OCC EXHIBIT NO. ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Continue Cost Recovery Mechanism for Energy Efficiency Programs Through 2016.	)))))	Case No. 14-1580-EL-RDR

DIRECT TESTIMONY
OF
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June 30, 2015

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Wilson Gonzalez. My business address is 450 Whitney Avenue, Worthington, Ohio 43085. I am the President of Tree House Energy and Economic Consulting, LLC. I am testifying in this proceeding on behalf of the Office of the Ohio Consumers' Counsel ("OCC").

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). From 2004 to 2013, I managed the Resource Planning activities for OCC. To this end, I have participated in numerous electric industry cases before the Public Utilities Commission of Ohio ("PUCO" or "the 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 also filed testimony in Duke's second EE/PDR Portfolio Case, 13-431-EL-POR. 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 EE/PDR Portfolio Case, 12-2190-EL-POR. I was also involved in Dayton Power and Light's EE/PDR Portfolio Case, 13-833-EL-POR, that was resolved through settlement.

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. In that case, 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 of 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 10 years, 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, S.B. 58, and S.B. 310;
- 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 Application filed on September 9, 2014. In addition, I reviewed the Initial Comments and Reply Comments filed by various stakeholders in this proceeding. I also reviewed the Stipulation and Recommendation filed in Case No. 11-4393-EL-RDR on September 6, 2013, and the Stipulation and Recommendation filed in Case No. 13-431-EL-POR on November 18, 2011. I also reviewed the PUCO's Orders approving these Stipulations and the transcript of the hearing in the 11-4393-EL-RDR case. Finally, I reviewed the Utility's responses to OCC's discovery served in this case and in the 13-431-EL-POR case.

II. PURPOSE OF TESTIMONY AND RECOMMENDATIONS

Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A7. The purpose of my testimony is to present concerns about 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. In addition, I make some recommendations for the Commission's consideration concerning what a more balanced incentive mechanism might look like.

Q8. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A8. I recommend that the Commission reject Duke's request to extend its current shared savings mechanism into 2016. However, if the PUCO chooses to extend Duke's shared savings mechanism to 2016, then the PUCO should also impose the following conditions:

1. An annual, hard-dollar cap on shared savings of no more than 5% of actual prudent program spending, to protect consumers.
2. Any incentive awarded to the Utility should:
    a. use the Total Resource Cost Test ("TRC") net benefits rather than the Utility Cost Test ("UCT") net benefits;
    b. use net, rather than gross program savings.
    c. be calculated on a pre-tax basis;
3. Prohibit Duke from using "banked" savings from previous years to attain higher incentive levels that will make customers pay more in 2016.

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

Q9. PLEASE DESCRIBE DUKE'S SHARED SAVINGS INCENTIVE MECHANISM.

A9. 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. Duke's shared savings incentive mechanism was established and approved in Case No. 11-4393-EL-RDR. As established in that case, the current incentive mechanism that Duke is seeking to extend has the following tiered structure:

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.[1] But the Utility receives an incentive on the entire amount of energy

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

efficiency compliance (including that part which the Utility is statutorily required to perform up to the benchmark) if it exceeds the benchmark. In other words, once Duke exceeds the statutory benchmarks, Duke can also charge customers for its energy savings below the statutory benchmark. And, Duke has been using banked savings (savings from past years) to maximize the charge its customers pay on a going forward basis for shared savings.

Q10. WHEN IS DUKE'S SHARED SAVINGS INCENTIVE MECHANISM SET TO EXPIRE?

A10. According to the Opinion and Order approving the Stipulation and Recommendation reached in Case No. 11-4393-EL-RDR, the shared savings incentive mechanism was to expire at the end of 2015.[2] 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."[3]

[2] Case No. 13-431-EL-POR, Opinion and Order at 6 (Dec. 4, 2013).

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

Similarly, in Case No. 13-431-EL-POR the Signatory Parties agreed that "if the interested parties reach an agreement for implementing an incentive mechanism for the year 2016, the interested parties will file jointly their recommendation, related only to the incentive recovery mechanism, to seek the Commission's approval in 2015 for use in 2016. In the event no such agreement is reached, interested parties may seek the Commission's determination of whether an incentive mechanism should be implemented for the remainder of the portfolio plan period (for the year 2016)."[4]

Q11. IS DUKE PROPOSING TO EXTEND THE SHARED SAVINGS INCENTIVE MECHANISM, THAT CUSTOMERS PAY, FOR AN ADDITIONAL YEAR INTO 2016?

