

FILE

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

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Prepared Testimony
of
Gregory C. Scheck
Policy and Market Analysis Division

Staff Exhibit _____

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1 1. Q. Please state your name, employer and business address.

2

3 A. My name is Gregory C. Scheck. I am employed by the Public Utilities
4 Commission of Ohio, 180 East Broad Street, Columbus, Ohio.

5

6 2. Q. What is your current position at the Commission?

7

8 A. I am a Utilities Specialist in the Efficiency and Renewables Division of the Energy
9 and Environment Department. I am responsible for analyzing issues and providing
10 recommendations pertaining to electric utility energy efficiency programs,
11 including peak demand reductions, demand response, and smartgrid related issues.

12

13 3. Q. What are your qualifications as they relate to your testimony in this proceeding?

14

15 A. I have worked at the Commission since 1985 in various capacities. Most of that
16 time I have spent reviewing and evaluating demand forecasts, energy efficiency
17 programs, and smartgrid utility issues.

18

19 4. Q. What is the purpose of your testimony in this proceeding?

20

21 A. The purpose of my testimony will be to address questions the Commission has put
22 forward in its Entry in this case on May 9, 2012. In addition, I will provide
23 testimony on the topic of energy efficiency cost allocation.

24

25 5. Q. What are the questions that the Commission put forward on May 9, 2012 regarding
26 matters in this case?

27

1 A. The Commission put forward two categories of questions regarding matters in this
2 case. The first question is why or why not should Duke be granted a waiver from
3 Commission rules, in particular, those rules regarding whether a distribution utility
4 may add new energy efficiency programs to their portfolio in between the 3-year
5 cycle of approved portfolio plans. The remaining questions that the Commission
6 put forward relate to the issue of Duke's newly proposed incentive mechanism.

7
8 6. Q. What is your opinion regarding Duke's request for a waiver to add 3 new
9 residential programs to its existing portfolio?

10
11 A. In general, Staff recommends that new energy efficiency programs should not be
12 added during the time period in between approved Energy Efficiency Portfolio
13 Programs unless there are extenuating circumstances and such programs are shown
14 to be in the public interest. Staff received information through data requests
15 showing that the Company believed that it would need to add additional energy
16 efficiency programs in order to increase the likelihood of meeting its annual energy
17 efficiency statutory benchmarks for 2012 and 2013. The Company also needed to
18 prepare and present an application to replace its existing energy efficiency cost
19 recovery mechanism. With these two elements, Staff believes that it would be
20 appropriate for Duke to request permission to include additional energy efficiency
21 programs with its newly proposed cost recovery mechanism. The process for
22 requesting such permission would be through a waiver filing.

23
24 7. Q. What are the names and descriptions of the three newly proposed residential energy
25 efficiency programs?

26

1 A. The three newly proposed residential energy efficiency programs are named: a)
2 Low Income Neighborhood, b) Home Energy Solutions and c) Appliance
3 Recycling.
4

5 The Low Income Neighborhood program is designed to help reach the low income
6 segment of the residential market in as cost-effective manner as possible. This program
7 uses a whole house approach where energy assessments will be performed on low-income
8 homes in selected neighborhoods. Measures that will be installed include CFLs, water
9 heater and pipe wrap, low-flow shower/faucet aerators, HVAC filters/replacement and air
10 sealing around doors and windows. In addition, customers will receive education on the
11 proper use of the installed measures as well as energy savings tips to lower their energy
12 bills.
13

14 The Home Energy Solutions program is designed to provide a variety of possible
15 solutions to residential customers to manage their electric demands and bills. The program
16 includes Home Energy Manager technology, which provides customers the ability to
17 manage and integrate a number of end-use devices including central air conditioning, pool
18 pumps, water heaters, and smart appliances. In addition, this type of technology will work
19 in conjunction with those customers who elect to have a time-differentiated rate.
20

21 The Appliance Recycling program will encourage customers to recycle older, less
22 efficient refrigerators and freezers by incentivizing them to turn them in. When the older
23 refrigerators and freezers are picked up, they will be stripped apart, of which 95% of the
24 materials will be recycled.
25
26

1 7. Q. Did the Company provide sufficient information to the Staff that the three proposed
2 residential energy efficiency programs would meet the necessary criteria to be
3 included in the Company's currently approved portfolio?
4

5 A. Yes. The Staff has reviewed other additional detailed information from the
6 Company regarding each proposed program's overall cost-effectiveness and other
7 additional program design criteria which are listed under O.A.C. Rule 4901:1-39-
8 03(B).
9

10 8. Q. What are the relative preliminary cost-effectiveness test results for each of the
11 proposed energy efficiency programs?
12

13 A. Staff was provided four of the principal ex-ante cost-effectiveness tests from the
14 Company. The results of these tests for the three newly proposed energy efficiency
15 programs is provided in the table below.
16
17

Program	TRC Test	Utility Cost Test	Rate Impact Measure Test	Participant Test
Low Income Neighborhood	2.31	1.33	1.02	NA
Home Energy Solutions	2.35	1.59	1.44	4.29
Appliance Recycling	4.25	3.59	1.99	NA

18

1 9. Q. Based on the information provided in the above table, are these proposed
2 programs likely to be cost-effective?

3

4 A. Yes, considering that each of the programs passed the Total Resource Cost
5 Test by a value greater than 2, it would imply that the benefits of avoiding
6 generation and other transmission and distribution costs are likely to be at
7 least two times greater than the costs of implementing the energy efficiency
8 programs themselves.

9

10 10. Q. Do you have any opinion about any of the three new energy efficiency
11 programs?

