

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application)	
of Duke Energy Ohio, Inc. to)	
Adjust Rider DR-IM and Rider)	Case No. 12-1811-GE-RDR
AU for 2011 SmartGrid Costs.)	

STIPULATION AND RECOMMENDATION

Ohio Administrative Code (O.A.C.), Section 4901-1-30, provides that any two or more parties to a proceeding before the Public Utilities Commission of Ohio (Commission) may enter into a written stipulation covering the issues presented in that proceeding. This Stipulation and Recommendation (Stipulation) sets forth the understanding of Duke Energy Ohio, Inc. (Duke Energy Ohio or the Company), the Office of the Ohio Consumers' Counsel (OCC), the Commission Staff (Staff),¹ and Ohio Partners for Affordable Energy (OPAЕ), each of whom is a Signatory Party, and together constitute the Signatory Parties or Parties. The Signatory Parties recommend that the Commission approve and adopt, as part of its Opinion and Order, this Stipulation that resolves all of the issues in the above-captioned proceeding.

This Stipulation is a product of lengthy, serious, arm's-length bargaining among the Signatory Parties with diverse interests, who are all capable, knowledgeable parties, which negotiations were undertaken by the Signatory Parties to settle this proceeding and is not intended to reflect the views or proposals that any individual party may have advanced acting unilaterally. This Stipulation was negotiated among all parties to the proceeding. The Signatory

¹ The Staff of the Public Utilities Commission of Ohio will be considered a party for the purpose of entering into this Stipulation pursuant to Ohio Administrative Code Sections 4901-1-10(C) and 4901-1-30.

Parties agree that this Stipulation is in the best interests of the public, and urge the Commission to adopt it.

This Stipulation is supported by adequate data and information. As a package, the Stipulation benefits customers and the public interest; represents a reasonable resolution of all issues in this proceeding, violates no regulatory principle or practice, and complies with and promotes the policies and requirements of Ohio Revised Code Chapter 4928. While this Stipulation is not binding on the Commission, it is entitled to careful consideration by the Commission, where, as here, it is sponsored by parties representing a wide range of interests.

Except for purposes of enforcement of the terms of this Stipulation, this Stipulation, the information and data contained therein or attached, and any Commission rulings adopting it, shall not be cited as precedent in any future proceeding for or against any Signatory Party or the Commission itself. The circumstances of this case are unique to it, and thus imputing the terms of this Stipulation into any other case undermines the willingness of the parties to compromise that is a necessary element of negotiating settlements in Commission proceedings. The Signatory Parties' agreement to this Stipulation, in its entirety, shall not be interpreted in a future proceeding before this Commission as their agreement to only an isolated provision of this Stipulation, or to any position, argument or recommendation contained in the record of this proceeding or otherwise presented in this proceeding. More specifically, no specific element or item contained in or supporting this Stipulation shall be construed or applied to attribute the results set forth in this Stipulation as the results that any Signatory Party might support or seek, but for this Stipulation in these proceedings or in any other proceeding. The Stipulation is a recognition that each Signatory Party disagrees with individual aspects of the Stipulation, but believes that the Stipulation has value as a whole. This Stipulation is a reasonable compromise

involving a balancing of competing positions and it does not necessarily reflect the position that one or more of the Signatory Parties would have taken if these issues had been fully litigated.

This Stipulation is expressly conditioned upon its adoption by the Commission in its entirety and without material modification. If the Commission rejects or materially modifies all or any part of this Stipulation,² each and every Signatory Party shall have the right, within thirty days of issuance of the Commission's Order, to file an application for rehearing or to terminate and withdraw the Stipulation by filing a notice with the Commission. The Signatory Parties agree they will not oppose or argue against any other Signatory Party's notice of termination or application for rehearing that seeks to uphold the original, unmodified Stipulation. If, upon rehearing, the Commission does not adopt the Stipulation in its entirety and without material modification, any Signatory Party may terminate and withdraw from the Stipulation. Termination and withdrawal from the Stipulation shall be accomplished by filing a notice with the Commission, including service to all Signatory Parties in this proceeding, within thirty days of the Commission's Order or ruling on rehearing that does not adopt the Stipulation in its entirety and without material modification. Other Signatory Parties to this Stipulation agree to not oppose the termination and withdrawal of the Stipulation by any other Signatory Party. Upon the filing of a notice of termination and withdrawal, the Stipulation shall immediately become null and void.

Prior to the filing of such a notice, the Signatory Party wishing to terminate agrees to work in good faith with the other Signatory Parties to achieve an outcome that substantially satisfies the intent of the Stipulation and, if a new agreement is reached that includes the Signatory Party wishing to terminate, then the new agreement shall be filed for Commission

² Any Signatory Party has the right, at its sole discretion, to determine what constitutes a "material" change for the purposes of that Party withdrawing from the Stipulation.

review and approval. If the discussions to achieve an outcome that substantially satisfies the intent of the Stipulation are unsuccessful in reaching a new agreement that includes all Signatory Parties to the present Stipulation, the Commission will convene an evidentiary hearing such that the Signatory Parties will be afforded the opportunity to present evidence through witnesses and cross-examination, present rebuttal testimony, and brief all issues that the Commission shall decide based upon the record and briefs as if this Stipulation had never been executed.