A11. Yes. As part of the Application in this case, Duke proposes to extend its shared savings incentive mechanism for an extra year through 2016.

Q12. IS IT APPROPRIATE FOR DUKE TO EXTEND INTO 2016 THE SHARED SAVINGS INCENTIVE THAT CURRENTLY EXISTS FOR ITS EE/PDR PORTFOLIO?

A12. No. It is my understanding that the Signatory Parties did not reach an agreement as to whether Duke should be permitted to charge customers for an incentive mechanism in 2016. To the extent the PUCO extends the shared savings incentive mechanism for Duke into 2016, it should not do so without significant

[4] Case No. 13-431-EL-, Stipulation and Recommendation at 5 (September 6, 2013).

modifications to protect consumers such as a hard-dollar cap, and exclusion of banked savings (savings from past years) to trigger an incentive for the Utility, as I explain below.

Q13. WHAT ARE YOUR RECOMMENDATIONS FOR CUSTOMER PROTECTIONS, IF THE PUCO CONSIDERS EXTENDING THE SHARED SAVINGS INCENTIVE MECHANISM FOR ANOTHER YEAR?

A13. I have the following recommendations for changes to Duke's proposal to extend its existing incentive mechanism:

1. The PUCO should impose an annual hard-dollar cap[5] on shared savings of 5% of actual prudent program spending, to protect consumers 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.

[5] A hard-dollar cap limits the dollar amount Duke can charge customers for shared savings in a given year in this case, 2016.

3. A net to gross savings calculation should be undertaken to protect customers.[6] The determination of electricity savings used in the shared savings calculation should be a net savings figure, including free riders and spillover effects.[7]
4. Duke should use a pre-tax rather than an after-tax calculation of the shared savings.
5. Duke should not be permitted to use "banked" savings from previous years to make customers pay more in 2016.

[6] Net-to-gross ratios are important in determining the actual energy savings attributable to a particular program, as distinct from energy efficiency occurring naturally (in the absence of a program). The net-to-gross ratio equals the net program load impact divided by the gross program load impact. This factor is applied to gross program savings to determine the program's net impact.

[7] 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.

A. IMPOSING A MAXIMUM DOLLAR CAP

Q14. 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?

A14. 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.[8]

Q15. 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?

A15. Yes. Such a cap would protect Duke's customers from undetermined and excessive incentive charges that have greatly exceeded projections and expectations.

Q16. HAS DUKE PROVIDED PROJECTED INCENTIVE LEVELS BASED ON THE ESTIMATED SAVINGS LEVELS CONTAINED IN ITS PORTFOLIO FILING?

A16. Yes. In response to OCC discovery in Case No. 13-431-EL-POR, Duke provided a table projecting its annual shared savings "incentives," which are reproduced below:[9]

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

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

In this case, Duke has provided the following incentive information:[10]

Year	Actual and Projected Annual Dollar Incentives	EE/PDR Program Spending	Incentive as a % of Program Spending
2012	$12,289,563	$25,147,118	49%
2013	$11,364,692 (projected)	$22,130,677	51%
2014	$12,975,188 (projected)	$30,608,344	42%
2015	$8,718,468 (projected)		
Total	$45,347,911		

[9] Case No. 13-431-EL-POR, Duke Response to OCC-INT-02-021 Supplement, Attachment 1.

[10] Incentive information is from Company Responses to OCC-INT-01-002 (Attachment 2) and OCC-INT-01-005 (Attachment 3). The EE/PDR program spending is from Company Response to OCC-INT-01-001 (Attachment 4).

As can be discerned from a comparison of both tables, Duke's incentive projections have increased substantially since the 2013 case.

Q17. DO YOU HAVE CONCERNS WITH DUKE'S PROJECTED AND ACTUAL INCENTIVE LEVELS?

A17. Yes. The projected and actual incentive levels, that Duke seeks to collect from customers, are exorbitant relative to the program size, and relative to other Ohio utilities. The incentives also significantly exceed utility energy efficiency incentive awards nationwide as a percentage of program cost.

