

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	)	
Duke Energy Ohio, Inc., for an	)	Case No. 12-1685-GA-AIR
Increase in Gas Rates.	)	
 In the Matter of the Application of	 )	
Duke Energy Ohio, Inc., for Tariff	)	Case No. 12-1686-GA-ATA
Approval.	)	
 In the Matter of the Application of	 )	
Duke Energy Ohio, Inc., for Approval	)	Case No. 12-1687-GA-ALT
of an Alternative Rate Plan for Gas	)	
Distribution Service.	)	
 In the Matter of the Application of	 )	
Duke Energy Ohio, Inc., for Approval	)	Case No. 12-1688-GA-AAM
to Change Accounting Methods.	)	

**SUPPLEMENTAL DIRECT TESTIMONY OF**

**GARY J. HEBBELER**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

_____	Management policies, practices, and organization
_____	Operating income
_____	Rate Base
_____	Allocations
_____	Rate of return
_____	Rates and tariffs
<u>  X  </u>	Other: Infrastructure Investment

February 25, 2013

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## **I. INTRODUCTION AND PURPOSE**

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

2   A.   My name is Gary J. Hebbeler, and my business address is 139 East Fourth Street,  
3       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 General  
6       Manager, Gas Field and Systems Operations, for Duke Energy Ohio, Inc., (Duke  
7       Energy Ohio or Company) and Duke Energy Kentucky, Inc. (Duke Energy  
8       Kentucky). DEBS provides various administrative and other services to Duke  
9       Energy Ohio and other affiliated companies of Duke Energy Corporation (Duke  
10      Energy).

11  **Q.   ARE YOU THE SAME GARY J. HEBBELER WHO FILED DIRECT**  
12  **TESTIMONY IN THESE PROCEEDINGS?**

13  A.   Yes.

14  **Q.   WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**  
15  **TESTIMONY?**

16  A.   My Supplemental Direct Testimony will describe and support the Company's  
17       objections to certain findings and recommendation contained in the Report by the  
18       Staff of the Public Utilities Commission of Ohio (Staff) issued in these  
19       proceedings on January 4, 2013 (Staff Report). Specifically, I will support Duke  
20       Energy Ohio's objections 10, 18, and 19 that are related to the recovery of costs  
21       for the additional camera work, the Accelerated Main Replacement Program  
22       (AMRP) and the proposed Accelerated Service Replacement Program (ASRP).

## **II. OBJECTIONS SPONSORED BY WITNESS**

1   **Q.   PLEASE EXPLAIN THE COMPANY’S OBJECTION NO. 10.**

2   A.   In objection number 10, Duke Energy Ohio noted its disagreement with the  
3       recommendations of Staff that the amortization of the \$5 million deferral provides  
4       sufficient revenue to complete the balance of the legacy camera work for the  
5       remaining 2.3 million feet of gas main installed between 2001 and 2006. At the  
6       start of the AMRP, Duke Energy Ohio followed industry standards and relied on  
7       municipalities to provide records where their sewers were located. In 2006, the  
8       Company adopted new installation procedures, in response to an incident in  
9       Middletown, Ohio, where a gas line had breached a sewer line. The circumstance  
10      was not discovered until a plumber augered out the clogged sewer lateral. After  
11      this incident, however, the Company’s investigation revealed that municipalities  
12      do not maintain reliable records of sewer locations. To promote the safety of the  
13      general public and Duke Energy’s Ohio’s customers and employees, Duke Energy  
14      Ohio developed a legacy sewer program for main installed from April 2001  
15      through 2006. The legacy sewer program relied on certain criteria to prioritize the  
16      highest potential for a breach of a sewer main and/or lateral as required by the  
17      pipeline safety remediation for the incident. This additional work allows the  
18      Company to identify breaches in the sewer system created by gas main  
19      installation and avoid a potential incident. To date, we have investigated 510,924  
20      feet of gas main footage or 1,362,466 feet of sewer mains and laterals,  
21      interpolated. The current rate of gas facilities breaching a sewer facility is 1 event  
22      for approximately every 3,600 feet of gas main or 9,600 feet of sewer mains and