WHEREAS, in its first Electric Security Plan (ESP) proceeding, Case Nos. 08-920-EL-SSO, *et al.*, Duke Energy Ohio agreed to deploy a SmartGrid program for electric and gas customers; and

WHEREAS, in its first ESP proceeding, Duke Energy Ohio agreed that as part of the annual due process related to 2010 costs net of benefits, the Company would include a mid-deployment program summary and review with the second quarter 2011 filing, outlining its progress in deploying the SmartGrid program through 2010; and

WHEREAS, during the mid-deployment review of the Company's progress in deploying the SmartGrid program, the Parties reached a Stipulation and Recommendation that was adopted by the Public Utilities Commission of Ohio (Commission) in Case No. 10-2326-GE-RDR; and

WHEREAS, the 10-2326 stipulation resolved issues for future rider cases, including, *inter alia*, that Duke Energy Ohio shall reduce its revenue requirement by an amount equal to the value of operational benefits, levelized over four years, and for cost recovery associated with the year 2011, and that amount is a reduction of \$6.24 million in the revenue requirement for Rider DR-IM that customers pay; and

WHEREAS, Duke Energy Ohio committed to maintain Rider DR-IM as the means to recover SmartGrid investment through the year in which full deployment occurs, however, the

Parties agreed that treatment of the revenue requirement and guaranteed savings with respect to Rider AU will be dependent upon the timing and treatment of gas distribution rates in any rate case pending before the Commission, as set forth in paragraphs g., and h., of the Stipulation and Recommendation in Case No. 10-2326-GE-RDR: and

WHEREAS, the Signatory Parties believe that the agreements herein represent a fair and reasonable solution to the issues raised in the case set forth above concerning Duke Energy Ohio's Application,

THEREFORE, it is agreed that:

I. FINANCIAL AND ACCOUNTING

- a. The Signatory Parties agree that Duke Energy Ohio shall receive a revenue increase applicable to Rider DR-IM of \$28.5 million, and a revenue increase of \$12.3 million applicable to Rider AU, subject to the adjustment provision contained in Section I.i. of this agreement. These revenue increases convert to a rate of \$3.31 per meter per month for residential electric customers and \$4.93 per meter per month for non-residential electric customers under Rider DR-IM.³ The revenue increase results in a rate of \$2.50 per meter per month under Rider AU, gas only customers will receive a \$1.37 credit per meter per month, subject to the adjustment provision contained in Section I.i. of this agreement. This provision does not restrict or limit the Signatory Parties in their arguments regarding base rates in Case No. 12-1685-GA-AIR.
- b. The Signatory Parties recognize and agree that the monthly charge per residential electric meter resulting from the Rider DR-IM revenue requirement for the

³ These figures assume that Rider DR-IM rates go into effect on April 1, 2013. If the effective date is different, rates would change accordingly.

applicable period is below the applicable cap established in the Stipulation and Recommendation approved by the Commission in Case No. 08-920-EL-SSO, *et al.*

- c. The Signatory Parties further agree that the revenue requirements are based upon a rate of return of 8.9% and 8.45% approved by the Commission (Case No. 08-709-EL-AIR, *et al.*, and Case No. 07-589-GA-AIR, *et al.*).
- d. The Signatory Parties agree that Duke Energy Ohio shall reduce its revenue requirement to the benefit of customers, by an amount equal to the value of operational benefits, as set forth by MetaVu in its SmartGrid Audit and Assessment Report (MetaVu Report) levelized over four years. The electric share of the levelized benefits to be netted against 2011 costs for purposes of revenue recovery is \$6.24 million.
- e. The Company agrees to accept Staff's recommendations for adjustments to Rider AU revenue requirement calculation as set forth in the Staff's Comments in this proceeding. Specifically, the Company agrees to accept:
 - 1. Staff's "methodological" recalculation of rates for two separate customer classes, e.g., combination customers and gas only customers is appropriate.
 - 2. Staff's three computational revisions to the total revenue requirement for Rider AU as calculated on Schedule 1 line 13, Schedule 3 Depreciation and Schedule 4, PISCC.