Q18. DO THE OTHER OHIO ELECTRIC UTILITIES HAVE CAPS ON THE MAXIMUM AMOUNT OF SHARED SAVINGS INCENTIVE DOLLARS THEY CAN CHARGE THEIR CUSTOMERS?

A18. Yes. The Dayton Power and Light Company has a hard-dollar cap of $4.5 million dollars per year. The PUCO also approved shared savings mechanisms for the larger Ohio electric distribution companies of AEP-Ohio and FirstEnergy, and those incentive mechanisms are capped at $20 million and $10 million per year, respectively.

Q19. CAN YOU POINT TO ANY STUDIES THAT HAVE QUANTIFIED THE AVERAGE AMOUNT OF ENERGY EFFICIENCY INCENTIVES THAT HAVE BEEN AWARDED TO UTILITIES AND COLLECTED FROM THEIR CUSTOMERS?

A19. Yes. A cap on shared savings is most frequently based on a percentage of program spending. A study profiling 18 states[11] documented ranges from 5% to 20% of program spending with an average cap of 12% to 13%.[12]

Q20. DOES THE LACK OF A "HARD" DOLLAR CAP IN DUKE'S SHARED SAVINGS PROPOSAL PUT CUSTOMERS AT RISK?

A20. Yes. A hard dollar cap protects consumers from paying the Utility excessive incentives for EE/PDR results, or other unintended negative consequences of a shared savings-type mechanism.[13] For example, an unexpected and unprecedented increase in avoided costs, or the introduction of a revolutionary technology may lead to large increases in charges related to the shared savings incentive, which could result in unreasonably priced retail electric service in violation of R.C. 4928.02(A). Also, a legislative redefinition of "savings," broadening what a utility can count towards its energy efficiency compliance can also present a risk of greater utility shared savings incentive payments by

[11] The 18 states profiled on average exceeded the national average of utility efficiency spending per person.

[12] American Council for an Energy-Efficient Economy, "Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency," January 2011, at 10. http://www.aceee.org/researchreport/u111-

[13] In their filed comments in this case the consumer groups, (OPAE at 6; OEG Comments at 4; OMA Comments at 6; Kroger Comments at 4; and OCC Comments at 5) and Staff (Comments at 6) have recommended a hard cap on Duke's incentive.

customers.[14] In fact, in its 2013 Energy Efficiency Rider filing, Duke requested $12.5 million in shared savings incentives after spending $23.5 million on EE/PDR programs in 2012 alone.[15] The $12.5 million incentive that Duke requested be collected from its customers for 2012 is 178 percent above Duke witness Duff's estimated projection and 52 percent over his projected maximum shared savings award.[16] The incentive represents 49 percent of Duke's total expenditures on EE/PDR (expenditures that Duke seeks to charge to customers). Similarly, Duke sought more than $11.6 million in shared savings incentives for the 2013 program year after spending $22.13 million on EE/PDR programs.[17] This represents a shared savings incentive of over 54% of program costs. Duke is now requesting another $12,975,188 in shared savings charges in their 2014 true-up proceeding – 43% of the $30.3 million spent on EE/PDR programs for that year.[18] And Duke's projection for 2015 shared savings charges has increased from $7,256,153 (as filed in Case No. 13-431-EL-POR) to $8,718,468.[19] That means that over a three year period (2013-2015) Duke is seeking to collect approximately $31 million in shared savings. Such exorbitant charges that Duke

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[14] See for example ORC 4928.662 (B).

[15] 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").

[16] Transcript of June 7, 2012, in Case No. 11-4393-EL-RDR at 37. (Attachment 5).

[17] Duke Energy Ohio Case No. 14-457-EL-RDR, Attachment JEZ-1.

[18] Duke Energy Ohio Case 15-534-EL-RDR, Attachment JEZ-1.

[19] Duke Energy Ohio Case 15-534-EL-RDR, Attachment JEZ-1.

seeks to collect from customers are a direct result of the fact that Duke's shared savings incentive ***does not have a cap***.

Q21. HAS THE PUCO RULED ON THE CAPPING OF A SHARED SAVINGS AWARD?

A21. Yes. The PUCO has 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.[20] Despite FirstEnergy's resistance, the PUCO instituted a $10 million annual cap on the amount of shared savings that could be collected under the incentive mechanism.[21]

Q22. WHAT IS YOUR RECOMMENDATION FOR A "HARD DOLLAR" CAP ON SHARED SAVINGS FOR DUKE FOR 2016?

