

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of Aligning Electric)
Distribution Utility Rate Structure with)
Ohio's Public Policies to Promote) Case No. 10-3126-EL-UNC
Competition, Energy Efficiency, and)
Distributed Generation.)

FINDING AND ORDER

The Commission finds:

- (1) By entry issued December 29, 2010, the Commission solicited comments to aid the Commission in considering whether modifications to Ohio's electric utilities' rate structures would better align utility performance with Ohio's desired public policy outcomes; if so, what modifications should be adopted; and, finally, if modifications are indicated, what is the process that should be used to make them. To the entry, the Commission attached Appendix A, which contained specific questions addressing issues about which the Commission sought input from interested parties. Further, the Commission attached Appendix B, which requested each electric utility provide certain data for the calendar year 2010 or the most recent 12-month period for which actual data was available.
- (2) Motions to intervene were filed by The Ohio Energy Group (OEG), Ohio Environmental Council (OEC), The Kroger Company (Kroger), the Sierra Club of Ohio (Sierra Club), Ohio Consumers' Counsel (OCC), the Neighborhood Environmental Coalition, The Empowerment Center of Greater Cleveland, United Clevelanders Against Poverty, Cleveland Housing Network, and the Consumers for Fair Utility Rates (collectively, The Citizens Coalition), Industrial Energy Users-Ohio (IEU-Ohio), the Natural Resources Defense Council (NRDC), Nucor Steel Marion, Inc. (Nucor), Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, Walmart), the Ohio Manufacturers' Association (OMA). The

Commission finds that the motions to intervene are reasonable and should be granted.

- (3) Comments were timely filed by Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company (collectively, FirstEnergy), Columbus Southern Power Company and Ohio Power Company¹ (AEP-Ohio), Duke Energy Ohio (Duke), the Dayton Power and Light Company (DP&L), Nucor, Kroger, Ohio Partners for Affordable Energy (OPAE), and Walmart. Joint comments were filed by the Sierra Club, OCC, OEC, NRDC, and the Citizens Coalition (collectively, the Ohio Consumer and Environmental Advocates or OCEA). Additionally, the Citizens Coalition filed separate comments in addition to the OCEA comments. As many of the comments filed by various interveners did not directly address the specific questions set forth in the December 29, 2010, Entry, those general comments will be addressed subsequent to the discussion of the specific questions.

Operational Distinctions between Natural Gas and Electric Utilities

- (4) The first question addressed in Appendix A is whether there are fundamental operational distinctions between natural gas and electric utilities that must be considered in determining whether and how to eliminate or mitigate the throughput incentive in electric distribution rates.
- (5) OCEA contends that operational distinctions between natural gas and electric utilities include that electricity consumption levels cause a much greater portion of electric system costs than is the case with natural gas. Further, OCEA argues that residential and commercial consumption of natural gas has declined on a per capita basis over the past several decades due in part to increases in building shell and gas appliance efficiency and that natural gas uses are largely non-

¹ We note that, by entry issued on March 7, 2012, the Commission approved and confirmed the merger of Columbus Southern Power Company into Ohio Power Company, effective December 31, 2011. *In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Authority to Merge and Related Approvals*, Case No. 10-2376-EL-UNC.

discretionary. In contrast, OCEA contends that, in the electric industry, some customers are able to make choices about what electronic devices to use and when.

- (6) FirstEnergy comments that the electric distribution system is designed to accommodate individual customer and class peak demands that are driven by instantaneous loads. FirstEnergy further comments that customers who use more electricity have higher demand for electricity and require more distribution infrastructure to serve. Finally, FirstEnergy comments that increasing energy efficiency and renewable resources mandates will likely give rise to additional distribution investment and must be recognized in any distribution rate case going forward.
- (7) AEP-Ohio comments that, in the context of how to eliminate or mitigate a perceived throughput incentive in electric distribution rates, natural gas and electric distribution utilities are fundamentally similar. Additionally, AEP-Ohio points out that the Commission has previously noted the pre-existing subsidy of residential customers by C&I customers with respect to natural gas distribution, which the Commission found could be cured by a modified SFV rate design providing more equitable cost recovery. AEP-Ohio contends that implementation of an SFV rate design based on the electric distribution utility's actual cost could similarly address this issue.
- (8) Duke comments that there are some differences between natural gas and electric utilities as far as the costs and nature of equipment. Further, Duke comments that it is more likely for load growth to drive a need for investment to expand the electric distribution system than the gas distribution system and that gas load volatility is higher than that for electric loads due to the weather.
- (9) OPAE argues that the differences between natural gas and electric utilities do not affect the nature of the distribution systems.

