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Duke Energy Ohio Exhibit _____

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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application)
of Duke Energy Ohio for an)
Adjustment to Rider AMRP Rates)

Case No. 09-1849-GA-RDR

In the Matter of the Application of)
Duke Energy Ohio for Tariff)
Approval)

Case No. 09-1850-GA-ATA

SUPPLEMENTAL DIRECT TESTIMONY OF

ROBERT M. PARSONS

ON BEHALF OF

DUKE ENERGY OHIO

APRIL 16, 2010

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Robert M. Parsons. My business address is 139 East Fourth Street,
3 Cincinnati, Ohio 45202.

4 **Q. ARE YOU THE SAME ROBERT M. PARSONS WHO FILED DIRECT**
5 **TESTIMONY IN THIS PROCEEDING ON BEHALF OF DUKE ENERGY**
6 **OHIO, INC. (DUKE ENERGY OHIO OR COMPANY)?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN**
9 **THIS PROCEEDING?**

10 A. The purpose of my Supplemental Testimony is to discuss and support the
11 reasonableness of the Stipulation and Recommendation (Stipulation) filed in the
12 above-captioned proceeding. The Stipulation is filed with the support of all of the
13 parties to this proceeding, including the Staff of the Public Utilities Commission
14 of Ohio (Commission) and the Office of the Ohio Consumers' Council (OCC).
15 Along with Duke Energy Ohio, these entities are collectively referred to as the
16 Stipulating Parties for the remainder of this testimony.

17 Through my testimony, I will demonstrate that the Stipulation: (1) is the
18 product of serious bargaining among capable, knowledgeable parties; (2) does
19 not violate any important regulatory principle or practice; (3) as a whole, will
20 benefit consumers and is in the public interest; and (4) is a just and reasonable
21 resolution of the issues.

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A. The Stipulation, filed with the Commission on April 16, 2010, represents a resolution of all of the issues among the Stipulating Parties relating to Duke Energy Ohio's application for an adjustment to Rider AMRP rates and for tariff approval (hereinafter, Rider AMRP application).

As reflected in the Stipulation, Duke Energy Ohio also agrees to provide its natural gas customers with minimum guaranteed main maintenance savings, as reflected in Stipulation Exhibit 2. I discuss this particular provision of the Stipulation in greater detail below.

As evident from the Stipulation, Duke Energy Ohio remains committed to exploring the availability of funding under the American Recovery and

1 Reinvestment Act of 2009 (aka, stimulus funding) for AMRP- and RRP-related
2 projects. If such funding is available, Duke Energy Ohio agrees to apply for same.
3 And the Company will file a statement in its next Rider AMRP filing that reflects
4 its efforts to obtain federal stimulus funding.

5 **Q. YOU TESTIFIED THAT, THROUGH THIS STIPULATION, DUKE**
6 **ENERGY OHIO HAS COMMITTED TO GUARANTEED**
7 **MAINTENANCE SAVINGS FOR ITS NATURAL GAS CUSTOMERS.**
8 **CAN YOU PLEASE ELABORATE ON THIS COMMITMENT?**

9 A. Yes. Duke Energy Ohio acknowledges that one of the goals of its AMRP is
10 immediate main maintenance savings returned to customers through Rider
11 AMRP. Thus, the Company has committed to ensuring that its natural gas
12 customers will receive main maintenance savings on an annual basis. These
13 savings will be the greater of test year actual main maintenance savings or the
14 minimum main maintenance savings reflected in Stipulation Exhibit 2. In this
15 regard, actual main maintenance savings are those determined with reference to
16 accounts 885000, 887000, and 892000, in the aggregate.

17 **Q. PLEASE EXPLAIN HOW ‘ACTUAL MAIN MAINTENANCE SAVINGS’**
18 **ARE CALCULATED.**

19 A. Duke Energy Ohio calculates actual main maintenance savings by comparing the
20 total of accounts 885000, 887000, and 892000 for the test year to the total for
21 these accounts included in base rates. As I discussed earlier, expenses of the IMP
22 will be eliminated from both the baseline expenses and from the test year
23 expenses. In addition, the Company has committed to eliminate from test year

1 expenses all expenses incurred for newly mandated regulatory programs. This
2 methodology is intended to keep the main maintenance calculation on an apples-
3 to-apples basis.

