



Need to Know: Duke Energy's electric security plan

September 2008

With a new energy policy law in place, investor-owned electric utilities across Ohio have been required to submit new plans for the way they charge consumers for the electricity they use.

In compliance with the new law, Duke filed a plan for electricity prices, called an electric security plan (ESP).

According to Duke, its plan would increase the average total electric bill for residential consumers at least 5.7 percent over the next three years (2009-2011). In addition, numerous costs through separate riders would be collected from customers (see below).

The increase Duke has sought reflects increases in generation (power plants), distribution (local electric lines and facilities) and energy efficiency.

Minimum Impact of Duke Energy ESP Proposal on Typical Monthly Residential Consumer Rates		
Monthly bill based on usage of 1000 kWh	Duke Energy	\$ Increase
2008	\$110.89*	--
2009	\$115.70*	\$4.81
2010	Unknown*	Unknown*
2011	Unknown*	Unknown*
Total 2009-2011	Unknown*	Unknown*

*This proposal does not include the pending distribution rate case which is already on file with the PUCO and would increase electric bills by approximately \$4.77 per month.

The plan Duke has proposed would also increase its funding for low-income weatherization from \$850,000 to \$1 million annually through 2011.

Additional rate increases through riders

Riders are additional costs that are tacked onto a customers' electricity bill. Some riders are listed as a separate item within the generation, transmission or distribution section of a customer's bill. Other riders may be displayed as part of a larger charge that includes a variety of costs being collected from customers.

In the case of Duke's three-year electric security plan, there are numerous riders that the utility has proposed. These riders would result in additional charges not included in the chart. Since Duke has not submitted projected costs for these items, the actual rate increase to a customer's monthly electric bill is not known.

Some of the key riders requested by Duke include:

- ▶ Price to Compare charge to compensate Duke for generation and generation-related costs such as fuel, emissions allowance, purchased power and energy from renewable resources. These elements would be adjusted quarterly.

Costs for environmental compliance, homeland security and tax changes would be adjusted annually.

In addition, a rider to account for inflation would increase base generation costs automatically by 3 percent, compounded annually.

- ▶ System Resource Adequacy charges to compensate Duke for purchasing power in the wholesale electric market, dedicating existing and new power plants to Ohio and renewable resources.
- ▶ Infrastructure Modernization to recover increased costs for maintaining and modernizing the distribution system, including SmartGrid investments and a \$9 million investment in an electronic bulletin board to enable Duke and alternative power suppliers to post market prices for consideration by consumers.

SmartGrid is an initiative aimed at detecting distribution problems and reducing power needs during peak periods of time (for example, the hottest summer days) through more advanced metering and two-way communication technology between a customer and the utility.

- ▶ Save-a-Watt would charge customers for energy efficiency efforts. The charges would not be based on Duke's actual costs of delivering the programs but based on the higher cost of avoiding the

building of a new power plant.

- ▶ Economic Competitiveness Fund would charge customers for costs associated with economic development and maintenance contracts approved by the PUCO. Duke would absorb \$1 million of the costs to support mass transit and renewable energy projects.

OCC Position

The Duke plan has a number of issues that the Office of the Ohio Consumers' Counsel (OCC) contends are not in the best interests of residential consumers.

For example, Duke is not only asking for an increase in generation-related costs but has asked the PUCO to include distribution charges. By including these charges, the utility will be able to avoid putting them through the close examination that would be performed through a full distribution rate case. The OCC is concerned that **automatic** adjustments and various riders will not be given the close scrutiny including weighing the costs against the benefits, which would be in the best interest of ratepayers. The OCC advocates that these distribution rate issues be litigated in a separate rate case.

In addition, the plan may result in smaller users, including residential consumers, to pay the difference between full rates and the discounted rates larger customers receive from Duke through special contracts and the Economic Competitiveness Fund. The OCC believes there needs to be accountability to ensure that any discounts granted actually result in the new jobs and economic benefits that were claimed.

While Duke's SmartGrid program may have some merit, the OCC is concerned the utility has failed to provide voluntary programs that can benefit customers who want to control their usage and lower their bills. For example, time-of-use rates with a critical peak pricing element are not included. These rates would allow consumers to save energy and money by switching some of their usage to off-peak hours. It would also provide incentives for using less energy during critical peak times (for example, during the hottest afternoons in the summer).

The OCC opposes the Save-a-Watt proposal because it is not based on the actual costs of delivering the programs. Instead, the proposal adds a significant markup to Duke's energy efficiency investments. While the energy efficiency programs may be used to meet some of the new energy law's requirements, Duke should not be able to receive significant ratepayer-funded incentives for complying with the law.

Make Your Voice Heard

The PUCO is expected to set public hearings to give consumers the chance to voice their opinions on the Duke proposal. It is important for consumers to give the PUCO as many facts as possible so it has everything available to make a decision that will result in reasonable rates.

When preparing testimony, the following issues can be used to help guide consumers to express their opinions about the price they pay and the service they receive from Duke in their home and community:

- ▶ What will be the impact of higher electric rates on your ability to pay your bills?
- ▶ What percentage of your monthly budget goes to pay utility bills?
- ▶ Should rates be based on reasonable costs?
- ▶ Are improvements needed in the quality of the electric utility's service to customers?
- ▶ What assurances should there be for utility customers that rate increases designed to pay for system upgrades will result in improvements to reliability of electric service?
- ▶ What should the consequences be if the electric utility fails to improve its service?

If consumers are not able to attend a future public hearing, they can write a letter to the PUCO. All letters and envelopes should reference Case Number 08-920-EL-SSO. Letters should be sent to:

Public Utilities Commission of Ohio
Attn: Docketing Division
180 E. Broad St.
Columbus, OH 43215

For additional information from the Office of the Ohio Consumers' Counsel:

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