BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. to Adjust its Alternative Energy Recovery Rider.	)))	Case No. 12-802-EL-RDR

COMMENTS OF DUKE ENERGY OHIO, INC.

Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) filed an application initiating this proceeding on February 29, 2012. By Entry issued on February 20, 2013, the Public Utilities Commission of Ohio (Commission), directed its Staff to issue a request for proposal for auditing services. The audit included a management/performance audit and a financial audit. Subsequently, the Commission received proposals and selected the firm Baker Tilly Virchow Krause, LLP, (Baker Tilly) to perform the audit. Baker Tilly submitted its Audit of the Alternative Energy Resource Recovery Rider of Duke Energy Ohio, Inc., (Audit Report) on October 3, 2013. By Entry issued November 1, 2013, the Attorney Examiner invited interested stakeholders to file comments regarding the content of the management/performance and financial audit report of Rider AER-R (Advanced Energy Recovery-Rider). Below are the comments of Duke Energy Ohio in response to the recommendations set forth in the Audit Report.

1. Recommendation: Duke Energy Ohio should formally document their procurement strategy for clarity and to limit the reliance on the expertise of specific traders. Having a clear and concise procurement strategy will also help ensure that traders are buying at the best prices and at the least risk.

Response: Duke Energy Ohio agrees to create a formal document stating its overall procurement guidelines, which were provided informally to Baker Tilly during the audit.

2. Recommendation: Duke Energy Ohio should use competitive solicitations to purchase RECs to make purchasing decisions more transparent. It may improve the REC prices available to Duke Energy Ohio.

   Response: Duke Energy Ohio disagrees. The Company's compliance obligation is small, both in terms of REC volumes required and relative to the overall compliance needs for the state (approximately 3-5% of total state requirements). The Company has considered, and will continue to consider, additional compliance options such as RFP's or auctions. However, current compliance obligations, coupled with REC supplies already under contract, would result in a very low volume solicitation. Such a solicitation is unlikely to yield material interest from REC suppliers, is unlikely to be competitive, and would not afford the company the benefit of spreading purchases over time. Additionally, such solicitations would incur additional labor costs. Therefore, an auction or RFP is unlikely to lower compliance costs.

3. Recommendation: Duke Energy Ohio should consider purchasing RECs from a larger number of providers and in smaller blocks to help mitigate risk from default by a single provider or unexpected changes in REC prices.

   Response: Duke Energy Ohio carefully evaluates all options to secure RECs at the lowest cost. The non-solar market in Ohio is dominated by several large generation resources, therefore the Company's purchases are by necessity in large blocks concentrated among a few suppliers. Duke Energy Ohio agrees that portfolio diversification is important, but does not believe such diversification is possible given the non-solar resources available in Ohio, and the Company's relatively small non-solar REC requirements. REC providers are more likely to provide competitive prices for large blocks of non-solar RECs than for very small volumes due to transactional inefficiencies. Further, supplier default risk is minimal because (1) the Company does have some supplier diversity, (2) the Company often secures RECs in the spot market or on a forward basis from operating facilities, and (3) the Company typically maintains a REC bank balance to mitigate non-compliance risk.

5. Recommendation: Pennsylvania's market should be considered when purchasing S-RECs as they may be able to buy S-RECs that are expired in Pennsylvania but valid in Ohio at lower rates.

Response: Duke Energy Ohio agrees and already employs this strategy, which the Company's Renewable Strategy and Compliance Director described to Baker Tilly during an audit phone call on August 6, 2013, as a description of the Company's current practice. Additionally, the Company observes that of the 3,400 adjacent-state S-RECs retired toward the Company's 2012 compliance obligation, the Company retired 3,283 S-RECs from facilities located in Pennsylvania.

6. Recommendation: Knowledge of new renewable projects being developed should be considered in forecasting.

   Response: Duke Energy Ohio does not create or maintain REC price forecasts, nor does it engage in speculative purchases or trading. Duke Energy Ohio interacts with developers of renewable energy projects, market participants, and facility owners on a regular basis to observe market dynamics and develop relationships with potential suppliers. Additionally, the Company engages in market research with a focus on REC market supply and demand. Duke Energy Ohio reiterates that REC purchases are made for compliance purposes and procurement strategies have been developed specifically to minimize market price risk. To the extent the recommendation encourages speculative purchases based on price forecasts, the Company disagrees and considers the recommendation imprudent and inappropriate.

7. Recommendation: The AER-R calculation should be reviewed to ensure appropriate estimates are used.

   Response: All AER-R calculations have been reviewed by the Company before filing with the Commission. This process will continue for all future filings. The error referred to in the observation was in the projection of the costs and occurred only in the 4^{th} quarter of 2012 filing. Projections are an estimate at the time of the filing and are trued-up in subsequent filings; therefore, any variance in the projection to the actual amounts is self correcting in the normal process of the AER-R calculations.

8. Recommendation: Duke Energy Ohio and the Public Utilities Commission of Ohio should consider performing the AER-R calculations and applying the new AER monthly rather than quarterly in future AEPS filing to help ensure more accurate projections and more equitable recovery from customers. A more

frequent adjustment could be based on a rolling average adjustment or other factors to smooth the impact on ratepayers.

Response: The timing of the rider applications were stipulated to and adopted and approved by the Commission in Case No. 11-3549-EL-SSO, *et al.*, Stipulation and Recommendation, Section VI (A), October 24, 2012. Additionally, Duke Energy Ohio is not aware of any rider proceedings that are submitted with such frequency.

9. Recommendation: Duke Energy Ohio should make a correction for this error in its August 2013 month end close.

   Response: The correction was completed in the August 2013 month end close.

10. Recommendation: Policies and procedures with internal controls that specifically relate to AEPS should be developed to help reduce the number of errors in this program.

    Response: Duke Energy Ohio submits that the number of errors related to the audit was very small. The Company respectfully submits that policies and procedures currently in place are well designed to insure maximum accuracy as evidenced by the audit that was performed herein.

11. Recommendation: Duke Energy Ohio should review the new guidance provided by PUCO in case 11-5201-EL-RDR to ensure they interpreted the "3% provision" correctly and are in compliance.

    Response: The Public Utilities Commission of Ohio's Order in Case No. 11-5201-EL-RDR was issued during the course of the audit, and not during the 2012 compliance period, the subject period for the audit. The Company is reviewing the order and will incorporate the calculation in its routine position reports.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was delivered by U.S. mail (postage prepaid), personal, or electronic mail, on this 2th day of December 2013, to the following parties.

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