

BEFORE

## THE PUBLIC UTILITIES COMMISSION OF OHIO

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PUCO

In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Electric Distribution Rates	)	Case No. 08-709-EL-AIR
	)	
In the Matter of the Application of Duke Energy Ohio, Inc. for Tariff Approval	)	Case No. 08-710-EL-ATA
	)	
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change Accounting Methods	)	Case No. 08-710-EL-AAM
	)	
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of its Rider BDP, Backup Delivery Point Rider	)	Case No. 06-718-EL-ATA
	)	

Prepared Testimony  
of  
David R. Hodgden  
Capital Recovery and Financial Analysis Division  
Utilities Department

Staff Exhibit 2

March 31, 2009

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1                                    PREPARED TESTIMONY OF DAVID R. HODGDEN

2        1.        Q.        Please state your name and business address.

3                A.        My name is David R. Hodgden. My business address is 180 East Broad  
4                                Street, Columbus, Ohio 43215.

5        2.        Q.        By whom are you employed?

6                A.        I am employed by the Public Utilities Commission of Ohio (PUCO).

7        3.        Q.        What is your current position with the PUCO and what are your  
8                                duties?

9                A.        I am Chief of the Capital Recovery and Financial Analysis Division within  
10                                the Utilities Department. My duties include establishing policies, practices,  
11                                and procedures for the Division's accountants and analysts who conduct  
12                                audits, financial analyses, and investigations of public utility companies  
13                                subject to the jurisdiction of the PUCO. The determination of revenue  
14                                requirements in connection with rate case investigations is under my  
15                                purview.

16       4.        Q.        Would you briefly state your educational background?

17               A.        I earned a B.A. Degree in Business Administration from Otterbein College  
18                                in June, 1972 and a B.S. Degree in Finance from Franklin University in  
19                                May, 2003. In addition, over the years I have attended numerous regulatory  
20                                seminars and training programs sponsored by this Commission,  
21                                professional trade associations, and the financial community.

1     5.     Q.     Please outline your work experience.

2           A.     Upon graduation from Otterbein College, I was employed by Columbia Gas  
3                 of Ohio as a Budget Analyst. I joined the Public Utilities Commission in  
4                 September, 1974 as an auditor. I have held several technical and  
5                 managerial positions during my tenure with the PUCO. These positions  
6                 include Audit Supervisor, Division Chief of Accounts and Audits, Deputy  
7                 Director, Division Chief of the Financial Analysis Division, and my current  
8                 position. I have previously testified before this Commission.

9     6.     Q.     What are your responsibilities in this proceeding?

10          A.     The purpose of my testimony is to support the Stipulation and  
11                 Recommendation (the Stipulation) that was negotiated by the parties in this  
12                 case.

13    7.     Q.     Are the results of the Stipulation and Recommendation reasonable?

14          A.     Yes. The results are reasonable for three basic reasons: (1) the settlement  
15                 was a product of serious bargaining among capable, knowledgeable parties;  
16                 (2) the settlement, as a package, benefits ratepayers and is in the public  
17                 interest; and (3) the settlement does not violate any regulatory principle or  
18                 practice.

19    8.     Q.     Who was involved in the negotiations of the Stipulation?

20          A.     The parties included representatives of all stakeholder groups in the Duke  
21                 Energy-Ohio service territory, including: residential customers, industrial  
22                 customers, and commercial customers. The participants included, among

1 others: the Ohio Consumers' Counsel, Ohio Partners for Affordable  
2 Energy, People Working Cooperatively and the City of Cincinnati. The  
3 Ohio Consumers' Counsel is the statutorily identified representative of  
4 residential consumers. Ohio Partners for Affordable Energy and People  
5 Working Cooperatively also exist to serve residential consumers. The City  
6 of Cincinnati's constituents include residential customers within its  
7 boundaries. Industrial customers were represented by The Ohio Energy  
8 Group. Commercial account stakeholders that participated in the  
9 negotiations were The Kroger Company and The Greater Cincinnati Health  
10 Council, whose members include hospitals. The Ohio Cable  
11 Telecommunications Association and TW Telecom of Ohio LLC  
12 participated in negotiations concerning pole attachment rates, terms, and  
13 conditions. Finally, the Commission's Staff participated in the negotiations  
14 as well as Duke Energy-Ohio. In summary, the participants in the  
15 negotiations included: the utility, its customers, and the regulator.

16 9. Q. Were the parties knowledgeable and capable parties?

17 A. Yes. All the parties mentioned above have been involved in proceedings  
18 involving the rates charged by Duke Energy-Ohio, and its predecessors. In  
19 addition, all the attorneys representing the parties I listed above have been  
20 involved in proceedings before the Commission. The parties involved in the  
21 negotiations are knowledgeable and experienced in utility cases, generally,  
22 and in Duke rate setting matters, specifically.

1 10. Q. Were all the parties invited to participate in the negotiation?

2 A. Yes. Some participated in person, some participated by phone, and some  
3 chose not to participate, but communicated their views by e-mail.

4 11. Q. What happened during the negotiations?