Factual/Policy Considerations between Natural Gas and Electric Utilities

- (10) The next question the Commission addressed is whether there are factual or policy considerations that suggest electric distribution rate design should be constructed differently from natural gas.
- (11) OCEA comments that there are such factual or policy considerations. Firstly, OCEA comments that the amount of short-term fixed costs per customer is higher for customers of an electric distribution utility than for natural gas utility customers and that, if a straight-fixed variable (SFV) rate design is implemented, electric customers will see a much larger increase in the fixed portion of their bills than experienced by gas customers when SFV was implemented by natural gas utilities. Consequently, OCEA argues that low-to-medium income customers would be immediately and negatively affected to a greater degree by the increase in the customer charge. Secondly, OCEA contends that the SFV rate design would undermine existing investments in energy efficiency and renewable energy and reduce the reward of further investment due to the significantly reduced variable charge and increased customer charge. Thirdly, OCEA argues that, given Ohio's reliance on coal to generate electricity, adopting the SFV rate design, which encourages consumption of electricity, has more severe environmental consequences than one that encourages consumption of natural gas. Fourthly, OCEA contends that the bundled price of natural gas service has experienced sharp price volatility over the past two decades, making customers more aware of their natural gas consumption, in contrast to relatively stable bundled electricity prices. Fifthly, OCEA argues that SFV averages costs compared to current recovery, which makes little difference in costs for natural gas customers, but for residential electric customers, could impose large costs on customers who use less by creating new capacity needs, forcing pollution controls, and requiring grid upgrades. Finally, OCEA states that adopting the SFV rate design would present challenges from a customer education standpoint

because it sends a mixed price signal contrary to the goals of promoting energy efficiency and demand response programs.

- (12) FirstEnergy contends that factual and policy considerations include that residential electricity usage is trending upward on average, whereas residential natural gas usage is trending downward; that electric utilities have statutorily-mandated energy efficiency and peak demand reduction (EE/PDR) benchmarks; that gas companies do not have a state policy consideration to protect at-risk populations; that electric utilities are required to meet Commission-mandated minimum reliability standards; and that annual gas usage patterns vary significantly from that of electricity usage. Consequently, FirstEnergy concludes that a distribution rate design should (a) recognize electric distribution rate design should be based on its unique operational attributes; (b) include tariffs designed to spur efficiency from a utility and customer perspective; (c) fully compensate utility participation in approved EE/PDR programs; and (d) enable utility customers to effectively use the utility service while understanding the drivers of their costs to use service.
- (13) AEP-Ohio argues that there are few factual or policy considerations suggesting that electric distribution rate design should be constructed differently from natural gas and points out that policy encouraging options for consumers and promoting energy efficiency is similar for the two industries as enumerated in Sections 4928.02 and 4929.02, Revised Code.
- (14) Duke comments that throughput for gas is generally much more sensitive to weather influences and that electricity typically has higher growth in volumetric sales than natural gas. Further, Duke comments that differences in metering capabilities may allow electric utilities to better align rates to match with cost causation than natural gas utilities.
- (15) DP&L comments that there already exists a substantial motivation for electric distribution utilities in Ohio to achieve energy efficiency under the statutory scheme enacted by Amended Substitute Senate Bill 221 (SB 221). Consequently,

DP&L argues that decoupling revenue from sales to specifically target energy efficiency is unnecessary. However, DP&L notes that it is not opposed to the concept of moving toward a decoupling or SFV rate structure in the future, provided that this would happen through a distribution rate case, and that engineering studies would be conducted to identify the proper level of fixed charges on a tariff class basis, not a revenue class basis.

