

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

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

**DIRECT TESTIMONY OF
TIMOTHY J. DUFF
ON BEHALF OF
DUKE ENERGY OHIO, INC.**

June 30, 2015

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

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

5 A. I am employed by Duke Energy Business Services LLC, (DEBS) as General
6 Manager, Market Solutions Regulatory & Evaluation. DEBS provides various
7 administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio
8 or the Company) and other affiliated companies of Duke Energy Corporation
9 (Duke Energy).

10 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
11 **QUALIFICATIONS.**

12 A. I graduated from Michigan State University with a Bachelor of Arts in Political
13 Economics and a Bachelor of Arts in Business Administration, and received a
14 Master of Business Administration from the Stephen M. Ross School of Business
15 at the University of Michigan. I started my career with Ford Motor Company and
16 worked in a variety of roles within the Company's financial organization. After
17 five years with Ford Motor Company, I began work with Cinergy in 2001,
18 providing business and financial support to plant operating staff. Eighteen
19 months later, I joined Cinergy's Rates Department, where I provided revenue
20 requirement analytics and general rate support for the company's transfer of three
21 generating plants. After my time in the Rates Department, I spent a short period
22 of time in the Environmental Strategy Department, and then I joined Cinergy's

1 Regulatory and Legislative Strategy Department. After Cinergy merged with
2 Duke Energy in 2006, I worked for four years as Managing Director, Federal
3 Regulatory Policy. In this role, I was primarily responsible for developing and
4 advocating Duke Energy's policy positions with the Federal Energy Regulatory
5 Commission. I assumed my current position in 2010.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
7 **UTILITIES COMMISSION OF OHIO?**

8 A. Yes. I have provided testimony in previous cases related to energy efficiency, a
9 revenue decoupling pilot and Duke Energy Ohio's SmartGrid deployment.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my testimony in this proceeding is to support the Company's
13 application requesting to continue to operate its approved portfolio of energy
14 efficiency and demand response programs in 2016 with its existing shared savings
15 incentive mechanism that was originally approved in Case No. 11-4393-EL-RDR.

16 **II. BACKGROUND**

17 **Q. PLEASE EXPLAIN WHY DUKE ENERGY OHIO IS REQUESTING**
18 **THAT THE COMMISSION APPROVE AN EXTENSION OF THE COST**
19 **RECOVERY MECHANISM APPROVED BY THE COMMISSION IN**
20 **CASE NO. 11-4393-EL-RDR.**

21 A. As stated in the Company's application in this proceeding, pursuant to the terms
22 of the Stipulation and Recommendation approved by the Commission in Case No.
13-431-EL-POR, the Company is seeking approval to continue to operate its

1 existing approved portfolio of EE and DSM Programs for calendar year 2016
2 while maintaining the Company's associated existing cost recovery mechanism
3 that has been in place, since it was approved in the Case No. 11-4393-EL-RDR in
4 August of 2012.. The Stipulation and Recommendation provided that interested
5 parties would be permitted to assess the reasonableness and effectiveness of the
6 incentive mechanism to consider whether or not they support its further use for
7 the last year of the Company's approved portfolio. The results that have been
8 achieved by Duke Energy Ohio's portfolio of programs during the period of time
9 that it has been operating under its existing shared savings mechanism (2012-
10 2014) demonstrate that it is an effective incentive mechanism and should be
11 continued.

12 **Q. PLEASE DESCRIBE THE RECOVERY MECHANISM AND INCENTIVE**
13 **STRUCTURE APPROVED IN CASE NO. 11-4393-EL-RDR THAT THE**
14 **COMPANY IS PROPOSING TO BE CONTINUED DURING 2016.**

15 A. The recovery mechanism and shared savings incentive mechanism that was
16 approved by the Commission in Case No. 11-4393-EL-RDR, was the product of
17 lengthy settlement discussions and, with the exception of the Ohio Energy Group
18 (OEG), all of the intervening parties reached a stipulated settlement supporting
19 the mechanism which was approved by the Commission on August 15, 2012. The
20 Company relied upon the Commission's approval for the following years in
21 managing its portfolio.

