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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio to adjust and Set Its Gas and Electric Recovery Rate for SmartGrid Deployment Under Rider AU and Rider DR-IM	)	Case No. 09-543-GE-UNC
In the Matter of the Application of Duke Energy Ohio for Tariff Approval	)	Case No. 09-544-GE-ATA
In the matter of the Application of Duke Energy Ohio to Change its Accounting Methods	)	Case No. 09-545-GE-AAM

COMMENTS
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

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I. INTRODUCTION

The Office of the Ohio Consumers' Counsel ("OCC") submits these comments regarding Duke Energy-Ohio's ("Duke") proposal to collect from customers the costs associated with its SmartGrid deployment during 2008. Duke filed its application for recovery on June 30, 2009 ("Application"). The Public Utilities Commission of Ohio ("Commission" or "PUCO") established a procedural schedule through an Attorney Examiner Entry dated August 19, 2009, allowing parties to file comments on October 8, 2009. OCC files the following comments on Duke's proposal for the Commission's consideration.

II. COMMENTS

A. Allocation Of Costs Between Electric And Natural Gas Customers.

The Application proposes a charge for customers' gas bills of 18 cents per month for the SmartGrid deployment.[1] On its face, this charge may appear reasonable in relationship to the level of automated meter reading charges on gas bills in other service territories in Ohio.

However, in this level of charge on gas bills, there may be common costs which should instead be allocated to the charge on customers' electric bills. Duke indicated in response to OCC discovery that costs common between gas and electric customers will be allocated based upon the ratio of gas/electric customers to total customers.[2] Duke also stated that the ratio of meters to communication nodes varies depending on such factors as customer density and topography. Duke reported that each communication node serves between 1 to 10 electric meters, whereas, each communication node serves between 15 to 25 gas meters. Although Duke did not fully explain the reason that each communication node serves so many more gas meters than electric meters, the difference may justify allocating even more costs to the electric customers.

From Duke's responses to discovery, it appears that more common communication nodes are needed to serve electric meters than are needed to serve gas meters. This information seems to indicate that Duke should allocate a greater amount of common costs to electric customers rather than simply the ratio of gas/electric customers to total customers.

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[1] Testimony of William Don Wathen Jr., Attachment WDW-2, Schedule 13.
[2] Discovery Response OCC-INT-01-039.

For example, if the average number of electric customer meters served by a common communications node is 5.5 and the average number of gas customer meters served by a common communications node is 20; electric customers seem to require a larger portion of common communications nodes. This difference between the number of electric meters served per common communications node and gas meters served per common communications node indicates that electric customers should pay more than just the ratio of electric customers to total customers. Rather, the allocation should be based upon the actual cost of serving the two different types of meters. A better allocation of the cost of common communication nodes may result from an allocation based upon the ratio of the use of common communication nodes. For gas meters that would be 5.5/25.5 or approximately 21.5% and for electric meters that would be 20/25.5 or approximately 78.5%.

From the Application it is not clear how Duke intends to allocate these costs nor is it clear how common costs for the SmartGrid will be charged among the various states in which Duke operates. These are issues on which the Commission should hold a hearing so that we can determine the proper allocation of these costs.

B. Eventual Netting Of SmartGrid Benefits Against Costs.

Duke is recovering its electric SmartGrid investment through Rider DR-IM. The Duke Electric Security Plan settlement ("SSO settlement") provides that the costs of deploying the SmartGrid are to be netted against the system benefits achieved.[3] In this case, Duke should be required to demonstrate how it will be diligent in identifying and recording the full range of system benefits it realizes as the SmartGrid deployment

[3] *In the Matter of the Application of Duke Energy Ohio for Approval of an Electric Security Plan,* Case No. 08-920-EL-SSO, Duke ESP Stipulation and Recommendation, Attachment 3, page 1 of 2.

evolves. Some of the benefits have already been identified and projected such as meter reading savings, customer service savings and other operations and maintenance savings. Others, such as savings related to the upkeep and monitoring of the Geographic Information System may not have been expected but should be recorded and netted against the costs of SmartGrid deployment.[4]

Additionally, although the bulk of projected savings are not scheduled to begin being credited until 2010, the Company is already experiencing savings in 2009 from SmartGrid deployment. During the September 17, 2009 collaborative meeting, Duke described how the installation of digital line sensors and other equipment in the Queensgate area of Cincinnati prevented a 66 minute outage for approximately 2,000 customers within 10 days of its installation. In this case, Duke should be required to develop a process that ensures that Duke will identify all such savings that occur during 2009 and should credit those savings against the cost of SmartGrid deployment. Currently Duke is recovering costs in its distribution base rates, just implemented in 2008 for dealing with such outages.[5] If Duke does not credit the costs of SmartGrid deployment against all SmartGrid benefits or costs avoided through the SmartGrid, the avoided utility costs or benefits will constitute an unfair and unreasonable revenue enhancement for Duke.