5 A. The parties put forward and discussed a variety of proposals. All parties  
6 had the ability to discuss the issues and present their views. There was give  
7 and take among the parties. The Stipulation resulted from that give and  
8 take, and it represents an acceptable resolution of all issues in this case to  
9 the signatory parties.

10 12. Q. How did the negotiation process contribute to your conclusion that  
11 the results of the settlement are reasonable?

12 A. The results of the settlement reflected consensus building on the part of the  
13 signatories to the settlement. The terms and conditions of the Stipulation  
14 reflect significant movement from the various litigation positions presented  
15 in the case by the signatory parties. The interests of the parties to the case  
16 varied widely, and the Stipulation was the result of good faith negotiations  
17 and serious bargaining among the signatories.

18 13. Q. Is the Stipulation in the public interest?

19 A. Yes. The revenue requirement, rate design, and all other terms and conditions  
20 negotiated by the signatory parties reflect sound regulatory rate setting practices.  
21 The stipulated settlement in its entirety is reasonable and is in the public interest. It  
22 provides Duke with the opportunity to earn a reasonable rate of return on its

1 distribution plant without excessively increasing rates. Duke's ability to earn a  
2 reasonable rate of return means it will have the economic ability to provide  
3 reliable electrical service, which is in the public interest. This rate increase will  
4 amount to only about a 3% increase in Duke's total retail revenue, which includes  
5 both distribution and generation costs. That is a modest increase that is within the  
6 revenue range recommended in the Staff Report, and it is below the mid-point of  
7 the Staff's recommended range. Additionally, the Stipulation resolves a number  
8 of issues. For example, it resolves how the company will pursue recovery of costs  
9 resulting from the wind-storm associated with hurricane Ike. It also provides funds  
10 for low-income weatherization programs. It provides funds to aid low-income  
11 customers who are not involved in the PIPP program. It allows customers to pay  
12 customer deposits over a three month period. The Stipulation in its totality is in the  
13 public interest.

14 14. Q. Does the Stipulation violate any significant regulatory policy or practice?

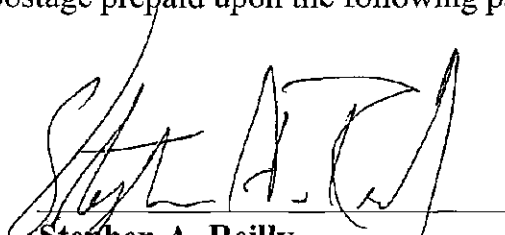
15 A. No. The Stipulation reflects sound regulatory policy and practice.

16 15. Q. Does this conclude your testimony?

17 A. Yes.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Testimony of David R. Hodgden was served via electronic mail and/or regular U.S. mail, postage prepaid upon the following parties of record this 31<sup>th</sup> day of March, 2009.

  
**Stephen A. Reilly**  
Assistant Attorney General

Duke Energy Ohio, Inc.  
Elizabeth H. Watts  
2500 Atrium II, 139 East Fourth Street  
P.O. Box 960  
Cincinnati, Ohio 45201-0960  
Elizabeth.watts@duke.energy.com

Ohio Consumers' Counsel  
Ann M. Hotz, Counsel of Record  
10 W. Broad Street  
Suite 1800  
Columbus, OH 43215-3420  
hotz@occ.state.oh.us

Boehm, Kurtz & Lowry  
David Boehm/Michael Kurtz  
36 East 7<sup>th</sup> Street  
URS Building  
Suite 1510  
Cincinnati, OH 45202-4454  
dboehm@BKLawfirm.com

Chester, Willcox & Saxbe LLP  
John W. Bentine/Mark Yurick  
65 E. State Street  
Suite 1000  
Columbus, OH 43215-4216  
myurick@cwslaw.com

TW Telecom of Ohio LLC  
Pamela Sherwood  
4625 W. 8<sup>th</sup> Street, Suite 500  
Indianapolis, IN 46268  
Pamela.sherwood@telecom.com

Greater Cincinnati Health Council  
Douglas E. Hart  
441 Vine Street  
Suite 4192  
Cincinnati, OH 45202-2852  
dhart@douglasshart.com

Vorys, Sater, Seymour & Pease  
Steven M. Howard  
52 E. Gay Street  
P.O. Box 1008  
Columbus, OH 43215-3108  
smhoward@vorys.com

People Working Cooperatively, Inc.  
Mary W. Christensen, Esq.  
100 E. Campus View Blvd.  
Columbus, OH 43235-4679  
mchristensen@columbuslaw.org

Bricker & Eckler, LLP  
Sally Bloomfield/Thomas O'Brien  
100 S. Third Street  
Columbus, OH 43215-4236  
tobrien@bricker.com

Ohio Partners for Affordable Energy  
David Rinebolt/Colleen Mooney  
231 West Lima Street  
Findaly, OH 45840-3033  
drinebolt@aol.com  
cmooney2@columbus.rr.com

Albert Lane  
7200 Fair Oaks Dr.  
Cincinnati, OH 45237  
AELMICTEN@aol.com