4 **Q. IF THERE IS AN EXISTING METHODOLOGY FOR DETERMINING**
5 **ACTUAL MAIN MAINTENANCE SAVINGS, WHY DID DUKE ENERGY**
6 **OHIO DEVELOP A METHODOLOGY FOR MINIMUM MAIN**
7 **MAINTENANCE SAVINGS? IN OTHER WORDS, WHY NOT JUST**
8 **DETERMINE ANNUAL SAVINGS WITH REFERENCE TO ACTUAL**
9 **MAIN MAINTENANCE SAVINGS?**

10 A. The actual main maintenance expenses in a test year may not, in the aggregate,
11 result in savings. In such a circumstance, the Company would include zero
12 savings in the revenue requirement for the test year. To mitigate against this
13 occurrence and ensure that customers receive main maintenance savings annually,
14 Duke Energy Ohio commits to guaranteeing a minimum level of savings.

15 **Q. HOW WERE THE MINIMUM MAIN MAINTENANCE SAVINGS**
16 **CALCULATED?**

17 A. As indicated on Stipulation Exhibit 2, Duke Energy Ohio first determined the
18 number of actual main leaks repaired in 2008 and 2009, excluding repairs
19 occasioned by third party damage. The difference between these two numbers
20 indicates that there were 105 less main leak repairs in 2009 as compared to 2008.
21 Duke Energy Ohio then determined the overall savings associated with these 105
22 fewer main leak repairs by multiplying 105 by \$3,126, which is the average cost

1 to repair a main leak in 2009. This calculation results in maintenance savings of
2 \$328,230 for 2009.

3 This same methodology was then applied for the projected, remaining
4 years of the program to determine the annual main maintenance savings,
5 excluding third party damage.

6 Because the Company does not yet know the actual number of main leak
7 repairs for 2010 and after, it determined the estimated number with reference to
8 the established results of its annual leak survey. This survey requires Duke
9 Energy Ohio to leak survey its gas mains on a three-year cycle. Historic survey
10 results indicate that the percentages of leaks reduced, excluding third party
11 damage over the three-year period are 4%, 6%, and 10%, respectively. Based
12 upon these historic results, Duke Energy Ohio projects a 4% reduction in main
13 leaks repaired, excluding third party damage, in 2010 as compared to 2009, a 6%
14 reduction in main leaks repaired, excluding third party damage, in 2011 as
15 compared to 2010, and a 10% reduction in main leaks repaired, excluding third
16 party damage, in 2012 as compared to 2011. In 2013, the projected cyclical
17 reductions start over again with a 4% reduction in main leaks repaired.

18 Similar to how it calculated main maintenance savings for 2009, Duke
19 Energy Ohio calculated estimated main maintenance savings for 2010 and
20 subsequent program years by multiplying the number of main leak repairs,
21 excluding third party damage, for a given year by the 2009 average cost of leak
22 repair, or \$3,126. This annual savings was then added to the cumulative savings
23 from prior years to arrive at the accumulated main maintenance savings for that

1 particular year. This accumulated savings is reflected in Line 4 of Stipulation
2 Exhibit 2. Thus, for purposes of illustration, Duke Energy Ohio is guaranteeing
3 minimum maintenance savings of \$387,624 for the 2010 test year.

4 **Q. DOES THIS GUARANTEE MEAN THAT THE AMOUNT OF ANNUAL**
5 **MAIN MAINTENANCE SAVINGS IS DETERMINED BY THE**
6 **CALCUATION METHODOLOGY SET FORTH IN STIPULATION**
7 **EXHIBIT 2?**

8 A. Not necessarily. Annual main maintenance savings will be the *greater* of actual
9 main maintenance savings or the minimum savings reflected in Stipulation
10 Exhibit 2 for the 2009 through 2011 test years. In other words, the calculation
11 methodology reflected in Stipulation Exhibit 2 demonstrates the minimum
12 savings to be returned to customers. If the actual main maintenance savings
13 exceed the minimum savings in a given year, customers will benefit from the
14 higher actual amount. For the test years commencing in 2012 or thereafter, the
15 Stipulating Parties will reevaluate the continued use of the calculation
16 methodology reflected in Stipulation Exhibit 2. The purpose of this reevaluation is
17 to seek agreement on the guaranteed main maintenance savings level for the 2012
18 test year and thereafter.