3. A \$737,170 reduction to gas plant account 29700 for uninstalled gas modules.
 4. \$39,287 reduction to gas plant account 29700 to remove stores loading charges related to replacement gas meters.
- f. With respect to Rider DR-IM, the Company agrees to accept Staff's recommendations for reclassification of accounts as follows:
1. \$45,425 reduction to gas account 20300, including that for PMO & Common Plant Additions, reclassified to electric plant account 30300.
 2. \$367,426 reduction to gas account 20300, including that for PMO & Common Plant Additions, for shared computer software project, reclassified to electric plant account 30300.
 3. Staff's recommendation that the timing of the rider taking effect each year would ideally be governed by an annual cycle with rates taking effect on April 1 of each year.
- g. Duke Energy Ohio commits to maintain Rider DR-IM as the means to recover SmartGrid investment through the year in which full deployment occurs. For each Rider DR-IM filing for the following two years, the Company agrees to include, for the benefit of customers, the electric distribution share of operational savings derived from the MetaVu Report. The total savings from the MetaVu Report for the respective years are as follows:
- Savings to include in 2011 revenue requirement: \$2.38 million
- Savings to include in 2012 revenue requirement: \$4.77 million

Savings to include in 2013 revenue requirement: \$8.00 million

Savings to include in 2014 revenue requirement: \$10.67 million

- h. In order to mitigate the impact of the rate increases attributable to Rider DR-IM, the Company agrees to defer recovery of all or a portion of the following expenses normally recovered in the Rider DR-IM revenue requirement for 2011 and 2012: O&M, depreciation, and/or property taxes. Such deferrals are incremental to the normal deferral process used in the Rider DR-IM calculations. The amount of the incremental deferrals attributable to costs incurred in 2011 and 2012 will be \$3.86 million and \$1.47 million, respectively. Duke Energy Ohio shall be allowed to increase the revenue requirement of Rider DR-IM for costs incurred in 2013 and 2014 to recover the expenses deferred from the 2011 and 2012 recovery periods. The additional recovery in 2013 and 2014 will be \$1.76 million and \$4.43 million, respectively. The impact on the Rider DR-IM revenue requirement will be as follows:

DR-IM for 2011	\$3.86 million <u>reduction</u> in revenue requirement
DR-IM for 2012	\$1.47 million <u>reduction</u> in revenue requirement
DR-IM for 2013	\$1.76 million <u>increase</u> in revenue requirement
DR-IM for 2014	\$4.43 million <u>increase</u> in revenue requirement

- i. The Parties agree that once the Commission makes its final determination of the rates in Case No. 12-1685-GA-AIR, *et al*, the Company will re-compute the Rider AU rate prior to the filing of tariff sheets in that case. The recomputed rates shall become effective at the same time as the new base rates. Should the Commission approve the transfer of all plant and equipment from Rider AU to base rates, the revised Rider AU rate will be

computed by subtracting the annualized return on rate base number associated with Rider AU investment as of December 2011 out of the revenue requirement.⁴

j. **CUSTOMER PILOTS AND TIME-DIFFERENTIATED RATES**

Duke Energy Ohio will continue to work with the Duke Energy Ohio SmartGrid Collaborative in developing a portfolio of time-differentiated rate offerings⁵ that include further pilot programs of innovative designs and non-pilot rates that provide standard service offer customers pricing structures that incentivize them to shift energy usage to reduce their electric bills. For the calendar year 2013, the Company agrees not to propose any pilot rate programs that include a provision for customer “opt-out.” Pilot rate programs for calendar year 2013 will only be offered on an opt-in basis for customers.

k. **RELIABILITY**

Duke Energy Ohio agrees to provide a report by April, 2013 to the Facility and Operations Field Division of the Service Monitoring and Enforcement Staff and to the Parties with regard to the results of reprogramming the Distribution Monitoring System (DMS) and whether the reprogramming has alleviated a problem with false alarms related to communication interruptions.

Duke Energy Ohio agrees also to report to the Parties by April, 2013 the results of efforts to remediate capacitor bank controls that are not presently functioning as anticipated.

⁴ OCC reserves the right to address in the instant proceeding, the issue regarding the under collection of 2010 revenue requirement raised in Peggy Laub’s testimony depending on the outcome of the distribution rate case.

⁵ For purposes of this Stipulation, time-differentiated rates are rates that include different electricity prices for different times of the day, week, or year. Time-differentiated rates also include rates that respond as predetermined by the Company to electricity market events.

IN WITNESS THEREOF, the undersigned Parties agree to this Stipulation and Recommendation as of this 19th day of February 2013. The undersigned Parties respectfully request the Commission to issue its Opinion and Order approving and adopting this Stipulation.


On Behalf of Staff of the Public Utilities Commission of Ohio

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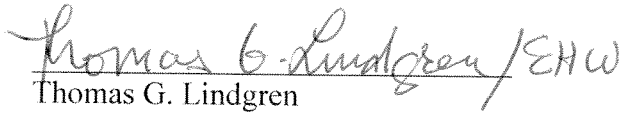
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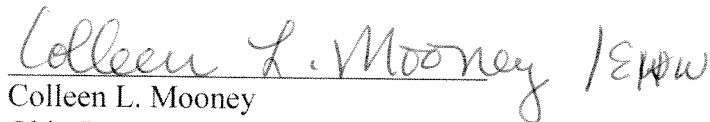
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