

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) Case No. 18-397-EL-RDR
and Performance Incentives Related to its)
Energy Efficiency and Demand Response)
Programs.)

DIRECT TESTIMONY OF

JAMES E. ZIOLKOWSKI

ON BEHALF OF

DUKE ENERGY OHIO, INC.

March 29, 2018

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|--------------------|
| I. INTRODUCTION | 1 |
| II. CALCULATION OF EE-DR REVENUE REQUIREMENT | 4 |
| III. RIDER EE-PDR RECONCILIATION RATE CALCULATION | 7 |
| IV. CONCLUSION | 9 |

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is James E. Ziolkowski, and my business address is 139 East Fourth
3 Street, Cincinnati, Ohio 45202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by the Duke Energy Business Services LLC (DEBS) as Director,
6 Rates and Regulatory Planning. DEBS provides various administrative and other
7 services to Duke Energy Ohio, Inc., (Duke Energy Ohio or the Company) and
8 other affiliated companies of Duke Energy Corporation (Duke Energy).

9 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
10 **EXPERIENCE.**

11 A. I received a Bachelor of Science degree in Mechanical Engineering from the U.S.
12 Naval Academy in 1979 and a Master of Business Administration degree from
13 Miami University in 1988. I am also a licensed Professional Engineer in the state
14 of Ohio.

15 After graduating from the Naval Academy, I attended the Naval Nuclear
16 Power School and other follow-on schools. I served as a nuclear-trained officer
17 on various ships in the U.S. Navy through 1986. From 1988 through 1990, I
18 worked for Mobil Oil Corporation as a Marine Marketing Representative in the
19 New York City area.

20 I joined The Cincinnati Gas & Electric Company (CG&E) in 1990 as a
21 Product Applications Engineer, in which capacity I designed and managed some
22 of CG&E's demand side management programs, including Energy Audits and

1 Interruptible Rates. From 1996 until 1998, I was an Account Engineer and
2 worked with large customers to resolve various service-related issues, particularly
3 in the areas of billing, metering, and demand management. In 1998, I joined
4 Cinergy Services, Inc.'s, Rate Department, where I focused on rate design and
5 tariff administration. I was significantly involved with the initial unbundling and
6 design of CG&E's retail electric rates. I was appointed to my current position in
7 January 2014.

8 **Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR, RATES AND**
9 **REGULATORY PLANNING.**

10 A. I am responsible for various rider filings, tariff administration, billing, and
11 revenue reporting issues in Ohio and Kentucky. I also prepare filings to modify
12 charges and terms in retail tariffs of Duke Energy Ohio and Duke Energy
13 Kentucky, Inc., (Duke Energy Kentucky) and develop rates for new services.
14 During rate cases, I prepare cost of service studies and help with the design of the
15 new base rates. I assisted in the development of the retail electric tariffs in the
16 Company's Case No. 03-93-EL-ATA, which established the Company's market-
17 based standard service offer. Additionally, I frequently work with customer
18 contact and billing personnel of Duke Energy Ohio and Duke Energy Kentucky to
19 answer rate-related questions and to apply the retail tariffs to specific situations.
20 Occasionally, I meet with customers and Company representatives to explain
21 rates or provide rate training. I also prepare reports that are required by regulatory
22 authorities.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
2 **UTILITIES COMMISSION OF OHIO?**

3 A. Yes. Recently, I provided testimony before the Public Utilities Commission of Ohio
4 (Commission) in support of Duke Energy Ohio's electric distribution base rate case
5 and Electric Security Plan, filed under Case Number 17-0032-EL-AIR and Case
6 No. 17-1263-EL-SSO, respectively. I was also a witness in the Company's Electric
7 Security Plan case, filed under Case Number 14-841-EL-SSO and the Energy
8 Efficiency cases, filed under Case Number 16-576-EL-POR, 13-753-EL-RDR, Case
9 No. 14-457-EL-RDR, Case No. 15-534-EL-RDR, Case No. 16-664-EL-RDR and
10 Case No. 17-781-EL-RDR.

11 **Q. WHAT ARE THE ATTACHMENTS AND SCHEDULES FOR WHICH**
12 **YOU ARE RESPONSIBLE?**

13 A. I am sponsoring the following items:
14 • Attachment JEZ-1 – Work papers showing the calculation of Rider EE-PDRR
15 rates
16 • Attachment JEZ-2 – Proposed Rider EE-PDRR tariff sheet – redlined
17 • Attachment JEZ-3 – Proposed Rider EE-PDRR tariff sheet – clean

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. The purpose of my testimony in this proceeding is to: (i) describe the calculation of
21 the Rider EE-PDRR rate update, including the true-up for the year 2017 and (ii)
22 discuss the distribution decoupling mechanism, Rider DDR, as approved in Case
23 No. 11-5905-EL-RDR and its effect on lost margin recovery. The Company's

1 electric tariff contains two shared savings-related sheets. Rider EE-PDR describes
2 the calculations of the shared savings recovery charges, and Rider EE-PDRR
3 contains the results of the calculations, i.e., the retail recovery rates.