- (16) OP&E argues that there are both factual and policy considerations that militate against using identical rate design approaches for the two types of distribution networks. OP&E points out that the majority of natural gas used by residential and small commercial customers is consumed in four months of the year for heating purposes, and that electricity is distinguished because the quantity of use determines the robustness of the required infrastructure. For example, OP&E comments that a multi-family dwelling will be served by different equipment than a neighborhood of bungalows. Further, OP&E states that there is much greater variation in the electric end uses in homes when compared to natural gas.

Rate Design

- (17) Next, the Commission sought comments on which rate design the Commission should use if the Commission adopts a decoupling rate design: SFV, decoupling adjustment, lost revenue recovery adjustment, or some combination of these.
- (18) OCEA argues that a decoupling adjustment mechanism, including sufficient consumer protections, is preferable to the other proffered alternatives. OCEA specifically contends that decoupling with essential consumer protections would reduce the use of fossil fuel-based energy, support the development of distributed generation, support innovation in the delivery of energy services, and support the goal of energy affordability through protections, including a cap on annual rate adjustments.

OCEA argues that the SFV rate design should not be adopted because it would have an adverse effect on the objective of increasing energy efficiency, would not decrease the use of fossil fuel-based energy, would have a detrimental impact on the use of environmentally-friendly distributed generation, and would decrease customers' investments in energy efficiency and prevent opportunities for innovation in the supply of energy services.

OCEA argues that lost revenue adjustment mechanisms should not be adopted because their use would have no significant impact on the reduction of the use of fossil fuel-based energy, would have no impact on the use of environmentally-friendly distributed generation, would support limited development in energy efficiency, would preclude opportunities for innovation in the delivery of efficiency services, and would increase the cost of distribution service for customers.

- (19) FirstEnergy comments that the Commission should continue to use a distribution rate design based on a customer's peak demand where practicable and based on kWh usage otherwise, coupled with a lost distribution revenue recovery mechanism. FirstEnergy argues that this design encourages EE/PDR goals, while allowing for investment where necessary. Additionally, FirstEnergy argues that an SFV rate design diminishes the customer incentive for EE/PDR participation, will result in shifting of costs from higher-usage customers to lower-usage customers, and will inappropriately make adjustments only to revenue levels while ignoring the utility's ability to recover its prudently-incurred costs.
- (20) AEP-Ohio recommends that the Commission address the perceived throughput incentive by addressing the volumetric recovery of fixed distribution costs. AEP-Ohio comments that the most effective remedy for this issue is correcting rate designs so that a greater proportion of fixed distribution costs are represented in fixed customer and/or demand charges with an offsetting smaller proportion represented in the volumetric charges. AEP-Ohio states that SFV rate designs

are the ultimate extension of this concept, but cautions that, pragmatically, full implementation of this rate design would be difficult due to the potential bill impacts. Consequently, AEP-Ohio suggests moving incrementally toward a greater share of fixed distribution costs recovered through customer and/or demand charges coupled with continued use of a lost distribution revenue recovery mechanism. AEP-Ohio comments that any other type of decoupling adjustment will create unintended consequences, will fail to address the underlying cause of the problem, and will distort the proper direct economic alignment of costs with charges.

- (21) Duke cautions that, without a detailed description of the mechanism, it is difficult to recommend any form of a decoupling rate design, but notes that it supports a mechanism that decouples volumetric sales from utility earnings by means of a formula rate plan. Duke further comments that, when structured properly by factoring in the impacts of the design, an SFV rate design (such as the "modified" SFV plan in Case No. 07-589-GA-AIR) can be effective toward decoupling.
- (22) Nucor comments that this question implies that the Commission is considering adopting one of three rate designs or a combination of the three. Nucor recommends that the Commission should not use this proceeding to adopt a one-size-fits-all cost recovery mechanism that would be applied to all electric utilities on a uniform basis. Nucor further urges the Commission to use certain core principles including that rate design should seek to properly align cost causation, cost allocation, and cost recovery, and that rate design should advance Ohio's policy goals as specified in Section 4928.02, Revised Code. Further, Nucor urges retention and improvement of the use of customer charges to recover fixed costs that do not vary based upon customer usage, or the use of time-of-day rates and interruptible rates.
- (23) Kroger recommends against adoption of a conventional decoupling adjustment or a lost revenue recovery adjustment because it leads to rate adjustments that are unrelated to

decoupling's stated objective of neutralizing a utility's financial disincentive to support energy efficiency. Further, Kroger comments that consideration of lost revenues should be limited to the net loss in load attributable to the Company's programs. Finally, Kroger comments that it supports the principles of SFV in that it has the effect of mitigating the utility disincentive to support energy conservation.

