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 Nos. 14-457-EL-RDR 15-534-EL-RDR

DIRECT TESTIMONY OF JOHN SERYAK
ON BEHALF OF THE
OHIO MANUFACTURERS' ASSOCIATION

March 4, 2016

Q. Please state your name and business address.

A. My name is John A. Seryak. My principal place of business is at 3709 N. High Street, Columbus, OH, 43214.

Q. By whom are you employed and in what capacity?

A. I am the Chief Executive Officer of RunnerStone, LLC, and serve as the lead analyst for regulatory, policy, and wholesale market matters concerning customer-sited energy resources, which we define as energy efficiency, demand response, distributed generation, and energy storage.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Ohio Manufacturers' Association (OMA). OMA is a non-profit entity that represents business interests, striving to improve business conditions and manufacturing competitiveness in Ohio. OMA members take service under a number of the non-residential rate schedules of Duke Energy Ohio, Inc. (Duke or the Company).

Q. Have you participated in PUCO proceedings previously?

A. Yes, I have provided testimony and advised clients on numerous energy-related issues before the Public Utilities Commission of Ohio (PUCO) and the General Assembly. I have also participated extensively in the electric distribution utilities' energy efficiency collaborative meetings throughout Ohio, which implement the electric distribution utilities' energy efficiency portfolio plans.

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

A. My testimony addresses the costs and benefits to ratepayers of the Stipulation and Recommendation entered into between two parties, Duke and PUCO Staff, (Stipulation) and whether the Stipulation satisfies the three-part test the PUCO considers in evaluating stipulations.

Q. What are your primary conclusions?

A. I conclude that the Stipulation is in conflict with the three-part test considered by the PUCO for approval. I disagree that the Stipulation, as a whole, benefits customers and the public interest. Neither signatory party has demonstrated that the Stipulation benefits customers and the public interest on the whole, nor have they explained how the Stipulation aligns ratepayer and utility interests. However, the Stipulation does create costs for customers.

Q. What is the intent of a shared-savings incentive mechanism?

A. A shared-savings incentive mechanism is used to align a utility's interests with that of its customers in how the utility operates energy-efficiency and demand reduction programs. Energy efficiency and demand reduction programs produce system cost-savings benefits for ratepayers by reducing generation, transmission, and distribution costs. An electric distribution utility can be encouraged to run an effective DSM program and produce these system savings by allowing the utility to keep a share of the savings for shareholder profit, hence the name "shared savings."

Q. What are banked energy savings?

A. If an electric distribution utility meets and exceeds its mandated annual benchmark, it is allowed to bank energy savings that are not used towards meeting its benchmark or shared savings in a given year for future use of meeting its mandated benchmark.

Q. Has the Commission provided guidance on the use of banked energy savings in regards to shared savings incentives?

A. Yes. In the Commission's recent Finding and Order in case 14-457-EL-RDR, the Commission states: "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 ruled that Duke could not receive an incentive payment by using banked savings to reach the incentive level. Thus, per the PUCO's Order, Duke will collect from customers $0 for its shared savings incentive for its 2013 energy efficiency portfolio program. Presumably, given the PUCO's ruling regarding the 2013 program, Duke will also collect $0 from customers for its shared savings incentive for its 2014 energy efficiency portfolio program. The Stipulation, however, allows Duke to recover $19.75 million from customers as its shared savings incentive for its 2013 and 2014 energy efficiency portfolio programs.[2]

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[1]*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), reh'g pending (14-457 Order).

[2]Stipulation at 6.

The same PUCO order recognizes that Duke's shared savings incentive mechanism expires at the end of 2015, unless the interested parties decide the incentive is reasonable and effective and should continue for 2016.[3] The interested parties have not agreed to the continuation of the shared savings incentive mechanism and the issue is subject to a pending case.[4] But, the Stipulation specifically addresses a shared savings mechanism for 2016 and resolves the issue without the required interested parties' agreement to it or without a PUCO order addressing the disputed issue.[5]

As such, the Stipulation violates the prior PUCO order and is inconsistent with pending proceedings, and therefore, does not satisfy the second prong of the three-part test.

Q. Has the shared savings mechanism that Duke has had in place over the past years incented the Company to over-comply with its energy efficiency and demand response benchmarks, resulting in worthwhile energy savings?

A. No. In both 2013 and 2014, Duke failed to meet its energy efficiency benchmark through the savings achieved by its approved annual programs. This circumstance demonstrates that even with the utilization of a shared savings mechanism, during those years, Duke was not significantly motivated to achieve or exceed its benchmarks. Apparently, Duke intended to use banked energy

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[3] 14-457 Order at 1-2.

[4] See *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Continue Cost Recovery Mechanism for Energy Efficiency Programs through 2016*, Case No. 14-1580-EL-RDR (hearing was held on July 7, 2015, the case has been fully briefed, and is awaiting PUCO decision) (14-1580 Case).

[5] Notably, the Stipulation is not even filed in the pending case that addresses one of the issues resolved by the Stipulation. See 14-1580 Case.

savings to meet its mandated benchmark and obtain shared savings. Duke's attempt to use banked energy savings and never achieve a sufficient amount of energy savings to meet or exceed its annual benchmark is thus the primary barrier to its non-alignment with its customers' interests.

Q. Does the Stipulation improve the alignment between customer and utility benefits via the shared savings incentive mechanism?

A. No. The Stipulation rewards Duke for 2013 and 2014 in the amount of $19.75 million,[6] even though it underachieved and did not meet its annual benchmark. Also, it is important to note that Duke's intentions or plan to use banked savings to claim an incentive did not come to light until 2014. As soon as Duke's plan became known, interested parties objected to Duke's plan. Therefore, Duke has since had ample time to increase the energy savings achieved by its programs in both 2015 and 2016 in order to earn shared savings incentives, but Duke chose not to do so. The Stipulation, further, does not create a framework to incent better performance from Duke in terms of energy savings achieved, customer satisfaction, or costs of the DSM programs. Thus, this Stipulation produces costs for customers, but no benefits, and is not in the public interest.

Additionally, as I explained in my testimony in Case No. 14-1580, any minimal savings Duke did achieve in 2013 and 2014 was extremely costly to achieve.[7]

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[6] Stipulation at 6.

[7] *In the Matter of the Application of Duke Energy Ohio, Inc. forApproval to Continue Cost Recovery Mechanism for Energy Efficiency Programs through 2016*, Direct Testimony of John Seryak at 2-3 (June 30, 2015).

Therefore, rewarding Duke with a shared savings incentive on top of the costly savings adds more costs for customers and is not in the public interest.

Q. Do you have recommendations for the Commission?

A. Yes. I recommend that the Commission reject the Stipulation and uphold its previous ruling in Case No. 14-457-EL-RDR, finding that Duke's use of banked savings to claim an incentive is improper.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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 March 4, 2016.

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