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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. to Revise its Energy Efficiency Rider and for Approval of New Energy Efficiency Programs.	))))	Case No. 11-4393-EL-RDR

INITIAL COMMENTS OF OHIO PARTNERS FOR AFFORDABLE ENERGY

I. Introduction

Ohio Partners for Affordable Energy ("OPAE"), on behalf of its member agencies and the low income clients they serve, hereby submits its initial comments to the demand side management ("DSM") portfolio and cost recovery provisions proposed by Duke Energy-Ohio ("Duke"). OPAE has long supported the deployment of aggressive DSM programs designed to provide customers with the opportunity to control their energy usage and bills. Utilities provide energy services to customers and should provide those services in a manner that maximizes customer savings. Energy efficiency is the least-cost option to provide utility service. Investments in efficiency also stimulate significant job growth through both increased employment by manufacturers of energy efficient products and providers of direct services. The savings generated by energy efficiency keeps money in the local economy. Energy efficiency is critical to positioning Ohio to succeed economically in the 21st Century.

OPAE is concerned with the focus of many DSM portfolios, including Duke's, on the low hanging fruit. Certainly, compact fluorescent light bulbs ("CFLs") had not achieved much in the way of market share in Ohio prior to the passage of SB 221, but in the ensuing years this number has increased markedly

as a result of utility initiatives. It made perfect sense to focus on lighting at the beginning because of the need to meet the efficiency targets of the law. Now, however, the portfolio should evolve toward supporting energy efficiency measures that have a more significant and permanent impact on customers' energy use. There is certainly a place for programs that focus on consumer behavior and education as part of a balanced portfolio. Nonetheless, utility customers and the utilities themselves will be better served by making investments in longer lived technologies such as building shell measures and high efficiency heating and cooling equipment. There needs to be an emphasis on fundamentally changing how customers use energy.

OPAE remains concerned that Duke's proposal emphasizes the lowest cost measures at the expense of deeper savings options that produce long-term savings. The funding mechanism Duke has proposed reinforces the focus on the lowest cost options because they produce the maximum profit for the Company. OPAE would prefer the portfolio include a balanced mix of programs. We also believe that the funding mechanism should be designed to recover program costs in a manner that does not incentivize the utility to focus on the low hanging fruit. Our member agencies have provided comprehensive weatherization services to over 34,000 homes in the last 26 months. Our approach combines low cost measures along with high cost investments creating a package that is cost-effective. The model for this approach to program delivery exists and should guide Duke in the development of its programs. Following are OPAE's comments on the proposed portfolio.

II. Current Portfolio Programs

a. Smart $aver® Residential – The program has produced double the amount of savings projected by the Company in its last filing.[1] Though the program focuses on lighting measures, Duke has reacted to market opportunities by expanding its rebated offerings. OPAE supports continuation of the program.

b. Residential Energy Assessments – Consisting of the Personalized Energy Report (PER)® Program and Home Energy House Call, the assessment effort focuses on providing homeowners with customized information on energy savings options. The former provides home energy usage reports, following the new behavioral modification fad, while the latter provides a walk-through audit of a customer's home with CFLs and installed energy kits provided as an incentive. Behavioral modification programs are a component of all the DSM portfolios in Ohio, as are walk through audits. Though the program only met 51.0% of the savings goal through 2010, OPAE supports continuation. The program should better coordinate available rebates with the assessments and expand the program to provide a 'whole house' approach. OPAE recommends the program be delivered for both gas and electric which would permit a more comprehensive audit and be more cost-effective as discussed below.

c. Energy Efficiency Education Program for Schools – The Schools Program has been a disappointment, producing only 8.4% of the projected savings through 2010. Duke has recently hired a new contractor to improve program delivery. The collaborative should continue to closely monitor the

[1] For a detailed discussion of the performance of existing portfolio programs please see the Application in Case No. 11-1311-EL-EEC.

performance as the program is deployed. Other utilities have educational programs that are much more successful.

d. Low Income Services – The mix of services provided by this program in its current manifestation is unclear. Historically, it has focused on distributing CFLs and refrigerator replacements. The program has produced only 16% of its projected energy savings through 2010. OPAE believes the program should be redesigned and offers recommendations on a combined low income program below.

e. Power Manager – This demand reduction programs has achieved 52% of its goals through 2010, with performance increasing in 2011. OPAE supports continuation of the program. Customers are supportive of peak time rebates and the deployment does not require advanced metering infrastructure (AMI). Improved outreach should increase market penetration.

f. Smart $aver® Non Residential – This program has produced savings in excess of the target by providing prescriptive incentives to businesses that install high efficiency equipment and custom measures. The performance of the program improved markedly in 2010. Duke is doing a good job of identifying technologies to promote. OPAE supports continuation of the program.

g. Non Residential Energy Assessments – This program offers an on-line audit tool, assessments over the telephone, and walk through assessment for businesses interested in making efficiency investments. The program should be closely coordinated with the Smart $aver® Non Residential effort. Onsite assessment should be the priority; conducting an assessment over

the phone is not an effective means of evaluating energy savings options nor selling the customer on the advantages of efficiency investments

h. PowerShare® -- This demand response program is consistent with approaches used in other utility portfolios. While it has only met 40.7% of the goal through 2010, OPAE recommends the program be continued and marketing efforts increased.