1 laterals, interpolated. As a result of this investigation, Duke Energy Ohio has  
2 identified 142 breaches and repaired the breaches which eliminated the potential  
3 for incident at each of these locations. There are still approximately 2.3 million  
4 feet of gas main footage left to inspect with the camera. Therefore, as a prudent  
5 operator, the Company is requesting recovery for this program so it can continue  
6 to mitigate any safety issues and continue to provide safe and reliable service to  
7 the customer. This is an important program being conducted by the Company and  
8 Staff made no assertion that any of this work was imprudent or unreasonable.  
9 However, Staff is recommending that the Company be compensated for this  
10 important work through the use of funds that have already been spent in the past.  
11 This is unreasonable and unfair. Staff has recommended that the Company  
12 recovery costs for past camera work by recovery of a deferral over the next three  
13 years. The recovery of the deferral compensates the Company for work already  
14 accomplished and costs already incurred. The camera work that is necessary  
15 going forward will cause the Company to incur additional cost for which it must  
16 also be compensated. In order to continue this important program, Duke Energy  
17 Ohio must receive adequate compensation in within a reasonable time frame.  
18 Staff's recommendation is not consistent with allowing the Company reasonable  
19 compensation and should be disregarded.

20 **Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 18.**

21 A. In objection number 18, Duke Energy Ohio noted its disagreement with the  
22 recommendations of the Staff related to elements of the Company's AMRP. In  
23 particular, Staff recommended: 1) the discontinuation of a waiver from certain

1 reporting requirements; 2) that recovery for meter relocation costs be limited to  
2 instances where the meter is connected to a high pressure system within two years  
3 of moving a meter; 3) that the Company not be permitted to recover costs  
4 associated with effectively coated steel pipes identified after investigation; and 4)  
5 that the Company recover costs of system improvement for future growth only if  
6 over-sizing replaces cast iron or bare steel pipe and costs no more than an in-kind  
7 (size for size) replacement. Duke Energy Ohio respectfully submits that these  
8 recommendations do not serve the public interest and that the Public Utilities  
9 Commission of Ohio (Commission) should reject these recommendations.

10 **Q. PLEASE EXPLAIN WHY THE COMPANY DISAGREES WITH STAFF'S**  
11 **RECOMMENDATION THAT THE WAIVER FROM O.A.C. 4901:1-16-06**  
12 **BE RESCINDED.**

13 A. O.A.C. Rule 4901:1-16-06 requires operators to report "important additions to its  
14 intrastate gas pipeline facilities." Specifically, the rule applies to projects of more  
15 than two hundred thousand dollars or more than ten percent of the Company  
16 pipeline facility. Although Duke Energy Ohio agrees that the work it does for its  
17 AMRP program is indeed very important, the Company does not think that the  
18 nature of the work makes it practical to provide such reports and doing so is  
19 costly, time consuming and burdensome. The Commission originally granted the  
20 waiver with the proviso that the Company comply with any Gas Pipeline Safety  
21 Staff's request for such information. The Company is unaware of any complaint  
22 from Staff that the Company has not provided this information upon request.  
23 Staff's complaint, raised in the Staff report, seems to be that, despite routinely

1 auditing construction projects through data requests and quarterly reports, Staff  
2 claims it now needs the more timely Rule 4901:1-16-06 reports. Staff has  
3 neglected to explain why it doesn't simply request such reports through data  
4 requests when needed rather than require the Company to submit them even when  
5 not needed. Consequently, Duke Energy Ohio submits that this is a regulatory  
6 requirement that creates unnecessary burden with no meaningful incremental  
7 benefit. The waiver has been in place since April 2005 and Staff has other tools at  
8 its disposal, which it has frequently used, to obtain the information any time it is  
9 needed. Staff's recommendation to rescind this waiver should be rejected.

