DUKE ENERGY.

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March 9, 2017

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street, 11th Floor
Columbus, OH 43215-3716

Re: PUCO Case No. 16-0576-EL-POR, In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of its Energy Efficiency and Peak Demand Reduction Program Portfolio Plan.

Dear Docketing,

On March 7, 2017, Duke Energy Ohio filed the Rebuttal Testimony of Timothy J. Duff in the above referenced case. It has since been determined that Attachment 1 was inadvertently left out. Please find enclosed a copy of the updated filing including Attachment 1 to replace the original filing.

Should you have any questions, please contact me.

Respectfully submitted,

Elizabeth H. Watts

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of its Energy Efficiency and Peak Demand Reduction Program Portfolio Plan.	))))	Case No. 16-0576-EL-POR

REBUTTAL TESTIMONY OF

TIMOTHY J. DUFF

ON BEHALF OF

DUKE ENERGY OHIO, INC.

March 7, 2017

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Timothy J. Duff. My business address is 400 South Tryon Street, Charlotte, North Carolina 28202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services LLC, an affiliate of Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) as General Manager, Customer Solutions Regulatory Strategy & Evaluation.

Q. ARE YOU THE SAME TIMOTHY J. DUFF WHO SUBMITTED SUPPLEMENTAL DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is to address testimony submitted by Staff witness Patrick Donlon and Office of the Ohio Consumers' Counsel (OCC) witness Colleen Shutrump regarding Staff's arbitrary proposal for an overall cap on energy efficiency program costs and shared savings.

II. STAFF'S PROPOSAL FOR A COST CAP

Q. PLEASE EXPLAIN THE DETAILS OF THE ARBITRARY CAP THAT STAFF AND OCC ARE PROPOSING.

A. Through direct prefiled testimony provided by Staff witness Patrick Donlon, and as supported by Ms. Shutrump, Staff proposes that the Commission should impose a cap on the Company's costs for all energy efficiency programs and shared savings. Staff recommends that the starting point for calculating an overall

cap begin with the Operating Revenues that are reported on Line 10, Page 300, of the Company's 2015 Federal Energy Regulatory Commission (FERC) Form 1 (Line 10), and the Staff recommends multiplying this number by 3.5%. Staff calculates that this cap will result in an overall total cap of $33,820,565. This cap is to remain in place during the course of the Company's proposed three year portfolio (2017-2019).

Q. PLEASE EXPLAIN WHY DUKE ENERGY OHIO DISAGREES WITH THE CAP PROPOSAL.

A. Duke Energy Ohio disagrees with Staff and OCC's proposal for many reasons. First, the Company believes that the concept of a cap on cost effective energy efficiency, without any regard for program quality and customer demand, is misaligned with Ohio public policy and not in the interest of Ohio customers. Second, the proposed cap amount is insufficient to allow the Company to meet the state energy efficiency mandates. Finally, due to using an inappropriate baseline for the cap calculation methodology, the Staff's recommendation varies as between each of the Ohio electric distribution utilities (EDU) and results in inequitable levels for each. And Staff's recommendation that the cap remain in place for three years does not account for changes to the Company's revenues based upon changes to customer shopping.

Q. PLEASE EXPLAIN WHY THE COMPANY BELIEVES A CAP ON ENERGY EFFICIENCY IS POOR POLICY AND NOT IN CUSTOMERS' INTERESTS.

A. By definition, cost effective energy efficiency provides more utility system benefit (avoided cost associated with the energy and capacity savings) than the associated cost, so it is counter-intuitive to think that the Commission should establish any sort of cap that would limit customers' participation. Additionally, a cost cap that would limit a utility's annual energy efficiency achievement appears contrary to the Commission establishing the tiered incentive mechanisms for utilities designed to incentivize and reward utilities more when they exceed the annual energy efficiency benchmark for a given year. What makes the annual cap proposal even more misaligned is that the Stipulation and Recommendation in this case creates a cap on the total shared savings incentive that can be earned in any year, which means that after the Company hits that cap, customers retain 100% of the net benefits associated with programs.

In addition to this misalignment with Ohio public policy, a cost cap as proposed by Witness Donlon could result in increasing the ultimate cost of utility compliance with the energy efficiency benchmarks, as well as creating a poor experience for customers. In the case where a cost cap would cause a utility to suspend a program and halt customer participation, the utility will have to remarket to those same customers to attract their renewed participation, which will likely be more difficult and expensive. This is inefficient and wasteful of customer resources.

Additionally, as historic results have shown, the cost of energy efficiency has gone up over time, so forcing a utility to cease offering programs due to an annual cost cap will likely increase the cost of compliance over the cumulative mandate period. See, for example, part of Duke Energy Ohio's response to a Staff Data Request that was submitted in a letter to docketing on January 23, 2017. It is an exhibit attached as TJD-Attachment 1. This increase in cost can be seen by the fact that Duke Energy Ohio's average cost per kWh of energy saved during the three-year period (2013-2015) was nearly double that of the proceeding three-year period (2010-2012).

