BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of a Distribution Decoupling Rider.	)))	Case No. 11-5905-EL-RDR

FINDING AND ORDER

The Commission finds:

(1) On November 22, 2011, the Commission issued its Opinion and Order in *In the Matter of Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service*, Case Nos. 11-3549-EL-SSO, et al., approving the stipulation filed by various parties. Among other terms, the stipulation provided that Duke Energy Ohio, Inc. (Duke) would file, in a separate proceeding, an application for approval of a distribution revenue decoupling mechanism to adjust rates between rate cases, with all parties retaining their rights to due process in such proceeding.

(2) On December 8, 2011, Duke filed its application, along with supporting testimony, requesting approval of rider distribution decoupling (Rider DDR). In its application, Duke explains that the decoupling mechanism contained in Rider DDR will adjust rates between rate cases to remove Duke's incentive to sell energy but will not apply to customers served under rates for service at secondary distribution voltage, service at primary distribution voltage, and service at transmission voltage. Moreover, Duke explains that decoupling is preferable to the collection of lost distribution revenues in connection with lost sales from energy efficiency programs. As proposed, Rider DDR would be established as a three-year pilot, to run from January 1, 2012, through December 31, 2014. During the term of the pilot, Rider DRR rates will be determined by comparing authorized distribution revenues, with some exceptions, to revenues actually collected, on a monthly basis, for each rate class. Duke will accrue the positive or negative difference in a balancing account specific to each rate class. Rider DRR will be updated on a yearly basis with Duke allocating the amount for the prior year in each balancing account to the corresponding customer rate class accordingly. Duke proposes an update process in

which it will submit an application to adjust Rider DRR by March 1 of each year, Staff and other intervenors will have until May 1, to file comments, and, without Commission action, the proposed rate changes will become effective July 1 of each year. At the conclusion of the pilot, Duke will file a report discussing the results of the pilot and justifications for extending or terminating the program.

(3) By entry issued January 5, 2012, the attorney examiner established a procedural schedule which set February 16, 2012, as the deadline for the filing of motions to intervene. Comments and reply comments on the application were due on February 23, 2012, and March 22, 2012, respectively.

(4) Timely motions to intervene were filed by the Ohio Environmental Council (OEC), Ohio Partners for Affordable Energy (OPAE), the Ohio Consumers' Counsel (OCC), and the Natural Resource Defense Council (NRDC). No one filed memoranda contra to these motions to intervene. The Commission finds that the motions to intervene filed by OEC, OPAE, OCC, and NRDC are reasonable and should be granted.

(5) Initial comments on the application were on filed on February 23, 2012, by OCC, and jointly by NRDC and OEC. In its initial comments, OCC explains that it conceptually supports the use of a volumetric decoupling mechanism as a means to promote cost-effective energy efficiency, which has the potential to save customers money. However, OCC points out that the application does not provide for a cap to protect customers from potential significant volatility in the rider amount, and argues that a cap, in some form, is appropriate.

(6) In their joint comments, NRDC and OEC express support for the proposed decoupling pilot. Specifically, NRDC and OEC point out that the proposed decoupling pilot would eliminate Duke's need to collect lost distribution revenue. Eliminating the need for lost distribution revenue encourages Duke to engage in real customer energy efficiency programs, and ensures that Duke can collect revenues during times when it is under-collecting its authorized revenue requirements. The only modification recommended by NRDC and OEC is that the Commission should enforce a three percent cap adjustment to distribution rates, with balances carrying forward, to protect customers from

excessive increases and volatility. NRDC and OEC recommend that any carrying costs be at the long-term cost of debt.

(7) OPAE, Duke, and Staff filed reply comments on March 22, 2012. In its reply comments, OPAE disagrees with the inclusion of carrying charges on any monthly over- or under-recovery. OPAE recommends that carrying charges not be assessed during the term of the pilot because the differences between the adjusted revenue requirement and the actual recovery should not be of a scale to warrant carrying charges, particularly given that there is a working capital allowance already built into base rates which negates the impact of under-recovery. However, should the Commission adopt carrying charges, OPAE recommends that the long-term cost of debt would be more appropriate. OPAE also agrees with the recommendation of OCC that a cap on Rider DDR should be established.

(8) In its reply comments, Staff agrees with NRDC and OEC that the decoupling pilot will remove the incentive to boost sales and is superior to a lost revenue adjustment to incent Duke to create meaningful energy efficiency programs for its customers. Staff also agrees with the three percent cap recommended by NRDC and OEC.

(9) Duke, in its reply comments, concurs with the proposed three percent cap on the annual adjustment with balances carried forward and carrying charges at the long-term cost of debt. However, Duke asserts that the proposed cap mechanism should be symmetric so that the risk is contained in either direction to protect both customers and Duke from potential volatility. With these modifications, Duke requests that the application be approved. With regard to Duke's request that the cap mechanism be applied symmetrically, the Commission finds that, at this time, without further information supporting a methodology whereby a customer will be assured that he/she will experience the benefit of the cap mechanism in the short term, it would not be appropriate to implement such a cap mechanism.

(10) In considering Duke's application, we are cognizant of the potential benefits of Duke's decoupling pilot. Specifically, as a pilot, Duke's proposal will provide helpful feedback in determining the future of decoupling in Ohio. Moreover, the Commission agrees that Duke's decoupling pilot is a better

alternative than the recovery of lost distribution revenues with respect to energy efficiency programs and serves to incent Duke to implement meaningful energy efficiency programs. Accordingly, based on the record in this case, we find that Duke's application to implement a decoupling pilot through Rider DRR should be approved, subject to the following modifications: three percent cap on the annual adjustment should apply, with balances carrying forward; and any carrying charges on balances carried forward should be at the long-term cost of debt. While the parameters of Duke's pilot project and modifications in this case may vary from those applicable to other electric distribution utilities, the Commission notes that such parameters are based upon the application and comments filed in this case and the fact that this is a pilot program, which the Commission will review further in the future.

