

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

<b>In the Matter of Protocols for the</b>	)	
<b>Measurement and Verification of Energy</b>	)	
<b>Efficiency and Peak Demand Reduction</b>	)	<b>Case No. 09-512-GE-UNC</b>
<b>Measures.</b>	)	

**COMMENTS CONCERNING POLICY ISSUES REGARDING COST  
AND AVOIDED COST FOR THE TOTAL RESOURCE COST TEST IN OHIO  
ELECTRICITY PROGRAMS SUBMITTED BY DUKE ENERGY OHIO, INC.**

**INTRODUCTION**

By Entry dated October 15, 2009, the Public Utilities Commission of Ohio (Commission) requested all interested parties to file comments regarding its proposed Appendix C on or before November 10, 2009. Appendix C concerns policies regarding cost and avoided cost calculations to be applied to energy efficiency measures, programs and portfolios. Duke Energy Ohio, Inc. (Duke Energy Ohio) submits its comments herein.

Duke Energy Ohio has engaged with a collaborative which recommends energy efficiency measures and programs to the Commission for approval since 1992. Duke Energy Ohio has a wealth of experience and empirical evidence to underpin its comments. Dr. Richard G. Stevie, Managing Director for Customer Market Analytics for Duke Energy Business Services, has provided testimony on related topics in matters before this Commission and regulatory bodies in other states on numerous occasions. These comments are informed by Dr. Stevie and others within Duke Energy Ohio.

The Commission has requested comments on a total of eighteen provisional recommendations, some with sub-categories. Duke Energy Ohio will not address every

provisional recommendation. Failure to address a particular provisional recommendation should not be construed as acceptance of that recommendation.

## **COMMENTS**

### **Provisional Recommendation 1.**

This recommendation requires utilities to submit program level results for various cost tests to supplement the Total Resource Cost (TRC) test. However, the Commission's rules addressing measurement and verification require that utilities submit information regarding the TRC as it relates to a portfolio of programs. This new provisional recommendation introduces some confusion as to the Commission's requirements and expectations. The results of the TRC as they related to a utility's portfolio are what drive compliance with the Commission's regulations; therefore, results should only be reported on the portfolio rather than programs. Imposing an additional requirement on reporting by program and measure makes the Commission's rules and intent unclear as to what are the applicable requirements.

### **Provisional Recommendation 4(b)**

Provisional recommendation 4(b) concerns the calculating incremental measure cost of an early replacement measure. The recommendation is not consistent with real-world investment analysis. Moreover, the Commission's recommendation is entirely too prescriptive. It would be administratively burdensome as the detail specified is not easily known to the utility and requires subjective analysis that in many instances may be inappropriate.

### **Provisional Recommendation 8(a)**

This provisional recommendation addresses the utility's electric energy component cost and recommends use of energy embedded cost in the Commission-approved standard service offer (SSO). However, reductions in energy usage occur at the very margin of the utility's

energy provision. The value of the energy efficiency reduced is unrelated to the price that is set by the Commission in an SSO. The appropriate proxy measure for purposes of energy efficiency evaluation should be the marginal cost or the avoided energy cost, not an average embedded.

#### **Provisional Recommendation 8(b)**

This provisional recommendation states that publicly available market prices used in a utility's proprietary forward market curve should be disclosed to interested parties. If the Commission's intent here is to require utilities to release the data input used to create its forward market curve, this is a dangerous precedent. In a competitive market, it is unclear why such a suggestion is viewed as beneficial. Moreover, such information is extremely sensitive on a prospective basis as opposed to an historical basis. The release of such information could facilitate anticompetitive or collusive behavior. Publicly available market information can be obtained by those interested in obtaining it, without having utilities filter it and share their respective data assumptions and analyses. Therefore, the Commission should not require that such data be provided.

#### **Provisional recommendation 8(c)**

This recommendation concerns how to calculate a utility's electric energy cost component after the term of a Commission approved SSO. The provisional recommendation is somewhat convoluted, extremely arbitrary and difficult to follow and apply. It seems to introduce complexity where simplicity should prevail. As noted in Duke Energy Ohio's response to Provisional Recommendation 8(a), the appropriate measure should be the utility's marginal cost of production.

#### **Provisional Recommendation 11**

This provisional recommendation states that utilities should account for alternative energy benchmark costs as an avoided energy cost in the TRC by assuming a resource mix that meets the annual alternative energy benchmark and estimate an average cost for each type of resource. Duke Energy Ohio concurs that alternative energy benchmark costs should be so included. The avoided energy cost used for energy efficiency should be a percentage of alternative energy resource costs combined with a percentage of market purchase costs so that each year's benchmark is included. Alternative energy should be a fundamental consideration in market forecasts and incorporated into market costs of energy as well. It is essential to note, however, that the alternative energy market is a developing one and not yet well-defined.

#### **Provisional Recommendation 14(a)**

This provisional recommendation states that a utility's capacity component cost during the term of an SSO for TRC, UCT/PAC, or RIM test should be the capacity cost embedded in the SSO. Duke Energy Ohio believes that the more appropriate utility capacity component cost should be derived from a peaking unit; PJM's capacity value should not be applied for a utility in MISO. To preserve consistency in the market place for the promotion of energy efficiency programs, one should use a longer-term cost estimate for capacity, namely the cost of a peaking unit. Otherwise, as market prices fluctuate, a utility could be in the position of first promoting energy efficiency programs one year; then shutting them down the next year if market prices drop; only to start them up again when market prices rise. Tying avoided costs to a market price for capacity has the potential to create uncertainty in minds of consumers on the importance of energy efficiency, which appears to be contrary to the Commission's objectives. The use of the SSO cost comparison is also incorrect as previously noted.

#### **Provisional Recommendation 18(a)**

This provisional recommendation describes co-benefits that the Commission proposes to include in the TRC and PCT cost-effectiveness test. In the Commission's Finding and Order of October 15, 2009, at paragraph 40, the Commission describes a number of non-energy co-benefits which a utility might include in its analysis for cost effectiveness. The problem with such inclusiveness is that it creates the risk of too liberal of an analysis and the allowance of measures or programs which are not truly cost effective. Moreover, the cost information necessary to complete an analysis for non-energy benefits is not readily available. The opening of Pandora's Box in this instance is neither desirable nor recommended. The Commission should rely on only those external benefits that are truly measurable.

Respectfully submitted,

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Amy B. Spiller  
Associate General Counsel  
Elizabeth H. Watts  
Assistant General Counsel  
Duke Energy Business Services, Inc.  
Counsel for Duke Energy Ohio, Inc.

Columbus Office:  
155 East Broad Street  
Suite 2100  
Columbus, Ohio 43215  
(614) 222-1331

Cincinnati Office:  
2500 Atrium II, 139 East Fourth Street  
P.O. Box 960  
Cincinnati, Ohio 45201-0960  
(513) 419-1871

## CERTIFICATE OF SERVICE

I hereby certify that a copy of Comments Concerning Policy Issues Regarding Cost And Avoided Cost For The Total Resource Cost Test In Ohio Electricity Programs submitted by Duke Energy Ohio, Inc. was served via regular US mail upon the individuals listed below this 10th day of November, 2009.

Candace Jones  
Ohio Department of Development  
77 S. High Street  
P. O. BOX 1001  
Columbus OH 43216-1001

Nolan M. Moser  
The Ohio Environmental Council  
1207 Grandview Ave.  
Columbus OH 43212-3449

Teresa Orahood  
Thomas O'Brien  
Bricker & Eckler LLP  
100 South Third Street  
Columbus OH 43215-4291

Jeffrey Small  
Ohio Consumers Counsel  
10 West Broad Street, Suite 1800  
Columbus OH 43215-3485

Harvey I. Wagner  
Ohio Edison Company  
Cleveland Electric Illuminating Company  
76 S. Main Street  
Akron OH 44308

Eric B. Gallon  
Porter Wright Morris & Arthur LLP  
41 South High Street Suite 3000  
Columbus OH 43215

Dona Seger-Lawson  
Randall Griffin  
Dayton Power & Light Company  
1065 Woodman Drive  
Dayton OH 45432  
Elizabeth H. Watts

Duke Energy Ohio  
155 East Broad Street  
Columbus OH 43215

Paul A. Colbert  
Jones Day  
325 John H. McConnell Blvd, Suite 600  
Columbus, OH 43216-5017

Lisa McAlister  
McNees, Wallace & Nurik  
21 East State Street 17th Floor  
Columbus OH 43215-4228

Janet K. Stoneking  
Ohio Department of Development  
77 South High Street - 29th Floor  
P.O. Box 1001  
Columbus OH 43216-1001

Harvey Wagner  
76 S. Main Street  
Akron OH 44308

Toledo Edison Company  
76 S Main Street  
Akron OH 44308

Mark A. Whitt  
Carpenter, Lipps & Leland LLP  
280 Plaza, Suite 1300 280 North High Street  
Columbus OH 43215

Kathy J. Kolich  
FirstEnergy Corp.  
76 South Main Street  
Akron OH 44308

Kenneth D. Schisler  
EnerNOC, Inc.  
75 Federal St. Suite 300  
Boston MA 02110

Carolyn S. Flahive  
Thompson Hine LLP  
10 West Broad Street, Suite 700  
Columbus, OH 43215-3435

David C. Rinebolt  
Ohio Partners for Affordable Energy  
231 West Lima Street  
P.O. Box 1793  
Findlay, OH 45839-1793

Richard M. Bulgrin  
Public Utilities Commission of Ohio  
180 E. Broad Street  
Columbus OH 43215

Rick Sites  
Ohio Hospital Association  
155 E. Broad Street, 15<sup>th</sup> Floor  
Columbus, OH 43215-3620

Mary W. Christensen  
Christensen, Christensen, Donchatz,  
Kettlewell & Owen  
100 East Campus View Boulevard  
Suite 360  
Columbus, OH 43235

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by Carys Cochern on behalf of Watts, Elizabeth H