A22. My recommendation is that the maximum shared savings customer would pay to the Utility should be 5% of Duke's prudent program spending. For illustrative purpose, Duke projected in Case No. 13-341-EL-POR that its program costs for 2016 will be approximately $36 million. Thus, the hard dollar cap would be approximately $1.8 million ($36 million x 5%).

[20] *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).

[21] *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).

Q23. WHY IS YOUR RECOMMENDATION FOR A "HARD DOLLAR" CAP ON SHARED SAVINGS FOR DUKE FOR 2016 ON THE LOWER END OF THE STATES PROFILED IN THE ACEEE REPORT (AND LOWER THAN PREVIOUS OCC RECOMMENDATIONS)?

A23. My recommendation is at the lower end of the "hard dollar" cap range of 5 to 20 percent reported in the ACEEE study. My recommendation is predicated on the change in the status of generation assets, the evolution of a competitively bid Standard Service Offer ("SSO"), and the increase in CRES offers across all of Ohio.

After the signing of SB 221 in 2008 and the implementation of utility EE/PDR programs shortly thereafter, three of the four Ohio utilities[22] had not corporately separated their generation assets and used their generation to meet their customers' power requirements. CRES offers were virtually non-existent in three of the four service territories. The early shared savings incentive mechanisms approved in Ohio implicitly took into account that the EE/PDR programs were saving Ohio utilities' avoided energy and capacity costs. Accordingly, the incentive was structured to reflect the total level of avoided costs of the utility.

At present however, all of Ohio's utilities, including Duke. have or are in the process of corporately separating their generation assets. That means the Ohio

[22] Only the FirstEnergy companies had corporately separated their generation assets. The FirstEnergy companies did not get approval for an incentive mechanism during their first portfolio application in Case No. 09-1947-EL-POR et al.

utilities generation assets now fully operate in deregulated competitive markets, and are profitable or not, depending on changing power market conditions.

Also important, the energy and capacity avoided cost link between the Ohio utility's assets serving Ohio electric customers has been broken in the current 100% competitively bid SSO auction process.[23] Therefore, an incentive level in the current Ohio regime should be lower and correspond closer to an electric distribution company's avoided distribution costs, rather than generation related avoided capacity and avoided energy costs.[24] For Duke, T&D avoided costs for the 2015 Program year are $14 million and represents only 12.6 percent of total projected avoided costs as indicated below.[25]

Duke Energy Ohio
2015 Projection
Program Summary

	Shared Savings Calculation: (Avoided Cost - Pro				
	D	E	F	G	H
Program	Total NPV Avoided Cost of Capacity / Total	Total NPV Avoided Cost of Energy / Total	Total NPV Avoided Cost of T&D / Total	Total NPV Avoided Cost of Gas Production / Total	Total Avoided Costs
Unit	$	$	$	$	$
Type	data	data	data	data	D+E+F+G
Total	$20,913,655	$75,759,336	$13,985,893	$0	$110,658,884

Therefore, a "hard cap" on the lower end of the range is justified in Duke's case.

[23] Ohio electric customers now are served by the generation assets of many wholesale and retail suppliers.

[24] The EE/PDR program cost-effectiveness determination should still be based on total utility avoided costs since those are real costs that would be imposed on Ohio customers.

[25] Duke Energy Ohio Case 15-534-EL-RDR, Attachment JEZ-1.

The important changes represented by a 100% competitively bid SSO auction, increased CRES offers, and the corporate separation of generation following the initial EE/PDR portfolios requires a downward adjustment to Duke's existing shared savings incentive level that my lower recommended cap would accomplish.

Q24. CAN OHIO CONSUMERS BE AT RISK TO PAY EXCESSIVE CHARGES IF YOUR RECOMMENDATION FOR A LOWER "HARD DOLLAR" CAP ON SHARED SAVINGS FOR DUKE FOR 2016 AND BEYOND IS NOT ADOPTED BY THE PUCO?