C. Application Of Federal Smartgrid Stimulus Awards To The Duke System And The Rate Cap.

On August 6, 2009, Duke Energy applied for $200 million in federal infrastructure funds to accelerate the utility's $1 billion electric grid modernization

[4] Identified at the September 19, 2009 Technical Conference.
[5] *In the Matter of the Application of Duke Energy Ohio for an Increase in Electric Rates,* Case No. 08-709-EL-AIR, Opinion and Order (July 8, 2009).

project in Ohio, Indiana and Kentucky. Duke stated during the September 17, 2009 technical conference at the PUCO that its application for federal stimulus money has been accepted and it expects to hear soon from the U.S. Department of Energy whether it will be awarded money for its SmartGrid deployment. At a June 24, 2009 presentation to OCC, Duke indicated that 98 percent of the federal funding would go to "shovel ready and electron ready" projects in Ohio and Indiana.

If Duke receives an award of stimulus money, the Commission should monitor the Ohio allocation of that money based upon the federal application approved. OCC recommends that any federal money awarded be credited against Duke's capital investment rather than operation and maintenance expenses, to reduce the rate base impact of SmartGrid. A federal award, to the extent that it can be applied to 2008 costs, should relieve any pressure of exceeding the residential rate cap.

Otherwise, Duke should make clear in its proposal (which was not in its Application) and was articulated for the first time at the technical conference, to defer costs in excess of the cap to a regulatory asset to be recovered over an amortization. period. This provision should be subject to additional discovery and a hearing. For 2010, the stipulation contains a $1.50 cap, which should be honored. The Company indicated at the pre-hearing conference that the electric cost estimates are above the cap. Again, the Company should indicate how it plans to remain under the caps set forth in paragraph 11c of the SSO Stipulation, so that it is not in violation of the stipulation or the Commission order approving the Stipulation.

D. Duke Should Be Required To Offer Various Dynamic Rate Design Offerings To Residential Customers Before The End Of The Year Based Upon Its Commitments In The ESP Stipulation.

In paragraph 11g. of the ESP Stipulation Duke agreed to:

> Convene a working group or collaborative process for the purpose of exploring opportunities to maximize the benefits of the SmartGrid investment. Such opportunities shall include, but are not limited to, designing and implementing tariffs by December 31, 2009, including revenue-neutral critical peak pricing and enhanced power manager pricing programs, residential time of use, and improving access to meter information that will assist customers, especially low-income customers, in managing their electric costs.

During the first collaborative meeting[6] Duke listed various dynamic rate design offerings for consideration. The Company covered the rate design spectrum from combinations of time of use pricing to critical peak pricing, with consideration of a peak time rebate offering. There was also a discussion of combining the dynamic rate designs with a computer based Residential Energy Management System. The presentation was encouraging and OCC expects to see the Company begin implementation of such rates by the end of the year as the Company committed to do[7] so that residential customers can see benefits to the SmartGrid as they pay for the costs of its deployment.

III. CONCLUSION

OCC appreciates the opportunity to comment on Duke's SmartGrid cost recovery application. As stated above, the OCC perceives that the Commission should consider allocating more costs to the electric customers, if the Commission and the Company have not taken into consideration the greater demand of individual electric customers on individual common communication nodes relative to gas customers.

Additionally, the Commission should require the Company to establish a procedure that will ensure that the Company will identify all benefits accrued from the deployment of the SmartGrid to apply against its claimed costs, even if the benefits were

[6] Meeting took place on September 17, 2009.
[7] ESP Stipulation at 15-16, ¶g.

not identified in Duke's projections in its cost-benefit analysis. If the Company receives federal stimulus money for deployment of the SmartGrid the Commission should be sure that Ohio receives its fair share and such awards should be used to offset capital investments and to keep charges under the caps established in the stipulation in the electric security plan.

The Commission should reject Duke's efforts to defer costs above the cap because 1) it was not requested in their application and 2) it would violate the ESP Stipulation and the Commission's order approving the Stipulation. Duke should also implement a rate schedule for use by customers with smart meters by the end of the year as agreed to in the ESP stipulation and OCC is encouraged by the menu of schedules proposed in the last collaborative.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that, on this 8th day of October 2009, the foregoing *Comments by the Office of the Ohio Consumers' Counsel* have been served via First Class Mail, postage prepaid, to the following persons in response to the Public Utilities Commission of Ohio's requests for comments on Duke Energy Ohio's application for recovery of SmartGrid deployment costs.

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