4 **Q. WHAT IS THE PURPOSE OF RIDER EE-PDR AND EE-PDRR?**

5 A. Rider EE-PDR is the mechanism through which the revenue requirement and its
6 true-up is recovered from residential and non-residential customers. Rider EE-
7 PDRR contains the results of the calculations, *i.e.*, the retail recovery rates.

8 **Q. WHAT TIME PERIOD DOES THIS TRUE-UP COVER?**

9 A. This true-up analysis addresses the calendar year 2017. The proposed Rider EE-
10 PDRR rate also includes expected 2018 costs. The 2018 results will be trued-up
11 in next year's filing. As part of the true-up calculation, the reconciliation
12 balances (i.e., actual costs including lost revenues, and actual EE-PDRR
13 revenues) from 2012, 2013, 2014, 2015, and 2016, as filed in Case No. 13-753-
14 EL-RDR, Case No. 14-457-EL-RDR, Case No. 15-534-EL-RDR and the pending
15 Case No. 16-664-EL-RDR and 17-781-EL-RDR, respectively, are carried forward
16 and included in the revenue requirement.

II. CALCULATION OF EE-PDR REVENUE REQUIREMENT

17 **Q. WHAT LEVEL OF ACHIEVEMENT IS THE COMPANY CLAIMING?**

18 A. Although Duke Energy Ohio did exceed its efficiency and peak demand mandates
19 for 2017, per the stipulation in Case No. 16-576-EL-POR and the approved
20 waiver, the Company is claiming no Shared Savings incentive for 2017.

1 **Q. IS THE COMPANY INCLUDING CARRYING COSTS ON LOST**
2 **MARGINS IN THIS APPLICATION?**

3 A. No.

4 **Q. PLEASE EXPLAIN HOW DISTRIBUTION LOST MARGINS ARE**
5 **CALCULATED.**

6 A. The DSMore™ model calculates the kWh and kW reductions associated with
7 each program measure. Based upon the units of participation and load reductions
8 per program measure, the Company then applies lost margin rates to these
9 reductions to calculate the lost margin dollars to be recovered.

10 **Q. WHAT IS THE DIFFERENCE BETWEEN LOST REVENUES AND LOST**
11 **MARGINS?**

12 A. In general terms, lost margins equal lost revenues minus variable costs. For
13 example, the lost margin associated with generation would be equal to the total
14 generation revenue minus fuel costs (which are variable) minus any other variable
15 O&M costs. Rider EE-PDR allows for the recovery of distribution lost margins,
16 and the Company requests in this filing to recover distribution lost margins
17 associated with Rider EE-PDR measures.

18 **Q. WHAT TYPES OF LOST MARGINS ARE INCLUDED IN THIS TRUE-**
19 **UP?**

20 A. The calculated lost margins include only distribution margins associated with
21 non-residential customers taking service under Rate DS, Rate DP, and Rate TS.
22 The lost margins associated with these three non-residential rates are included
23 under Rider EE-PDR since these non-residential customers are not subject to the

1 Company's decoupling rider pilot, Rider DDR (Distribution Decoupling Rider),
2 which was approved in Case No. 11-5905-EL-RDR.

3 **Q. DOES THIS APPLICATION INCLUDE AVOIDED COSTS ASSOCIATED**
4 **WITH THE MERCANTILE SELF-DIRECT PROGRAM?**

5 A. No. The Company included the energy and capacity savings from the Mercantile
6 Self-Direct program in determining its performance against the benchmarks set
7 forth in Section 4928.66, Ohio Revised Code, but it did not include any avoided
8 costs or lost revenues from the Mercantile Self-Direct program in its Rider EE-
9 PDR true-up calculations.

10 **Q. DID THE TRUE-UP CALCULATION INCLUDE ANY PRIOR-PERIOD**
11 **TRUE-UP AMOUNTS?**

12 A. Yes. To maintain continuity of the true-up mechanism from one year to the next,
13 the filing includes the net reconciliation balances from the prior years – 2012,
14 2013, 2014, 2015, and 2016 in this case. The Company filed its 2012
15 reconciliation numbers in Case No. 13-753-EL-RDR. The Company filed its
16 2013 reconciliation numbers in Case No. 14-457-EL-RDR. The Company filed
17 its 2014 reconciliation numbers in Case No. 15-534-EL-RDR. The Company
18 filed its 2015 reconciliation numbers in pending Case No. 16-664-EL-RDR. The
19 Company filed its 2016 reconciliation numbers in pending Case No. 17-781-EL-
20 RDR. Upon receipt of orders in Case No. 16-664-EL-RDR and Case No. 17-781-
21 EL-RDR, the Company will make appropriate adjustments to this filing.

