentage." The tariff then indicates that "Net resource savings [total avoided costs] are defined as program benefits less the **costs of the program**….."[2]

13. Q. Does this tariff state that EM&V costs are excluded from the program costs when calculating the shared savings payment?

A. No.

14. Q. Was this tariff proposed by Mr. Ziolkoski in Case No. 11-4393?

A. Yes. This proposed tariff was attached to Mr. Ziolkoski's testimony as JEZ Attachment 2 and JEZ Attachment 5.

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1 Duke Energy Ohio, PUCO Electric No. 19, Sheet No. 120 (**Attachment GCS 1**), pg. 1. (emphasis added).

2 *Id.* at 2. (emphasis added)

15. Q. Is Duke's claim that EM&V costs are excluded from program costs in the shared savings calculation consistent with its current tariff on file with Commission?

A. No. Based on the language in Duke's current tariff, it appears that that EM&V costs are included in program costs.

16. Q. To the best of your knowledge, why does Duke claim that EM&V costs should be excluded from program costs in the shared savings calculation?

A. It is my understanding, based upon Duke's reply comments filed in this case[3], that Duke's sole rationale for excluding EM&V costs from the shared savings calculation is Duke's belief that the parties that signed the stipulation in Case No. 11-4393-EL-RDR are precluded from contesting Duke's current method of calculating shared savings.

17. Q. Did Staff agree in Case No. 11-4393-EL-RDR that that EM&V costs should be excluded from program costs in the shared savings calculation?

A. No. Although Staff agreed to the creation of a shared savings mechanism, Staff never agreed that EM&V costs should be excluded from program costs in the shared savings calculation. In addition, the Stipulation does not

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[3] Reply Comments of Duke Energy Ohio, Inc., Case No. 13-753-EL-RDR, filed July 16, 2013.

indicate that EM&V will be excluded from program costs in the shared savings calculation. Finally, Staff never adopted or agreed to the validity of all the attachments in Mr. Ziolkoski's testimony.

18. Q. Does this conclude your testimony?

A. Yes. However, I reserve the right to submit supplemental testimony as new information becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prepared Testimony of Gregory C. Scheck, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 9th day of September, 2013.

/s/ Devin D. Parram

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Attachment GCS1

RIDER EE-PDR
ENERGY EFFICIENCY AND PEAK DEMAND RESPONSE RECOVERY RIDER

APPLICABILITY

Applicable to service rendered under the provisions of the following Rates to retail jurisdictional customers in the Company's electric service territory including those customers taking generation service from a Certified Retail Electric Service (CRES) provider:

Rate RS
Rate ORH
Rate TD-AM
Rate TD
Rate CUR
Rate RS3P
Rate RSLI
Rate TD-CPP_LITE
Rate TD-LITE
Rate TD-2012
Rate DS
Rate GS-FL
Rate EH
Rate DM
Rate DP
Rate SFL-ADPL
Rate TS

CHARGES

The monthly amount computed under each of the rate schedules to which this rider is applicable shall be increased or decreased by the EE-PDR 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:

EE-PDR Charge = PC + LR + PI + BA

Where: PC = PROGRAM COST RECOVERY.
LR = LOST BASE DISTRIBUTION REVENUE FROM LOST SALES RECOVERY.
PI = PDR PROGRAM INCENTIVE RECOVERY.
BA = BALANCE ADJUSTMENT.

For each twelve month period, the PC shall include all expected costs for the energy efficiency and peak demand response programs. Such program costs shall include the cost of planning, developing, implementing, monitoring, and evaluating the EE-PDR programs. Program costs will be assigned for recovery purposes to the rate classes whose customers are directly participating in the program. In addition, all costs incurred by or on behalf of the collaborative process, including but not limited to costs for consultants, employees and administrative expenses, will be recovered through the PC. Administrative costs that are allocable to more than one rate class will be recovered from those classes and allocated by rate class on the basis of the estimated avoided capacity and energy costs resulting from each program.

The PC applicable to each rate class shall be determined by dividing the costs of approved programs allocated or assigned to that class by the expected kilowatt-hour sales for the upcoming twelve-month period.