III. Proposed Portfolio Programs

a. Appliance Recycling Program – OPAE supports approval of the program as proposed by Duke. Appliance replacement programs have seen success in the other electric utility service territories and a similar initiative should be available to Duke customers.

b. Low Income Neighborhood Program – Based on a program model developed by Progress Energy in Florida, the program markets to targeted neighborhoods – in this case with significant numbers of all-electric homes – to develop demand for in-home energy assessments along with direct installation of an energy saving kit. OPAE discusses its recommendations for the Duke low income program below.

OPAE cannot endorse the proposed program. Thirty years of experience in delivering low income programs has convinced our network that low income programs should provide the most comprehensive services possible. The proposed program is moving in the opposite direction, substituting a little energy education and light bulbs for the lighting and appliance replacements offered under Duke's current low income program.

OPAE has not been able to locate any field evaluations of the program since its inception in 2006. OPAE has, however, identified two

studies of programs based on direct installation of an energy kit which are *comparable to the mix of measures in the Duke proposal as well as a similar* cost per unit. Field evaluation studies indicate only modest energy savings, in the range of 250 - 440 kWh per unit, far below the 882 kWh assumed by Duke based primarily on simulation models.[2] A recent filing by Progress Energy regarding its Neighborhood Energy Saver Program, which is the same program proposed by Duke, claimed a mere 405 kWh per unit, consistent with field studies.[3] This indicates it is unlikely that Duke will achieve the projected energy savings. The funding would be better spent on a more comprehensive program as outlined by OPAE below.

c. Home Energy Solutions – Based on the testimony in the application, this is a pilot program based on AMI that will provide information on usage to customers and facilitate participation in demand response programs. OPAE supports piloting this program but urges the Commission to condition program expansion on proof that conservation and demand response produced by the program justify the investment.

IV. Cost Recovery

Duke is currently recovering program costs through Rider DR-SAW. This Commission modified the original 'Save-a-Watt' recovery model to exclude the value of avoided generation costs as required by SB 221.[4] Duke is now abandoning that approach for another that will raise its profits compared to the existing recovery mechanism.

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[2] http://www.cee1.org/eval/db_pdf/1379.pdf; www.appriseinc.org/.../Energy%20Efficiency%20Mass%20Distribution.ppt; http://www.powershow.com/view/a6537-NzZkM/Kits_Vs_Install_Mass_Distribution_Strategies_flash_ppt_presentation

[3] http://dms.psc.sc.gov/pdf/matters/B2098CB9-BAFB-3B91-C5EBE25C64059C11.pdf at 47

[4] See the Opinion and Order and Entry on Rehearing in Case No. 09-1999-EL-POR.

OPAE opposes the proposed recovery methodology for a number of reasons. Duke should recognize that it has a mandate to meet the energy efficiency targets; providing an incentive for something it is required to do does nothing but increase the costs to customers, decreasing the value of the energy efficiency. This proposed shared savings mechanism does not align the interests of the utility and customers. Instead, it motivates the Company to focus on the measures that cost the utility the least amount of money so the shared savings incentive is maximized, rather than focus on comprehensive energy efficiency options that cost more but provide more substantial and long-lived savings for customers. Dumbing down the portfolio advantages the Company, not the consumers that are paying the bill.

The Company also proposes to ensure it qualifies for the incentive by seeking to count banked savings from programs that have not been used for compliance purposes. There is no justification for paying the utility an incentive for energy savings that have already occurred, the costs of which have already been recovered. Allowing banked resources to be used for compliance purposes is reasonable but recovering for them twice is not. The same is true for efficiency committed by mercantile customers. While that efficiency can clearly be counted for compliance purposes, it should not be used to determine incentives. In addition, costs associated with the mercantile program may be recovered, but that recovery should be net of the benefits to the utility, and costs currently recovered in rates should not again be recovered through the efficiency rider. For example, if a mercantile customer commits demand response to Duke, the costs can be spread across other customers but should be net of the value of that demand response in the market. In the case of Duke's most recent proposal, that value would be equal to the capacity cost under its FRR.