III. RIDER EE-PDR RECONCILIATION RATE CALCULATION

1 **Q. PLEASE EXPLAIN HOW THE COMPANY'S DISTRIBUTION**
2 **DECOUPLING RIDER AFFECTS THE RIDER EE/PDR TRUE-UP**
3 **CALCULATIONS.**

4 A. Rider DDR was approved on May 30, 2012 in Case No. 11-5905-EL-RDR. On
5 January 1, 2012, the Company began tracking the authorized distribution revenues
6 for each rate class covered by the rider against the actual revenues for the rate
7 classes covered by the rider. On February 27, 2018, the Company filed an
8 application to update Rider DDR rates for each rate class. The latest Rider DDR
9 filing covers the period January 1, 2017 through December 31, 2017. The
10 updated Rider DDR rates will be effective on July 1, 2018, absent any activity by
11 the Commission. The lost margin dollars in this Rider EE-PDR true-up filing are
12 based on lost kWh and kW for year 2017. Because Rider DDR does not apply to
13 Rates DS, DP, and TS, only those three base rates are subject to lost margin
14 recovery pursuant to Rider EE-PDRR.

15 **Q. PLEASE DESCRIBE IN DETAIL THE RIDER EE-PDRR RATE**
16 **CALCULATIONS CONTAINED IN ATTACHMENT JEZ-1.**

17 A. Attachment JEZ-1 shows the calculation of the Rider EE-PDRR recovery rates.
18 Page 1 shows the calculation of the Company's shared savings achievement tier.
19 The Company claims an after-tax shared savings rate of 0%.

20 Page 2 summarizes the Rider EE-PDRR revenue requirement data from
21 page 3. The total 2017 revenue requirement is \$54,252,197. This figure includes
22 \$1,111,531 of Mercantile Self-Direct program cost recovery, however, no shared

1 savings incentives are included for the self-direct program.

2 Page 3 of Attachment JEZ-1 shows the 2017 EE/PDR program details and
3 results. The sheet shows the kWh and kW impacts, the shared savings
4 calculations, the program cost recovery numbers, and the total revenue
5 requirement associated with each of the residential and non-residential programs.
6 The numbers are summarized on page 2.

7 Page 4 of Attachment JEZ-1 shows the lost distribution margins associated
8 with program participants that take service under Rate DS, Rate DP, and Rate TS.
9 As I previously mentioned, customers served under these three rates are not
10 subject to Rider DDR. These customers are, however, subject to lost distribution
11 margin recovery pursuant to Rider EE-PDRR.

12 Page 5 of Attachment JEZ-1 shows the expected 2018 program details and
13 results. The sheet shows the kWh and kW impacts, the shared savings
14 calculations, the program cost recovery numbers, and the total revenue
15 requirement associated with each of the residential and non-residential programs.

16 Page 6 of Attachment JEZ-1 shows the expected 2018 prior-vintage lost
17 margins associated with program participants that take service under Rate DS,
18 Rate DP, and Rate TS. As stated earlier, customers served under these three rates
19 are not subject to Rider DDR.

20 Page 7 of Attachment JEZ-1 shows the 2017 Rider EE-PDRR revenues by
21 base rate class and month. Total revenue recovery during 2017 was \$42,103,370.

22 Page 8 of Attachment JEZ-1 shows the actual 2017 kWh usage by month
23 for Rate DS, Rate DP, and Rate TS accounts. The total 2017 kWh numbers for

1 these rates are used on page 10 to calculate the lost revenue dollars included in
2 Rider EE-PDRR associated with these three base rates.

3 Page 9 of Attachment JEZ-1 shows the forecasted kWh billing
4 determinants for the period July 2018 through June 2019. These kWh figures are
5 used in the denominators of of the final rate calculations that appear on page 10.

6 Page 10 shows the Rider EE-PDRR rate calculations that true-up 2017
7 costs and revenues and recover the 2018 expected costs. The total revenues to be
8 recovered are grossed up by the Commercial Activity Tax factor of 1.0026068.
9 As I previously discussed, the Company carries forward prior period reconciliation
10 balances, including revenues. Upon receipt of a final order in Case No. 16-664-
11 EL-RDR and 17-781-EL-RDR, the Company will adjust this filing if necessary to
12 reflect any changes to the as-filed numbers in that case.

13

IV. CONCLUSION

14 **Q. HOW DOES THE COMPANY PROPOSE THAT ITS TARIFFS,**
15 **INCLUDING THE PREVIOUSLY DISCUSSED RATES AND CHARGES,**
16 **BE IMPLEMENTED?**

17 A. Duke Energy Ohio proposes that the revised tariffs, including the rates and
18 charges to be issued pursuant to the Commission's Order in this case, be effective
19 for twelve months for all customers on a bills-rendered basis.

20 **Q. WERE THE ATTACHMENTS DISCUSSED ABOVE PREPARED BY YOU**
21 **OR UNDER YOUR SUPERVISION?**

22 A. Yes.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

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