

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

**APPLICATION OF DUKE ENERGY OHIO, INC. FOR APPROVAL
TO CONTINUE COST RECOVERY MECHANISM FOR ENERGY EFFICIENCY
PROGRAMS THROUGH 2016.**

Duke Energy Ohio, Inc., (Duke Energy Ohio) is an Ohio corporation engaged in the business of supplying electric transmission and distribution services to customers in southwestern Ohio, all of whom will be affected by this Application, and is a public utility as defined by R. C. 4905.02 and 4905.03. Duke Energy Ohio serves incorporated communities and unincorporated territory within its entire service area, which includes all or parts of Adams, Brown, Butler, Clinton, Clermont, Hamilton, Montgomery, and Warren Counties in Ohio.

In support of its Application, Duke Energy Ohio states as follows:

1. This Application is made pursuant to O.A.C. Chapter 4901:1-39 and the Opinion and Order of the Commission, issued August 15, 2012, in Case No. 11-4393-EL-RDR. (Opinion and Order).¹ In its Opinion and Order, the Commission approved a stipulation in which the signatory parties agreed, among other things, that Duke Energy Ohio would implement a cost recovery mechanism that would include program cost recovery and shared savings for programs designed to achieve energy efficiency and peak demand reduction.

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, Opinion and Order, (August 15, 2012)

2. Given the uniqueness of the incentive mechanism, the Stipulation contemplated a review of its effectiveness prior to the last year of the Company's portfolio plan. For this reason, the incentive mechanism specified that the incentive mechanism expire at the end of 2015 and was to be reevaluated 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 the parties would support its further use for the remaining year of the five year approved portfolio.²

3. On April 15, 2013, Duke Energy Ohio filed an application for approval of its energy efficiency and peak demand reduction portfolio of programs to align its cost recovery mechanism with its portfolio of approved programs. On September 6, 2013, as amended on September 9, 2013, a stipulation was signed by some of the parties. The stipulation included a provision that reiterated that the mechanism for recovering costs from Duke Energy Ohio customers, including program costs, lost distribution revenues and an incentive mechanism, would expire at the end of 2015, as controlled by the stipulation in the *2011 Portfolio Case*.³

4. As a result of pursuing the programs approved by the Public Utilities Commission of Ohio, (Commission), Duke Energy Ohio has had tremendous success in achieving its mandated energy efficiency benchmarks. The Company overachieved in 2012 and performed well in 2013 by overachieving compared to projected impacts by twenty-five percent, while spending only eighty-three percent of the projected costs.

5. The Company's success has allowed customers who participated in its programs to take control of their energy usage and realize significant savings, while at the same time, realizing benefits of millions of dollars of avoided system costs.

² *Id.* at p.8.

³ *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, Opinion and Order, (December 4, 2013).

6. In the two years that Duke Energy Ohio has been under the shared savings mechanism, the net present value of the system avoided costs associated with the energy and capacity achievements has been over 3.5 times the cost incurred to achieve the impacts.

7. Duke Energy Ohio's shared savings incentive mechanism does not feature an explicit dollar cap on the incentive the Company may earn since it is incongruent with the theory behind a shared savings incentive. All of the incentive earned under the mechanism are factored into the Company's annual Significant Excessive Earnings Test (SEET) calculation. In the two years that the Company has been operating under its approved shared savings incentive, Duke Energy Ohio's earnings have not been found to be excessive.

8. The shared savings mechanism coupled with the robust portfolio of programs provides an appropriate incentive that aligns the interests of the Company with the best interests of its customers.

9. As a result of the Company's success with its current portfolio and cost recovery mechanism, and pursuant to the Commission's directive in the Opinion and Order to keep its cost recovery mechanism in place for the full duration for which it sought program approval, Duke Energy Ohio hereby requests approval of the existing cost recovery and incentive mechanism as structured during 2012 through 2015 continue to be utilized in through 2016.

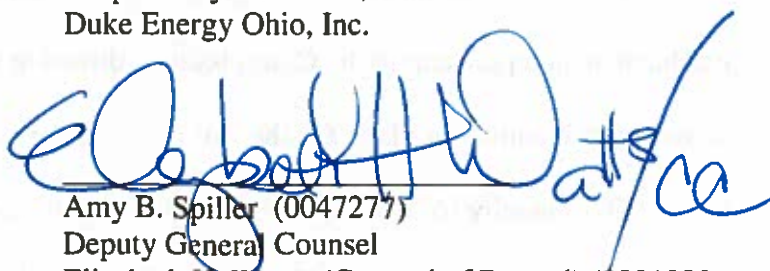
10. The Stipulation and Recommendation in Case No. 13-431-EL-POR that was adopted and approved by the Commission, specified that the parties would seek to reach an agreement for implementing an incentive mechanism for the year 2016, and then jointly file a mechanism to seek the Commission's approval in 2015, for use in 2016. The parties have not been able to reach such an agreement. The majority of the signatory parties are in agreement with continuing the existing cost recovery mechanism (cost recover or prudent costs, lost

distribution revenues, and its shared savings incentive). Pursuant to the Stipulation and Recommendation, Duke Energy Ohio requests that the Commission determine that the continuation of the existing cost recovery and incentive mechanism continue through the end of 2016, in alignment with the approved term of the portfolio approval.

11. If the Commission determines the continuation of the existing cost recovery and incentive mechanism through the end of 2016 is not appropriate, Duke Energy Ohio respectfully requests that the Commission provides the Company thirty days from the date of the Commission Order to file an amended portfolio plan as contemplated in Senate Bill 310

WHEREFORE, Duke Energy Ohio respectfully requests that the Commission approve this Application and order the energy efficiency and peak demand reduction cost recovery mechanism to be effective as currently approved through 2016.

Respectfully submitted,
Duke Energy Ohio, Inc.



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