

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)
Energy Ohio, Inc. for Recovery of)
Program Costs, Lost Distribution) Case No. 14-457-EL-RDR
Revenue, and Performance Incentives)
Related to its Energy Efficiency and)
Demand Response Programs.)

FINDING AND ORDER

The Commission finds:

- (1) Duke Energy Ohio, Inc. (Duke or the Company) is an electric distribution utility (EDU) as defined in R.C. 4928.01(A)(6) and a public utility as defined in R.C. 4905.02 and, as such, is subject to the jurisdiction of this Commission.
- (2) Pursuant to R.C. 4928.66, EDUs are required to implement energy efficiency and peak demand programs. Through these programs, the EDUs are mandated to achieve a specific amount of energy savings every year.
- (3) By Opinion and Order issued August 15, 2012, in *In re Duke Energy Ohio, Inc.*, Case No. 11-4393-EL-RDR (*Rider Case*), the Commission approved a stipulation entered into between Duke and some of the parties. Specifically, among other things, the Commission approved the recovery of program costs, lost distribution revenue, and performance incentives related to Duke's energy efficiency and demand response (EE/PDR) programs. In the Order, Duke was granted a waiver allowing the Company to create a new cost recovery mechanism, provided it filed a new portfolio application in 2013.

The cost recovery mechanism, as approved, encourages Duke to seek energy savings through a tiered incentive mechanism. If Duke exceeds the mandated annual benchmark, it is entitled to a percentage of shared savings, depending on how far it surpasses the benchmark. Further, Duke is permitted to bank energy savings that are not used towards the benchmark or the shared savings in a given year. The incentive mechanism expires at the end of 2015, unless the interested parties decide the incentive is reasonable and effective and should continue

for another year. By Opinion and Order issued December 4, 2013, in *In re Duke Energy Ohio, Inc.*, Case No. 13-431-EL-POR (*Portfolio Case*), the Commission adopted a stipulation that approved Duke's portfolio application and maintained the cost recovery mechanism as permitted in the *Rider Case*.

- (4) On March 28, 2014, as revised on April 17, 2014, Duke filed an application for recovery of program costs, lost distribution revenue, and performance incentives related to its energy efficiency and demand response programs. According to Duke, the total revenue recovery during 2013 was \$33,673,530. As explained in its application, Duke's calculation for Rider EE-PDRR in this case includes the revenue requirement for the period January 2013 through December 2013, as well as the expected costs for 2014 and the reconciliation balances from 2012, which were filed in *In re Duke Energy Ohio, Inc.*, Case No. 13-753-EL-RDR (2013 Case). Through this true-up, Duke proposes to increase the Rider EE-PDRR charge as follows:

Rate Class	Current rates per kilowatt hour (kWh) approved in the 2013 Case	Rates proposed in this case per kWh
Residential	\$0.003443	\$0.003950
Nonresidential service customer bills, other than service under Rates DS, DP, TS, RTP ¹	\$0.001405	\$0.001818
Nonresidential service customer bills, for service under Rates DS, DP, TS, RTP	\$0.001670	\$0.001964

- (5) By Entry issued April 28, 2014, the attorney examiner published a procedural schedule which set June 17, 2014, as the deadline for the filing of motions to intervene. Comments and

¹ The rate classes referred to in this chart are: Service at Secondary distribution Voltage (DS); Service at Primary distribution Voltage (DP); Service at Transmission Voltage Primary Voltage (TS); and Real-time Pricing (RTP).

reply comments on the application were due on June 17, 2014, and July 1, 2014, respectively.

- (6) Timely motions to intervene were filed by Ohio Manufacturers' Association (OMA), the Ohio Consumers' Counsel (OCC), and Ohio Partners for Affordable Energy (OPAE). No one filed memoranda contra to the motions. The Commission finds the motions to intervene filed by OMA, OCC, and OPAE are reasonable and should be granted.
- (7) On June 17, 2014, OPAE filed comments in response to Duke's March 18, 2014 application in this case. OPAE comments that, unlike other electric utilities, Duke does not have a cap on its shared incentive mechanism. OPAE believes a cap would be appropriate in order to make Duke consistent with the other utilities. Further, as the incentive mechanism is set to expire at the end of 2015, and the interested parties are evaluating whether it is reasonable and effective and should continue for another year, OPAE requests that the Commission advise the parties, going forward, on what criteria the incentive mechanism will be evaluated.
- (8) On June 17, 2014, and July 1, 2014, OMA filed comments and reply comments, respectively, in response to Duke's application. OMA asserts that Duke's use of lifetime cost savings in the net present value of avoided costs is improper and does not show the cost savings for the considered year. OMA believes shared savings should only be based on what occurred on a year-to-year basis. Another issue, according to OMA, is Duke did not bid all available energy efficiency resources into PJM Interconnection, LLC (PJM), which results in the overstatement of the avoided costs used to calculate shared savings. OMA avers Duke should be bidding back into PJM the savings that occurred through its energy efficiency programs and crediting those proceeds to its customers. OMA also claims that Duke's banked efficiency savings should only be used to fulfill the energy efficiency benchmark, not to exceed it. OMA believes the Company's use of banked savings to qualify for the incentive is improper, as Duke should not be able to benefit when, without using savings, the Company falls short of the mandated benchmarks.