- (24) OPAE opposes all of the enumerated options and, instead, proposes a four-tier fixed rate approach by which each consumption tier would pay a flat monthly rate. OPAE contends that the four-tier approach will encourage investment in energy efficiency, whereas, OPAE argues, an SFV approach is a disincentive for efficiency and conservation.

Decoupling and Rate Classes/Distribution Revenue/Return on Equity

- (25) The next question the Commission set forth was, if the Commission adopts a decoupling rate design in electric distribution rates, (a) should that rate design be applied only to residential rate classes? What other rate classes should be considered, (b) how often should the Commission require the utility to update its distribution revenue requirement, and (c) should the company's return on equity be reduced to reflect a reduced risk to the company?
- (26) OCEA argues that, if the Commission adopts decoupling or SFV rate design, it should review the mechanisms three years after implementation and should only continue their use if the utility surpasses minimum reliability standards under rule and law. As to (a), OCEA contends that a decoupling rate design should be applied to residential and small commercial customers because large commercial and industrial customers are demand-based and there is a relatively small amount of "lost revenues" to collect from those customers. As to (b), OCEA claims that the Commission should require the utility to update its distribution revenue requirement at least every three years and sooner in the event that decoupling rate adjustments exceed the rate impact cap for two consecutive

years. Additionally, as to (c), OCEA argues that the Commission should adjust an electric utility's return on equity to reflect changes in a company's risk profile because both decoupling and SFV rate design lower a utility's risk of not recovering its authorized revenue requirements.

- (27) FirstEnergy argues that, as to (a), lost distribution revenue should be recovered from all customer classes other than GT. Regarding (b), FirstEnergy proffers that the current framework, which allows utilities to determine when they need to seek a change to distribution rates, is appropriate and balanced to provide stability and flexibility. Finally, as to (c), FirstEnergy contends that adjustment of the rate of return because a lost revenue recovery mechanism exists overlooks the fact that investing in EE/PDR measures along with distributed generation and renewable resources actually increases the risks associated with operating a distribution facility.
- (28) AEP-Ohio argues that, as to (a), the rate design should be applied to residential rate schedules and non-demand metered commercial rate schedules, excluding non-metered lighting and other non-metered accounts. Regarding (b), AEP-Ohio comments that the utility's distribution revenue requirement could be updated no later than every three years, but the utility should not be precluded from updating its distribution requirement on an annual basis if necessary. As to (c), AEP-Ohio comments that a utility's return on equity should not be negatively impacted by such a ruling, and that any conclusion that a distribution decoupling mechanism automatically reduces risk to the utilities ignores the reciprocal nature of decoupling adjustments, and should involve a more comprehensive analysis taking all risk factors into account.
- (29) Duke comments that, regarding (a), should the Commission choose to adopt an SFV rate design, it should only apply to residential customers and customers receiving service on Rate Class DM because they are fairly homogenous, and should not be applied to rate classes where it could cause significant

shifting of costs or rate swings. As to (b), Duke comments that updates should be done at the time of base rate cases and, with respect to other forms of decoupling, Duke does not believe the calculation should be performed more frequently than annually. Regarding (c), Duke comments that, if it is determined that decoupling significantly lowers a company's risk profile, then it may be appropriate to adjust the company's allowed return on equity.

