

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :  
Application of Duke Energy :  
Ohio, Inc., for Approval :Case No. 09-773-GA-UEx  
of an Uncollectible Expense :  
Rider :

In the Matter of the :  
Application of Duke Energy :  
Ohio, Inc., for Approval :Case No. 10-726-GA-UEx  
of an Adjustment to its :  
Uncollectible Rider Rate :

In the Matter of the :  
Regulations of the :  
Purchased Gas Adjustment :  
Clause Contained within :Case No. 10-218-GA-GCR  
the Rate Schedules of Duke :  
Energy Ohio and Related :  
Matters :

- - -

PROCEEDINGS

before Ms. Sarah Parrot and Mr. Henry H.  
Phillips-Gary, Hearing Examiners, at the Public  
Utilities Commission of Ohio, 180 East Broad Street,  
Room 11-D, Columbus, Ohio, called at 10:00 a.m. on  
Tuesday, January 25, 2011.

- - -

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APPEARANCES:

Mike DeWine, Ohio Attorney General  
Public Utilities Section  
Mr. William Wright, Section Chief  
By Mr. Stephen A. Reilly  
Assistant Attorney General  
180 East Broad Street, 6th Floor  
Columbus, Ohio 43215-3793

On behalf of the staff of the Public  
Utilities Commission of Ohio.

Duke Energy Corporation  
By Ms. Elizabeth H. Watts  
155 East Broad Street  
21st Floor  
Columbus, Ohio 43215

On behalf of Duke Energy.

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1 Tuesday Morning Session,  
2 January 25, 2011.

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4 HEARING OFFICER PARROT: Let's go on the  
5 record.

6 The Public Utilities Commission of Ohio  
7 is called for a hearing at this time and place  
8 Case No. 10-218-GA-GCR being in the matter of  
9 regulations of the purchased gas adjustment clause  
10 contained within the rate schedules of Duke Energy  
11 Ohio, Inc. and related matters, Case No.  
12 09-773-GA-UEX being in the matter of the application  
13 of Duke Energy Ohio, Inc. for approval of an  
14 uncollectible expense rider, and Case No.  
15 10-726-GA-UEX being in the matter of the application  
16 of Duke Energy Ohio, Inc. for approval of an  
17 adjustment to its uncollectible expense rider rates.

18 My name is Sarah Parrot. With me today  
19 is Henry Phillips-Gary. We are the attorney  
20 examiners assigned by the Commission to hear these  
21 cases today.

22 At this time let's begin with the  
23 appearances of the parties beginning with Duke Energy  
24 Ohio.

25 MS. WATTS: Thank you, Your Honor.

On behalf of Duke Energy Ohio, Elizabeth H. Watts, 155 East Broad Street, 21st Floor, Columbus, Ohio 43215. Thank you.

HEARING OFFICER PARROT: And on behalf of the staff of the Public Utilities Commission of Ohio.

MR. REILLY: Thank you. On behalf of the Public Utilities Commission of Ohio, Michael DeWine, Ohio Attorney General, William Wright, Section Chief, Stephen Reilly, Assistant Attorney General, 180 East Broad Street, Columbus, Ohio 43215.

HEARING OFFICER PARROT: Thank you, Mr. Reilly.

Are there any members of the public present today in the hearing room that wish to make a statement?

Let the record reflect that there are no members present today.

I understand that the parties have filed a stipulation and recommendation for the Commission's consideration; is that correct?

MR. REILLY: We have, Your Honor. We would -- we have four exhibits for this proceeding. I was wondering if we could at least mark them and perhaps get them admitted.

1           There's the stipulation and  
2       recommendation. I provided copies of these to the  
3       Bench and the court reporter.

4           (EXHIBITS IDENTIFIED FOR THE RECORD.)

5           MR. REILLY: There's a joint exhibit -- I  
6       would ask that Joint Exhibit 1, the stipulation being  
7       marked as Joint Exhibit 1 is the stipulation docketed  
8       herein in all the cases on January 18, 2011.