OPAE recommends the cost recovery approach outlined by Duke be rejected and the Commission order an alternative approach. Duke should be permitted to recover program costs. The Commission should implement a five tiered distribution charge as proposed by OPAE in Comments filed in Case No. 10-3126-EL-UNC. This will eliminate any disincentive caused by the potential loss of distribution revenues and will ensure that the revenue necessary to maintain the distribution system and the profits thereon inure to the utility. Because distribution rates include a return on equity they provide adequate profit to Duke as the level of reduction in distribution recovery resulting from DSM serves as a proxy for the value of DSM and the profit component of distribution rates compensates the Company. If the Commission chooses to provide an incentive, the cost of generation must be excluded from the avoided cost calculation in order to comply with SB 221. The Commission has already ruled that Duke cannot recover lost generation revenues and should not permit recovery through the back door via a shared savings calculation.

The tiered fixed distribution rate proposed by OPAE ensures that Duke will recover its revenue requirement including the return on equity. The Company recovers a profit based on distribution services it did not provide, a suitable proxy for the profit it should earn on its DSM portfolio. Customers should not overpay for efficiency.

V. OPAE Portfolio Recommendations

a. **Low Income Services** – OPAE recommends that Duke offer a combined electric and gas comprehensive low income retrofit program. Program models already exist. Natural gas weatherization programs operated by Columbia Gas of Ohio, Dominion East Ohio, and Vectren all follow

Columbia's WarmChoice® program, a design which has garnered national awards. The program includes a comprehensive audit; blower door-guided air sealing; and, sealing duct work in conjunction with pressure testing. Measures include attic and wall insulation and furnace repair or replacement. There is also a consumer education component. This approach differs from Duke's existing gas weatherization program which provides three tiers of benefits based on the level of energy usage.

The Company should also adopt the electric efficiency program design which is based on the award-winning Electric Partnership Program (EPP) design developed by the State of Ohio.[5] The program focuses on baseload measures in homes which are not electrically heated, metering and replacing refrigerators and freezers, installing CFLs in high use locations (no closets), and upgrading window and central air conditioners. Electrically heated homes receive the comprehensive shell and appliance services outlined in the description of the natural gas program above. Customer education is also provided.

Both programs are designed to be jointly delivered or piggybacked, delivering comprehensive services to customers. They can also be deployed on a stand-alone basis for low use customers, including apartments. In Duke's case, combining the programs should be simple. The electric measures and a part of the audit cost can be billed through the electric DSM rider, while the gas measures can be billed through the gas rider. The programs can also be combined with the federally-funded Home Weatherization Assistance Program, leveraging significant funding.[6]

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[5] http://www.aceee.org/sites/default/files/publications/researchreports/U081.pdf

[6] OPAE continues to contend that utilities should be given credit for the energy savings produced by funding leveraged by utility efficiency resources.

These programs produce energy saving far in excess of Duke's existing and proposed programs. The EPP model produces an average savings of 1,750 kWh in homes using more than 5,000 kWh per year and 2,913 kWh in all-electric homes.[7] The natural gas program design reduces the amount of natural gas used for heating by 30%.[8] Hot water costs are also reduced.

b. **Residential Retrofit** -- Duke should upgrade the Home Energy House Call program to provide the level of service comparable to the retrofit programs offered by Ohio's other utilities. The program should be a gas and electric program, a simple matter for Duke as a combined company. Costs can be allocated to the appropriate riders as discussed in the low income program comments above. The program should provide a comprehensive audit including a blower door and pressure testing. Shell measures should be emphasized; these will produce both gas and electric savings which can be easily separated and allocated. OPAE recommends using a program design similar to Columbia Gas of Ohio's Home Performance Solutions, which has proven to be more cost-effective than the more common Home Performance with Energy Star© design. The program should offer a tiered rebate structure with higher subsidies for customers with lower incomes, ensuring the program is available to all customers.

VI. Conclusion

The house is a system. Efficiency measures interact, producing a synergy that increases the energy savings, health, and safety benefits. Comprehensive

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[7] http://www.development.ohio.gov/community/ocs/Documents/EPPImpactEvaluationReport.pdf

[8] http://www.development.ohio.gov/cms/uploadedfiles/Development.ohio.gov/Divisional_Content/Community/Office_of_Community_Services/HWAPImpactEvaluation.pdf

services should be the goal, complemented by consumer education and appliance rebates. To maximize efficiency, the goal should be to weatherize building shells, providing the deepest efficiency that is most beneficial to customers. These programs are more expensive per kilowatt hour saved than those in the Duke portfolio, but are far more beneficial to customers.

As indicated above, OPAE is supportive of the bulk of Duke's current and proposed programs. However, the Commission should direct Duke to add comprehensive weatherization programs for low income and other residential customers. The focus should be on quality, which in this case will produce the highest quantity of savings. Duke's cost recovery proposal should also be modified. By its nature, the proposal will result in Duke focusing on the least comprehensive program options so it can maximize its profits. Customers support and want to participate in these programs. Customers are willing to pay for them. Duke should give its customers what they want, comprehensive weatherization options that produce the short-term savings of Duke's current portfolio and significant long-term savings.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Comments was served *electronically upon the following parties identified below in this case on this 21st* day of September 2011.

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