- (30) DP&L argues that decoupling revenues from sales does not lower the risk utilities face, but increases it, as decoupling initiatives, combined with ratemaking mechanisms that eliminate opportunities to earn additional revenue due to economic growth or weather, could be a disincentive for investors.
- (31) Nucor argues that the Commission's efforts to move from a pure volumetric rate design to rate designs that better reflect cost causation should not be limited to residential classes or to distribution rates.
- (32) Kroger recommends against the adoption of decoupling for any customer classes, and particularly for non-residential customers, stating that this rate design is clearly inappropriate for this group. Further, Kroger recommends that the reduction of risk due to decoupling should be reflected in a utility distribution company's allowed return on equity if a decoupling mechanism is adopted.
- (33) OPAE recommends, as to (a), a four-tier rate design for residential and small commercial customers. Regarding (b), OPAE comments that revenue requirements should be set through a rate case every three to five years to ensure the revenue equals costs plus a reasonable return on equity. Finally, as to (c), OPAE submits that, under its four-tier rate design proposal, a reduction of at least 100 basis points is appropriate due to a high level of recovery.

Decoupling and Adjustment Basis/Weather Normalization/Adjustment Shields

- (34) Next, the Commission sought comments on, if the Commission adopts some element of a decoupling rate design, (a) should adjustments be made on a total revenue, per customer revenue, or some other basis, (b) should adjustments be normalized for weather, and (c) should the Commission adopt any special features to shield customers from volatile adjustments (e.g., caps, collars, bands)?
- (35) OCEA comments that, as to (a), adjustments should be based on the allowed revenue requirement per customer because, by adjusting on a per customer basis, the utility is given an incentive to encourage energy efficient economic growth. Regarding (b), OCEA argues that adjustments should not be normalized for weather because weather is a risk symmetrically born by both customers and the utility and weather-adjusting revenues would add needless complication to a decoupling mechanism. Finally, as to (c), OCEA proposes that the Commission should adopt special features including a cap on annual rate adjustments of 3 percent to distribution rates, with balances carrying forward.
- (36) FirstEnergy argues that, as to (a) and (b), a lost revenue recovery approach would not require separate adjustments to total revenue or per customer revenue, but that other decoupling rate designs would need to be adjusted for inflation, weather, economic growth, growth in customers, and growth in peak demand. As to (c), FirstEnergy argues that special features should not be needed if the Commission implements a rate structure that avoids the occurrence of the necessity for volatile adjustments.
- (37) AEP-Ohio comments that, as to (a), adjustments should be made on a distribution revenue per customer class or per rate schedule basis in order to allow flexibility for the mechanism to account for customer growth. Additionally, as to (b), AEP-Ohio comments that weather-normalized adjustments to distribution revenues should not be performed as these

methods can be complicated and subject to scrutiny. Finally, as to (c) AEP-Ohio argues that, should anything other than SFV rate design be adopted for distribution, no special features, such as caps, collars, or bands should be employed to shield customers from volatile adjustments as this would create deferrals of regulatory assets with undetermined recovery periods and exacerbate regulatory lag, and, further, because low income/low use programs have already been implemented in to help customers pay their bills.

- (38) Duke argues that, regarding (a), the SFV rate design does not require that any adjustments be made and that lost margins that would continue on the variable component could be handled through EE or DSM of the respective electric distribution utilities. Concerning (b), Duke comments that a decoupling mechanism adjustment tied in any way to kWh sales should be weather-normalized. As to (c), Duke argues that the Commission should adopt a collar or band of tolerable variances that would not require an annual adjustment.
- (39) Kroger comments that, if decoupling is adopted, adjustments should be based on revenues required for fixed recovery (excluding commodity or generation costs) on a per-customer basis, because, if fixed cost recovery is not normalized on a per-customer basis, then decoupling adjustments could occur based purely on changes in the number of customers. Kroger further recommends that adjustments should be normalized for weather and that it would be reasonable for the Commission to adopt rate impact caps to mitigate unintended consequences.
- (40) OP&E remarks that, as to (a), adjustments should be made based on customer usage patterns with declining tiers. Regarding (b), OP&E argues that there should not be weather adjustments under the options listed in the Commission entry or OP&E's proposed four-tier rate design. Finally, concerning (c), OP&E argues that there is no volatility under its proposed four-tier rate design, but that traditional decoupling should

permit adjustments only within bands or adjustments that are capped to prevent price volatility.