10 **Q. PLEASE EXPLAIN WHY THE COMPANY DISAGREES WITH STAFF'S**  
11 **RECOMMENDATION REGARDING COSTS FOR RELOCATING**  
12 **METERS.**

13 A. Staff recommended that the Company recover the costs for relocating meters from  
14 inside the premise to outside only in those cases where the meter is to be  
15 connected to a high pressure distribution system within two years after moving  
16 the meter is moved outside. Staff made this recommendation after explicitly  
17 stating that "there are safety issues related to inside meters connected to high  
18 pressure distribution systems." Staff's recommendation does not recognize the  
19 more stringent documentation and analysis required with Distribution  
20 Management Integrity Programs (DIMP). Future DIMP requirements may  
21 include the need to implement remediation activities intended to enhance safe  
22 operations or even the need to relocate inside meters to the outside. By doing this  
23 work in tandem with other work approved by the Commission, there is an

1 opportunity to avoid some costs and to gain some efficiency. Additionally, as  
2 stated in my Direct Testimony, relocating these meters provides a substantial  
3 convenience to customers since the Company will not need to enter customer  
4 premises to, among other things, conduct mandatory atmospheric corrosion  
5 inspections and leak surveys. Moreover, Staff's recommendation is economically  
6 short-sighted. The more efficient and economical plan would be to do this work in  
7 tandem with AMRP and the proposed ASRP.

8 **Q. PLEASE EXPLAIN THE COMPANY'S DISAGREEMENT WITH**  
9 **STAFF'S RECOMMENDATION RELATED TO RECOVERY OF COSTS**  
10 **FOR REPLACING INEFFECTIVELY COATED STEEL PIPES ONLY IF**  
11 **TESTING INDICATES THAT THE PIPING IS INEFFECTIVELY**  
12 **COATED.**

13 A. The Staff correctly noted in its Staff Report that field-coated steel pipe installed  
14 prior to 1955 is generally unreliable and should be treated as bare steel pipe. Staff  
15 recommends that the Company should recover costs related to this category of  
16 pipe replacement. Staff then states that if the Company encounters coated steel  
17 pipe installed between 1955 and 1970 and proceeds to replace such pipe, then the  
18 Company should only recover these costs if the pipe is subsequently found to be  
19 ineffectively coated upon inspection, analysis, and cathodic-protection test results.  
20 The Company objects to this recommendation because it is unclear and  
21 impractical. The recommendation fails to take into account or recommend who  
22 would determine whether or not pipe is ineffectively coated and by which criteria  
23 of the three criteria presented above. Would all three be needed to demonstrate



1 conclusive results or will one criteria suffice? How would such determination be  
2 contested or audited? How does the Company handle metallic services on these  
3 types of facilities? Staff's recommendation here, as proposed, is one that is  
4 difficult to carry out in the field and is not achievable in the timeframe proposed  
5 for the AMRP.

6 **Q. PLEASE EXPLAIN WHY THE COMPANY DISAGREES WITH STAFF'S**  
7 **RECOMMENDATION RELATED TO INCREASING THE CAPACITY**  
8 **OF MAINS TO SERVE FUTURE CUSTOMERS.**

9 A. Staff's recommendation fails to take into consideration the way in which the  
10 Company presently employs engineering standards to design its system for this  
11 work. Duke Energy Ohio's gas pipeline system is an integrated network of pipes.  
12 This network of pipes connects the customers to a supply of natural gas and is  
13 sized to provide a specific volume of natural gas to meet the customer's demand.  
14 The system relies on the integrated network and the size of the pipes to maintain  
15 system integrity. Natural gas is delivered through the system at higher pressures  
16 and utilizes system stations and district regulators to reduce and monitor the  
17 pressures. The system stations and district regulators maintain the integrity of the  
18 system by regulating pressures so the system is not over-pressurized. The network  
19 relies on an interwoven pipe system to meet the customer demand and maintain  
20 the continuity of the natural gas supply. Disruption of this network could cause  
21 outages and possibly a hazardous condition.

22 The model used to plan for this maintenance and replacement work uses  
23 historical loads and interpolates that information to calculate a profile for the peak

1 hour on a design day. The result is that the appropriate pipe sizes are installed to  
2 support the model. In many instances, pipe sizes are reduced. However, in a few  
3 cases, the sizes may increase to accommodate a reduction along another route.  
4 The overall result is a more economical network than to install size for size.

5 These engineering principles ensure the integrity of the system and guide  
6 the work that is completed with each project. Arbitrarily determining other criteria  
7 for cost recovery is inconsistent with good engineering practice and unfair to the  
8 customer and the Company.