22 This approved cost recovery mechanism had the following three distinct
23 components:

- 1 1. The recovery of the actual costs incurred by Duke Energy Ohio to deliver
- 2 the approved portfolio of energy efficiency and demand response
- 3 programs, including the evaluation, measurement and verification costs.
- 4 2. The recovery of lost distribution margins from those customers not
- 5 included in the Company's distribution revenue decoupling rider.
- 6 3. The ability to earn a shared savings incentive that varies based upon the
- 7 Company's ability to exceed its annual energy efficiency benchmark
- 8 targets that are required of all electric distribution utilities by Ohio law.

9 Under this approved shared savings incentive mechanism, the Company's

10 incentive is calculated as a percentage of the net system benefits (*i.e.*, the net

11 present value of avoided costs less the program costs) generated by the

12 Company's portfolio of energy efficiency and demand response programs. The

13 level of incentive, the magnitude of the percentage of the net system that the

14 Company is eligible to earn, is tiered and can range from 5.0% up to 13.0%

15 depending on how much the actual efficiency savings exceed the annual target.

16 See Table 1 below.

Table 1	
Achievment of Annual Target	After-Tax Shared Savings
≤ 100	0.0%
≥ 100 - 105	5.0%
≥ 105 - 110	7.5%
≥ 110 - 115	10.0%
≥ 115	13.0%

17 This shared savings incentive structure is extremely effective in aligning the

18 Company's interests with customer interests. Under a shared savings structure the

19 Company's incentive is tied to the amount of net benefit generated from its

1 programs, hence the Company is motivated to increase the net benefit. The
2 Company essentially has the following two means by which to increase the net
3 benefit and thereby the incentive it earns: first, the utility can increase the amount
4 of energy efficiency that it achieves, which will increase the avoided costs
5 generated; or second, it can decrease the cost associated with achieving the energy
6 efficiency. Under both of these outcomes the customer wins, as they retain 87%
7 or more of the net benefit realized through the achievement of Duke Energy
8 Ohio's portfolio of programs.

9 **Q. IS THE COMPANY PROPOSING ANY CHANGES WITH RESPECT TO**
10 **HOW THE SELF-DIRECT MERCANTILE PROGRAM WILL BE**
11 **FACTORED INTO THE DETERMINATION OF THE COMPANY'S**
12 **ANNUAL RIDER EE-PDR?**

13 A. No, the Company is proposing that the self-direct mercantile program will
14 continue to impact the Company's EE Rider in two ways. First, the cost of
15 running the mercantile customer program including the incentives paid to these
16 customers will be included in the calculation of the EE Rider. Second, the
17 impacts that are achieved by the self-direct mercantile customer will be included
18 in the Company's annual efficiency achievement for the purpose of compliance
19 with its annual mandated energy efficiency targets, but not in the calculation for
20 the purpose of determining incentive level. Additionally, the Company will not
21 include the impacts and associated avoided costs of the self-direct mercantile
22 program in the calculation of its shared savings incentive. It is important to note
23 that for the purpose of determining incentive level achievement the Company will

1 back out the load from its three-year sales baseline in determining its level of
2 achievement for incentive purposes.

3 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO HOW THE**
4 **COMPANY’S BANKED ENERGY EFFICIENCY IMPACTS WILL BE**
5 **APPLIED WITH RESPECT TO BOTH REACHING COMPLIANCE**
6 **WITH ITS ANNUAL EFFICIENCY TARGETS, AS WELL AS WITH**
7 **RESPECT TO ITS ABILITY TO EARN INCENTIVE?**

8 A. No, the Company is proposing to continue the same methodology that was
9 approved in Case No. 11-4393-EL-RDR and then restated and adopted and
10 approved by the Commission again in Case No. 13-431-EL-POR. Under this
11 approach, the impacts that are currently reflected in Duke Energy Ohio’s impact
12 bank are program impacts or efficiency savings that have never previously been
13 used to meet the company’s annual compliance targets or used with respect to the
14 calculation of company incentive under save-a-watt or under the shared savings
15 incentive structure that it has been operating under since 2012. Just as the
16 Company may rely on banked impacts to meet its annual compliance mandates, it
17 should continue to have the ability to use banked impacts for establishing a level
18 of achievement for the purposes of determining the level of its earned shared
19 savings incentive. While the impacts will be used for these two purposes, the
20 company-proposed rider will not reflect any costs or shared savings incentive
21 calculated on the net benefits associated with the achievement of these banked
22 impacts.