Decoupling and Timing/Phase-in/Length of Time Period

- (41) The next topic the Commission addressed was, if the Commission determines that a decoupling rate design should be implemented to eliminate or mitigate the throughput incentive in electric distribution rates, (a) when should this change occur (i.e., in what types of actions before the Commission should this change be implemented), (b) should it be phased in, and (c) over what period of time?
- (42) OCEA argues that, regarding (a), a decoupling rate adjustment mechanism should be implemented as quickly as possible to eliminate the overpayments for distribution service inherent in the existing lost-revenue mechanism. Further, OCEA contends that the Commission should modify the lost revenue provision of the FirstEnergy ESP stipulation that allowed for recovery of lost revenues. As to AEP-Ohio and Duke, OCEA contends that the decoupling mechanism should be implemented as part of the distribution rate cases that have been, and are expected to be, filed in 2011, respectively. As to DP&L, OCEA states that, when the distribution stay-out clause of the ESP stipulation expires on December 31, 2012, the Commission should implement the decoupling adjustment mechanism. Regarding (b), OCEA argues that a revenue decoupling mechanism that maintains the volumetric collection of distribution costs should not be phased in as it would not be a significant departure from the existing rate design. As to (c), OCEA reiterates that it does not recommend a phase-in period; however, OCEA states that, if an SFV rate design is selected, the mechanism should be phased in over a period not less than twenty-years.
- (43) FirstEnergy comments that, as to (a), the Commission should strive to support rate design that is based on cost causation, but that the Commission should not consider an SFV rate design until costs can be properly assigned. Consequently, FirstEnergy argues that any efforts to implement an SFV

approach not move forward until the electric utility's filing of its next base distribution rate case. Regarding (b), FirstEnergy comments that the rates should be phased in to the extent any rate design shifts the allocation of costs from one set of customer to another. As to (c), FirstEnergy comments that the phase-in period should depend on how many customers are harmed, which, FirstEnergy argues, would vary by operating company and rate design choice.

- (44) AEP-Ohio comments that, regarding (a), a logical time to consider and implement an SFV rate design would be during an electric utility's distribution rate case in order to allow for consideration of the current levels of fixed and variable costs to be reflected in the respective elements of the distribution rates. Regarding (b), AEP-Ohio argues that a phase-in period would be appropriate if moving toward an SFV type of distribution rate design in order to allow customers time to adjust. As to (c), AEP-Ohio argues that a two to three-year phase-in period would be reasonable if the Commission moves to SFV distribution rates, but that a mere modest increase to fixed customer charges as recommended by AEP-Ohio would not warrant a phase-in period.
- (45) Duke comments that, concerning (a), any change in rate design should occur at the time of the next rate case when a cost of service study would be available. Further, regarding (b) and (c), Duke comments that it does not support a phase-in approach.
- (46) DP&L contends that distribution rates should only be established through traditional rate cases.
- (47) Nucor comments that rate design changes should be considered in specific utility rate cases including standard service offer applications and distribution rate cases.
- (48) Kroger recommends that decoupling only be implemented as part of a distribution rate case so that implications for allowed return on equity can be considered.

- (49) OPAE recommends that implementation occur only in conjunction with a distribution rate case using actual expenditures as the basis for rates; that a phase-in period is necessary because of the significant cost-shift to lower-usage customers; and that phase-in for an SFV rate or its variable relative should be for a minimum of three years.

Appendix B Data

- (50) In the final portion of Appendix A, the Commission noted that, in order to review the various decoupling rate designs, the Commission would need necessary data such as that included in Appendix B. The Commission sought comment on whether the data contained in Appendix B was (a) burdensome, (b) appropriate, (c) a comprehensive list of the necessary data, or (d) proprietary.
- (51) OCEA comments that, as to (a), the information requested by the Commission would not be burdensome as this information is either already collected by or readily available to the utility. Regarding (b), OCEA comments that the information requested by the Commission is appropriate and is necessary to design an effective decoupling mechanism. Further, OCEA argues that the additional information recommended by OCEA in the Metrics portion is also appropriate. Regarding (c), OCEA contends that additional information recommended as being appropriate for the successful design and evaluation of an effective decoupling mechanism is listed in the Metrics portion. OCEA further recommends that the Commission monitor customers' natural gas usage, distance information from the generation source to end use of electricity and from well head to end use for natural gas, distributed generation facility location and performance, and examine specific customer usage as described above.
- (52) FirstEnergy argues that providing the information described in Appendix B would be time-consuming and burdensome. Further, FirstEnergy argues that the information described is

not comprehensive in that the companies should have the option to look at more than one year.

