

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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PUCO

In the Matter of the Application of Duke)
Energy Ohio to Adjust and Set its Gas and)
Electric Recovery Rate for SmartGrid) Case No. 09-543-GE-UNC
Deployment Under Riders AU and)
Rider DR-IM)

In the Matter of the Application of)
Duke Energy Ohio for Tariff Approval) Case No. 09-544-^{GE}EL-ATA

In the Matter of the Application of)
Duke Energy Ohio to Change its) Case No. 09-545-GE-AAM
Accounting Methods)

PREPARED TESTIMONY
OF
GREGORY C. SCHECK

Date submitted: November 2, 2009

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PREPARED TESTIMONY OF GREGORY C. SCHECK

Q1: Please state your name and business address?

A: My name is Gregory C. Scheck. My place of business is at 180 E. Broad Street, Columbus, OH 43215.

Q2: What is your current position at the Public Utilities Commission of Ohio?

A: I am currently working as a Utilities Specialist in the Energy and Environment Department.

Q3: What are your qualifications and how long have you worked at the Commission?

A: I have a Masters Degree in Economics from Ohio University and I have worked at the Commission since 1985 in various capacities. Most recently, I have been reassigned to work in the Energy Efficiency and Renewables Division in the Energy and Environment Department.

Q4: What is the purpose of your testimony?

A The purpose of my testimony is to address certain policy issues regarding Duke's Smart Grid deployment, which need to be taken into account when the collection of any dollars for Smart Grid is being sought.

Q5: Would you please identify which policy issues you mean?

A: Yes. The issues I will address include the following:

1. The netting of operational benefits to Duke against the costs of implementing Smart Grid as the basis for recovery of those net costs in rates, and the approach to quantifying operational benefits.
2. When and what kind of time differentiated rates should be available to customers.
3. How customers should be provided with access to usage and pricing information.

4. Whether and how third parties might have access to customer information in order to provide energy management services.

Q6: Why do you believe that operational benefits attributed to the Company's Smartgrid deployment should be netted against the Smartgrid implementation costs for determining the basis for recovery of net costs in rates.

A: The Commission approved Duke's plan to implement Smart Grid largely based upon its business case. When I say the business case, I am referring to the benefit / cost analysis presented in Case No. 08-920-EL-SSO et. al. by Chris Kiergan, in his direct testimony and related exhibit CK1. That testimony quantifies the projected costs and operational benefits of various categories with respect to the deployment of Duke's Smart Grid. That is the proposition that gave rise to the Commission's approval.

My position is that the ongoing recovery of costs net of operational benefits should be based upon Mr. Kiergan's business case, not on the basis of actual costs incurred net of known and measurable benefits, as Duke has espoused in its reply comments.

Q7: Why is that?

A: First, it is because it provides a degree of certainty for both customers and shareholders in that the net costs to be recovered would be known in advance.

Second, some of the operational benefits are not easily known or measurable. For example, the elimination of the manual meter reading function and related costs is rather easily observed and quantified. On the other hand, the reduced extent and shorter duration of an outage due to Smart Grid is not so easily quantified. What did not happen (a larger and longer outage) cannot be known or measured.

In addition, in its reply comments, Duke neglected to address the idea of attribution due to the Smartgrid. Even if during a period of time outages were shorter and less extensive after Smart Grid implementation than during a period of time before Smart Grid implementation, the shortness and reduced extent of outages could result from factors other than this investment. Thus, the netting of benefits on the basis of knowing, measuring and attributing those benefits is an uncertain proposition subject to significant argumentation and litigation. If Duke were to file a rate case prior to the 20 year horizon contained in Mr. Kiergan's business case, the operational cost savings in direct expense reductions and operational efficiencies may end up not being recognized, unless they were specifically addressed now or in the near term.

Q8: Does that mean you believe the 2008 cost recovery at issue in this case should be subject to a recognition of benefits to be netted against those costs?

A: No, the costs that are the subject of the instant case do not violate the principle of netting I have described above. Rather, the benefits other than those that are listed as customer/societal in Chris Kiergan's testimony and financial model should be netted against the costs, so that the Company does not over recover its Smart Grid investment.

Q9: Can you provide for us an example of such cost savings that may not be reflected?

A: Yes. In Mr. Kiergan's testimony he mentions a category called Operational Efficiency. Mr. Kiergan refers to such operational improvements as improvements that would result in FTE dollar cost savings due to the Smart grid investment, but for some reason they cannot be counted as "hard savings" because the Company would just assign these employees to other "value-added" work that would otherwise go undone. What is not clear is what these operational employees would be doing that would be "adding value" or even if this "added value" was attributed to the Smart Grid. However, what is known is that these operational cost savings were included in the business case as a benefit

Q10: Is it your view that the recovery of costs net of operational benefits should be set based precisely on Mr. Kiergan's business case?

A: For the most part yes. However, the stipulation in Case No. 08-920-EL-SSO calls for a review of the entire Smart Grid program in 2011. Presumably At that time, it is likely that adjustments to the business case might be part of that review. I am recommending that a deviation of plus or minus ten percent from the Kiergan business case be unacceptable for rate recovery purposes.

Q11: What is your concern regarding when and what type of time differentiated rates should be made available to customers.

A: A time differentiated rate structure for generation service must be available as customers are enabled to respond to price signals (i.e., when a meter becomes certified and the communication is established to the customer). The minimum differentiation

should be daily on peak, off peak, and occasional critical peak periods, with summer and winter seasonal differentiations. Rates could also include a shoulder period on a daily basis.

These rates may be designed to be revenue neutral with regard at the outset of their implementation. The tariff setting forth the rates should be made available on an opt-in or voluntary basis to any customer who has received an advanced certified meter with working 2-way communications.

Q12: The proposition put forth by Duke in the October 28, 2009 meeting of the Duke Smart Grid Collaborative was that compliance with the terms of the stipulation in Case No. 08-920-EL-SSO to implement time differentiated rates before the end of 2009 take the form of a 100 customer pilot program. Do you believe that a 100 customer pilot program is adequate?

A: No. Any customer who would like to opt-in to a time of use rate of the nature described above should have the opportunity to do so as soon as that customer's meter is certified to properly communicate interval usage. Moreover, such customers should be able to see on their bills how much money they have saved or incrementally incurred compared to the bill they would have seen under the tariff they were on prior to opting-in to time differentiated rates.

Q13: How should customers be provided with access to usage and pricing information?

A: The company has proposed that customers have access to usage and pricing information through an internet portal. That is an acceptable means of provisioning the information for some customers, but not necessarily for all customers. I do not believe it is useful for me to try to prescribe the means of providing usage and pricing information, however, all customers should be able to access such information without having to make a large investment to do so. The company needs to explore additional means of providing such information.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Testimony of Gregory Scheck**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following parties of record, this 2nd day of November, 2009.



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