9 **Q. PLEASE EXPLAIN THE COMPANY'S PLAN TO COMPLETE THE**  
10 **AMRP.**

11 A. Duke Energy Ohio has approximately 143 record miles to replace over the next  
12 three years. Verifications still need to be performed at various locations that have  
13 been identified as a potential for cast iron or bare steel outside the 143 miles  
14 mentioned above. These verifications will need to be preformed via test holes and  
15 will be performed in 2013. These test holes will identify any additional miles of  
16 bare steel or cast iron needed to be replaced and will be incorporated into the  
17 AMRP. In order to complete the project by December 31, 2015, the approximate  
18 mileage to be installed in 2013, 2014, and 2015 is approximately 58, 58, and 27,  
19 respectively. It is anticipated that any additional mileage identified by the test  
20 holes that fell under the original criteria of the AMRP will be completed by  
21 December 31, 2015.

1   **Q.   PLEASE DISCUSS THE COMPANY’S PROPOSAL FOR AN**  
2       **ACCELERATED SERVICE REPLACEMENT PROGRAM AND STAFF’S**  
3       **ALTERNATIVE PROPOSAL THAT FORMS THE BASIS FOR THE**  
4       **COMPANY’S OBJECTION 19.**

5   A.   Duke Energy Ohio submitted a proposal for Rider ASRP to recover costs  
6       associated with the ASRP. Staff has recommended an alternative program, which  
7       it proposes to call Leaking Service Line Replacement Program (LSLRP) and  
8       which limits the services replaced under its proposed program to those that have  
9       been identified as leaking. Costs for this program would then be recovered under  
10      Staff’s proposed Rider LSRP. Even the name of the program that Staff proposes  
11      should give the Commission pause.

12             Staff’s proposal is reactive and does not address the safety and reliability  
13      problem identified by the Company for an entire class of services. The Code of  
14      Federal Regulations (192.1007), issued by the U.S. DOT Office of Pipeline  
15      Safety, requires Duke Energy Ohio to develop a DIMP. These regulations require  
16      operators of natural gas distribution pipelines to develop and implement an  
17      integrity management program. This required program is a comprehensive and  
18      systematic approach to maintain and improve safety of the Company’s  
19      distribution system. In addition, DIMP is comprised of seven key elements:  
20      Knowledge of the System; Identify Threats; Evaluate and Rank Risks; Identify  
21      and Implement Measures to Address Risks; Measure Performance, Monitor  
22      Results and Evaluate Effectiveness; Periodic Evaluation and Improvement; and  
23      Report Results. Staff’s proposal to limit replacement of services to only those

1 that are identified as leaking rather than to the replacement of all services the  
2 Company identifies as having a high degree of propensity to leak does not  
3 improve safety. Staff's proposal does not allow the Company to implement  
4 measures to proactively and in an expedited fashion address risks identified on its  
5 system and remedy potentially catastrophic situations before the hazardous  
6 condition arises. Rather, Staff's recommendation is that the Company only  
7 "react" to a hazardous condition after a problem has already developed, not  
8 prevent it. Staff's proposal in that regard is inconsistent with both the intent and  
9 practical application of DIMP. Moreover, the Pipeline and Hazardous Materials  
10 Safety Administration (PHMSA) is implementing measures, such as DIMP,  
11 requiring Natural Gas Companies to be proactive and not reactive in maintaining  
12 their system. Clearly, Staff's proposal is not a proactive program and is in conflict  
13 with PHMSA's philosophy.

14 This Commission has already recognized the hazardous risks associated  
15 with leaking services as reflected in its Opinion and Order in Case No. 07-478-  
16 GA-UNC, *et al.* In approving Columbia Gas's proposal to assume maintenance  
17 and repair responsibility over customer-owned services, the Commission found  
18 that:

19 "[e]vidence in the record reflects that while service line leaks are  
20 generally not catastrophic, they are often times categorized as  
21 hazardous and can present significant safety hazards and do have  
22 the potential to cause catastrophic damage to the customer's  
23 property or neighboring properties."<sup>1</sup>

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<sup>1</sup> *In the Matter of Columbia Gas of Ohio, Inc., for Approval of Tariffs to Recover, Through and Automatic Adjustment Clause, Costs Associated with the Establishment of an Infrastructure Replacement Program and for Approval of Certain Accounting Treatment*, Case No. 07-478-GA-UNC, *et al.* (Opinion and Order at 29)(April 9, 2008).