A24. Yes. If competitive market prices for energy and capacity prices were to experience a sustained increase, generation profits could increase substantially. Ohio electric customers would pay the higher generation utility profits in the form of higher SSO and CRES provider electric rates. At the same time, these customers would have to pay their electric distribution company a higher shared savings incentive based on the higher generation avoided costs. In this case, Ohio electric customers would be paying twice for increases in generation costs; once in SSO and CRES charges, and again in an overly generous avoided generation based incentive mechanism.

B. CALCULATING THE SHARED SAVINGS INCENTIVE MECHANISM

Q25. HOW DOES DUKE CALCULATE THE NET BENEFITS ASSOCIATED WITH THE SHARED SAVINGS INCENTIVE?

A25. Duke uses the Utility Cost Test ("UCT") to measure the avoided costs upon which the shared savings incentive is calculated.[26] 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. Duke also calculates their shared savings on an after tax basis.[27]

Q26. WHAT ARE YOUR RECOMMENDATIONS FOR HOW DUKE'S SHARED SAVINGS MECHANISM SHOULD BE CALCULATED FOR 2016?

A26. I have three specific recommendations in this regard. They are: 1) Duke should use the Total Resource Cost test (TRC) to calculate the net benefits to customers; 2) the energy savings used should be net savings, not gross savings (net to gross issue); and 3) the calculation of Duke's shared savings incentive should be on a pre-tax basis.

[26] Case No. 11-4393-EL-POR Opinion and Order (8/15/12), page 20 approves Stipulation as modified.
[27] Id.

Q27. IS THE UCT THAT DUKE USES TO CALCULATE NET BENEFITS, APPROPRIATE FOR CALCULATING THE SHARED SAVINGS INCENTIVE THAT DUKE SEEKS TO CHARGE TO CUSTOMERS?

A27. No. 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 costs 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.

Q28. WHAT TEST SHOULD THE PUCO USE TO CALCULATE THE NET BENEFITS OF DUKE'S SHARED SAVINGS INCENTIVE MECHANISM?

A28. The PUCO should use the Total Resource Cost ("TRC") test.

Q29. WHY SHOULD THE COMMISSION USE THE TRC TEST INSTEAD OF THE UCT TO PROTECT CUSTOMERS?

A29. 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. Of all the tests, the TRC is the broadest measure of program cost effectiveness from the standpoint of energy acquisition. This makes the TRC test useful for comparing supply and demand side resources.

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. A complete test is better than a partial test, like the UCT. For this reason, the TRC is the litmus test used by most states (including Ohio) to determine the overall efficiency of their energy efficiency programs.[28]

Q30. WHAT CRITICISMS HAVE BEEN LEVELED AGAINST USING THE TRC IN A SHARED SAVINGS CALCULATION?

A30. Some 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.[29] But a utility would have the same incentive to keep administrative costs low under a TRC because it contains that very same cost element. Another concern expressed is that utilities could offer rebates greater than the incremental cost of an EE measure or larger rebates than necessary to attain the necessary customer participation. The former scenario is unlikely as such a practice is unconventional and the program would likely fail the UCT. Also, utility programs are reviewed in many venues (EE collaboratives, portfolio

[28] "Understanding Cost-Effectiveness of Energy Efficiency Programs: Best Practices, Technical Methods, and Emerging Issues for Policy-Makers," National Action Plan For Energy Efficiency, November 2008. Page 1-2.

[29] *See e.g.*, For example, see Staff Exhibit 1 at 10 in Case No. 12-2190-EL-POR.

filings, and portfolio status report filings) to prevent such an occurrence. The rebate minimizing behavior of the UTC may have some truth, but again, that can be monitored when reviewing utility EE program designs. Furthermore, a higher rebate may lead to more participants and more avoided cost savings, benefiting all customers.[30] On the negative side, use of the UCT can also serve 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. In this case, a customer ends up paying more for the energy efficiency measure and then paying the utility a higher incentive payment. Using the UCT 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. As an example, Duke's net benefits using the UCT are $220 million -- 18 percent greater than the $186 million calculated by using the TRC.[31] Use of the UCT instead of the TRC would force Duke's customers to pay a larger shared

[30] Whether a higher program rebate level will improve or decrease the net-benefits to all consumer requires a case by case determination.