19 **Q. DOES THE STIPULATION REPRESENT THE PRODUCT OF SERIOUS**
20 **BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES?**

21 A. Yes. The standing of the parties and their attorneys to the Stipulation is readily
22 apparent. The Stipulating Parties regularly participate in rate proceedings before
23 the Commission, are knowledgeable in regulatory matters, and were represented

1 by experienced, competent counsel. Furthermore, the Stipulating Parties
2 represent a broad range of interests.

3 The Commission's Staff thoroughly reviewed Duke Energy Ohio's
4 application and Duke Energy Ohio responded to numerous data requests received
5 from the Commission's Staff and OCC. Furthermore, both Staff and the OCC
6 presented comments on the Rider AMRP application, after completing a
7 comprehensive review of the filing.

8 All parties were invited to attend all of the settlement discussions
9 regarding the Rider AMRP application. The first settlement conference was held
10 on April 8, 2010, with a second conference conducted on April 13. Negotiations
11 continued via electronic mail, with all Stipulating Parties having ample
12 opportunity to review and provide comment on the terms of the settlement as
13 ultimately reflected in the Stipulation. All of the issues raised by the Stipulating
14 Parties in this proceeding were addressed during these negotiations and, despite
15 the divergent interests among them, all Parties had opportunity to express their
16 opinions in the negotiating process. For all of these reasons, I believe that the
17 Stipulation is a compromise resulting from those negotiations and, therefore,
18 represents a product of the efforts of capable, knowledgeable parties.

19 **Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT**
20 **REGULATORY PRINCIPLE OR PRACTICE?**

21 **A.** No. Based on the advice of counsel, my understanding is that the Stipulation
22 complies with all relevant and important principles and practices. Based upon my
23 examination of the Stipulation as Rates Manager for Duke Energy Ohio, I have

1 also concluded that the Stipulation does not violate any regulatory ratemaking
2 principle. The Stipulation is fully supported by all of the evidence presented to
3 the Commission and other Parties in this case.

4 **Q. DOES THE STIPULATION BENEFIT CONSUMERS AND THE PUBLIC**
5 **INTEREST?**

6 A. Yes. The Stipulation provides several significant benefits across all customer
7 groups and other interested stakeholders, including:

8 1. The Stipulation provides for the timely implementation of the
9 updated Rider AMRP rates, to be effective May 3, 2010.

10 2. The Stipulation provides for recovery of costs incurred by Duke
11 Energy Ohio in its ongoing effort to replace aging cast iron and bare steel natural
12 gas mains and associated service lines and certain natural gas risers, thereby
13 improving the safety and reliability of the distribution system for its customers.
14 These programs – the AMRP and the RRP – provide further benefits to customers
15 in that they reduce the incidents of leaks on the system, thus enhancing safety for
16 customers. In addition, the enhancements improve reliability and allow for
17 increased pressure on the system thereby allowing for possible distributed
18 generation methods, such as fuel cells.

19 3. The Stipulation provides Duke Energy Ohio's natural gas
20 customers with an assurance of annual main maintenance savings. As discussed
21 above, customers will receive on an annual basis the greater of actual savings as
22 reflected in accounts 885000, 887000 and 892000 or the minimum guaranteed
23 savings set forth in Stipulation Exhibit 2.

1 4. The Stipulation results in a reduction in the monthly Rider AMRP
2 charge of \$0.04 for residential customers and \$0.34 for general service customers,
3 from the revenue requirement initially filed by the Company.

4 **Q. IS THE STIPULATION A JUST AND REASONABLE RESOLUTION OF**
5 **THE ISSUES?**

6 A. Yes. As described above, the Stipulation affords benefits to consumers and the
7 public and is consistent with established regulatory principles and practices. The
8 Stipulation also represents a timely and efficient resolution of the issues raised in
9 this proceeding, after thoughtful deliberation and discussion by the Stipulating
10 Parties.

11 **Q. DO YOU BELIEVE THE STIPULATION MEETS THE THREE-PART**
12 **TEST REGARDING CONSIDERATION OF STIPULATIONS AND**
13 **THEREFORE SHOULD BE ADOPTED BY THE COMMISSION?**

14 A. Yes, I do.

15 **Q. DOES THE STIPULATION RESOLVE ALL OF THE ISSUES IN THIS**
16 **PROCEEDING?**

17 A. Yes, it does.

18 **III. CONCLUSION**

19 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY**
20 **SUPPORTING THE STIPULATION?**

21 A. Yes.