1           Thus, Duke Energy Ohio's ASRP proposal responds to a class of  
2           hazardous risks inherent in a category of service lines that have been identified as  
3           having a high degree of risk for leaks and that is not currently addressed through  
4           other Company safety initiatives, like the AMRP. The Company's proposal is  
5           based upon an analysis that shows that, once the AMRP program is completed,  
6           leak rates will increase on service lines that are no longer being addressed by the  
7           AMRP program. A leak that represents an existing or probable hazard to persons  
8           or property and requires immediate repair or continuous action until the  
9           conditions are no longer hazardous is classified as a hazardous leak as defined by  
10          Code of Federal Regulations 192.3 issued by the US DOT Office of Pipeline  
11          Safety. In 2012, Duke Energy Ohio had approximately 17% of the distribution  
12          main leaks repaired, excluding third party damage, classified as a hazardous leak  
13          and approximately 23% of the distribution service leaks repaired, excluding third  
14          party damage, classified as a hazardous leak. The Company's proposal is in the  
15          best interests of safety and consistent with requirements under new federal  
16          regulation to prioritize and mitigate risks in the gas distribution system. Metallic  
17          services, based on main-to-curb data (Company owned facilities), are identified as  
18          a risk in Duke Energy Ohio's DIMP, and to mitigate this risk, Duke Energy Ohio  
19          will replace the pre-1971 coated steel service lines and unprotected metallic  
20          service lines left in its distribution system at the conclusion of the AMRP. At the  
21          current rate of replacement for service lines not captured in the AMRP, it will  
22          take over 100 years to replace the remaining lines, especially if they are replaced  
23          only on the basis of reported leaks.

1   **Q.   WHY IS THIS PROGRAM IN THE BEST INTERESTS OF DUKE**  
2       **ENERGY OHIO CUSTOMERS?**

3   A.   The proposed Rider ASRP is designed to methodically replace unprotected  
4       metallic services at a faster rate, thereby mitigating risk more efficiently. These  
5       services have outlived their useful life and have well outlived their economic  
6       value. The depreciation rate for many of these types of services is 34 years,  
7       which is based on the estimated useful life of the asset. Therefore, services that  
8       were installed anytime before 1979 have been fully depreciated suggesting that  
9       they are beyond their expected useful life. Of course, service lines may develop  
10      leaks at various times over their useful life but the age of those lines  
11      unquestionably raises the risk of leaks. As I have stated earlier and have testified  
12      to in a number of prior proceedings before this Commission, the Company  
13      considers safety its highest priority and has worked cooperatively with the  
14      Commission endeavoring to make the system as safe as possible while continuing  
15      to be attentive to the cost of providing our service. This is an issue the Company  
16      takes very seriously and, toward that end, the Company disagrees with the Staff's  
17      recommended course of action.

18           In addition to the mitigation of risk, implementing an accelerated and  
19      focused program would allow the Company to replace the lines in a methodical  
20      fashion that would potentially save customers as much as \$71 million, as  
21      compared to the estimated cost of simply replacing the services on an "as they  
22      leak" basis.

1 Initiating this program as a follow-on to the AMRP program would allow  
2 Duke Energy Ohio to keep some of the same contract employees working and to  
3 potentially save as many as 300 contract employee jobs. If the Company is  
4 required to replace lines on an *ad hoc* basis, it will not retain the contract  
5 employees and will not have the opportunity to provide efficiencies in the same  
6 way as would be true in the Rider ASRP proposal as filed.

7 And finally, the ASRP would include moving some customers' inside  
8 meters to the outside, significantly reducing inconvenience and intrusive service  
9 calls for many customers. The ASRP is a good deal for customers in all of these  
10 respects.

### **III. CONCLUSION**

11 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL DIRECT**  
12 **TESTIMONY?**

13 **A. Yes.**