[31] Duke Responses to OCC INT -02-016 (Attachment 6) and 02-017 (Attachment 7) in Case No. 13-431-EL-POR.

savings award to Duke due to the failure of the incentive mechanism calculation to take into consideration all of the costs of the programs, both utility and participant costs. In an extreme case, using the UTC in a shared savings mechanism can lead to the utility appropriating all of the customer savings, even when the TRC is positive.[32]

Q31. ARE THE ELECTRIC SAVINGS USED IN OHIO FOR COMPLIANCE AND SHARED SAVINGS CALCULATIONS GROSS RATHER THAN NET SAVINGS?

A31. Yes.

Q32. THEREFORE, ARE THE ELECTRIC SAVINGS USED IN DUKE'S SHARED SAVINGS CALCULATION OVERSTATED?

A32. Yes. The Ohio Technical Reference Manual which serves as a guideline for utilities in determining the savings of energy efficiency measures contains only gross savings information.[33] While gross energy savings may be 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

[32] An illustrative example is instructive. In DPL's 2013-2015 Portfolio Plan (Case No. 13-833-EL-POR) the Company reported a TRC of 1.35 on page 15. They also reported a TRC savings of $46,947,820 and UCT savings of $124,750,442 on page 91. Using the current UCT convention, the current practice of grossing up taxes, and having a shared savings award of 24 percent would yield the perverse outcome that, DPL would get $47,523,978 in incentive payment even though the total program savings is only $46,947,820. The customer benefit in this example is negative.

[33] Case No. 09-512-EL-UNC, Ohio Technical Reference Manual at 7.

effects.[34] 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."[35] As an example, in California a 0.8 ratio default net-to-gross figure is used until such time as a new, more appropriate, value is determined in the course of program evaluation.[36] Using the above value as an example, an energy efficiency program that is projected to save 10,000 kWh is credited with only 8,000 kWh saved for incentive purposes.

Q33. IS DUKE'S CALCULATION OF THE SHARED SAVINGS INCENTIVE ON AN AFTER-TAX BASIS A CONCERN?

A33. 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

[34] 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.

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

[36] http://docs.cpuc.ca.gov/published/Final_decision/11474-13.htm

efficiency shared savings mechanism.[37] 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.

C. PROHIBITING THE USE OF BANKED SAVINGS

Q34. HAS DUKE BEEN CHARGING CUSTOMERS FOR BANKED (PAST) SAVINGS TO TRIGGER AND MAXIMIZE THE INCENTIVE AWARD?

A34. Yes. Duke has been using savings that were achieved in previous years ("banked") in order to reach the 115% maximum compliance threshold. For example, in its 2014 EE/PDR rider update, Duke sought the 13.0% incentive percentage by using banked savings to reach 116% of the incentive compliance.[38]

Q35. SHOULD DUKE BE ALLOWED TO USE BANKED (PAST) SAVINGS TO TRIGGER AN INCENTIVE AWARD FOR 2016?

A35. No. An incentive mechanism is a tool used by regulators to reward exemplary utility performance in delivering energy efficiency and peak demand reduction programs to its customers. It usually takes the form of a utility sharing in a portion of the net benefits created by the utility program. The net benefits are typically the avoided energy and capacity dollar savings minus the utility and individual customer costs of the programs implemented. But Duke is currently using past

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

[38] Case No. 14-457-EL-RDR, Opinion and Order at 5 (May 20, 2015); *See also*, Case No. 14-457-EL-RDR, Direct Testimony of Trisha A. Haemmerle (Mar. 28, 2014).

(i.e., "banked") energy efficiency reductions to charge its customers on a going forward basis for shared savings.[39] Using banked savings to comply with the statutory benchmarks is allowed by law.[40] But utility use of banked savings from past years to charge customers for shared savings on a going forward basis is contrary to the purpose of an incentive. Shared savings incentives are performance incentives awarded for exceeding a meaningful annual savings benchmark. Most business incentive structures are annual and do not carry over to future years. The adage "what have you done for me lately" is an apt expression against using banked savings to determine incentive levels. A large bank of accrued savings when used to attain future incentive awards diminishes the utility motivation to exceed the standard on an annual basis.[41]

[39] Duke only met the annual mandates for energy efficiency because it used prior years' banked energy efficiency reductions. Using banked savings means that Duke uses energy efficiency reductions from past years to charge its customers on a going forward basis for shared savings. After using the banked savings for 2013, the Utility "calculated an annual achievement of 116%," which allowed Duke to charge customers for a 13% after tax shared savings incentive. But for using "banked savings" the Utility would not have been able to charge customers for shared savings in 2013.