Q. PLEASE EXPLAIN WHY THE CAP, AS PROPOSED BY MR. DONLON, WOULD BE INSUFFICIENT TO ALLOW DUKE ENERGY OHIO TO MEET THE STATE MANDATES FOR ENERGY EFFICIENCY.

A. The cap proposed by Mr. Donlon for Duke Energy Ohio is $33,820,565. This is significantly less than the amount of money projected for the costs of programs in the Company's portfolio. In fact, the annual cap proposed by Mr. Donlon is more than 11% less than the $38,057,541 projected program costs alone. In addition to providing more than $4.2 million less for program costs, the annual cap would provide no money for a shared savings incentive to the utility and no compensation for lost distribution revenue. To further highlight the inadequacy of the proposal, Staff's annual cap is just 7.3% more than what the Company spent on programs during 2015, a year in which its annual energy savings were only 0.81%, which is 19% less than its annual benchmark for 2015.

Q. PLEASE EXPLAIN WHY THE PROPOSAL TO BASE THE ANNUAL CAP ON THE LINE 10 NUMBER IS ILLOGICAL AND UNREASONABLE.

A. The methodology that Mr. Donlon has proposed for determining each utility's cap is untethered to any meaningful standard. Operating Revenues reported in the FERC Form 1 have little relevance to energy efficiency programs or requirements. While the Operating Revenues reported in the FERC Form 1 reflect revenues associated with transmission and distribution service, the figure only reflects revenue associated with generation from customers taking service under the Company's Standard Service Offer (non-switched customers). Under the approach put forth by Mr. Donlon, utility companies that have greater switching will have a lower annual cap than utilities with lower customer switching rates. The annual energy efficiency benchmarks are based on the energy sales to all customers, so it is hard to understand why Staff would propose a cap based on a revenue number that does not reflect sales to all customers.

Mr. Donlon states that he supports the use of FERC Form 1 Operating Revenues because using a number that is required by FERC to be reported on a commonly used form provides for transparency amongst all the utilities in the state. However, he fails to acknowledge that a far more relevant number, reflecting the magnitude of the each utility's energy efficiency portfolio, Megawatt Hours Sold, is available on Line 10 of the very next page in the FERC Form 1. Rather than applying an arbitrary percentage to Operating Revenues, a far more reasonable approach would be to base a cap on the MWH sold, as reported

in the FERC Form 1. This approach would actually be far more pertinent to the size of the utility energy efficiency portfolio, which is also based on the utility's sales.

Q. DOES STAFF'S RECOMMENDED METHODOLOGY HAVE OTHER FUNDAMENTAL FAILINGS?

A. Yes. Staff is recommending that Duke Energy Ohio be permitted to recover 3.5% of the Line 10 number. Staff did not provide any analysis or, indeed, any information at all to support the use of this percentage. Moreover, Staff has agreed to different percentages for each of the Ohio electric distribution utilities. If Staff was seeking to provide fairness and transparency, they have instead achieved the opposite result, as there is no apparent rationale why each utility should have a cap based on a different percentage, when they all share a common annual energy efficiency benchmark percentage.

Q. PLEASE DESCRIBE THE INEQUALITIES CREATED BETWEEN UTILITIES BY ESTABLISHING THE UTILITY ANNUAL CAP BASED ON OPERATING REVENUES.

A. Due to the fact that that the Operating Revenues reported on Line 10 of the FERC Form 1 are based upon revenues that are greatly impacted by switching experienced by the different utilities, the amount of the annual cap varies greatly among those utilities. As mentioned previously, the variance in the cap amount is not tied to the difference in the magnitude of each utility's portfolio or benchmark but, rather, how much generation-related revenue is included in the FERC Form 1. Because of this problem with the proposed methodology, the amount each

utility may spend per MWH of energy efficiency savings it is required to achieve under the benchmarks varies greatly. As shown in TJD-Attachment 2, the amount Ohio Power Company (AEP Ohio) has to spend on program costs and shared savings per MWH it must achieve under its annual benchmark is 154% of the amount Duke Energy Ohio has to spend per MWH of benchmark requirement.

The inequity is even more glaring if one assumes that AEP Ohio earned its maximum shared savings incentive of just over $31 million; it would still have $185.13 per MWH of benchmark requirement to spend on program costs. On the other hand, Duke Energy Ohio has $167.85 to spend on both program costs and shared savings per MWH of annual benchmark. It is manifestly unjust for Duke Energy Ohio and its customers to be subjected to an annual cap that would provide a capped amount of dollars to spend on energy efficiency programs and any shared saving incentive that is only 90% of the amount the Commission approved for AEP Ohio to spend on program costs even after earning its maximum shared savings incentive.

