BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., to Adjust Rider DR-IM and Rider AU for 2012 Grid Modernization Costs.	: : : :	Case No. 13-1141-GE-RDR

COMMENTS

SUBMITTED ON BEHALF OF THE STAFF
OF THE PUBLIC UTILITIES COMMISSION OF OHIO

October 31, 2013

INTRODUCTION

On June 28, 2013, Duke Energy Ohio, Inc. ("Duke" or the "Company") filed an application to update its Grid Modernization rider in the above-captioned docket. This submission is being made to present comments to this update on behalf of the Commission Staff.

BACKGROUND

The Company received authorization to begin deployment of its grid modernization initiative through stipulations arrived at in Case No. 07-589-GA-AIR and Case No. 08-920-EL-SSO, which gave rise to Rider AU and Rider DR-IM, respectively. Additionally, the stipulation in Case No. 08-920-EL-SSO provided for a mid-deployment program summary and review, in which the desirability of continuing the program would be reviewed. This review occurred as part of the Company's annual rider filing in Case No. 10-2326-GE-RDR. The subsequent stipulation in that proceeding recommended the continuation of the Company's Grid Modernization program, subject to the terms and conditions agreed to therein. Certain of these terms and conditions affect subsequent annual rider filings, including a commitment to reduce the Company's annual rider revenue requirement by an amount equal to the levelized value of operational benefits, as set forth by Staff's consultant in its *Smart Grid Audit and Assessment Report*. Additional commitments established as part of the mid-deployment review and stipulated by the parties in Case No. 10-2326-GE-RDR will be addressed further to the extent they are relevant to the instant proceeding.

Riders DR-IM and AU are designed to recover approved costs incurred over a twelve month period, through a per-meter customer charge. The instant filing resembles prior annual filings in that they seek recovery of investments and expenses, which have been or are being recovered through these riders. The filing includes documentation of capital investments and O&M expenses, and it calculates a return of and on capital expenditures that are considered as rate base. Subject to approval by the Commission, annually updated rider rates are intended to go into effect in the second quarter of each year. Thus, Staff recommends that the rates recommended herein go into effect on April 1, 2014.

AUDIT PROCEDURES

Staff initiated its audit by requesting listings of Capital and O&M charges by project for each plant account included in the filed schedules supporting Duke's application to adjust Riders DR-IM and AU. From those lists, Staff selected certain large-dollar projects and from those projects, selected certain cost categories having the highest expenditure levels during calendar year 2012. For each such selection, Staff requested a detailed listing of all associated charges, and from each such listing, Staff selected an audit sample and requested supporting documentation for each item in that sample. After reviewing such documentation, Staff requested additional documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted.

DISTRIBUTION AUTOMATION PERFORMANCE

Distribution automation ("DA") constitutes a major portion of Duke's Grid Modernization program, and Staff expects DA to significantly improve service reliability performance. A key component of DA involves a set of automated switches called "self-healing teams," which can reconfigure circuits to re-route electricity around a fault and thereby significantly reduce the number of customers affected by an outage. Duke reports that as of June 2013, the self-healing teams installed so far have operated 24 times and saved nearly 36,000 customers from sustained outage events totaling over three million customer minutes. Staff asked Duke to provide the number of instances when outage events presented opportunities for the self-healing teams to operate and the number of instances when the teams either operated or failed to operate. Duke responded that it does not track the number of outage events where self-healing teams have the opportunity to operate, but that it will start tracking missed opportunities on a going forward basis. Staff expects Duke to report in its annual Grid Modernization rider applications the percentage of outage-event opportunities where the self-healing teams operated successfully, as well as the percentage of outage-event opportunities where the self-healing teams failed to operate. In addition, Staff expects Duke to identify the cause of those failures and any corrective action taken to avoid future failures. Staff plans to monitor Duke's performance against these expectations as it evaluates Duke's DA implementation.

DISTRIBUTION AUTOMATION FIELD AUDIT

Duke witness Donald Schneider stated that 2012 was the fourth year of full scale DA deployment, and that the Company had installed and/or upgraded a total 2,621 system devices on distribution circuits.[1] Staff conducted a field verification of Duke's DA equipment. The selected sampling consisted of equipment and devices installed in 2012. Sites were selected and verified throughout Duke's territory and included Hamilton, Butler, Warren, and Montgomery Counties.

During the audit, Staff examined over 1,000 items such as electronic and hydraulic reclosers, sectionalizers, capacitor bank controllers and controller modems, line sensors, and other equipment. Staff found eleven total discrepancies that included capacitor banks that had open cut-outs or were electrically disconnected, and missing sensors. Overall, these discrepancies represent a very small portion of the items audited by Staff and consisted mostly of equipment that had failed after installation for various reasons. Duke provided Staff with a commitment to have all the discrepancies remediated by December 15, 2013. Staff finds the commitment to be reasonable with no further action required.

