

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application for)
Recovery of Costs, Lost Margin, and)
Performance Incentive Associated with the) Case No. 06-91-EL-UNC
Implementation of Electric Residential)
Demand Side Management Programs by)
The Cincinnati Gas & Electric Company.)

In the Matter of the Application for)
Recovery of Costs, Lost Margin, and)
Performance Incentive Associated with the) Case No. 06-92-EL-UNC
Implementation of Electric Non-Residential)
Demand Side Management Programs by)
The Cincinnati Gas & Electric Company.)

In the Matter of the Application for)
Recovery of Costs, Lost Margin, and)
Performance Incentive Associated with the) Case No. 06-93-GA-UNC
Implementation of Natural Gas Demand)
Side Management Programs by The)
Cincinnati Gas & Electric Company.)

FINDING AND ORDER

The Commission finds:

- (1) On January 24, 2006, as amended on August 16, 2006, Duke Energy Ohio, formerly The Cincinnati Gas & Electric Company (Duke) filed applications in the above-captioned cases to implement a set of electric and natural gas demand side management (DSM) programs for residential, commercial, and industrial consumers, as well as a research DSM program. Duke intends to recover the costs of the DSM programs through DSM cost recovery riders applicable to residential electric and gas sales and non-residential electric sales.
- (2) Under the applications, Duke proposes ten residential DSM programs, two commercial/industrial DSM programs, and one research DSM program. There are four residential DSM programs that provide home energy analysis to help consumers determine cost effective steps to save energy and two residential

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DSM programs that provide market incentives to promote the use of high efficiency heating and air conditioning equipment. In addition, there are three residential DSM programs designed to reduce demand by providing educational information, market incentives, energy use audits, and by promoting old appliance turn in. Finally, there is a pre-paid residential billing service program to allow consumers to control their bills. There are two commercial/industrial DSM programs which encourage commercial and industrial customers to install high efficiency equipment in new construction and to retrofit and replace failed equipment and one DSM program that encourages energy savings through school and demonstration projects. Finally, one DSM research program is also included.

- (3) In its applications, Duke noted that the DSM programs were developed with the consensus of the Duke Energy Community Partnership (DECP), the Office of Ohio Consumers' Counsel (OCC), and the Cincinnati Public Schools.¹ In addition, Duke indicated that it is applying for recovery of costs, lost margins, and shared savings associated with the proposed set of residential and non-residential DSM programs. Duke requested approval to implement the proposed set of programs through 2010 and seeks funding of the DSM programs and compensation for economic loss of reduced consumption by the establishment of a set of electric and natural gas riders for residential, commercial, and industrial classes of customers.²
- (4) By entry of January 10, 2007, motions to intervene filed by The Kroger Co. (Kroger), The Ohio Energy Group (OEG), Industrial Energy Uses-Ohio (IEU), OCC, and Ohio Partners for Affordable Energy (OPAE) were granted. The January 10, 2007 entry also directed the Commission staff to file a report of investigation of the applications and requested comments in response to the staff report from any interested person. In order to ensure that notice of Duke's DSM applications was provided to those entities thought to be most interested, the Commission served a copy of the entry on all parties to Duke's applications

¹ The collaborative members of DECP are Working in Neighborhoods, People Working Cooperatively, Home Ownership Center of Greater Cincinnati, Adams/Brown counties Economic Opportunities, Inc. Communities United for Action, Cincinnati/Hamilton County Community Action Agency, staff of the Commission, staff of the OCC, Cincinnati Public Schools, and the Ohio Department of Development.

² Qualifying industrial consumers (less than 500 kW) are permitted to "opt-out" of participation in and payment for the DSM programs.

to establish its rate stabilization plan, *In the Matter of the Application of The Cincinnati Gas & Electric Company to Modify its Nonresidential Generation Rates to Provide for Market-Based Standard Service Offer Pricing and to Establish an Alternative Competitive-Bid Service Rate Option Subsequent to the Market Development Period*, Case No. 03-93-EL-ATA.

- (5) On January 12, 2007, staff filed its report of investigation on the applications. In its report, staff noted that most electric customers of Duke have not observed the need to implement energy efficiency measures and that it is estimated that Duke will be short of needed sources of generation over the next ten years. Staff indicated that DSM programs will help in reducing Duke's dependency on purchasing power to meet its standard service obligations. In part, staff recommended approval of several of the DSM programs identified by Duke and recommended approval of the method by which Duke is seeking to recover its DSM costs. Comments and reply comments were filed by Duke, OCC, IEU, and OPAE.
- (6) On June 14, 2007, a stipulation was filed in these proceedings. The stipulation, which was signed by Duke, Commission staff, OEG, OCC, and Kroger, resolves all of the outstanding issues raised by commenters. In part, the stipulation provides the following:
 - (a) Duke shall recover lost revenues and shared savings, subject to refund, based upon future impact studies performed by Duke and submitted to staff for evaluation for three residential programs—Home Energy House Call, Energy Efficiency Website, and Ohio Energy Project.
 - (b) Independent program evaluation costs will be capped at five percent of each program's expenditures. The program evaluations shall be performed at the direction of the DECP Board in consultation with staff.
 - (c) After completion of a program evaluation that demonstrates that the evaluated program is not cost-effective, any remaining monies allocated to such program shall be referred back to the DECP Board for the evaluation and implementation of other cost-effective

DSM programs or the expansion of existing cost-effective programs.

