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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. for an Energy Efficiency Cost Recovery Mechanism and for Approval of Additional Programs for Inclusion in its Existing Portfolio.	)))))	Case No. 11-4393-EL-RDR

REPLY COMMENTS OF DUKE ENERGY OHIO, INC.

I. INTRODUCTION

Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) filed an application for approval of an energy efficiency/peak demand reduction rider on July 20, 2011. The new rider is necessary in order for the Company to recover costs related to its energy efficiency and peak demand reduction programs after the expiration of its existing rider, Rider SAW, on December 31, 2011. The Company's application includes a proposal that is designed to provide for recovery of program costs, lost distribution revenue (which may alternatively be included in a rider in the Company's currently pending Electric Security Plan (ESP)pending under Case No. 11-3549-EL-SSO, et al.), and a tiered incentive mechanism.

In its application, Duke Energy Ohio also proposed three additional programs to be included in its portfolio of programs that were approved by the Commission in the Company's earlier portfolio application made pursuant to 4901:1-39-07, Ohio Administrative Code (O.A.C.).[1] On September 21, 2011, pursuant to the Commission's Entry dated September 12,

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[1] *In the Matter of the Report of Duke Energy Ohio, Inc. Concerning its Energy Efficiency and Peak-Demand Reduction Programs and Portfolio Planning,* Case No. 09-1999-EL-POR.

2011, the interested Parties submitted comments with respect to the Company's application. The Parties were directed to file reply comments by October 5, 2011. The below comments are submitted by Duke Energy Ohio in reply to the comments offered by the Parties in this proceeding.

I. INTRODUCTORY COMMENTS

After reviewing the comments submitted by the Staff of the Public Utilities Commission of Ohio (Staff) and the Parties in this proceeding, the Company is pleased to note that the majority of the comments submitted are positive and supportive of the proposed cost recovery mechanism and programs. Duke Energy Ohio is grateful for the cooperation and the dedicated effort it has experienced in working with its energy efficiency collaborative (the Collaborative). All of the intervening Parties in this proceeding are members and actively participate in the Collaborative, and the dedication of time and effort to reach consensus is helpful when it comes to seeking the Commission's approval of the Company's current cost recovery mechanism and programs. It is our opinion that the Collaborative has provided transparency into, and facilitated valuable dialogue around, the many elements of the application and paved the way for resolution of any differences that remain. Duke Energy Ohio wishes to recognize that its Collaborative members as fundamental partners in the Company's efforts to achieve the goals set forth by the state of Ohio for energy efficiency and peak demand reduction. Within the framework of the Collaborative, and in this proceeding, the Parties continue to have certain differences as has been noted in the comments submitted. Thus, Duke Energy Ohio appreciates this opportunity to reply to the Parties comments.

A. COMMENTS OF THE STAFF

The Staff's comments in this proceeding indicate support for all three of the Company's proposed additions to its program portfolio. Likewise, the Staff supports the Company's request for a new cost recovery mechanism that includes recovery of program costs, including administrative and related evaluation, measurement and verification (EM&V) costs. Staff also supported the Company's proposal for an uncapped shared savings incentive mechanism tied to performance. Finally, Staff addressed the Company's explanation for the need for lost distribution revenues in this rider or in the rider currently under discussion in the ESP case. In the comments, Staff correctly notes that a form of distribution revenue decoupling will need to be thought out carefully in order to prevent customer confusion and customer resentment.

In the course of discussions with the Commission Staff and other parties associated with the Company's proposed formulaic distribution rider, it has become clear that there may not be support for Duke's preferred approach to eliminating the need for the recovery of lost distribution revenue associated with energy efficiency. Duke continues to believe that it is appropriate to develop a creative regulatory mechanism to address the need for lost revenue recovery, but rather than continuing to pursue the proposed formulaic distribution rider, it will instead be working with Commission Staff and other parties to develop a file a new proposal outside of its SSO case. Duke hopes to file this stand alone application to the Commission with the support of Commission Staff and other parties in the near future. Should the Commission not find this new proposal acceptable, the Company reserves the right to collect the lost distribution revenues associated with it energy efficiency achievements.