[1] Direct Testimony of Donald L. Schneider, Jr. at p. 3, Case No. 13-1141-GE-RDR.

SUBSTATION AUTOMATION

As part of DA deployment, Duke installed and/or upgraded over 244 system devices inside substations in 2012.[2] Staff conducted a field verification of Duke's substation automation equipment. The selected sampling consisted of equipment and devices installed in 2012. Inspections were made at 14 different substations throughout the Company's service territory and no discrepancies were found.

AUTOMATED METER READING FOR GAS-ONLY CUSTOMERS

Duke's Grid Modernization program is intended to benefit both electric and gas customers. The gas customer's service benefit involves automated meter reading. For gas customers located in Duke's electric service territory, automated meter reading involves a "gas module" or automated meter reading ("AMR") device that is attached to a conventional gas meter. The gas module sends a radio signal, which transmits a meter reading to a communication node that is attached either to a nearby electric pole or to an electric pad-mounted transformer. The communication node picks up the meter reading and relays it, via wireless transmission, for processing by Duke's billing system.

Among Duke's gas customers, 8,795 are gas-only customers located outside of Duke's electric service territory. For these customers, there are no Duke-owned electric poles or pad-mounted transformers on which to mount the communication nodes. As late as July 2013 (the sixth year of implementation), Duke had not installed any gas modules

[2] *Id.*

for its gas-only customers and was still evaluating options. Duke continues to use walking meter readers to obtain manual meter readings from its gas-only customers, some of whom have inside meters, for which the meter reader must either enter the premise each month or estimate the meter reading. As of June 30, 2013, a number of these customers had not received an actual meter reading for three months or more. In addition, during the 12-month period ending that same month, 26 of these customers were back-billed for under-estimated usage.

Duke originally proposed automated meter reading for its gas customers in Case No. 07-589-GA-AIR. In that case, Duke-witness David Mohler stated that the Company would "require a balance of different technologies in order to obtain universal coverage for the Utility of the Future project." [3] Notwithstanding this statement, Staff is concerned that Duke may complete its Grid Modernization program without implementing an automated meter reading solution for its gas-only customers. Staff believes that, at a minimum, Duke should install AMR devices for its gas-only customers, and those AMR devices should transmit a meter reading, which is picked up by a mobile collector installed in a meter reading vehicle. In this way, the gas-only customers will obtain automated monthly meter reads and thus receive the intended service benefit for the Rider AU charges included on their monthly bill.

[3] Direct Testimony of David Mohler at p. 7, Case No. 07-589-GA-AIR. Note: "Utility of the Future" was Duke's original name for the Smart Grid program, now known as the "Grid Modernization program".

ACCRUED SEVERENCE

One of the benefits of Grid Modernization is that the automated meter reading capabilities of the installed AMI meters will eliminate the need for monthly door-to-door, manual meter reading. As the Company installs more and more AMI meters throughout its service territory, the number of meter readers employed by Duke continues to decline.

During 2012, Duke reduced the number of meter readers by twenty-nine.[4] Due to their efforts to place the former meter readers in different jobs, Duke stated that none of these meter readers were laid off, but sixteen of the meter readers elected to take a severance package being offered. Duke will award these employees with their severance package after the employee's release date in 2013 or 2014.[5]

In December 2012, Duke booked an accrual for the expenses associated with this voluntary severance package and included these costs in this current Rider DR-IM on Schedule 10, Line 1 (Regulatory Asset—Deferred O&M Expenses, Account 182362) and in the current Rider AU on Schedule 10, Line 2.

Although Staff does not oppose the Company's collection of prudently incurred severance costs, Staff does believe that it is premature to include severance costs in this year's riders. These expenses are more appropriately included in Rider DR-IM and Rider AU in the year when the severance has actually been paid out after the employee's release date. The severance dollars awarded on behalf of the employees whose release

[4] Response to Staff Data Request DR-01-028, question 6.

[5] Response to Staff Data Request DR-01-028, question 4.

date was in 2013 could be included in the next annual filing of Rider DR-IM and Rider AU, when the riders are based on 2013 expenses.

Staff recommends that $1,211,984 associated with the accrual for the 2013 – 2014 severance payouts should be removed from this year's Rider DR-IM and Rider AU. As found in response to DR-01-028 and DR-01-014(a), Staff's adjustment is comprised of the following:

Severance	$ 1,011,768
Medical Benefits	$ 74,016
Outplacement	$ 48,800
FICA taxes	$ 77,400
Total	$ 1,211,984

Deferred O&M Expenses for Rider DR-IM should be reduced by $752,884.[6]

Deferred O&M Expenses for Rider AU should be reduced by $459,100.