- (9) On July 1, 2014, OCC filed reply comments in response to Duke's application. OCC comments that its issues with the application are in line with OPAE.
- (10) On July 2, 2014, Duke filed reply comments, along with a motion for leave to file comments instant. Initially, the Commission finds that Duke's motion requesting authorization to file its comments one day late is reasonable and should be granted.
- (11) In its reply comments, Duke argues OPAE's concerns are not pertinent to this application and involve issues that were previously agreed to in the stipulation approved in the *Rider Case*. In response to OMA's concerns about its shared savings calculation, Duke asserts that its method is the same calculation that other utilities use, and it used that method the past three years without any complaints and with the approval of the Commission. Regarding OMA's issues with Duke's bidding, Duke notes that the stipulation approved in the *Portfolio Case* established how the PJM auctions would be evaluated and that its calculations are in line with that stipulation. As to its use of banked savings, Duke avers that it is permissible according to the stipulation in the *Rider Case*.
- (12) Upon consideration of the comments and reply comments, the Commission finds that Duke's application for recovery of program costs, lost distribution revenue and performance incentives related to its energy efficiency and demand response programs is reasonable and should be approved, as modified below.

In regards to OPAE's and OCC's requests for a cap on shared savings, the Commission notes such an incentive mechanism was approved via stipulation in the *Rider Case* and the lack of a cap was specifically approved by the Commission.

As to OMA's concerns towards Duke's calculation of shared savings, the Commission finds Duke's method is proper and is consistent with previous calculations. We note that Duke's use of the net present value of the lifetime cost savings from its offered programs is in line with the mechanism approved in the *Rider Case*. Similarly, concerning OMA's issue regarding how energy efficiency resources Duke should be bid into PJM,

the Commission finds Duke's actions are in accordance with prior orders and stipulations found in the *Rider Case* and the *Portfolio Case*, and we continue to find Duke's actions to be reasonable and appropriate.

As to Duke's use of banked savings, the Commission agrees with OMA and finds the Company may only use the banked savings to reach its mandated benchmark. Therefore, the Commission finds Duke's use of banked savings to claim an incentive is improper. We note the tiered incentive structure is designed to motivate and reward the utility for exceeding energy efficiency standards on an annual basis. As the mandated benchmark rises every year, Duke must continue to find ways to encourage energy efficiency. If it has a large bank of accrued savings to rely on, the motivation to push energy efficiency programs in following years diminishes. Thus, in order for the structure to continue to serve as a true incentive for Duke to exceed the benchmarks, the Commission finds the banked saving cannot be used to determine the annual shared savings achievement level. Duke's use of the banked savings to reach the mandated benchmark, however, is permissible. Accordingly, with this modification, the Commission concludes that Duke's application should be approved as modified by the Commission in this Finding and Order.

- (13) As a final matter, the Commission notes that Staff is currently performing an audit of the costs included in the rider rate proposed in this case. Therefore, our approval of this rider rate is subject to our ultimate consideration of the audit and any necessary true-ups.

It is, therefore,

ORDERED, That Duke's application for recovery of program costs, lost distribution revenue and performance incentives related to Duke's energy efficiency and demand response programs be approved, subject to the modifications and clarifications set forth in Findings (12) and (13). It is, further,

ORDERED, That the motions to intervene be OCC, OMA, and OPAE be granted. It is, further,

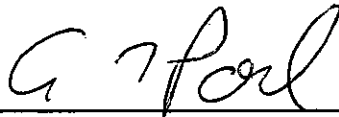
ORDERED, That Duke is authorized to file tariffs, in final form, consistent with this Finding and Order. Duke shall file one copy in this case docket and one copy in its TRF docket. It is, further,

ORDERED, That the effective date of the new tariffs shall be a date not earlier than the date the copies are filed with the Commission. It is, further,

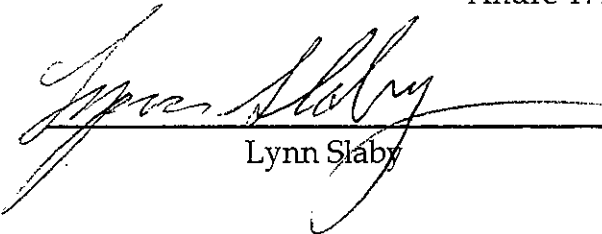
ORDERED, That Duke notify its customers of the changes to the tariff via bill message or bill insert within 30 days of the effective date. A copy of this notice shall be submitted to the Commission's Service Monitoring and Enforcement Department at least 10 days prior to distribution to customers. It is, further,

ORDERED, That a copy of this Finding and Order be served upon each party of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO



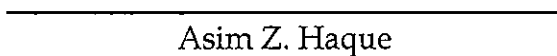
Andre T. Porter, Chairman



Lynn Slaby



M. Beth Trombold



Asim Z. Haque

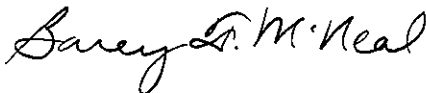


Thomas W. Johnson

NJW/CMTP/vrm/sc

Entered in the Journal

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Barcy F. McNeal
Secretary