1 **Q. PLEASE EXPLAIN WHY IT IS APPROPRIATE FOR THE COMPANY**
2 **TO HAVE THE ABILITY TO USE BANKED IMPACTS IN THE**
3 **DETERMINATION OF THE ACHIEVEMENT LEVEL UNDER ITS**
4 **SHARED SAVING INCENTIVE MECHINISM.**

5 A. The use of banked savings for incentive purposes is both appropriate and
6 necessary because energy efficiency potential is finite in nature, meaning that if a
7 customer installs an efficiency measure a year earlier than projected, the ability to
8 capture incremental efficiency savings in the projected year is eliminated and,
9 therefore, unavailable to meet a future year's goal. This inescapable reality
10 regarding the finite nature of efficiency is recognized by the fact that the law as
11 set forth in R.C.4928.662 associated with complying with the annual efficiency
12 benchmarks looks at achievement on a cumulative basis and allows for banking.
13 Since a utility's ability to earn an incentive associated with its energy efficiency
14 portfolio is tied to meeting and exceeding its annual benchmarks, it is illogical
15 and inconsistent to not allow banking savings for the purpose of determining
16 achievement for incentive purposes. The ability to use banked impacts in the
17 determination of the Company's achievement level for incentive purposes is also
18 appropriate because the Company's approved energy efficiency portfolio plan
19 was designed around the ability to use banked saving for the purpose of
20 determining its incentive level. This is evident by the fact that the energy savings
21 impacts that were projected to be achieved by the Company's approved portfolio
22 of energy efficiency programs was significantly less than the annual projected
23 efficiency benchmarks for every year of the portfolio other than 2012. In fact, the

1 projected energy savings in 2016 approved in Case No. 13-431-EL-POR were less
2 than 62% of the projected annual SB221 mandate at the time of approval. Hence,
3 it is clear that it was always anticipated that the Company would need to be able
4 to use banked impacts to determine its achievement level for its shared savings
5 mechanism. The need to use banked impacts in 2016 has been exacerbated by the
6 fact that the passage of SB310 in 2014 means that the Company could not file
7 applications with the Commission to add new programs to its portfolio after
8 September 10, 2014.

9 **Q. PLEASE EXPLAIN HOW THE COMPANY'S BANKED IMPACTS USED**
10 **FOR COMPLIANCE COMPARE WITH THOSE BANKED IMPACTS**
11 **USED FOR THE PURPOSE OF DETERMINING THE COMPANY'S**
12 **ACHIEVEMENT LEVEL FOR INCENTIVE.**

13 A. Due to the fact that the Company has used more energy savings impacts in the
14 calculation of its incentive both under Save-a-Watt and its shared saving incentive
15 mechanism, the Company's incentive bank is less than its compliance bank. As
16 shown in the Company's latest Annual Energy Efficiency Status Report filed in
17 Case No. 15-454-EL-EEC the Company has had tremendous success meeting its
18 energy efficiency benchmarks and has delivered energy savings equivalent to
19 156% of its cumulative benchmark during the period of 2009-2014. This strong
20 performance has translated to the Company accumulating a compliance bank of
21 496,264 MWH. The Company's incentive bank after 2014 is less than half of its
22 compliance bank with a balance of 242,833 MWH, as reported in Case No. 15-
23 534-EL-RDR. This significantly lower balance is driven by three main factors

1 that affect the calculation of the two banks. First, during the Save-a-Watt
2 Mechanism the Company needed to exceed its annual compliance benchmarks by
3 25% in order to earn 15% return on its program costs, which led to a reduction in
4 the incentive bank of 82,125 KWH. Consistent with the agreed upon method for
5 utilizing banked savings for incentive purposes as approved in Case No.11-4393-
6 EL-RDR, the second factor leading to a difference relates to how over-compliance
7 was treated in the calculation of the two banks in 2012. During 2012, the
8 Company exceeded its annual benchmark by 31% and the impacts associated with
9 this over compliance (approximately 95,000 MHW) were added to the
10 compliance bank. Since the Company recognized the net benefits associated with
11 the impacts included in the shared savings calculation, they were not added to the
12 incentive savings bank. The third factor is that during program years 2013 and
13 2014, Duke Energy Ohio utilized banked savings to meet both its compliance
14 benchmarks as well as determining its incentive achievement; however, the
15 amount used for determining the incentive achievement was 15% greater and
16 hence lead to approximately 74,000 MWH larger reduction in the incentive bank
17 than in the compliance bank.