B. COMMENTS OF OHIO CONSUMER AND ENVIRONMENTAL ADVOCATES (OCEA)

The Consumer and Environmental Advocates (OCEA) recommended that the Commission institute certain modifications to the Company's proposed decoupling and incentive mechanisms. OCEA further noted its view that the Company should be required to develop additional programs with stakeholder input from the Collaborative. OCEA supported the Company's request for a cost recovery mechanism devised to recover program costs as well as EM&V, subject to a true-up. However, OCEA notes its belief that the Company should not be permitted to recover lost distribution revenue through a lost revenue adjustment mechanism, (LRAM) for multiple reasons detailed in OCEA's comments. OCEA does not support the Company's cost recovery mechanism because in their view, it would not accomplish the goal of decoupling. Finally, OCEA supports the elimination of Rider SAW and support a shared savings mechanism that is altered to reflect, inter alia, a maximum benefit of 13% of the net benefits when the Company exceeds the targets by 15%.

OCEA's comments include its recommendation that the Commission ensures that the incentive mechanism excludes avoided cost savings from transmission and distribution projects. Duke Energy Ohio's existing portfolio does not include any transmission or distribution projects. The Company will continue its dialogue with the Parties to demonstrate this fact both in resolving this case and within the Collaborative. To the extent necessary, the Company will supplement the record in this proceeding to support this fact.

With regard to OCEA's incentive structure, with its reduced tiered levels of incentive, the Company believes its filed shared savings incentive structure is warranted for the reasons set forth in its Application. However, for purposes of resolving the only significant issue in this case, the Company is willing to agree to modify its proposed uncapped shared savings incentive structure to be consistent with the levels put forth in OCEA comments and hence now proposes the following after tax incentive structure:

Achievement of Annual Target	After-Tax Shared Savings
≤ 100	0.0%
>100-105	5.0%
≥105-110	7.5%
≥110-115	10.0%
≥115	13.0%

C. COMMENTS OF OCEA AND OHIO PARTNERS FOR AFFORDABLE ENERGY

Both OCEA and Ohio Partners for Affordable Energy (OPAE) express concern regarding the Company's proposed Neighborhood Low Income Program and energy efficiency efforts directed at low income customers in general. Concerns regarding these programs are unfounded. The justifications and rationale for the projected impacts for these programs have been shared with the Collaborative and are consistent with third-party vendor design. Additionally, the projected impacts have been compared to the recent EM&V results of similar programs offered by another utility and the results are very similar.

OCEA and OPAE also offer comments establishing the need for a more comprehensive low income weatherization program in the Company's portfolio. Duke Energy Ohio disagrees with these comments as they ignore the Company's existing energy efficiency programs directed at low income customers that are not included in this portfolio. Duke Energy Ohio has a long history of offering weatherization services to low income customers that are funded through base rates. The Company has partnered successfully with People Working Cooperatively (PWC) to deliver these services for a number of years and expects these to continue.

These offerings include the following two tiers of services:

Tier One Services are as follows:

- Heating System Tune-up & Cleaning
- Heating System repair up to $600 plus cost of refrigerator testing/replacement
- Venting check & repair
- Water Heater Wrap for Duke supplied water heaters
- Pipe Wrap
- Cleaning of refrigerator coils
- Cleaning of dryer vents
- Energy Star Compact Fluorescent Light (CFL) Bulbs
- Low-flow shower heads and aerators
- Weather-stripping doors & windows
- Installation of Smoke Detectors if not present or provided by another program
- Limited structural corrections that affect health, safety and energy up to $100
- Refrigerator testing/replacement
- Energy Education

Tier Two services are as follows:

- All Tier One Services and Air Sealing Measures Plus:

- Additional cost effective measures (with SIR > 1.5) using the NEAT audit where the energy savings pay for the measure over the life of the measure as determined by a standard heat loss/economic calculation (NEAT audit) utilizing the cost of gas and electric (retail) as provided by Duke Energy. Such items can include but are not limited to attic insulation, wall insulation, crawl space insulation, floor insulation and sill box insulation. Safety measures applying to the installed technologies can be included within the scope of work considered in the NEAT audit as long as the SIR > 1.5 including the safety changes.