Q. DOES DUKE ENERGY OHIO HAVE AN ALTERNATIVE RECOMMENDATION FOR A CAP METHODOLOGY FOR THE COMMISSION TO CONSIDER?

A. Although the Company opposes an annual cap on energy efficiency such as the one proposed by Witness Donlon, and is particularly opposed to the methodology he is proposing to determine the cap, the Company believes any cap imposed should be proportional to the one approved for AEP Ohio in Case No. 16-574-EL-POR. The annual cap approved for AEP Ohio was $110,310,902 and the annual

energy efficiency benchmark for AEP Ohio in 2015 (same base year as the FERC Form 1 used in setting the cap) as reported in Case No. 16-1099-EL-EEC was 427,100 MWH. Based on these two numbers, AEP Ohio has $258.30 per MWH to spend under the cap. Applying this $258.30 value per MWH to Duke Energy Ohio's 2015 energy efficiency benchmark as reported in Case No. 16-0513-EL-EEC, which was 201,497 MWH, Duke Energy Ohio should have a cap of $52,046,662. In order to use the methodology proposed by Witness Donlon, the Company is proposing that its annual cap be set as 5.4% of its Operating Revenues from Ultimate Customers as reported Line 10 on Page 300 of the Company's 2015 FERC Form 1. By applying a cap percentage of 5.4% to Duke Energy Ohio's Operating Revenues, Duke Energy Ohio will have approximately the same amount of cap to spend per MWH of energy efficiency as the amount the Commission approved for AEP Ohio.

Q. DO YOU BELIEVE THAT THE COMMMISSION SHOULD APPROVE DUKE ENERGY OHIO'S RECOMMENDATION?

A. Yes. Despite the fact the Company does not agree with the policy of creating an annual cap or the methodology proposed, by adopting the Company's proposal the annual cap should be sufficient to allow the Company to hit its annual benchmarks, as well as equitable and consistent with what has been approved for AEP Ohio.

III. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

TJD-Attachment 1.

Year	Actual costs	Actual KWH	Avg. Cost Per KWH Saved
2009	$12,271,772	292,333,194	$0.042
2010	$23,312,812	309,907,597	$0.075
2011	$25,226,982	215,291,129	$0.117
2012	$25,147,118	262,436,819	$0.096
2013	$22,130,677	144,101,736	$0.154
2014	$30,608,344	152,268,735	$0.201
2015	$31,531,908	164,010,308	$0.192

2009 Actual KWh includes impacts of 206,669,685 kwh from 2006 – 2008

The above table was created from data contained in the following cases:

Case No. 08-920-EL-SSO
Case No. 11-4393-EL-POR
Case No. 12-857-EL-RDR
Case No. 13-753-EL-RDR
Case No. 14-457-EL-RDR
Case No. 15-534-EL-RDR
Case No. 16-664-EL-RDR

TJD - Attachment 2

Line	Category	Ohio Utility				Formula
		AEP Ohio	Duke Energy Ohio	DP&L	First Energy	
1	2015 Annual EE Benchmark*	427,100	201,497	138,063	473,969	
2	Operating Revenues (2015 FERC Form Page Line 10 Column (b)	$ 2,757,997,562	$ 966,301,847	$ 825,553,537	$ 2,669,985,047	
3	Program Cost Cap Percentage	4.0%	3.5%	4.0%	3.0%	
4	Annual Cost Cap	$ 110,319,902	$ 33,820,565	$ 33,022,141	$ 80,099,551	Line 2 * Line 3
5	Total Cap /MWH	$ 258.30	$ 167.85	$ 239.18	$ 169.00	Line 4 / Line 1
6	Percentage of Duke Cap /MWH of EE benchmark	154%	100%	143%	101%	Line 4 /Duke Line 4
7	Maximum Pre-tax Shared Saving	$ 31,250,000	$ 12,500,000	$ 7,031,250	$ 15,625,000	
8	Annual Cap after shared saving	$ 79,069,902	$ 21,320,565	$ 25,990,891	$ 64,474,551	Line 4 - Line 7
9	Caps on program cost (less shared savings) /MWH	$ 185.13	$ 105.81	$ 188.25	$ 136.03	Line 8 / Line 1
10	Percentage of Duke Cap(less Incentive)/MWH	175%	100%	178%	129%	Line 9 /Duke Line 9

* First Energy operated an amended plan so 2015 benchmark derived by taking the 2015 annual compliance baseline (pg. 4, Table 2.1) multiplied by the benchmark of 1.0%

Utility	Case No. for Annual Benchmark Data
AEP	16-1099-EL-EEC
Duke	16-0513-EL-EEC
OPL	16-0851-EL-POR
FE	16-0941-EL-EEC