METHODOLOGICAL CHANGE FOR CALCULATING RIDER AU RATES

Two separate rates are needed for Rider AU – a rate to be billed to customers who are combination gas and electric customers, and a rate to be billed to customers who receive only gas service from Duke. In Item 6 of the approved stipulation in Case No. 09-

[6] Response to Staff Data Request DR-01-14(a) and DR-01-20.

543-GE-UNC, the parties agreed that, beginning in 2010, Duke's gas-only customers residing outside its electric service territory would only be charged costs that are specific to serving gas customers, and would not be charged an allocation of most common costs of the Grid Modernization project. Accordingly, the stipulation states that project management office (PMO) costs and IT costs common to both gas and electric are examples of common costs that would not be recovered from these gas-only customers.

To prevent gas-only customers from being inappropriately charged for common costs that do not apply to them, Duke developed a credit for gas-only customers. Duke first calculated an overall rate for all customers; then it directly calculated a credit based on the common costs that should be excluded. This methodology leaves the Company short of its revenue requirement.

Staff directly calculated the two rates – one for combination customers, and one for gas-only customers - using the costs applicable to each. Staff then derived the credit for gas-only customers by subtracting one rate from the other. This approach “proves out” when calculating the revenue requirement, whereas Duke’s approach did not. The impact of the change is to raise the rate for combination customers by $0.01 per month, and to lower the rate (increase the credit) for gas-only customers by $0.02 per month.

TIME-DIFFERENTIATED RATES AND GENERAL AWARENESS AND EDUCATION CAMPAIGN

As summarized in the direct testimony of Company witness Timothy J. Duff, Duke Energy Ohio, in cooperation with the Grid Modernization Collaborative, has offered pilot programs for time differentiated rate options since 2010. These pilot programs have provided a wealth of information for the Company and the Collaborative, from both a rate design and a marketing and customer acquisition standpoint, while simultaneously allowing customers to save money by curtailing usage on-peak and by shifting demand to lower cost off-peak periods. While the Company does not include customer benefits from time-differentiated rates as part of its financial justification for this project, Staff nonetheless considers these benefits to be a component of the value proposition of advanced metering infrastructure from a customer perspective.

While Staff is encouraged by the progress made by Duke Energy Ohio in designing and implementing time differentiated rates, we are also cognizant of the fact that such offerings will potentially be part of a suite of rate offerings that are available in a robust competitive marketplace. To this end, Duke has met its obligations under the stipulation agreed in Case No. 10-2326-GE-RDR by conducting educational workshops for CRES providers, sharing the Company's experiences in offering time-differentiated rates, and by providing the billing system functionality necessary for CRES providers to offer such rates.

Staff is also aware that the adoption of any innovative service is an inherently complex undertaking and takes time. Demand in the marketplace for time differentiated rates will not occur out of the blue. Rather, customer awareness and acceptance must be nurtured through education and communication. Time differentiated rates are new to Duke's mass market (residential and small commercial) customers. The Company worked with Collaborative participants to develop a plan that would lead mass market customers to a better understanding of time differentiated rates and their benefits, with the purpose of influencing the adoption and diffusion processes.[7] The Collaborative, after vetting options for a media education effort, recommended a level of funding that would achieve the most effective messaging results per dollar spent.

Staff conditionally supports Duke's proposed education plan. The concern giving rise to Staff's condition is whether any time differentiated rate will be available to Duke

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[7] The impetus for the development of that plan is rooted in the stipulation approved by the commission in Case No. 10-2326-GE-RDR recited in pertinent part below.

> "During 2012, the Company shall work with the Collaborative to develop a deployment plan for a general public awareness and an education campaign designed to increase customer awareness and inform customers about the justification for time differentiated rates and the value that they can potentially bring to customers. After vetting the campaign and gaining Collaborative approval for the plan, the Company shall begin its campaign in calendar year 2013 consistent with the plan. The Company shall file the Collaborative approved plan for the campaign in its filing in the 2012 Rider DR-IM filing to be made with the Commission in the spring of 2013. The actual costs incurred consistent with the Collaborative's approved plan for the general awareness campaign shall be recovered by the Company beginning in 2014 through Rider DR-IM. This provision in no way affects the rights of individual Collaborative members to challenge the Company's collection of costs associated with the campaign through Rider DR-IM." (Stipulation at 11, Case No. 10-2326-GE-RDR)

customers. Duke's current pilot rate, My Select Rate, expires in 2014 with no guarantee of renewal.