- Heating system and air conditioning tune and clean and/or repair. Heating systems can be replaced if the repair cost is greater than $600.

In addition to other measures such as refrigerator replacements, over the last three years, more than 500 Duke Energy Ohio low income customers have had the type of comprehensive weatherization that has been suggested by OCEA and OPAE. In addition to this strong performance Duke Energy Ohio continues to work with PWC to develop an EM&V protocol that truly captures all of the efficiency gains that are achieved through a whole home weatherization program. Additional comments submitted by OCEA indicate support for the Company's proposed Appliance Recycling Program, as well as the expedited pilot program as proposed by Duke Energy Ohio witness Timothy J. Duff. OCEA also noted its belief that process evaluation should be conducted within a year of a program's launch and impact evaluations should take place within 18 months of program launch. Duke Energy Ohio strongly agrees with the need for timely program results and works with its independent third-party EM&V provider, Tec Market Works, to obtain timely results. Duke Energy Ohio does not agree that firm deadlines or timelines for the delivery of both process and impact analysis are necessary or effective. When process evaluations are delivered within a year of the program, the Process evaluation may only represent a partial year of the program in order to provide early feedback and will not represent full program process results. One of the key drivers of the timeline associated with EM&V is the ability to conduct analysis on a statistically significant sample that relies on having the necessary customer participation from which to pull the sample. Since participation rate ramp-up can vary among products, the time required to get necessary participation from which to conduct a statistically significant sample will also vary greatly. This variability makes firm deadlines impractical. Thus, Duke Energy Ohio disagrees with OCEA on this point.

OCEA provided some recommended pilot programs for development in its comments. Duke Energy Ohio is open to hearing and evaluating new potential energy efficiency products and services. It is appropriate that these suggested programs be discussed in the Collaborative so that all Parties can participate in the development of these suggested programs and Duke Energy Ohio will commit to including these suggestions in the agendas for the meetings of the Collaborative that will occur in the 1st and 2nd Quarters of 2012. Thus, the Company does not believe a formal directive from the Commission with regard to these suggestions is necessary.

D. COMMENTS OF PEOPLE WORKING COOPERATIVELY

PWC correctly notes that allowing Duke Energy Ohio to recover lost distribution revenue associated with energy efficiency and peak demand reduction will provide an incentive to continue to design, create, implement and evaluate innovative energy efficiency programs. Additionally, PWC briefly describes the value its organization brings to the Collaborative and to the Company's energy efficiency efforts generally as a low income provider of services. PWC's holistic approach that includes making additional repairs to the home that enhance the energy efficiency funded by Duke Energy Ohio is innovative and constitutes good public policy. The collective application of funds through PWC's unique program provides opportunities for customers in Duke Energy Ohio's service territory to remain in their homes and to live independently and securely. These energy efficiency efforts also support the Company's ability to achieve the energy efficiency targets mandated by the state of Ohio. Thus, PWC's support of Duke Energy Ohio's application in this proceeding supplies a view point that is informed by practical application and years of experience.

II. CONCLUSION

As can be discerned from the Parties' comments and these Reply comments, there is very little in contention in this proceeding. The Company is willing to agree with the Parties with respect to the performance thresholds and the associated level of after-tax shared savings included in the incentive mechanism. With respect to low income customers, the adequacy of Company's current programs, absent the dispute of significant facts in this proceeding, is a matter for the Commission's discretion. Other matters are relevant for future discussion in the Collaborative, and the Company has pledged to include those topics in its next Collaborative agenda. For the reasons set forth in the Company's application in this proceeding, as supported by the Commission's Staff, the Company respectfully requests that its application for a cost recovery mechanism as set forth in the Application and the proposed programs be approved.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was delivered via U.S. mail (postage prepaid), personal, or electronic mail delivery on this the 5th day of October 2011, to the following:

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