- (53) AEP-Ohio comments that the data listed is generally not considered confidential and declines to comment as to whether the requested information is a comprehensive list of necessary data, stating that this determination is better left to the Commission. AEP-Ohio comments that it assumes it would be appropriate to use the information available in the most recent distribution rate case for any cost component information.
- (54) Duke comments that, regarding (a), the data will be difficult to calculate, particularly items 12 through 15 as these items would require a bill-by-bill analysis, and that the utility should be given sufficient time to develop programming and analyze the data. Concerning (b), Duke comments that the data is appropriate and that cost studies for SFV designs should be required. Further, as to (c), Duke argues that typical bill impacts of the rate design for different size customers should also be calculated. Finally, as to (d), Duke opines that the data is not proprietary.
- (55) DP&L comments generally that, since a distribution rate should only be established through a rate case proceeding, providing the data requested in Appendix B is burdensome and inappropriate at this time.
- (56) OPAE comments that the data requested in Appendix B appears appropriate, but incomplete. OPAE recommends that the Commission also seek information including the number of customers at different consumption levels and analysis of the tiered rates in light of the percentage of the bill represented by distribution charges.

General Comments

- (57) OCEA emphasizes its desired public policy outcomes including decreased use of fossil fuel-based energy, increased use of distributed generation, increased energy efficiency and

opportunities for innovation in the supply of energy services, and reasonably priced electric service.

- (58) FirstEnergy emphasizes that traditional distribution base rate cases together with lost distribution recovery best supports the public policy desires of Ohio by reducing the throughput incentive, keeping intact cost causation principles, and maintaining customer incentives to support energy efficiency. FirstEnergy comments that the existing distribution rate design is based on decades of cost-of-service studies and well-established ratemaking principles.
- (59) Wal-Mart agrees that the Commission should step away from the established practice of recovering principally fixed costs through volumetric charges and supports the Commission's interest in reviewing modifications to electric distribution utilities' rate structures that would better align utility performance with Ohio's public policy goals.
- (60) The Citizens Coalition comments that, if the Commission adopts any proposal, it must make certain that it adequately presents its decision and justification to customers and educates the public. Further, the Citizens Coalition voices its opposition to allowing utility companies to recover lost revenues and argues that the Commission should regularly review utility companies to ascertain whether rates should be decreased because of energy efficiency programs. The Citizens Coalition further recommends that the Commission validate the assumption that utility companies will act positively in implementing and promoting economic efficiency programs and that the Commission adopt the decoupling proposal as set forth by the OCEA.

Base Rate Cases

- (61) By order issued December 14, 2011, in *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company*, Case No. 11-351-EL-AIR, AEP-Ohio's distribution base rate case, the Commission included a pilot revenue decoupling program and directed signatory parties to file a detailed proposal in this docket regarding the type of

data proposed to be obtained, how data will be obtained, and metrics to evaluate the success of the pilot program. Thereafter, on June 14, 2012, AEP-Ohio and the signatory parties filed a recommendation in this docket that the Commission attempt to evaluate certain questions in its evaluation of the pilot revenue decoupling program.

- (62) By order issued May 30, 2012, the Commission approved an application filed by Duke in *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of a Distribution Decoupling Rider*, Case No. 11-5905-EL-RDR, for a decoupling rider, in which the Commission directed Duke and stakeholders to prepare a detailed proposal regarding the type of data proposed to be obtained, how the data will be obtained, and the metrics to evaluate the success of the pilot program. Thereafter, on November 9, 2012, Duke filed a proposal developed with interested stakeholders answering the questions set forth by the Commission in an attachment to its May 30, 2012 order.