- (d) Shared savings shall not be collected by Duke for each program until such program has achieved at least 65 percent of its targeted savings. Duke shall receive graduated shared savings as set forth in Duke's application and such recovery shall be capped at 10 percent of the shared savings for any program if Duke meets 100 percent of the targeted goal.
- (e) Duke may continue the cost-effective electric DSM programs set forth in the application for a five-year period from the effective date of the Commission's order in these cases. Thereafter, Duke must seek Commission approval to continue the programs.
- (f) Duke's natural gas DSM programs shall be limited to a three-year pilot program to test the effectiveness of providing rebates to encourage customers to purchase more efficient natural gas furnaces. Duke will implement the Smart Saver-Energy Star Products-Gas Furnace, and the Smart Saver-Energy Star Products-Gas Furnace with electronically commutated motors programs (Gas Furnace Programs) as such pilot programs. Duke may recover the costs of these programs and the associated lost revenues through the electric DSM rider. Duke shall not be permitted to recover any shared savings during the three-year pilot program. These programs shall be available only to customers with both gas and electric service provided by Duke. Prior to the end of the pilot phase of these two programs, Duke shall conduct a market analysis to determine whether these programs have been effective in increasing the saturation of these furnaces in Duke's certified territory. Based upon that market analysis, DECP, in consultation with staff, shall determine whether or not to continue the furnace program beyond the three-year pilot phase. With Commission approval, Duke may extend the pilot programs for up to an additional two-year period to coincide with the other programs set forth in the stipulation.

- (g) Duke may file its reevaluation reports six months later than the dates specified in the amended applications.
 - (h) Non-residential consumers may opt-out of participation in, and payment of Rider DSM, as set forth in the amended applications.
- (7) On June 15, 2007, Duke filed a letter indicating that IEU and OP&AE will not oppose the stipulation. Duke also indicated that it is ready to implement the programs set forth in the stipulation beginning July 1, 2007. On June 19, 2007, OP&AE filed a statement that it will neither support nor oppose the stipulation.
- (8) On June 28, 2007, a hearing was held on Duke's DSM applications. At the hearing, the staff noted that a stipulation had been filed in these cases. No members of the public attended the hearing.
- (9) Historically, prior to retail electric choice, Duke, along with other electric distribution utilities, developed and implemented a large number of DSM programs. These DSM programs were designed to increase energy efficiency as well as help reduce the electrical demand of consumers. Most of these programs were phased out in the 1990's for a variety of reasons, including the presumption that not all customers would benefit from avoided electric generation resulting from such DSM programs. Since the enactment of legislation involving the deregulation of electric generation, energy efficiency has occurred in the electric marketplace, but it has been rather limited and most customers have not observed the need to implement energy efficiency measures. In addition, demand for electric generation and natural gas continues to grow and puts increased pressure on electric and gas utilities to find new sources of electric generation and natural gas. The Commission believes that the DSM programs proposed by Duke will result in system-wide benefits to all customers and, at the same time, will help reduce Duke's dependency on purchasing power and natural gas to meet its service obligations. In addition, the Commission finds that the DSM programs proposed by Duke, which are primarily energy efficiency conservation programs, may also result in some reductions in load during the on-peak periods. Therefore,

the Commission finds that the stipulation in these cases should be approved. Accordingly, Duke is directed to file tariffs in final form, consistent with this finding and order and which incorporate the provisions of the stipulation. Because the programs we are approving will result in savings to Duke's participating customers, and because Duke was prepared to begin these programs effective July 1, 2007, we find that the DSM programs should be approved for July 2007. The new tariffs shall apply on a bills rendered basis beginning with the first billing cycle in July 2007.

It is, therefore,

ORDERED, That the applications of Duke in Case Nos. 06-91-EL-UNC, 06-92-EL-UNC, 06-93-GA-UNC be approved. It is, further,

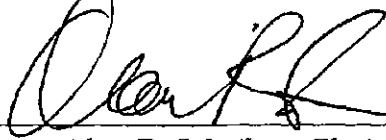
ORDERED, That Duke is authorized to file in final form four complete copies of the tariff consistent with this finding and order. Duke shall file one copy on its TRF docket (or may make such filing electronically as directed in Case No. 06-900-AU-WVR) and one copy in this case docket. The remaining two copies shall be designated for distribution to the Rates and Tariffs, Energy and Water Division of the Commission's Utilities Department. It is, further,

ORDERED, That the new tariffs shall apply on a bills rendered basis beginning with the first billing cycle in July 2007. It is, further,

ORDERED, That Duke shall notify all affected customers via a bill message or via a bill insert within 30 days of the effective date of the tariffs. A copy of the customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least 10 days prior to its distribution to customers. It is, further,

ORDERED, That a copy of this finding and order be served upon all parties of record in Case Nos. 06-91-EL-UNC, 06-92-EL-UNC, 06-93-GA-UNC, and 03-93-EL-ATA.

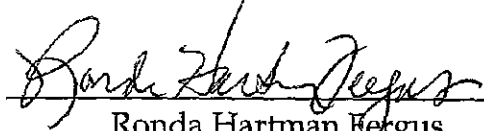
THE PUBLIC UTILITIES COMMISSION OF OHIO



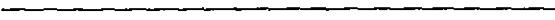
Alan R. Schriber, Chairman



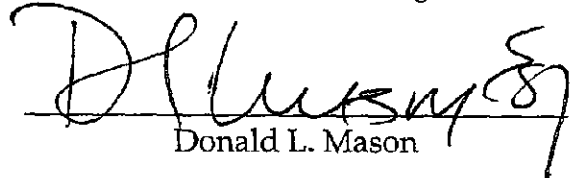
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Secretary