

Duke Energy Ohio's Electric Security Plan

History of Electric Deregulation in Ohio

A law enacted in 1999 restructured Ohio's electric industry by changing the way customers shop for electricity. The law, which took effect January 2001, provided for a five-year market development period. During this time, electric rates were frozen to allow a competitive retail market to develop.

As the end of the market development period neared, there was a growing concern that an immediate shift to market-based rates in 2006 would not be in the best interest of customers. To minimize the effects of rate "sticker shock" and transition customers to market-based rates, the Public Utilities Commission of Ohio (PUCO) worked with Ohio's electric utilities to develop rate stabilization plans. The rate stabilization plans, along with other changes, eliminated market uncertainty and provided customers with stable rates. Most of these plans expired at the end of 2008.

In 2008, the Ohio General Assembly passed Senate Bill 221 to keep electric rates stable going forward, create jobs, implement energy efficiency and expand Ohio's alternative energy industry. The new law incorporated a system under which rates would be approved by the PUCO beginning in 2009. Senate Bill 221 also outlined alternative paths for electric utilities to implement different forms of market-based pricing.

Electric Security Plan 101

An electric security plan (ESP) is a rate plan for the supply and pricing of electric generation service. The PUCO approved Duke Ohio's first ESP in December 2008, setting gradual increases for the base price of electric generation through December 2011. For Duke's residential customers the base price of generation increased approximately 2 percent in 2009 and 2010, with no increase in 2011. Duke's commercial and industrial customers saw an approximately 2 percent increase in the base price of generation in 2009, 2010 and 2011.

What did Duke request in its ESP application?

Duke filed a new ESP application in June 2011. The proposal would set rates from January 2012 through May 31, 2021 — a long term approach that would last almost a decade.

Under the company's application, electric retail generation rates would be determined through a competitive bid process conducted by an independent bid manager.

Duke proposed to recover costs for retail capacity and energy, alternative energy resources, uncollectible generation expenses and distribution reliability through charges known as "riders." The company proposes to recover the costs necessary to provide enough electric generating capacity to supply all customers in its territory, plus a reasonable rate of return, on a non-bypassable basis.

For 2012, Duke proposes a rate increase of approximately 8 percent. Additional increases are requested through May 2021.

Did Duke and other stakeholders reach an agreement?

Yes. On October 24, 2011, 30 parties in the case filed an agreement that settles issues in the company's ESP proposal. Duke, PUCO Staff, The Office of the Ohio Consumers' Counsel, Ohio Energy Group, Ohio Manufacturer's Association, the City of Cincinnati, Ohio Partners for Affordable Energy, and many others signed the agreement.

How did the PUCO rule in the case?

On November 22, 2011, the PUCO approved an agreement that will set electric generation rates for Duke Energy Ohio customers from Jan. 1, 2012 through May 31, 2015. Under the ESP, Duke will transfer its generation assets to an affiliate and hold auctions to determine generation rates.

Under the plan, Duke must transfer all generation assets to an affiliate by December 31, 2014. Upon completion of the transfer, Duke Energy Ohio will become a distribution-only utility.

Duke will hold five auctions to determine rates for electric generation. During the auctions, the first of which will take place in December 2011, competitive suppliers will bid for the right to supply electricity to Duke customers. Subsequent auctions will be held in May 2012, November 2012, May 2013 and November 2013. Each auction will be conducted by an independent bidding manager, and the PUCO must accept the final results.

While the PUCO anticipates that the ESP will result in an initial decrease in electric rates for residential customers beginning on Jan. 1, 2012, the actual dollar amount of the impact is unknown pending the results of the first auction. Duke customers will remain free to choose their own electric generation supplier or participate in a government aggregation buying group.

Additional Details

The ESP also provides incentives for economic development and energy efficiency. Duke will contribute \$1 million annually from 2012 to 2014 to support economic development efforts in its service territory. The company will commit \$100,000 to support economic development and energy efficiency initiatives among Ohio manufacturers and work to educate small and medium-sized business about available energy efficiency programs.

Duke will also provide funds to assist low-income electric customers, including \$1 million annually from 2012 to 2014 to support low-income weatherization efforts and \$350,000 in 2012 to help customers at or below 200 percent of poverty level pay their bills. Percentage of Income Payment Plan (PIPP) customers will be supplied by FirstEnergy Solutions at a five percent discount off the residential price to compare.