[40] ORC 4928.662 (G).

[41] The Commission is of the same mind on this issue in its recent Finding and Order in Duke Energy Ohio Case No. 14-457-EL-RDR, at 5 (May 20, 2015) ("Therefore, the Commission finds Duke's use of banked savings to claim an incentive is improper.")

IV. CONCLUSION

Q36. SHOULD THE COMMISSION REJECT DUKE'S REQUEST TO MAINTAIN THEIR EXISTING ENERGY EFFICIENCY INCENTIVE MECHANISM FOR 2016?

A36. Yes. The Commission should reject Duke's request to extend their existing incentive mechanism for the reasons stated in my testimony. But to the extent the PUCO allows Duke to collect a shared savings mechanism in 2016, the Commission should consider my detailed recommendations in order to provide Duke customers relief from exorbitant profits from its energy efficiency programs. It is time that the utility incentive pendulum move back towards customers.

Q37. DOES THIS CONCLUDE YOUR TESTIMONY?

A37. 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 30th day of June, 2015.

/s/ Kyle L. Kern
Kyle L. Kern
Assistant Consumers' Counsel

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Exhibit WG-1

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. Dayton Power and Light, 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 Energy Ohio Case No. 13-431-EL-POR

23. Duke Energy Ohio Case No. 13-753-EL-RDR

24. Dayton Power and Light Case No. 13-833-EL-POR, et al.

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

Duke Energy Ohio
Case No. 14-1580-EL-RDR
OCC First Set of Interrogatories
Date Received: May 12, 2015

OCC-INT-01-002

REQUEST:

What EE/PDR incentives, whether through the Save-a-Watt Program ("SAW") or current shared savings mechanism, were received by the Company for each of the years 2012, 2013, and 2014?

RESPONSE:

2012: $12,289,563 (Case No. 13-753-EL-RDR)
2013: $11,364,692 (Case No. 14-457-EL-RDR) – projected to be earned
2014: $12,975,188 (Case No. 15-534-EL-RDR) – projected to be earned

PERSON RESPONSIBLE: Trisha Haemmerle

Duke Energy Ohio
Case No. 14-1580-EL-RDR
OCC First Set of Interrogatories
Date Received: May 12, 2015

OCC-INT-01-005

REQUEST:

What is the projected annual EE/PDR shared savings incentive that the Company will receive in 2015 and 2016?

RESPONSE:

The projected EE/PDR shared savings incentive that the Company will receive in 2015 is $8,718,468 as stated in Case No. 15-534-EL-RDR. Projections for 2016 are unknown at this time.

PERSON RESPONSIBLE: Trisha Haemmerle

Duke Energy Ohio
Case No. 14-1580-EL-RDR
OCC First Set of Interrogatories
Date Received: May 12, 2015

OCC-INT-01-001

REQUEST:

What was the total dollar amount of energy efficiency/peak demand reduction ("EE/PDR") program spending by the Company for each of the years 2009, 2010, 2011, 2012, 2013, and 2014?

RESPONSE:

Program costs associated with years 2009 – 2011 were trued-up under Rider DR-SAW in Case No. 12-1857-EL-RDR and are not applicable to the Company's application in this proceeding.

2012: Program spending = $25,147,118 (Case No. 13-753-EL-RDR)
2013: Program spending = $22,130,677 (Case No. 14-457-EL-RDR)
2014: Program spending = $30,608,344 (Case No. 15-534-EL-RDR)

PERSON RESPONSIBLE: Trisha Haemmerle

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

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

- - -

PROCEEDINGS

before Christine M.T. Pirik and Katie L. Stenman, Attorneys Examiner, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-D, Columbus, Ohio, called at 10:00 a.m. on Thursday, June 7, 2012.

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- - -

the target would be -- if we achieved 115 percent, it would be the $8.2 million. I would have to know what the avoided cost savings were from the entire portfolio as well as the spend to get there in order to calculate that number. I'm not trying to be evasive. I just need more than just a number of kWh. I would need to know what costs were spent and what avoided cost were there.

Q. Okay. And so you're saying that based on these numbers in Ziolkowski Attachment 1, that the maximum incentive would be $8.2 million?