18 **Q. HOW WILL THE COMPANYS INCENTIVE AND PORTFOLIO BE**
19 **AFFECTED, IF THE COMPANY IS NOT PERMITTED TO USE**
20 **BANKED SAVINGS TO DETERMINE ITS ACHIEVEMENT LEVEL FOR**
21 **CALCULATING ITS INCENTIVE LEVEL?**

22 A. If the Company is not permitted to use banked savings to determine its
23 achievement for its shared savings incentive, Duke Energy Ohio will likely not be

1 able to earn an incentive associated with effectively operating its approved
2 portfolio of programs. Eliminating the ability to use banked saving will actually
3 send a perverse incentive to the Company with respect to how it operates its
4 portfolio. If the Company is not allowed to utilize banked savings determining its
5 incentive, rather than motivating it to achieve as much energy efficiency as
6 possible in a given year, it instead motivates the utility to have years with
7 exceeding low achievement followed by a year with exceeding high achievement.
8 Since a utility has the ability to use banked impacts for compliance, it can remain
9 in compliance in a year that it has little to no actual customer participation by
10 using banked impacts and then the following year capitalize on pent up customer
11 demand and drastically exceed its annual benchmark, thereby allowing it to earn a
12 high incentive and replenish its compliance bank for the next year. This operating
13 pattern is highly inefficient and does not lead to the optimal outcome for
14 customers; however, it would be the logical way for the Company to operate its
15 portfolio of programs in an environment where banked savings are not permitted
16 to be utilized in determining the utility's achievement for incentive purposes.

17 **Q. IS THE COMPANY PROPOSING TO PUT A CAP ON THE SHARED**
18 **SAVINGS INCENTIVE THAT IT IS ENTITLED TO EARN IN 2016?**

19 A. While some parties could point to the fact that the approved incentive mechanism
20 has led to the Company receiving a shared incentive that was higher than
21 projected, this should be viewed as a positive not a negative. The higher than
22 projected shared savings incentive is simply a result of the Company operating its
23 programs in a manner that generated more net benefit, not an increase in the

1 percentage amount of the net benefit that is being shared with the Company.
2 Under the approved mechanism, it is a true statement to say that the higher the
3 shared savings incentive earned by the Company the better off customers are.
4 While the Company's shared savings incentive has been higher than projected, it
5 is important to note that they have not caused the Company's overall earnings to
6 be higher than allowed. The earnings associated with the shared savings incentive
7 mechanism have been included in the Company's earnings reported in its annual
8 Significantly Excessive Earnings Test (SEET) Filing and have not led to the
9 returns being excessive during any of the three years. In fact the Company's
10 actual return each year fell below its allowed return of 10.63% in 2012 and 9.84%
11 in 2013 and 2014, with the Company actually earning a negative 2.76% return in
12 2012, a 3.05% return in 2013, and an 8.27% return in 2014. Since putting a cap
13 on a shared savings incentive mechanism is contrary to the design of the shared
14 savings incentive that so well aligns the Company interests with the customers
15 and since the Company has not earned too much as a result of the mechanism,
16 Duke Energy Ohio continues to believe putting a cap on the incentive is
17 unnecessary, particularly given the fact that the SEET process already provides
18 assurances that Duke Energy Ohio's earnings are not 'significantly excessive.'

III. PERFORMANCE

1 **Q. HOW SUCCESSFUL HAS DUKE ENERGY OHIO BEEN IN MEETING**
2 **ITS TARGETED MANDATES FOR ENERGY EFFICIENCY AND PEAK**
3 **DEMAND REDUCTION?**

4 A. Duke Energy Ohio would categorize the performance of its energy efficiency
5 portfolio during the first three years of its approved energy efficiency portfolio
6 plan as being extremely successful with respect to meeting its targeted mandates
7 for energy efficiency. During the three-year period, Duke Energy Ohio exceeded
8 its cumulative incremental savings SB221 efficiency benchmarks by 1.1% and
9 added an additional 6,016 MWH to its compliance bank. Even more impressive
10 is that over the three year period of 2012-2014, the Company achieved
11 incremental annual energy savings through its programs that exceeded what it had
12 projected in its annual energy efficiency rider filings by over 16%. In 2012, the
13 Company achieved over 211,125 MWH of incremental energy savings which
14 equated to 116.1% of the projected energy savings. In 2013, the Company
15 achieved over 125,266 MWH of incremental energy savings which was 108.8%
16 of the projected energy savings. Finally in 2014, the Company's program's
17 achieved nearly 144,060 MWH of incremental energy savings which was 124.3%
18 of the projected savings. This consistent pattern of delivering incremental energy
19 savings that exceeded its projected achievements demonstrates the Company's
20 shared savings incentive appropriately motivates the utility to offer and market

1 programs in a manner that delivers as much incremental energy efficiency on an
2 annual basis as possible.

