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 Revenue and Performance Incentives Related to its Energy Efficiency and Demand Response Programs.	)))))	Case No. 15-534-EL-RDR

COMMENTS OF THE OHIO MANUFACTURERS' ASSOCIATION

I. INTRODUCTION

On March 30, 2015, Duke Energy Ohio, Inc. (Duke or the Company) filed an application for recovery of its 2014 program costs, lost distribution revenue, and performance incentives related to its energy efficiency and demand response programs (Application). The Ohio Manufacturers' Association (OMA) moved to intervene in the above-captioned proceeding on June 15, 2015, and, as such, is deemed a party. OMA hereby submits its comments on the Company's Application pursuant to the April 29, 2015 attorney examiner entry.

II. COMMENTS

Duke's Application seeks recovery of program costs, distribution lost margins, and shared savings associated with its energy efficiency and peak demand reduction programs through its EE/PDR Rider. As explained further below, OMA has identified a number of concerns related to the information provided in the Company's Application and supporting testimony.

A. Duke's Application Should Be Denied as it Unlawfully Includes the Collection of A Shared Savings Incentive Prohibited by the Commission's Prior Order.

On May 20, 2015, the Commission issued a Finding and Order in Case No. 14-457-EL-RDR. In that Order, the Commission held: "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."[1] The Commission further explained that "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."[2] The Commission ruling in Case No. 14-457 was issued after Duke filed their Application in the instant case. Accordingly, Duke's Application includes a request to use banked savings to meet and exceed the applicable benchmarks and earn a specific level of shared savings incentive. Similarly, the rate calculations presented by Duke in Attachment JEZ-1 do not take into account the Commission's ruling, and include the use of banked savings to set the shared savings incentive tier.

Similar to the prior case regarding Duke's 2013 costs,[3] permitting Duke to earn shared savings in the instant proceeding by using savings it banked in previous years effectively sanctions the double recovery of shared savings as the Company has already received an incentive on any excess savings that it banked in those previous years. As

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[1] See *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to its Energy Efficiency and Demand Response Programs*, Case No. 14-457-EL-RDR, Finding and Order at 5 (May 20, 2015).

[2] Id.

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

explained in the Commission's May 20, 2015 Finding and Order,[4] it is improper for Duke to use banked savings to claim a shared savings incentive in 2014 and seek approval of recovery of such from customers. The Commission, therefore, should reject Duke's attempt to collect a shared savings incentive based upon the use of banked savings, and deny Duke's Application in the above-captioned proceeding.

B. Duke Should Not Be Authorized to Collect Shared Savings on Demand Response Programs When the Associated Capacity is Not Bid into PJM.

Although Duke incorporates numerous demand response programs into its portfolio, Duke fails to bid a significant number of its demand response resources into PJM and fails to pass the economic benefits of doing such back to customers. If demand response capacity is not bid into the PJM Base Residual Auction (BRA) or Incremental Auctions (IAs), PJM does not account for it, and instead a capacity payment is made to a traditional generating plant. Thus, if capacity reductions are not bid into PJM, no system savings are achieved and Duke is foregoing capacity payments which could have been used to offset program costs to customers. The Commission has previously recognized the importance of electric distribution utilities bidding capacity resources from demand response programs into PJM and correspondingly offsetting the costs of those programs with any revenues received from PJM.[5] Accordingly, Duke should not be permitted to collect shared savings from these non-existent resource savings.

[4] Id., Finding and Order at 5 (May 20, 2015).

[5] See *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan,* Case No. 13-2385-EL-SSO, et al., Opinion and Order at 40 (February 25, 2015) and Second Entry on Rehearing at 15 (May 28, 2015); see also *In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service,* Case No. 14-841-EL-SSO, et al., Opinion and Order at 78 (April 2, 2015).

Duke relies upon the avoided cost of capacity to calculate a portion of its shared savings incentive pool. A percentage of the avoided capacity costs are directly tied to PJM's capacity auctions. However, if the demand response capacity resource is not used (i.e., not bid in), it is not producing system avoided costs. Typically, the existing mechanisms would allow the disallowance of these non-existent system savings from being allocated to the shared savings incentive pool.