12

13 A. Yes. The Company had already evaluated the appliance recycling program in
14 its 2009 market potential study and had determined it to be cost-effective.
15 However, the Company had not decided to implement this program because
16 they thought it would be in the best interest of its Ohio customers to wait until
17 it had approval of the program in other jurisdictions to leverage the
18 economies of scale across all five of its multi-state electric utility operating
19 companies. However, the Staff has determined that the Company could have
20 leveraged the use of a recycling facility in the west part of Columbus that is
21 servicing 2 of Ohio's other electric distribution utilities. That facility was
22 opened in the middle of 2009. The Company could have leveraged the per
23 unit cost of recycling appliances downward based on the future projected
24 volume from its sister electric operating companies. In the future, the Staff
25 recommends that the Company, as well as all of the Ohio electric distribution
26 utilities leverage similar programs when they are able to do so.

27

1 11. Q. What is the range of revenue the Company could earn via its newly proposed
2 incentive mechanism?

3
4 A. A. The range of revenue that the Company could achieve with its newly
5 proposed incentive mechanism could be anywhere from \$0 up to potentially \$8.5
6 million per year on an after-tax basis. Obviously, the upper end of the range will
7 be dependent on how much customer participation there is in each program and the
8 subsequent total program costs. Total program costs will vary based on the level of
9 participation in each of the programs. Therefore, the upper end of incentive dollars
10 earned on the energy efficiency portfolio will be the result of the residual of the net
11 avoided cost benefits. The shared savings is determined by the net benefits which
12 is equal to the total avoided costs minus total program costs in any given year.

13
14 12. Q. What did the Company earn in energy efficiency incentives under Rider SAW for
15 the years 2009 through 2011?

16
17 A. The Company's estimated before-tax incentive for this period was 23.1% or \$13.99
18 million while the estimated after-tax earnings incentive were 14.99% or \$9.08
19 million. The Company's final actual earnings under Rider SAW will be known at
20 the true-up to made in June, 2012. As the level of avoided costs increase over time
21 due to the increasing benchmarks, the amount of incentive dollars earned via
22 energy efficiency will likely increase, all other things being held equal.

23
24 13. Q. Does the Staff believe that energy efficiency incentives be limited to the
25 performance that exceeds the statutory benchmarks?

26

1 A. Staff believes that this question is intended to ask if incentives should be paid out
2 only for that amount of energy efficiency that exceeds the statutory benchmark.
3 Staff does not think that it is appropriate to determine returns in this fashion, in
4 that, with other distribution investments the Company may make, they would not
5 normally be limited by this definition. If the Company made an investment in
6 distribution facilities that it determined it needed to provide safe and reliable
7 service, and such investment was determined to be used and useful, it would
8 normally be expected to earn a return on all of its costs, not on some subset of its
9 costs. Therefore, if the annual benchmarks for energy efficiency are exceeded, the
10 Staff recommends that the Company earn an incentive on the entire amount of
11 energy efficiency achieved for that calendar year.

12
13 If this question was intended to address whether or not there should be a cap on
14 energy efficiency earnings, the Staff would be in favor of a cap. Since the passage
15 of Senate Bill 221, each of the electric distribution utilities in the state has been
16 subject to an excessive earnings cap. Therefore, the Staff recommends that a cap
17 on energy efficiency earnings would be reasonable.

18
19 14. Q. Should an energy efficiency incentive be equal to or greater than the return on
20 investment that Duke could earn by investing the same amount in its utility
21 infrastructure elsewhere?

22
23 A. This is a difficult question to answer. Staff recognizes that, in order to promote more
24 energy efficiency, the return on its investment would likely need to be relatively high, in relation
25 to other alternatives that Duke may consider. There are other issues that a Company would
26 consider when making investments with their capital and the risk associated with those
27 incremental investments would be one of those, i.e. a higher risk investment would normally

1 require a higher return. In addition, Ohio electric distribution utilities are not stand alone
2 companies that are divested completely from all other corporate interests, therefore comparing
3 energy efficiency investment to just any other utility infrastructure investment may not be
4 relevant. Ohio's electric companies may be quite diverse and therefore the correct barometer may
5 need to include other alternative investments that Duke would deem to be in the best interests of
6 its stockholders. Therefore, Staff recommends that in order to encourage more investment in
7 energy efficiency by the Company, the internal rate of return on that investment would likely need
8 to be relatively high in relation to any other alternative investment with similar risks, whether it
9 was utility infrastructure related or not.

10 15. Q. How should the Commission view Duke's proposed energy efficiency incentive
11 mechanism in light of Duke's significantly excessive earnings threshold?

12
13 A. Duke has provided information on its earnings in Case No. 12-1280-EL-UNC.
14 According to the information filed in Ms. Peggy Laub's Attachment 1, p. 1, the
15 Company is not approaching a threshold of 15% Significant Excessive Earnings.
16 The Attachment shows a return on common equity including non-SSO sales and
17 ESP deferrals to be 5.84% for calendar year 2011. This percentage number is quite
18 below the 15% trigger threshold, so it is unlikely that Duke's proposed energy
19 efficiency incentive mechanism will cause the Company to trigger it in 2012.

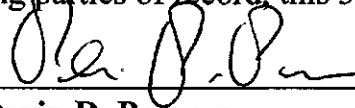
20
21 16. Q, Are there any other concerns or clarifications that you would like to add?

22
23 A. Yes. The staff is of the opinion that utility energy efficiency costs should be
24 allocated primarily on a kwh sales basis. The reason for this position is that most
25 energy efficiency investment is made to avoid generation costs, not distribution
26 costs. Distribution costs are mostly fixed in nature and not driven by variable

1 energy costs; therefore, cost allocation determined by distribution revenue
2 allocation would not be appropriate.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the **Testimony of Gregory C. Scheck** was served by electronic mail upon the following parties of record, this 30th day of May, 2012.



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