After two workshops with CRES providers, Staff is unaware of any interest by any CRES provider in offering time based rates that promote systemic efficiencies (reduce peak demand and energy usage). While Staff is not opposed to creative rate offerings by CRES providers, if CRES offerings were made for the primary purpose of promotional appeal, rather than being designed to reflect the time variant nature of underlying wholesale prices, Staff would recommend that distribution customer rates and/or cost recovery not be used to advantage any such promotional offering through the general education campaign.

Thus the proposed education plan, while well grounded in reason and intent, would speak to a rate option that is not being offered in the marketplace. It is a chicken-and-egg situation – which comes first, the demand for the innovative rate, or the innovative rate itself? Staff believes it would be a negative experience for consumers to learn about time differentiated rates and their benefits, and the fact that their new advanced meters serve to enable such rates, only to find out there is no such rate available. Staff therefore recommends the Commission hold the approval of the proposed education plan in abeyance until a time when time differentiated rates will surely be offered, either as an SSO option, or as a competitive rate by CRES providers. Staff recommends that, until the marketplace is more fully developed, a utility with advanced metering capabilities should offer at least one time differentiated rate option to

SSO customers, which would improve price signals and customer response as compared with a flat rate.

IMPACTS OF STAFF'S RECOMMENDED ADJUSTMENTS

Attachment 1 shows the impact of Staff's recommended adjustments to Rider DR-IM. It includes the final rate recommended by Staff for the next annual period. Attachment 2 shows the impact of Staff's recommended adjustments to Rider AU. It includes the final rate recommended by Staff for the next annual period.

Respectfully submitted,

/s/Devin D. Parram

Devin D. Parram
Assistant Attorney General
Public Utilities Section
180 East Broad Street
Columbus, OH 43215-3793
614.466.4396 (telephone)
614.644.8764 (facsimile)
devin.parram@puc.state.oh.us

Attachment 1

Duke Energy Ohio
Case No. 13-1141-GE-RDR
Rider DR-IM Revenue Requirement and Rate Comparison

Line No.	Description	a/c	Adjustment	Total Rev. Req.	Residential Rev. Req.	Non-Residential Rev. Req.	Residential Rate	Non-Residential Rate	Residential Rate Change	Non-Residential Rate Change
1	Application as filed			$42,527,095	$36,148,031	$6,379,064	$4.91	$7.30		
	Staff Adjustments Included in Comments									
2	Adjustment for Severance Pay	30300	$728,477 [1]	$41,798,618	$35,528,825	$6,269,793	$4.83	$7.17	($0.08)	($0.13)

Note:
[1] Includes carrying cost and effect on deferred taxes.

Number of bills: Residential 7,362,091
Non-Residential 874,299

Attachment 2

Duke Energy Ohio
Case No. 13-1141-GE-RDR
Rider AU Revenue Requirement and Rate Comparison

Line No.	Description	a/c	Adjustment	Revenue Requirement SmartGrid	Revenue Requirement Gas Furnace	Revenue Requirement Total	Per Bill Rate	Revenue Requirement Credit	Credit Rate
1	Application as filed			$4,819,302	$2,606,179	$7,425,481	$1.48	$3,530,405	$0.70
	Corrections to Application								
2	Rate Calculation method change		-	$4,819,302	$2,606,179	$7,425,481	$1.49	$3,530,405	$0.72
	Staff Adjustments Included in Comments								
3	Adjustment for Severance Pay		$441,538	$4,377,764	$2,606,179	$6,983,943	$1.40	$3,089,387	$0.63

PROOF OF SERVICE

I certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by regular U.S. mail, postage prepaid, or via electronic mail, upon the following parties of record, this 31st day of October, 2013.

/s/Devin D. Parram
Devin D. Parram
Assistant Attorney General

Parties of Record:

Mark A. Hayden
Scott J. Casto
FirstEnergy Service Company
76 South Main Street
Akron, Ohio 44308
haydenm@firstenergycorp.com
scasto@firstenergycorp.com

Elizabeth Watts
Duke Energy Ohio, Inc.
139 E. Fourth Street
Cincinnati, Ohio 45201-0960
Elizabeth.Watts@duke-energy.com

Terry L. Etter
Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
etter@occ.state.oh.us

Colleen L. Mooney
Ohio Partners for Affordable Energy
231 West Lima Street
Findlay, Ohio 45839-1793
cmooney@ohiopartners.org

Jennifer L. Lause
Direct Energy
21 East State Street, 19th Floor
Columbus, Ohio 43215
jennifer.lause@directenergy.com

Summary: Comments electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO