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FILE

VIA E-FILING AND ORDINARY U.S. MAIL

January 29, 2008

John J. Finnigan, Jr.
Associate General Counsel

Ms. Betty McCauley
Docketing Division
The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215-3793

Re: In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Gas Rates, Case No. 07-589-GA-AIR

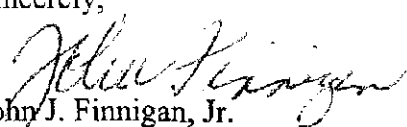
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Rate Plan for its Gas Distribution Service, Case No. 07-590-GA-ALT

In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change Accounting Methods, Case No. 07-591-GA-AAM

Dear Ms. McCauley:

Enclosed please find the testimony and supplemental attachments for Duke Energy Ohio Inc.'s witnesses: Gary J. Hebbeler, Paul G. Smith, Donald L. Storck, William Don Wathen Jr., Dr. Roger A. Morin. I am also including the Duke Energy Ohio, Inc.'s Motion to Strike Objections to Staff Report of Investigation filed by Ohio Partners for Affordable Energy.

Sincerely,


John J. Finnigan, Jr.
Associate General Counsel

JJF/bsc

cc: Michael L. Kurtz (w/encl.)	John W. Bentine (w/encl.)
David F. Boehm (w/encl.)	Thomas J. O'Brien (w/encl.)
John M. Dosker (w/encl.)	Thomas Lindgren (w/encl.)
David C. Rinebolt (w/encl.)	Larry S. Sauer (w/encl.)
Colleen Mooney (w/encl.)	William Wright (w/encl.)
M. Howard Petricoff (w/encl.)	Mary W. Christensen (w/encl.)
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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of the Application of)	
Duke Energy Ohio, Inc. for an)	Case No. 07-589-GA-AIR
Increase in Gas Rates)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 07-590-GA-ALT
of an Alternative Rate Plan for its)	
Gas Distribution Service)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 07-591-GA-AAM
to Change Accounting Methods)	

SUPPLEMENTAL TESTIMONY OF

DONALD L. STORCK

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: cost-of-service studies, sales decoupling, and proposal to end rate disparities

BEFORE

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In The Matter of the Application of)	
Duke Energy Ohio, Inc. for an)	Case No. 07-589-GA-AIR
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Duke Energy Ohio, Inc. for Approval)	Case No. 07-591-GA-AAM
to Change Accounting Methods)	

SUPPLEMENTAL TESTIMONY OF

DONALD L. STORCK

ON BEHALF OF

DUKE ENERGY OHIO, INC.

INDEX

Supplemental testimony sponsoring cost-of-service studies, DE-Ohio's sales decoupling proposal, proposal to correct rate disparities across customer classes, and related matters.

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1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME.**

3 A. My name is Donald L. Storck.

4 **Q. ARE YOU THE SAME DONALD L. STORCK WHO PREVIOUSLY**
5 **FILED DIRECT TESTIMONY IN THESE PROCEEDINGS?**

6 A. Yes.

7 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING ON**
8 **BEHALF OF DUKE ENERGY OHIO, INC. ("DE-OHIO")?**

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL TESTIMONY?**

11 A. I support Objection Nos. 13 and 14 in DE-Ohio's Objections to Staff Report of
12 Investigation and Summary of Major Issues, filed on January 22, 2008.

13 **II. OBJECTION NO. 13**

14 **Q. PLEASE BRIEFLY SUMMARIZE DE-OHIO'S OBJECTION NO. 13 TO**
15 **THE STAFF REPORT.**

16 A. In Objection No. 13, DE-Ohio objected to Staff's recommendation that only two-
17 thirds of the subsidy / excess be eliminated.

18 **Q. PLEASE EXPLAIN DE-OHIO'S OBJECTION TO STAFF'S**
19 **RECOMMENDATION TO ELIMINATE ONLY TWO-THIRDS OF THE**
20 **SUBSIDY / EXCESS?**

21 A. As a general tenet of ratemaking, all classes of customers should, to the extent
22 practicable, pay the costs of providing service to that class. The Company's

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1 proposal to eliminate 100% of the subsidy / excess provides each class with an
2 accurate price signal and restores the basic ratemaking principles of cost
3 causation. The Company acknowledges that some mitigation may be necessary to
4 avoid rate shock; thus, we proposed to eliminate the subsidy / excess over three
5 years rather than all at once. Nevertheless, not eliminating all the subsidy / excess
6 will only serve to perpetuate the problem and may even worsen it as changes in
7 sales among classes could exaggerate the subsidy / excess situation. I propose that
8 100% of the subsidy / excess be eliminated over a three-year period, consistent
9 with my direct testimony.

10 **III. OBJECTION NO. 14**

11 **Q. PLEASE BRIEFLY SUMMARIZE DE-OHIO'S OBJECTION NO. 14 TO**
12 **THE STAFF REPORT.**

13 A. In Objection No. 14, DE-Ohio objected to the following features of Staff's
14 proposed rate design: (a) Customers using less than 50 ccf of natural gas,
15 annually, should have a lower customer charge than other customers; (b) General
16 Service customers should be served under four usage categories; and (c) Staff did
17 not recommend approval of a revenue decoupling tracker.

18 **Q. PLEASE COMPARE DE-OHIO'S PROPOSED RATE DESIGN VERSUS**
19 **STAFF'S RECOMMENDED RATE DESIGN.**

20 A. DE-Ohio proposed a revenue decoupling tracker, and Staff responded by
21 recommending a higher fixed distribution service charge.

22 **Q. PLEASE STATE YOUR GENERAL OPINION OF STAFF'S PROPOSED**

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1 **RATE DESIGN.**

2 A. I generally support the Staff's recommendation for a higher fixed distribution
3 service charge because it allows the recovery of more fixed costs through a
4 monthly fixed distribution service charge instead of a volumetric rate. This is a
5 better rate design than DE-Ohio's existing rate design for the following reasons.

- 6 • Most of DE-Ohio's distribution costs are fixed and do not vary with
7 consumption. These costs should be recovered through a fixed
8 distribution service charge.
- 9 • A larger fixed distribution service charge rate will help levelize customers'
10 bills. Customers pay the fixed component of the rates each month, so this
11 will increase customers' summer bills and lower their winter bills.
- 12 • A larger fixed distribution service charge rate reduces DE-Ohio's
13 disincentive to promote energy conservation. DE-Ohio's recovery of fixed
14 costs in the delivery charge makes its profitability tied to volumetric sales.
15 A larger fixed distribution service charge rate will begin to decouple the
16 link between profitability and volumetric sales.
- 17 • A larger fixed distribution service charge rate will reduce regulatory lag
18 and the number of future rate cases. In a period of declining sales, a larger
19 fixed distribution service charge rate allows DE-Ohio a better opportunity
20 to recover its fixed costs. Under traditional rates, DE-Ohio must file rate
21 cases to recover the shortfall.

22 **Q. DO YOU HAVE AN OPINION ABOUT THE STAFF'S**

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**RECOMMENDATION TO HAVE LOWER FIXED DISTRIBUTION
SERVICE CHARGE RATE FOR CUSTOMER USING LESS THAN 50
CCF ANNUALLY?**

A. Yes. I do not agree with Staff's recommendation because these customers should have the same fixed distribution service charge as other customers in the first rate block.

**Q. HAVE YOU ANALYZED THIS GROUP OF RESIDENTIAL
CUSTOMERS?**

A. Yes. A residential customer using less than 50 ccf, annually cannot be using gas for space heating, water heating or clothes drying. Therefore, such a customer must be using a single gas appliance like a stove or else the premise is vacant. My analysis revealed there are approximately 5,800 Rate RS customers and 480 Rate GS customers who use less than 50 ccf, annually.

**Q. IF THE CUSTOMERS USING LESS THAN 50 CCF ANNUALLY DO NOT
RECEIVE A LOWER FIXED DISTRIBUTION SERVICE CHARGE,
THEY WILL RECEIVE A LARGER PERCENT INCREASE THAN THE
AVERAGE CUSTOMER. WILL THIS INCENT LOW-USAGE
CUSTOMERS TO TERMINATE THEIR SERVICE WITH THE
REMAINING CUSTOMERS BEARING ANY RELATED STRANDED
COSTS?**

A. It might but there is no way to estimate how low-usage customers will react to this increase in gas distribution rates. It is unlikely that all such customers will

1 terminate their service. Given the low number of such customers in this category,
2 the addition of new customers, and the cost savings (*i.e.*, billing costs), the impact
3 of losing some of the low-usage customers will not materially affect the Company
4 or the rates for remaining customers.

5 **Q. DO YOU HAVE AN OPINION ABOUT THE STAFF'S**
6 **RECOMMENDATION TO CHANGE THE RESIDENTIAL SERVICE**
7 **RATE DESIGN?**

8 A. Yes. I concur with the Staff's recommendation to increase the fixed distribution
9 service charge. I recommend there be only one residential tariff reflecting a fixed
10 distribution service charge rate per monthly bill of \$20.25, \$25.33 and \$30.41 for
11 years one, two and three, respectively. The rates for the first two years are the
12 same as proposed by the Staff. The volumetric rate will need to be re-calculated
13 to reflect the Commission's final order in this case.

14 **Q. DO YOU HAVE AN OPINION ABOUT THE STAFF'S**
15 **RECOMMENDATION TO CHANGE THE GENERAL SERVICE RATE**
16 **DESIGN?**

17 A. Yes. I concur with the Staff's recommendation to increase and have different
18 fixed distribution service charges for customers using different annual levels of
19 natural gas. The Staff Report correctly noted that the Staff's recommended rate
20 design may require modifications to DE-Ohio's billing system. Using one tariff to
21 accomplish this goal will require significant re-programming of the billing system
22 whereas the use of two tariffs will significantly reduce this cost. I propose to

1 create two general service tariffs to achieve this goal. I propose Rate GS be
2 applicable to customers using less than 4,000 ccf annually. The Rate GS tariff
3 will reflect fixed distribution service charge rates per monthly bill of \$35.25,
4 \$40.33 and \$45.41 for years one, two and three, respectively. The rates for the
5 first two years are the same as proposed by the Staff. I also propose a new tariff,
6 Rate GS Large, which will be applicable to customers using 4,000 ccf or more
7 annually. The Rate GS Large tariff will reflect fixed distribution service charge
8 rates per monthly bill of \$130.00, \$180.00 and \$230.00 for years one, two and
9 three, respectively. The rates for the first two years are the same as proposed by
10 the Staff. The volumetric rates for both of these tariffs will continue to decline in
11 year three. The volumetric rates will need to be recalculated to reflect the
12 Commission's final order in this case. My approach provides a reasonable
13 dividing point between low-use and high-use Rate GS customers, and avoids the
14 need for major changes to DE-Ohio's billing system.

15 **Q. DOES THE STAFF'S RECOMMENDATION TO CHANGE RATE**
16 **DESIGN ELIMINATE THE NEED FOR THE SALES DECOUPLING**
17 **RIDER YOU DESCRIBED IN YOUR PRE-FILED TESTIMONY?**

18 **A.** No. The Staff's recommendation will allow the Company to recover a greater
19 portion of its fixed costs as compared the Company's current and proposed rate
20 design. Still, much of the Company's fixed costs will be recovered through a
21 distribution charge based on volume. This coupled with declining throughput will
22 inhibit the Company's opportunity to recover its fixed costs.

1 Q. IF THE COMMISSION APPROVES THE STAFF'S RATE DESIGN
2 RECOMMENDATIONS, WILL THE COMPANY BE ABLE TO
3 IMMEDIATELY IMPLEMENT SUCH CHANGES?

4 A. No, this type of significant change in rate design will require re-programming of
5 the Company's billing system. The Company will not know precisely which
6 changes the Commission will order until it has received the order. Therefore, the
7 Company must wait until it has received and analyzed the order to develop the
8 scope of the change, allocate resources to make and test the change, and, finally,
9 put the change into production. Depending on the specifics of the Commission's
10 order in this case, it could take a few days to a few months to complete the billing
11 system changes. The Company requests a deferral to allow recovery of such
12 incremental costs in the next general rate case.

13 Q. IF THE COMMISSION APPROVES THE STAFF'S RATE DESIGN
14 RECOMMENDATIONS REVISED PER YOUR RECOMMENDATIONS,
15 WILL THE COMPANY BE ABLE TO IMMEDIATELY IMPLEMENT
16 SUCH CHANGES?

17 A. Yes. My proposed changes to the Staff's recommendation will require minimal
18 re-programming of the Company's billing system.

19 IV. OTHER RECOMMENDATIONS

20 Q. DO YOU HAVE AN OPINION ABOUT THE STAFF'S
21 RECOMMENDATION THAT THE COMMISSION REQUIRE THE
22 COMPANY TO PERFORM AN ANALYSIS TO DETERMINE WHETHER

1 **THE TRADITIONAL RESIDENTIAL AND GENERAL SERVICE**
2 **SCHEDULES ARE APPROPRIATE MECHANISMS TO REFLECT COST**
3 **CAUSATION THROUGH RATES?**

4 A. Yes. The Staff Report questioned whether the traditional “residential/general
5 service” schedules may not be appropriate mechanisms to reflect cost causation
6 through rates. The Staff recommended the Commission require the Company to
7 perform an analysis addressing this issue. The Company concurs with the Staff
8 recommendation and will perform this analysis in time for the Company’s next
9 general rate case.

10 **V. CONCLUSION**

11 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

12 A. Yes.