(11) In an effort to expedite our consideration of the pilot program and its potential impacts, we direct Duke to work with affected stakeholders and begin formulating its study of the results of the decoupling pilot program after the pilot has been in effect for two years, with the study completed and filed with the Commission by the conclusion of the third year of the pilot program. To that end, Duke must work with stakeholders to prepare a detailed proposal regarding the type of data proposed to be obtained, how that data will be obtained, and metrics to evaluate the success of the pilot program. This proposal should be filed in this case docket, as well as in *In Matter of Aligning Electric Distribution Utility Rate Structure with Ohio's Public Policies to Promote Competition, Energy Efficiency and Distributed Generation,* Case No. 10-3126-EL-UNC, within six months of the issuance of this finding and order. Moreover, we direct Duke to address the questions listed in the attachment to this finding and order in its evaluation. We do not intend the attachment to be a complete list of what material should be addressed in Duke's report; rather, we merely want to assure that Duke provides answers to questions of particular interest to the Commission.

(12) As a final matter, the Commission notes that, while we are approving this decoupling pilot for a limited number of rate classes, we are exploring whether or not a decoupling mechanism should apply to other rate classes in *In the Matter of Aligning Electric Distribution Utility Rate Structure With Ohio's Public Policies to Promote Competition, Energy Efficiency, and Distributed Generation,* Case No. 10-3126-EL-UNC. Furthermore,

> the Commission emphasizes that our determination in this proceeding will not have any effect on our ability to fully consider any potential rate design issues, should Duke file a distribution rate case during the term of the pilot program.

It is, therefore,

ORDERED, That the motions to intervene filed by OEC, OPAE, OCC, and NRDC be granted. It is, further,

ORDERED, That application filed by Duke on December 8, 2011, be approved subject to the modifications contained in this finding and order. It is, further,

ORDERED, That Duke be authorized to file in final form four complete copies of the tariff pages consistent with this finding and order and to cancel and withdraw its superseded tariff pages. Duke shall file one copy in its TRF docket (or may make such filing electronically as directed in Case No. 06-900-AU-WVR) and one copy in this docket. The remaining two copies shall be designated for distribution to the Rates and Tariffs, Energy and Water Division of the Commission's Utilities Department. It is, further,

ORDERED, That the effective date of the new tariff shall be a date not earlier than the date of this finding and order and the date upon which four complete printed copies of final tariffs are filed with the Commission. It is, further,

ORDERED, That Duke shall notify all affected customers via a bill message or via a bill insert within 30 days of the effective date of the tariffs. A copy of the customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least 10 days prior to its distribution to customers. It is, further,

ORDERED, That nothing in this finding and order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

ORDERED, That Duke comply with the directives set forth in finding (11). It is, further,

ORDERED, That a copy of this finding and order be served upon all interested persons of record in this case.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Steven D. Lesser

Andre T. Porter

Cheryl L. Roberto

Lynn Slaby

KLS/CMTP/dah

Entered in the Journal

MAY 30 2012

Barcy F. McNeal

Barcy F. McNeal
Secretary

(1) Has the decoupling mechanism had any discernible impact on customer shopping habits?

(2) What was the total distribution revenue collected each month?

(3) What is the total deviation in distribution revenue from the monthly target?

(4) What is the average customer bill impact per each rate class?

(5) What are the total number and percent of customer complaints/inquiries regarding the decoupling mechanism?

(6) Has the decoupling mechanism had any effect on Duke's energy efficiency budget and results for the effected rate classes, independent of the increasing benchmarks?

(7) Did the decoupling mechanism result in energy efficiency budget shifts between residential and commercial rate classes?

(8) Is there a difference in energy efficiency and peak-demand reduction program participation rates between the standard service offer (SSO) customers and the competitive retail electric service (CRES) customers? If yes, to what is this difference attributed?

(9) Does this decoupling mechanism achieve the desired goals? Are there better approaches to achieve desired results?

(10) How well does this decoupling mechanism work compared to other mechanisms, i.e., a fixed customer charge for distribution or a formulaic approach? Provide a comparison of the bill impacts of this decoupling mechanism to a straight fixed variable mechanism for low-, average-, and high-use customers in the affected rate classes.

(11) How would this decoupling mechanism be affected if CRES providers provided consolidated billing? If CRES providers did consolidated billing, could they incorporate this decoupling mechanism into their billing systems?

(12) Would this decoupling mechanism provide for the electric distribution utility to elect not to offer generation services to retail customers?

(13) Would this decoupling mechanism change if all generation was served by a CRES provider?

(14) Is the decoupling mechanism more critical or less critical to Duke's incentive to provide energy efficiency programs depending on the source of generation supply, and if so, by how much?

(15) To what extent did having the decoupling mechanism cause the Duke to embrace, to a greater extent, distributed generation technologies?

(16) If it matters, what is the sensitivity of the over- and under- collection amounts (in terms of dollars and in terms of percentages of volumetric distribution charges) to generation by CRES supplier and to SSO supply. That is to say, is the decoupling mechanism more critical or less critical depending on the source of generation supply, and if so, by how much?