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DE-OHIO EXHIBIT _____

BEFORE

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THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
Duke Energy Ohio for an)	Case No. 08-709-EL-AIR
Increase in Electric Distribution Rates)	
)	
In the Matter of the Application of)	
Duke Energy Ohio for Tariff)	Case No. 08-710-EL-ATA
Approval)	
)	
In the Matter of the Application of)	
Duke Energy Ohio for Approval)	Case No. 08-711-EL-AAM
to Change Accounting Methods)	

DIRECT TESTIMONY OF

STEPHEN R. LEE

ON BEHALF OF

DUKE ENERGY OHIO

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

August 8, 2008

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STEPHEN R. LEE

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Testimony discussing budgeting and forecasting.

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Stephen R. Lee and my business address is 139 East Fourth Street,
3 Cincinnati, Ohio.

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

5 A. I am employed by the Duke Energy Corporation (Duke Energy) affiliated companies
6 as Director, Financial Forecasting.

7 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
8 **QUALIFICATIONS.**

9 A. I graduated from Ball State University in 1977 with a Bachelor of Science. in
10 Accounting. In 1987, I earned a Masters in Business Administration from Indiana
11 Wesleyan University.

12 **Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.**

13 A. I became employed by Public Service Company of Indiana, Inc. (PSI) in 1977 as a
14 staff accountant. I held various positions in a number of areas, including Fixed
15 Assets, Treasury, Budgets General Accounting and Internal Audit up through the
16 merger between PSI and The Cincinnati Gas & Electric Company (Cinergy
17 Merger) and the formation of Cinergy Corp. (Cinergy). Following the Cinergy
18 Merger, I held several project manager positions. In 1998, I became the Director
19 of Accounting for Cinergy's Energy Merchant/Commercial Business Unit. In
20 November of 2004, I was promoted to Director of Financial Planning and
21 Analysis for Cinergy's Commercial Business Unit. Upon consummation of the
22 merger between Cinergy and Duke Power Corporation (Duke Merger), I took on

1 my current role as Director of Financial Forecasting for Duke Energy's U.S.
2 Franchised Electric and Gas Businesses, Duke Energy Ohio (DE-Ohio) and Duke
3 Energy Kentucky (DE-Kentucky).

4 **Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR, FINANCIAL**
5 **FORECASTING.**

6 A. I am responsible for preparing the budgets and forecasts and performing financial
7 analysis for DE-Ohio and DE-Kentucky.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
9 **UTILITIES COMMISSION OF OHIO?**

10 A. No.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
12 **PROCEEDING?**

13 A. I explain DE-Ohio's budgeting and forecasting process. I also sponsor
14 Supplemental Filing Requirements for S-1.0, S-2, and F. I sponsor Supplemental
15 Filing Requirement (C)(12). Finally, I provided projected revenue, sales and
16 customer data for the years 2009 through 2013 to Mr. William Don Wathen Jr. for
17 the preparation of Schedules C-12.1 through C-12.4.

18 **II. THE BUDGETING AND FORECASTING PROCESS**
19

20 **Q. DESCRIBE THE SOURCE OF THE FORECASTED FINANCIAL DATA**
21 **USED IN THIS CASE.**

22 A. The forecasted data used in this proceeding is based on DE-Ohio's 2008 Annual
23 Budget. I supervised the coordination and development of this budget, and it was
24 reviewed and approved by DE-Ohio's executive management and Duke Energy's

1 Board of Directors.

2 **Q. DESCRIBE THE BUDGETING AND FORECASTING PROCESS THAT**
3 **YOU USED TO DEVELOP THE TEST PERIOD IN THIS PROCEEDING.**

4 A. Budgeting is done at organizational levels known as the "responsibility centers."
5 The responsibility centers use the guidelines provided by Duke Energy's
6 Budgeting and Business Support Department. The responsibility centers prepare
7 detailed responsibility budgets consisting of expense items, certain types of
8 revenues, and construction budgets for capital projects. The information is
9 consolidated along with sales and revenue data into a corporate budget and is
10 reviewed by various levels of management. One or more iterations of the annual
11 budget are typically required before final approval by executive management and
12 the Board of Directors. This "bottom-up" approach has been an effective process
13 for managing costs.

14 **Q. DESCRIBE THE GUIDELINES PROVIDED BY THE BUDGETING AND**
15 **BUSINESS SUPPORT DEPARTMENT IN DEVELOPING DE-OHIO'S**
16 **ANNUAL RESPONSIBILITY (OPERATING AND MAINTENANCE)**
17 **CENTER BUDGET.**

18 A. The guidelines provided by the business support department are a detailed set of
19 instructions for creating a responsibility center budget. For example, there are
20 detailed instructions for budgeting employee labor data, such as the escalation
21 rates for non-union labor expenses and indirect labor and fringe benefit loading
22 rates, and how to handle staff additions or deletions. Individual employees and
23 certain associated costs of the employees are included or excluded in any given

center's budget according to the expected future reporting assignment for that employee. Detailed instructions for non-labor related expenses, such as transportation and information technology expenses, are included. There are instructions for handling contract labor and supplies, and guidelines for identifying a capital versus expense item. Budget coordinators are required to use these assumptions and/or instructions in projecting their future departmental expenses. These operating and maintenance (O&M) budgeting guidelines are reflected in the budgets and forecasts that are submitted to DE-Ohio's executive management and Duke Energy's Board of Directors for approval and are also reflected in the forecasted financial data in this proceeding.

III. SCHEDULES AND FILING REQUIREMENTS
SPONSORED BY WITNESS

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT S-1.0.

A. Supplemental Filing Requirement S-1.0 contains five-year financial forecast for certain capital expenditure information exceeding five percent of budget for the five years 2009 through 2013. DE-Ohio witness Mr. Carl J. Council, Jr. provided the net plant cost information used to develop this data.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENTS S-2.

A. Supplemental Filing Requirement S-2 contains five-year financial forecast for certain revenue requirement information.

Q. PLEASE DESCRIBE THE SECTION F SCHEDULES.

A. The Section F schedules contain a projected income statement, rate base summary, capital structure and statement of changes in financial position for the calendar year 2009. The projections are prepared on two bases: (1) assuming

1 that DE-Ohio's rate increase request is granted; and (2) assuming no rate increase.

2 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(12).**

3 A. Supplemental Filing Requirement (C)(12) is a summary of the forecasting
4 methods used by DE-Ohio for the test period financial data.

IV. CONCLUSION

5 **Q. WERE THE SUPPLEMENTAL FILING REQUIRMENTS S-1.0**
6 **THROUGH S-2. SCHEDULE F, AND SCHEDULE C-12 PREPARED BY**
7 **YOU OR UNDER YOUR SUPERVISION?**

8 A. Yes.

9 **Q. IS THE INFORMATION CONTAINED IN THOSE SCHEDULES AND**
10 **SUPPLEMENTAL FILING REQUIREMENTS ACCURATE, TO THE**
11 **BEST OF YOUR KNOWLEDGE AND BELIEF?**

12 A. Yes.

13 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

14 A. Yes.