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 SmartGrid Costs.	))))	Case No. 13-1141-GE-RDR

STIPULATION AND RECOMMENDATION

Rule 4901-1-30, Ohio Administrative Code (O.A.C.), provides that any two or more parties to a proceeding may enter into a written stipulation covering the issues presented in such a proceeding. The purpose of this document is to set forth the understanding and agreement of the parties that have signed below (Signatory Parties or Parties) and to recommend that the Public Utilities Commission of Ohio (Commission) approve and adopt this Stipulation and Recommendation (Stipulation), which resolves all of the issues raised by the Parties in this case relative to Duke Energy Ohio, Inc.'s (Duke Energy Ohio or the Company) Application to Adjust Rider DR-IM and Rider AU for 2012 SmartGrid Costs (Application). This Stipulation is supported by adequate data and information including, but not limited to, Duke Energy Ohio's Application and testimony filed on June 28, 2013, and the Attachments filed therewith.

The Stipulation represents a just and reasonable resolution of the issues raised in these proceedings, violates no regulatory principle or precedent, and is the product of lengthy, serious bargaining among knowledgeable and capable parties in a cooperative process, encouraged by this Commission and undertaken by the Parties representing a wide range of interests, including the Commission's Staff (Staff), to resolve the aforementioned issues. Although this Stipulation is not binding on the Commission, it is entitled to careful consideration by the Commission. For purposes of resolving all issues raised by these proceedings, the Parties stipulate, agree, and recommend as set forth below.

This Stipulation is a reasonable compromise that balances diverse and competing interests and does not necessarily reflect the position that any one or more of the Parties would have taken had these issues been fully litigated. This Stipulation represents an agreement by all Parties to a package of provisions rather than an agreement to each of the individual provisions included within the Stipulation. The Signatory Parties' agreement to this Stipulation, in its entirety, shall not be interpreted in a future proceeding before this Commission as their agreement to only an isolated provision of this Stipulation.

This Stipulation is submitted for purposes of these proceedings only, and neither this Stipulation nor any Commission Order considering this Stipulation shall be deemed binding in any other proceeding nor shall this Stipulation or any such Order be offered or relied upon in any other proceedings, except as necessary to enforce the terms of this Stipulation, including, but not limited to terms that will affect future proceedings.

The Signatory Parties agree that the settlement and resulting Stipulation are a product of serious bargaining among capable, knowledgeable Parties. This Stipulation is the product of an open process in which all Parties were represented by able counsel and technical experts. The Stipulation represents a comprehensive compromise of issues raised by Parties with diverse interests. The Signatory Parties, which include Duke Energy Ohio, the Staff,[1] the Office of the Ohio Consumers' Counsel (OCC), Ohio Partners for Affordable Energy (OPAE), LLC (Direct Energy), and FirstEnergy Solutions Corp. (FES),[2] have signed the Stipulation and adopted it as a

[1] The Staff of the Public Utilities Commission of Ohio will be considered a party for the purpose of entering into this Stipulation pursuant to Ohio Administrative Code Sections 4901-1-10(C) and 4901-1-30.

[2] FES is a Signatory Party neither in support nor opposition to the Stipulation.

reasonable resolution of all issues. The Signatory Parties believe that the Stipulation that they are recommending for Commission adoption presents a fair and reasonable result.

The Signatory Parties agree that the settlement, as a package, benefits ratepayers, and is in the public interest. The Signatory Parties agree that the settlement package does not violate any important regulatory principle or practice.

This Stipulation is expressly conditioned upon its adoption by the Commission in its entirety and without material modification. If the Commission rejects or materially modifies all or any part of this Stipulation,[3] each and every Signatory Party shall have the right, within thirty days of issuance of the Commission's Order, to file an application for rehearing or to terminate and withdraw the Stipulation by filing a notice with the Commission. The Signatory Parties agree they will not oppose or argue against any other Signatory Party's notice of termination or application for rehearing that seeks to uphold the original, unmodified Stipulation. If, upon rehearing, the Commission does not adopt the Stipulation in its entirety and without material modification, any Signatory Party may terminate and withdraw from the Stipulation. Termination and withdrawal from the Stipulation shall be accomplished by filing a notice with the Commission, including service to all Signatory Parties in this proceeding, within thirty days of the Commission's Order or ruling on rehearing that does not adopt the Stipulation in its entirety and without material modification. Other Signatory Parties to this Stipulation agree to not oppose the termination and withdrawal of the Stipulation by any other Signatory Party. Upon the filing of a notice of termination and withdrawal, the Stipulation shall immediately become null and void.

