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BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the matter of the Application of Duke Energy Ohio, Inc., for a Cost Recovery Mechanism and for Approval of Additional Programs for Inclusion in its Existing Portfolio.

Case No. 11-4393-EL-RDR

AMENDED STAFF COMMENTS FILED ON BEHALF OF THE PUBLIC UTILITIES COMMISSION OF OHIO[1]

I. Introduction

Duke Energy Ohio, Inc. ("Duke Energy Ohio" or "Company") filed an application requesting approval of three additional energy efficiency programs that the Company proposes to include in its current energy efficiency portfolio. In its application, the Company also requests approval of a newly proposed cost recovery mechanism. The Company's current energy efficiency portfolio and cost recovery mechanism took effect through Case No. 08-0090-EL-SSO ("original SSO case"). The Company also filed its initial energy efficiency portfolio plan in Case No. 09-1999-EL-POR, which included essentially the same energy efficiency programs and cost recovery mechanism approved in the original SSO case.

II. Newly Proposed Residential Energy Efficiency Programs

The Company is proposing three new energy efficiency programs which are: 1) the Appliance Recycling Program, 2) Home Energy Solutions and 3) the Low Income

[1] Staff is amending only one word from its initial Comments. See Section III.

Neighborhood Program (collectively referred to as the "new programs"). The new programs will be added to the Company's currently approved residential programs. The new programs were presented to the Duke Energy Community Partnership Energy Efficiency Collaborative ("Collaborative") on June 15, 2011 and September 8, 2011. Staff is aware of only one party that challenged the impacts of the new programs. Furthermore, this party challenged only the Low Income Neighborhood Program, and not the Appliance Recycling Program or Home Energy Solutions.

Staff reviewed another utility's residential low income program and found its impacts to be similar to the measures the Company is proposing through its Low Income Neighborhood Program. Through data requests, Staff was informed that the Company will likely meet its annual energy efficiency goals without the new programs in the near term (i.e. 2012 and 2013), but the Company will need to rely on these programs or other unnamed energy efficiency programs to meet their goals through 2016.

The Staff recommends that the new programs be approved and implemented, since all of these programs easily pass the ex-ante TRC test as provided for by the Company.

III. Newly Proposed Energy Efficiency Cost Recovery Method and Incentive Mechanism

The Company is also proposing a new cost recovery and incentive mechanism for its energy efficiency programs starting January 1, 2012. The Staff recognizes that the present Rider SAW cost recovery formula was difficult to understand and that it permitted the Company to receive very robust returns relative to their overall risks. As an alternative to the Rider SAW, the Company is proposing a cost recovery mechanism labeled EE-PDR that is based upon a more traditional cost recovery method. The Company is not requesting lost distribution revenue recovery under this mechanism provided that some form of lost distribution cost recovery is approved through an appropriate revenue decoupling mechanism in the Company's standard service offer application, Case No. 11-3549-EL-SSO.

Under the newly proposed Rider EE-PDR, the Company will recover all of its administrative and related EM&V program costs plus the associated customer rebates with the possibility of receiving an incentive kicker. The incentive kicker will be based upon the Company's ability to perform and exceed its annual energy efficiency goals. The incentive kicker proposed will have a sliding scale depending on the percentage of energy efficiency achieved above the Company's annual benchmark.[2] If the Company exceeds its annual benchmark by the proposed percentages, the Company will have the ability to earn increasing returns on energy efficiency. Therefore, the size of the overall incentive that the Company may earn will be tied to the Company's performance. The Staff recognizes that there is no cap on the amount of incentive that Duke Energy Ohio may receive, but the absence[3] of such a cap will incentivize the Company to continue and potentially increase its investments in cost-effective energy efficiency programs.

IV. Proposed Decoupling Mechanism to Deal with Lost Distribution Revenues

The Company proposed in its application to move the recovery of lost distribution revenues caused by the utility's investment in energy efficiency into a form of an

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2 The sliding scale incentive proposed by the Company is provided for in Table 1 on p. 5 of Timothy J. Duff's direct testimony filed in this case.

3 Staff has changed the word "removal" to "absence."

annualized revenue requirement true-up. This alternative distribution cost recovery mechanism, referred to as Rider DR, is pending in the Company's Electric Security Plan/SSO case, Case No. 11-3549-EL-SSO. The Company will need approval of some form of distribution revenue decoupling in order to remove the incentive to increase their electricity sales over investing in energy efficiency. Revenue decoupling will need to be thought out carefully in order to prevent customer confusion and customer resentment. The Staff believes that some of the Company's fixed distribution costs are non-congestionable and customer specific. These would include customer line drops to houses or facilities, meters, meter installation and maintenance, customer billing records and record retention, etc.

The remaining common distribution costs are driven by customers demand on those components and may be coincident or non-coincident related. An example would be an electric distribution substation. At times, these facilities may become congested. The question remains as to which customers are causing this congestion and which customers are utilizing these facilities the most, i.e. who is receiving the most value for these facilities.

The Staff recommends that the Company provide a breakdown of its distribution costs in the various categories to determine what they are and file them in its current SSO case.

Respectfully Submitted,

Devin D. Parram
Assistant Attorney General
Public Utilities Section
180 East Broad Street
Columbus, OH 43215-3793
(614) 466-4396
FAX: (614) 644-8764
devin.parram@puc.state.oh.us

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the **Amended Staff Comments** was served by electronic mail upon the following parties of record, this 21st day of September, 2011.

Devin D. Parram
Assistant Attorney General

PARTIES OF RECORD:

Duke Energy Ohio
Amy B. Spiller
Elizabeth H. Watts
155 East Broad Street, 21st Street
Columbus, Ohio 43215
Amy.Spiller@duke-energy.com
Elizabeth.watts@duke-energy.com

Office of the Ohio Consumers' Counsel
Janine L. Migden-Ostrander, Consumers' Counsel
Jeffrey L. Small, Counsel of Record
Melissa R. Yost
Assistant Consumers' counsel
10 West Broad Street, suite 1800
Columbus, Ohio 43215-3485
small@occ.state.oh.us
yost@occ.state.oh.us

People Working Cooperatively, Inc.
Mary W. Christensen
Christensen & Christensen LLP
8760 Orion Place, Suite 300
Columbus, Ohio 43240-2109
mchristensen@columbuslaw.org

Environmental Law & Policy Center
Tara C. Santarelli
1207 Grandview Avenue, suite 201
Columbus, Ohio 43212
tsantarelli@elpc.org

Ohio Energy Group
David F. Boehm
Michael L. Kurtz
Jody M. Kyler
Boehm, Kurtz & Lowery
36 East Seventh Street, suite 1510
Cincinnati, Ohio 45202
dboehm@bkllawfirm.com
mkurtz@bkllawfirm.com
jkyler@bkllawfirm.com

Ohio Partners for Affordable Energy
Colleen L. Mooney
231 West Lima Street
Findlay, Ohio 45839-1793
Cmooney2@columbus.rr.com

Natural Resources Defense Council
Christopher J. Allwein
Williams, Allwein and Moser, LLC
1373 Grandview Avenue, suite 212
Columbus, Ohio 43212
callwein@williamsandmoser.com

Ohio Environmental Council
Trent A. Dougherty (
Nolan Moser
1207 Grandview Avenue, suite 201
Columbus, Ohio 43212-3449
trent@theoec.org
Nolan@theoec.org