Recent actions by Duke have illustrated that the system savings are not being realized, and at the unilateral discretion of Duke. For example, Duke operates several demand response programs, Power Manager, Home Energy Solutions – Demand Response, and PowerShare. In 2014, according to Attachment JEZ-1, these programs resulted in a net reduction of 74,191 kW of capacity. Duke proposes to collect shared savings on the avoided cost of capacity for these resources, which it calculates to have a net present value (NPV) of $12,892,846. Duke rightly does not attribute an avoided cost of energy to these resources, just avoided capacity. Demand response capacity resources, however, only produce system avoided costs if its capacity is bid into and clears PJM's capacity auctions. Duke recently, unilaterally proposed that they in fact will not bid their demand response resources into the upcoming 2018/19 Base Residual Auction. As part of Duke's energy efficiency-peak demand response collaborative (EE/PDR), Duke proposed to completely eliminate its demand response bid, reducing its bid from 59.2 MW to 0 MW for the 2018/19 BRA.

While Duke may recover the costs of these demand response programs, if they elect to not bid the demand response capacity into the PJM capacity auctions for a given delivery year, system savings will not be achieved. Consider also that demand response programs are offered by non-utility businesses, all of whom do bid in their resources to PJM's capacity auctions.

These non-utility demand response providers do not receive shared savings incentive payments from customers; the PJM capacity payment alone is enough to operate their businesses.

Thus, to allow Duke to collect shared savings on demand response programs that they do not intend to bid into PJM auctions distorts the competitive demand response markets. Therefore, OMA respectfully requests that the Commission require Duke to bid its capacity resources from demand response programs into PJM and correspondingly offset the costs of those programs with any revenues received from PJM. Alternatively, if the Commission does not require Duke to bid demand response capacity into PJM, OMA requests that the Commission deny recovery of any shared savings incentive associated with demand response programs wherein the capacity resource is not bid into PJM.

C. Duke's Program Costs Far Exceed Those of other Electric Distribution Utilities.

Duke's energy efficiency program costs far exceed those of their in-state peers, relative to savings achieved. In 2014, for example, Duke spent \$0.1724 /kWh saved annual, while AEP-Ohio spent only \$0.12 /kWh, and DP&L spent \$0.099 /kWh. In 2013, Duke spent *over twice* as much on energy efficiency saved as DP&L, even though they have comparable electric loads. Table 1 shows Duke's 2014 program costs, annual energy savings, and unit cost per annual kWh saved, according to Attachment JEZ-1. Also shown are these same metrics for DP&L and AEP-Ohio's 2014 program years, according to the filed evaluation reports of AEP-Ohio and DP&L. Thus, Duke charges customers a noticeably higher cost to provide efficiency programs, even while underperforming in total savings achieved. In the Commission's Finding and Order in Case No. 14-457, the Commission notes that Staff is performing an audit of costs associated with

Duke's EE/PDR rider.[6] Because Duke's program costs appear to be significantly higher than other electric distribution utilities (and possibly unreasonable), OMA urges the Commission to delay approval of Duke's Application in the instant case and the proposed EE/PDR rider regarding the 2014 program costs until the financial audit is complete, and, only with sufficient explanation from Duke concerning why their program costs are considerably higher. Program cost-effectiveness should be a graded metric of efficiency program performance.

Table 1: Comparison of Program Costs per Annual kWh Saved, Ohio Utilities

	2012			2013			2014		
	Total Costs ($)	Total Energy Saved (kWh/yr)	$/kWh	Total Costs ($)	Total Energy Saved (kWh/yr)	$/kWh	Total Costs ($)	Total Energy Saved	$/kWh
AEP	$ 64,115,574	571,100,000	$ 0.1123	$ 78,276,009	593,600,000	$ 0.1319	$ 76,576,377	636,900,000	$ 0.1202
DP&L	$ 15,058,114	186,526,000	$ 0.0807	$ 14,251,983	203,491,000	$ 0.0700	$ 18,173,233	182,014,000	$ 0.0998
Duke	$ 20,492,491	211,125,779	$ 0.0971	$ 20,465,657	125,266,273	$ 0.1634	$ 24,841,020	144,059,636	$ 0.1724

[6] Supra n.1.

III. CONCLUSION

OMA respectfully requests that the Commission deny Duke's Application as it improperly seeks recovery of a shared savings incentive for 2014. Additionally, OMA requests that the Commission require that all demand response capacity resources be bid into PJM with any resulting revenues credited back to customers through the EE/PDR rider, and to disallow recovery of any shared savings incentive on demand response programs wherein the capacity resource is not bid into PJM. OMA further requests that the Commission delay approval of Duke's Application in the instant case and the proposed EE/PDR rider regarding the 2014 program costs until the financial audit is complete, and investigate why Duke's EE/PDR program operating costs are significantly higher than other electric distribution utilities.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served upon the following parties via electronic mail on June 17, 2015.

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