A. If -- if we could even get there. Based off of projected impacts, yes, that's correct. Right now we're projecting, based off of impacts, and unfortunately we feel like we're a little bit behind because of -- because of some of the procedural delays, we're behind in trying to hit those numbers; so, you know, we're working to try and get just to earning the 7 1/2 percent, which would equate to the $4.5 million that we originally projected in the rider.

Q. This is a purely speculative question. What do you believe the maximum incentive that you could earn to be? And that doesn't have to be constrained to the Attachment 1 numbers.

A. I -- I would -- in terms of what we think we

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

OCC-INT-02-016

REQUEST:

Using the Total Resource Cost Test, please provide the dollar amount of total net benefits associated with each program contained in Table 1 "Program Cost Effectiveness Test Results" on page 8 of the Company's Application.

RESPONSE: Please see table below:

Program Name			
RESIDENTIAL CUSTOMER PROGRAMS	**Total Benefits**	**Total Costs**	**Net Benefits**
Appliance Recycling Program	$ 9,978,502	$ 1,430,048	$ 8,548,454
Energy Education Program for Schools	$ 1,419,695	$ 1,441,996	$ (22,301)
Home Energy Solutions	$ 31,882,532	$ 16,544,224	$ 15,338,308
Low Income Neighborhood	$ 2,307,386	$ 951,072	$ 1,356,314
Low Income Services	$ 189,922	$ 114,126	$ 75,796
My Home Energy Report	$ 18,045,051	$ 8,596,591	$ 9,448,460
Residential Energy Assessments	$ 8,706,846	$ 3,316,131	$ 5,390,715
Smart Saver® Residential	$ 28,688,546	$ 12,363,579	$ 16,324,967
Power Manager	$ 73,298,333	$ 14,514,026	$ 58,784,307
NON-RESIDENTIAL CUSTOMER PROGRAMS			
Smart Saver Non-Residential Custom	$ 48,766,169	$ 42,508,759	$ 6,257,410
Smart Saver Non-Residential Prescriptive	$ 89,321,099	$ 37,951,734	$ 51,369,365
Power Share®	$ 14,779,187	$ 1,372,331	$ 13,406,856
NEW PROPOSED PROGRAMS			
Energy Management and Information Services - Pilot	$ 723,398	$ 516,221	$ 207,177
PORTFOLIO TOTAL	$ 328,106,665	$ 141,620,837	$ 186,485,828

PERSON RESPONSIBLE: Tom Wiles

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

OCC-INT-02-017

REQUEST:

Using the Utility Cost Test, please provide the dollar amount of total net benefits associated with each program contained in Table 1 "Program Cost Effectiveness Test Results" on page 8 of the Company's Application.

RESPONSE: Please see table below:

Program Name						
RESIDENTIAL CUSTOMER PROGRAMS	**Total Benefits**		**Total Costs**		**Net Benefits**	
Appliance Recycling Program	$	9,978,502	$	1,972,309	$	8,006,193
Energy Education Program for Schools	$	1,419,695	$	1,895,472	$	(475,778)
Home Energy Solutions	$	31,882,532	$	23,284,548	$	8,597,984
Low Income Neighborhood	$	2,307,386	$	1,405,230	$	902,156
Low Income Services	$	189,922	$	316,151	$	(126,229)
My Home Energy Report	$	18,045,051	$	8,596,591	$	9,448,460
Residential Energy Assessments	$	8,706,846	$	3,574,669	$	5,132,177
Smart Saver® Residential	$	28,688,546	$	12,235,595	$	16,452,951
Power Manager	$	73,298,333	$	17,522,592	$	55,775,741
NON-RESIDENTIAL CUSTOMER PROGRAMS						
Smart Saver Non-Residential Custom	$	48,766,169	$	14,557,570	$	34,208,599
Smart Saver Non-Residential Prescriptive	$	89,321,099	$	16,524,823	$	72,796,277
Power Share®	$	14,779,187	$	5,901,230	$	8,877,957
NEW PROPOSED PROGRAMS						
Energy Management and Information Services - Pilot	$	723,398	$	220,004	$	503,393
PORTFOLIO TOTAL	$	328,106,665	$	108,006,784	$	220,099,881

PERSON RESPONSIBLE: Tom Wiles