CHARGES (Cont'd)

Lost base distribution revenues (LR) from lost sales due to EE-PDR programs shall be computed by 1) multiplying the amount of kilowatt-hour sales that will be lost during the year as a result of the implementation of the approved programs times the base distribution charge for the applicable rate schedule, and 2) dividing that product by the expected kilowatt-hour sales for the upcoming twelve-month period. Base distribution charges include only those charges related to distribution base rates, and they do not include any generation-related charges or transmission charges. Recovery of base distribution revenues from lost sales for each rate class shall be included in the LR for three years from the implementation of the measures or until terminated by the implementation of new rates pursuant to a general rate case, whichever comes first. Base distribution revenues from lost sales will be assigned for recovery purposes to the rate classes whose programs resulted in the lost sales. Only those rate classes (e.g., Rates DS, DP, and TS) that are excluded from Rider DDR, Distribution Decoupling Rider, are subject to the LR charge.

The EE-PDR Program Incentive (PI) amount shall be computed by multiplying the net resource savings expected from the approved programs which are to be installed during the upcoming twelve-month period times the allowed shared savings percentage. The allowed shared savings percentages are as follows: 0% for achievement level of 100% or less, 7.5% for achievement level greater than 100% and less than or equal to 110%, 10% for achievement level greater than 110% and less than or equal to 115%, and 15% for achievement level greater than 115%. Net resource savings are defined as program benefits less the costs of the program, where program benefits will be calculated on the basis of the present value of the Company's avoided costs over the expected life of the program, and will include both capacity and energy savings. The amount related to programs for each rate class shall be divided by the expected kilowatt-hour sales for the upcoming twelve-month period to determine the PI for that rate class. EE-PDR incentive amounts will be assigned for recovery purposes to the rate classes whose programs created the incentive.

The BA is used to reconcile the difference between the amount of revenues actually billed through the respective EE-PDR Charge components; namely, the PC, LR, and PI and previous application of the BA and the revenues which should have been billed, as follows:

> For the PC, the balance adjustment amount will be the difference between the actual amount billed in a twelve-month period due to the application of the PC unit charge and the actual costs of the approved programs during the same twelve-month period.
>
> For the LR, the balance adjustment amount will be the difference between the amount billed during the twelve-month period from the application of the LR unit charge and the LR amount established for the same twelve-month period.
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> For the PI, the balance adjustment amount will be the difference between the actual amount billed during the twelve-month period due to application of the PI unit charge and the program incentive amount determined for the actual EE-PDR programs or measures implemented during the twelve-month period.
>
> For the BA the balance adjustment amount will be the difference between the actual amount billed during the twelve-month period due to the application of the BA unit charge and the balance adjustment amount estimated for the same twelve-month period.

The balance adjustment amounts determined above shall include interest. The interest applied to the monthly amounts, shall be calculated at a rate equal to the average of the "3-month Commercial Paper

Rate" for the immediately preceding 12-month period. EE-PDR balance adjustment amounts will be assigned for recovery purposes to the rate classes to which over or under-recoveries of EE-PDR amounts were realized.

All costs recovered through the EE-PDR Charge will be assigned or allocated to Duke Energy Ohio, Inc.'s electric on the basis of the estimated net electric savings resulting from each program.

FILINGS

The filing of modifications to the EE-PDR Charge shall be made at least thirty days prior to the beginning of the effective period for billing. Each filing will include the following information as needed:

A detailed description of each EE-PDR program.

The total cost of each program over the twelve-month period.

An analysis of expected resource savings.

Information concerning the specific EE-PDR or efficiency measures to be installed.

Any applicable studies which have been performed, as available.

A statement setting forth the detailed calculation of each component of the EE-PDR Charge.

Each change in the EE-PDR Charge shall be applied to customers' bills with the first billing cycle of the revenue month which coincides with, or is subsequent to, the effective date of such change.

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 the Company's Service Regulations currently in effect, as filed with the Public Utilities Commission of Ohio.