Commission Decision

- (63) The Commission has considered the comments filed in this case and finds that certain core principles may be developed from this proceeding. Initially, the Commission notes the importance of aligning cost causation with cost recovery in order to further Ohio's policy goals of competition, increased energy efficiency, and encouraging distributed generation pursuant to Section 4928.02, Revised Code. The Commission believes that, given the comments filed in this proceeding, as well as recent experience by the natural gas utilities, the rate structure that may best accomplish these policy goals is the SFV rate design. In the December 29, 2010 entry calling for comments in this case, the Commission noted that it considered and adopted a modified SFV rate design for all four major natural gas utilities in Ohio. *In re Duke Energy Ohio*, Case No. 07-589-GA-AIR (*Duke Rate Case*), Opinion and Order (May 28, 2008); *In re Dominion East Ohio*, Case No. 07-829-GA-AIR (*DEO Rate Case*), Opinion and Order (Oct. 15, 2008); *In re Columbia Gas of Ohio*, Case No. 08-72-GA-AIR

(*Columbia Rate Case*), Opinion and Order (Dec. 3, 2008); and *In re Vectren Energy Delivery of Ohio*, Case No. 07-1080-GA-AIR (*VEDO Rate Case*), Opinion and Order (Jan. 7, 2009). In these cases, the Commission found that the SFV rate design would produce more stable bills for customers, that bills would be easier to understand and would produce a more accurate price signal, and that the SFV rate design would assure a more equitable allocation of distribution system costs to cost-causers. *Duke Rate Case*, Opinion and Order (May 28, 2008) at 17-19; *DEO Rate Case*, Opinion and Order (Oct. 15, 2008) at 22-24; *Columbia Rate Case*, Opinion and Order (Dec. 3, 2008) at 19-20; *VEDO Rate Case*, Opinion and Order (Jan. 7, 2009) at 11-14. The Commission believes that these same characteristics could be applicable to an SFV rate design for electric utilities.

- (64) The Commission notes that multiple parties, including FirstEnergy, AEP-Ohio, Duke, DP&L, Nucor, Kroger, and OPAE commented that, if the Commission determines that a decoupling rate design should be implemented, such action should only be implemented during an electric utility's rate case. The Commission agrees that the appropriate time to implement an SFV rate design is during an electric utility's rate case. Consequently, the Commission encourages electric utilities to file their next base rate cases utilizing the SFV rate design. Further, if a utility files a base rate case that does not utilize the SFV rate design, the Commission directs Staff to include in its Staff Report an alternative rate design that includes SFV principles. Further, the Commission finds that the purpose of this docket has been fulfilled and this docket should be closed of record.

It is therefore,

ORDERED, That the motions to intervene filed by OEG, OEC, Kroger, Sierra Club, OCC, Citizens Coalition, IEU-Ohio, NRDC, Nucor, Wal-Mart, and OMA are granted. It is, further,

ORDERED, That electric utilities and Staff comply with the directives set forth in Finding (64). It is, further,

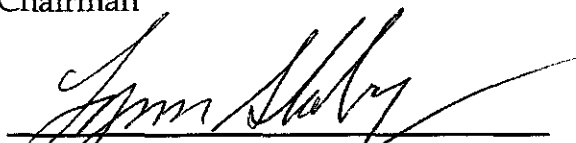
ORDERED, That this case be closed of record. It is, further,

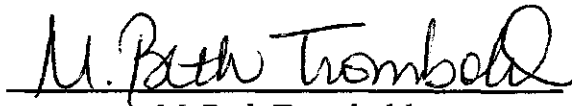
ORDERED, That a copy of this finding and order be served upon each party of record.

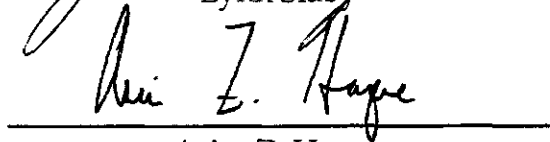
THE PUBLIC UTILITIES COMMISSION OF OHIO


Todd A. Snitchler, Chairman


Steven D. Lesser


Lynn Slaby

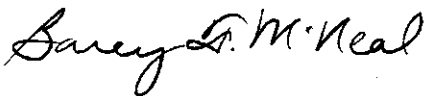

M. Beth Trombold


Asim Z. Haque

MWC/sc

Entered in the Journal

AUG 21 2013



Barcy F. McNeal
Secretary