9           I would ask that then two documents be  
10      identified as Commission Ordered Exhibits.  
11      Commission Ordered Exhibit 1, I ask that the Deloitte  
12      and Touche audit report docketed November 19, 2010,  
13      in Case 10-218-GA-GCR be identified as Commission  
14      Ordered Exhibit 1.

15          I would ask that the Deloitte and Touche  
16      report docketed November 19, 2010, in cases  
17      10-726-GA-UEX and 09-773-GA-UEX be marked as  
18      Commission Ordered Exhibit 2.

19          Those -- the Commission Ordered Exhibits  
20      are covered in the stipulation which is marked as  
21      Joint Exhibit 1 and parties are stipulating their  
22      admission.

23          With that we would call Roger Sarver.

24          We would also move the introduction of  
25      those three exhibits, Joint Exhibit 1, Commission

1 Ordered Exhibits 1 and 2, and we move the  
2 introduction of those by stipulation.

3 MS. WATTS: Mr. Reilly, are you intending  
4 to mark Mr. Sarver's testimony?

5 MR. REILLY: We would mark Mr. Sarver's  
6 testimony as Staff Exhibit 1.

7 HEARING OFFICER PARROT: So marked.

8 MR. REILLY: Which we'll talk about when  
9 we get up there.

10 - - -

11 ROGER SARVER

12 being duly sworn as prescribed by law was examined  
13 and testified as follows:

14 DIRECT EXAMINATION

15 By Mr. Reilly:

16 Q. Mr. Sarver --

17 A. Yes.

18 Q. -- would you introduce yourself to the  
19 Bench stating your name and business address.

20 A. My name is Roger L. Sarver, and my  
21 business address is 180 East Broad Street, Columbus,  
22 Ohio 43215.

23 Q. Thank you, Mr. Sarver. I'd like -- I've  
24 laid a number of documents up there on the witness  
25 stand. I was wondering if you could take a look

1 among them and see if you can find one marked Staff  
2 Exhibit 1. Can you find that?

3 A. Yes.

4 Q. Would you take a moment and take a look  
5 at that document, review it, please.

6 A. Okay.

7 Q. Have you completed your review?

8 A. Yes.

9 Q. Have you seen that document before?

10 A. Yes.

11 Q. Can you tell me what it is.

12 A. It's my prefiled testimony in Case No.  
13 10-218-GA-GCR.

14 Q. Now, Mr. Sarver, I would like you to take  
15 a look through that, what's been marked as Staff  
16 Exhibit Number 1, that is your prefiled testimony,  
17 and ask you does it also have any material in there  
18 that would apply to cases 10-726-GA-UEX and  
19 09-773-GA-UEX?

20 A. Those two cases were also incorporated in  
21 the 10-218-GA-GCR stipulation, so, yes.

22 Q. Okay. So, Mr. Sarver, was this testimony  
23 prepared under your -- by you or under your  
24 supervision?

25 A. Yes.



1 Q. If I were to ask you questions -- strike  
2 that.

3 Would you like to make any corrections,  
4 additions, or changes to the testimony that's marked  
5 as Staff Exhibit Number 1?

6 A. No.

7 Q. If I were to ask you questions that are  
8 shown in Staff Exhibit 1, would your answers today be  
9 the same as those shown in Staff Exhibit Number 1?

10 A. Yes.

11 MR. REILLY: We would move the  
12 introduction of Staff Exhibit Number 1 and offer the  
13 witness for cross examination.

14 HEARING OFFICER PARROT: Ms. Watts.

15 MS. WATTS: Thank you, Your Honor. I  
16 have no cross examination.

17 HEARING OFFICER PARROT: All right.

18 Mr. Sarver, the Bench has just a few  
19 questions for you today.

20 - - -

21 EXAMINATION

22 By Hearing Officer Parrot:

23 Q. Would you please turn your attention to  
24 what's been marked as Staff Exhibit 1, your direct  
25 testimony.

1           A.     Yes.

2           Q.     Specifically page number 2, there you're  
3     addressing the Commission's three-part test that it  
4     uses for evaluating the stipulations and you  
5     testified that you're familiar with that test?

