BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of its Energy Efficiency and Peak Demand Reduction Portfolio Programs.	: : :	Case No. 13-431-EL-POR

PREPARED TESTIMONY
OF
GREGORY C. SCHECK

ENERGY EFFICIENCY AND RENEWABLES DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit _____

September 4, 2013

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

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

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

A. I am a Utilities Specialist 3 in the Energy Efficiency and Renewables Division of the Energy and Environment Department. I am responsible for analyzing issues and providing recommendations pertaining to electric utility energy efficiency programs, including peak demand reductions, demand response, and smart grid infrastructure investment.

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

A. I have worked at the Commission since 1985 in various capacities. Most of that time I have spent reviewing and evaluating demand forecasts, energy efficiency programs, and smart grid utility issues. I earned a Master's Degree in Economics from Ohio University in 1984.

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

A. The purpose of my testimony is to address issues in Duke Energy Ohio's (Duke or the Company) 3-Year Energy Efficiency Portfolio Plan and make recommendations regarding this plan.

5. Q. What are the main concerns you have with the proposed Portfolio Plan?

A. The main concerns I have relate to the Company's request to extend the recovery of the shared savings mechanism that was determined in case No. 11-4393-EL-RDR to continue through calendar year 2016. In addition, I have other recommendations related to bidding the capacity component of the Company's energy efficiency programs into the PJM Base Residual Auctions (BRA).

6. Q. What is your recommendation regarding how the Company's shared savings should be calculated if it were to be continued through 2016?

A. It is my understanding that the Commission stated in Case No. 11-4393 that parties would be able to revaluate the shared saving mechanism in the third quarter of 2014. If, however, the Commission grants Duke's request to extend the shared savings payment through 2016 in this case, Staff recommends that the shared savings from the energy efficiency programs be calculated based on the present value of the avoided costs minus the utility's program administrative costs, customer rebates, and the evaluation, measurement, and verification (EM&V) costs[1]. The percentage-level of energy efficiency savings achieved by the Company above the annual

[1] Because of issues that have arisen in Duke's EE/PDR rider case (Case No. 13-753-EL-RDR), Staff wants to be clear going forward that it believes EM&V cost should be included in Duke's program costs when calculating shared savings.

benchmark should determine the percentage of shared savings the Company should be allowed to keep.

7. Q. Do you think that the method or the tiered system by which the utility's shared savings are achieved should be changed in this portfolio proceeding?

A. No. The methodology and tiered shared savings levels are performance-based and have already been approved by the Commission for two other of Ohio's electric distribution utilities. In addition, another one of Ohio's EDUs has proposed the same mechanism and tiered-savings level.

8. Q. OCC witness Gonzalez testified that Duke's shared savings payment should be based on a percentage of Duke's energy efficiency (EE) program cost expenditures and the Total Resource Cost (TRC) test. Do you agree?

A. No. The purpose of having a shared savings payment to Ohio's EDUs is to provide the appropriate economic incentives for delivering energy efficiency to ratepayers as efficiently as possible. The term "shared savings" is based on the net avoided cost savings after paying for the administrative program costs, rebates, and the EM&V associated with the EE programs. In order for the Company to maximize the net avoided cost savings and, consequently, its share of those savings, the Company should be motivated to reduce the costs (noted above) that are paid by all ratepayers in each class. The Utility Cost Test (UCT), not the TRC, is the best way to ensure the Company is motivated to reduce the costs that are paid by all ratepayers in each class while implementing cost-effective energy efficiency programs.

9. Q. Could adopting OCC witness Gonzalez's recommendation (calculating a utility's shared savings payment based on the TRC test) actually result in EDU's providing less efficient EE programs?

A. Yes. Under the TRC test, an EDU has no reason to keep rebates as low as possible to induce participation. Because rebates are excluded in the TRC test calculation, EDU's may be incentivized to make larger rebate payments, which would likely increase customer participation. Although these increases in rebate payments could result in more net avoided cost savings, they would also result in a substantial increase in the costs to be recovered from ratepayers. This scenario is unlikely to occur when the UCT is used because the rebate payments are included in UCT, which encourages EDUs to carefully set rebate payments at the most cost-effective levels. In addition, because rebates are excluded in the TRC test calculation, it is possible that rebates could exceed the incremental costs of the energy efficiency program. If this were to happen, customers could obtain energy efficiency from the utility for little or no cost to themselves. This is not what Staff would like to see happen. Staff prefers that participants in the Company's energy efficiency programs have some stake in the investment. Because of these concerns, Staff does not recommend departing from the UCT for determining shared savings.