[3] Any Signatory Party has the right, at its sole discretion, to determine what constitutes a "material" change for the purposes of that Party withdrawing from the Stipulation.

Prior to the filing of such a notice, the Signatory Party wishing to terminate agrees to work in good faith with the other Signatory Parties to achieve an outcome that substantially satisfies the intent of the Stipulation and, if a new agreement is reached that includes the Signatory Party wishing to terminate, then the new agreement shall be filed for Commission review and approval. If the discussions to achieve an outcome that substantially satisfies the intent of the Stipulation are unsuccessful in reaching a new agreement that includes all Signatory Parties to the present Stipulation, the Commission will convene an evidentiary hearing such that the Signatory Parties will be afforded the opportunity to present evidence through witnesses and cross-examination, present rebuttal testimony, and brief all issues that the Commission shall decide based upon the record and briefs as if this Stipulation had never been executed.

WHEREAS, all of the related issues and concerns raised by the Parties have been addressed in the substantive provisions of this Stipulation, and reflect, as a result of such discussions and compromises by the Parties, an overall reasonable resolution of all such issues;

WHEREAS, in the Company's first Electric Security Plan (ESP) proceeding, Case No. 08-920-EL-SSO, *et al.*, (ESP I), the Commission approved Duke Energy Ohio's proposal to deploy a SmartGrid program for electric and gas customers; and

WHEREAS, in ESP I, Duke Energy Ohio agreed that as part of the annual due process related to 2010 costs net of benefits, the Company would include a mid-deployment program summary and review with the second quarter 2011 filing, outlining its progress in deploying the SmartGrid program through 2010; and

WHEREAS, during the mid-deployment review of the Company's progress in deploying the SmartGrid program, the parties reached a Stipulation and Recommendation that was adopted and approved by the Commission in Case No. 10-2326-GE-RDR; and

WHEREAS, that stipulation resolved certain issues for future rider cases related to SmartGrid, including, *inter alia*, that Duke Energy Ohio shall reduce its revenue requirement by an amount equal to the value of operational benefits, levelized over four years, and for cost recovery associated with the year 2012, that amount is a reduction of $6.24 million in the revenue requirement for Rider DR-IM that electric customers pay; and

WHEREAS, Duke Energy Ohio agreed, in Case No. 12-1685-GA-AIR, *et al.*, that it would continue recovering incremental costs associated with deployment of SmartGrid for its gas distribution business and that Duke Energy Ohio will include in its Rider AU revenue requirement and not in base rates, amounts related to deferred SmartGrid, operation and maintenance (O&M), carrying costs, incremental O&M savings, and gas furnace program incentive payments and administrative expense; and

WHEREAS, the Signatory Parties believe that the agreements herein represent a fair and reasonable solution to the issues raised in Case No. 13-1141-GE-RDR concerning Duke Energy Ohio's Application,

NOW THEREFORE, it is agreed that:

I. **FINANCIAL AND ACCOUNTING**

A. The Signatory Parties agree that Duke Energy Ohio should collect from customers $41.8 million *via* Rider DR-IM and $7.0 million *via* Rider AU associated with the revenue requirement for SmartGrid investments and associated expenses made through December 31, 2012.[4] These revenue increases convert to a rate of $4.83 per bill per month for residential electric customers and $7.17 per bill per month

[4] The Signatory Parties are not agreeing to any particular expense item in Duke Energy Ohio's Application.

for non-residential electric customers under Rider DR-IM.[5] The revenue increase results in a rate of $1.40 per meter per month under Rider AU, gas only customers will receive a $0.63 credit per meter per month.

B. The Signatory Parties recognize and agree that the monthly charge per residential electric meter resulting from the Rider DR-IM revenue requirement for the applicable period is below the applicable cap established in the Stipulation and Recommendation approved by the Commission in ESP I.

C. The Signatory Parties further agree that the revenue requirements are based upon rates of return of 7.73% (approved by the Commission in Case No. 12-1682-EL-AIR, *et al.*) and 8.45% (approved by the Commission in Case No. 07-589-GA-AIR, *et al.*).

D. In order to mitigate the impact of the rate increases attributable to Rider DR-IM and to better balance the SmartGrid investment risk between Duke Energy Ohio and its customers, the Company previously agreed to defer recovery of all or a portion of the following expenses, normally recovered in the Rider DR-IM revenue requirement, for 2011 and 2012: O&M, depreciation, and/or property taxes.[6] Such deferrals are incremental to the normal deferral process used in the Rider DR-IM calculations. The amount of the incremental deferrals attributable to costs incurred 2012 is $1.47 million. Duke Energy Ohio shall be allowed to increase the revenue requirement of Rider DR-IM for costs incurred in 2013 and 2014 to recover the expenses deferred from the 2011 and 2012 recovery periods.