3 **Q. HOW DID THE COMPANY PERFORM WITH RESPECT TO**
4 **MANAGING ITS PROGRAM EXPENSES DURING THE SAME PERIOD**
5 **OF TIME?**

6 A. While the Company is very pleased with the energy efficiency achievements
7 realized through its portfolio of programs during the first three years it has
8 operated under its approved shared savings incentive mechanism, it is equally
9 proud of its ability to manage the associated program expenditures. During the
10 three year period, Duke Energy Ohio spent over \$1.8 million less than projected
11 in its energy efficiency riders during the period, which was a 2.7% reduction in
12 spending on energy efficiency programs. In 2012, the Company spent
13 \$20,492,492, which equated to 98.3% of the projected expenditures for energy
14 efficiency programs. In 2013, the Company spent \$20,465,657, which equated to
15 89.5% of the projected expenditures for energy efficiency programs. Finally, in
16 2014, the Company spent \$24,841,018, which equated to 103.9% of the projected
17 expenditures for energy efficiency programs, but this cost was associated with
18 significantly more energy savings than projected. Similar to the consistent
19 pattern of delivering incremental energy savings that exceeded its projected
20 achievements discussed earlier, this consistent pattern of spending less than
21 projected shows that the Company's shared savings incentive appropriately
22 motivates the utility to offer and market programs in the least costly manner
23 possible.

1 **Q. PLEASE EXPLAIN HOW THESE RESULTS DRIVEN BY ITS SHARED**
2 **SAVINGS INCENTIVE MECHANISM HAVE BENEFITTED DUKE**
3 **ENERGY OHIO'S CUSTOMERS.**

4 A. Due to the fact that the Company has been able to exceed its projected energy
5 efficiency achievement at a lower cost than projected, customers have benefitted
6 directly in two ways. First, since more efficiency has been achieved than
7 projected, customers that have participated in the Company's programs have
8 reaped the benefits of having lower monthly bills associated with lower usage.
9 Second, all of Duke Energy Ohio's customers that pay the Company's energy
10 efficiency rider are seeing a lower rider charge. In 2012, the Company delivered
11 the actual incremental energy savings from the Company's portfolio of programs
12 at a cost of \$0.097 per KWH, which was equivalent to a 15.3% savings on the
13 cost of every incremental KWH energy savings achieved compared to projections
14 approved in the rider. In 2013, the Company delivered the actual incremental
15 energy savings from the Company's portfolio of programs at a cost of \$0.163 per
16 KWH, which equates to 17.7% reduction to the cost of every incremental KWH
17 energy savings achieved, compared to projections. Finally, in 2014, the Company
18 delivered the actual incremental energy savings from the Company's portfolio of
19 programs at a cost of \$0.172 per KWH, which delivered customers a 16.5%
20 savings on the cost of every incremental KWH energy savings achieved compared
21 to projections. While these savings were factored into the shared savings
22 incentive earned by the Company under its approved incentive mechanism,
23 customers retained the vast majority of these savings.

IV. CONCLUSION

1 **Q. PLEASE EXPLAIN WHY THE COMPANY FILED AN APPLICATION**
2 **TO MAINTAIN THE EXISTING COST RECOVERY AND INCENTIVE**
3 **MECHANISM APPROVED IN CASE NO. 11-4393-EL-RDR FOR 2016,**
4 **THE LAST YEAR OF ITS APPROVED PORTFOLIO PLAN.**

5 A. As discussed earlier, the shared savings incentive mechanism was approved by
6 the Commission in Case No. 11-4393-EL-RDR, with the intent of aligning the
7 Company's interests with customers with respect to how the Company offers and
8 runs its energy efficiency and demand response programs. The Company's
9 performance during the first three years that the incentive mechanism has been
10 utilized clearly demonstrates that the approved shared savings incentive
11 mechanism is working effectively and should be maintained unchanged in 2016.

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13 A. Yes, it does.