10. Q. Does Staff believe that shared savings attributed to energy efficiency should be capped?

A. No. If the Commission wants to promote as much cost-effective energy efficiency as possible, then the Commission should not "cap" EDU's shared savings payments because these payments induce EDUs to implement as many cost-effective energy efficiency programs as possible. However, if the Commission determines that maximizing cost-effective energy efficiency programs needs to be balanced with the short term rate impacts due to these same energy efficiency investments, then a cap may be appropriate. However, the Significantly Excessive Earnings Test (SEET) caps the Company's earnings; therefore, there is already a ceiling on how much a Company could earn in shared savings payments.

11. Q. Was bidding energy efficiency part of the Company's EE portfolio plan?

A. Not in any well-defined sense. The Company stated it was only going to propose bidding their energy efficiency into the next PJM BRA as a separate pilot program for later Commission approval.

12. Q. Do you recommend that the Company bid in its energy efficiency into the PJM BRA and incremental auctions?

A. Yes. Staff recommends that the Company bid in its capacity related energy efficiency acquired from its Commission-approved EE portfolio plan into the future PJM BRA auctions. The Company, along with its ratepayers, have already acquired and paid for these energy efficiency resources. Therefore, Staff believes that the utility should bid in these resources on behalf of its ratepayers because the ratepayers should enjoy the potential revenue benefits of these energy efficiency programs. In order to mitigate the Company's quantity risk, the Staff recommends that the Company bid in 75% of its planned EE resources. In addition, Staff recommends the Company reduce its price risk by bidding in its estimated incremental EM&V costs as its floor price. In this way, the Company will lose very little money if its floor price does not clear the auction, which reduces risks for ratepayers. This recommendation is consistent with Staff's recommendation and the Commission Entry on Rehearing in Ohio Edison Company's, The Cleveland Electric Illuminating Company's, and The Toledo Edison Company's (collectively, First Energy's") most recent portfolio case.[2]

[2] *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of Their Energy Efficiency and Peak Demand Reduction Program Portfolio Plans for 2013 to 2015,* Case Nos. 12-2190-EL-POR, *et al.* (Entryon Rehearing) (July 17, 2013).

13. Q. Are there other risks that the Company could incur in bidding in its energy efficiency resources into the PJM BRA?

A. Yes, there is always the possibility that not all of the energy efficiency resources will materialize in the future.

14. Q. Is there a way that the Company can protect itself against this risk?

A. Yes, the Company could always buy replacement generation in an incremental auction if the Company fell short in a delivery year. However, the Staff would not recommend the Company bidding over 75% of its planned energy efficiency resources. In addition, Staff does not approve of the EDUs aggressively bidding capacity related energy efficiency resources into PJM for the purpose of making additional revenue through auction arbitrage. These PJM auctions were designed to meet capacity obligations and the primary purpose of these auctions is for load serving entities (LSEs) to meet their reserve reliability requirements.

15. Q. In your opinion, what would be an appropriate split of the net EE revenues received from any from PJM auction between the customers and the Company?

A. The Staff believes that the Company should receive, at the very highest, 20 % of the net revenues from the PJM auctions. Staff believes a more reasonable return would be 13% of the net revenues, which is the proposed upper bound of the Company's shared savings mechanism.

16. Q. Have any of Ohio's EDUs bid in energy efficiency resources in the most recent PJM BRA auction?

A. Yes. All of Ohio's EDUs successfully bid and cleared energy efficiency resources in the most recent PJM BRA auction.

17. Q. Is each energy efficiency bidder in PJM's capacity auctions required to meet PJM's preliminary EM&V requirements?

A. Yes.

18. Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prepared Testimony of Gregory C. Scheck, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 4th day of September, 2013.

/s/ Devin D. Parram

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