---

[5] These figures assume that Rider DR-IM rates go into effect on April 1, 2014. If the effective date is different, rates would change accordingly.

[6] *In the Matter of the Application of Duke Energy Ohio, Inc. to Adjust and Set Its Gas and Electric Recovery Rate for 2010 SmartGrid Costs Under Riders AU and Rider DR-IM and Mid-deployment Review of AMI/SmartGrid Program*, Case No. 10-2326-GE-RDR, Stipulation and Recommendation, February 24, 2012, at pg.5, Section II.

The additional recovery in 2013 and 2014 will be $1.76 million and $4.43 million, respectively. The impact on the Rider DR-IM revenue requirement will be as follows:

DR-IM for 2011	$3.86 million reduction in revenue requirement
DR-IM for 2012	$1.47 million <u>reduction</u> in revenue requirement
DR-IM for 2013	$1.76 million <u>increase</u> in revenue requirement
DR-IM for 2014	$4.43 million <u>increase</u> in revenue requirement

E. In the Application, Duke Energy Ohio sought to recover deferred O&M expenses for account 182362 for severance costs associated with 2013-2014 severance payouts. The Company shall defer, without carrying charges, such expenses and recover them as part of its 2013-2014 SmartGrid investment. Such deferral shall not be included in determining whether Rider DR-IM complies with future rate caps. The Parties agree and recognize that a rate cap of $6.75 applies for Rider DR-IM rates beginning with the filing made in calendar year 2014 and $7.00 applies for Rider DR-IM rates in the filing made in calendar year 2015.

F. The Company agrees to a recalculation of the rate for gas only customers pursuant to Staff's recommendations on pages 8-9 of its Comments filed in this proceeding.

II. RELIABILITY

A. The Company agrees to track and provide a report on the following within its non-cost metrics annual report that shall be filed in its SmartGrid rider applications: (1) the number of times when Duke Energy Ohio's self-healing teams were called upon in outages to operate; (2) the number of instances when such teams operated; and (3) the number of instances when they failed to operate. Further, Duke Energy Ohio will identify causes of failures (to the extent feasible) and corrective action taken to correct the cause of failure to avoid future failure of self-healing teams.

B. Related to proactive outage detection and restoration management, the Company agrees to perform an analysis of the costs and benefits to customers of integrating data from AMI into the outage management system by June 1, 2014. The analysis will include the cost/benefit of implementing battery back-up on communication nodes to enable them to provide "last gasp" (meaning provide outage data as long as power is available to operate the communications nodes) to enable outage notifications to Duke that would cover smart meters at customer locations downstream of each node.

C. The Company agrees to deploy automated meter reading for gas only customers as part of the Company's SmartGrid program.

III. CUSTOMER PILOTS AND TIME DIFFERENTIATED RATES

A. The Company agrees to extend pilot Rate TD-2013 through May 31, 2016.

IV. MORATORIUM ON DISCONNECTING CUSTOMERS WHO DO NOT HAVE A SMART METER

A. As of the date of the signing of this Stipulation, Duke Energy Ohio will not disconnect or refuse service to its residential customers who refuse to accept installation of a SmartGrid meter or who otherwise opt-out of receiving such SmartGrid meters.

IN WITNESS THEREOF, the undersigned Parties agree to this Stipulation and Recommendation as of this 10th day of January, 2014. The undersigned Parties respectfully request the Commission to issue its Opinion and Order approving and adopting this Stipulation.

On Behalf of Staff of the Public Utilities Commission of Ohio

Devin D. Parram / EHW

Thomas G. Lindgren
Devin D. Parram
Assistant Attorney General
180 E. Broad Street
6th Floor
Columbus, Ohio 43215

On Behalf of Duke Energy Ohio, Inc.

Elizabeth H Watts

Amy B. Spiller
Elizabeth H. Watts
Duke Energy Business Services LLC
139 E. Fourth Street, 1303 Main
Cincinnati, Ohio 45202

On Behalf of the Office of the Ohio Consumers' Counsel

Terry L. Etter / EHW

Terry L. Etter
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

On Behalf of Ohio Partners for Affordable Energy

Colleen L. Mooney / EHW

Colleen L. Mooney
Ohio Partners for Affordable Energy
231 West Lima Street
Findlay, Ohio 45839

On Behalf of FirstEnergy Solutions, Corp. as a Party neither in support nor opposition to the Stipulation

Scott J Casto / EHW

FirstEnergy Service Company
Mark A. Hayden
Scott J. Casto
76 South Main Street
Akron, Ohio 44308