6           A.     Yes.

7           Q.     Specifically with respect to the second  
8     part of the test which is whether or not the  
9     stipulation considered in the package benefits rate  
10    payers and is in the public interest.

11          A.     Yes.

12          Q.     Would you please elaborate for us today  
13    why you feel that the stipulation does benefit rate  
14    payers and that it is in the public interest.

15          A.     The stipulation incorporates or it  
16    accepts the audit findings of Deloitte and Touche for  
17    the GCR and the UEX. These audits are to ensure that  
18    the rates that the utility are charging its customers  
19    are consistent with the cost that it's incurring, so  
20    the benefit to the customer is to ensure that they  
21    are paying for no more than what the company is  
22    incurring in the cost.

23                HEARING OFFICER PHILLIPS-GARY: And by  
24    stipulating rather than litigating it, is there an  
25    additional benefit to rate payers?

1 THE WITNESS: From the Staff standpoint,  
2 Staff and the Company are in agreement as to what the  
3 audit findings are. If they were in disagreement,  
4 then it would justify -- it would make sense to have  
5 an evidentiary hearing to determine the merits of  
6 each side.

7 HEARING OFFICER PHILLIPS-GARY: But since  
8 there's no disagreement, there's no need to incur  
9 costs for that; is that correct?

10 THE WITNESS: Correct.

11 HEARING OFFICER PHILLIPS-GARY: Okay.  
12 Thank you.

13 Q. (By Hearing Officer Parrot) And thank  
14 you, Mr. Sarver.

15 If you turn your attention now to what's  
16 been marked as Commission Ordered Exhibit Number 2,  
17 and that is the letter from Deloitte regarding its  
18 finding with respect to the uncollectible expense in  
19 their audit, and on the second page of that letter,  
20 if you would look at number 2-A, and please take a  
21 minute to read that through, could you just briefly  
22 explain to us what it is that Deloitte is saying that  
23 it's done there with respect to the bad debts written  
24 off in 2009 and what Deloitte's findings were.

25 A. What the auditor is doing here with 2-A

1 is they go back to the Company, they obtain from them  
2 from the CMS 25 accounts that have been charged off  
3 for recovery through the UEX rider.

4 Q. And the CMS --

5 A. The CMS is the customer management  
6 system. I'm assuming that's the customer billing  
7 system.

8 I'm guessing that's where they are  
9 tracking what they're writing off.

10 And then the auditors requested the  
11 customer billing history for these customers that  
12 have been charged off. The customer billing history  
13 will indicate when the customer made their last  
14 payment, the customer's balance, any subsequent  
15 payments made by the customer after the balance has  
16 been written off. The auditor's attesting to the  
17 numbers Duke has placed for recovery into its UEX  
18 rider are consistent with the amounts that are being  
19 shown on these 25 select charge-offs. And it's a  
20 random sample to see if there's any difference  
21 between what the company is charging off, any  
22 subsequent recoveries to determine, okay, there's a  
23 problem here, they are not accurately charging off  
24 rates, the customer's made a subsequent payment after  
25 they have been written off, and the Company's not

1 recognizing that payment to the UEX rider.

2           So the auditors will randomly select a  
3 number of customers and go through and check to see  
4 the amounts that were written off, when the last  
5 payment was made to determine are they writing the  
6 customer off too fast, are they writing them off  
7 after 90 days, 120 days, 180 days, and the Company  
8 has a set of procedures they use for write-offs so  
9 the auditor will verify the company's consistently  
10 applying those procedures. So it's the point of  
11 going into detail with the customer billing.

12           Q. And so essentially the auditor found that  
13 Duke has properly accounted for these write-offs?

14           A. Yes.

15           Q. Thank you, Mr. Sarver.

16           If you'd now look at 3-B as in boy.

17           A. Yes.

18           Q. And the same kind of question, what is it  
19 that the auditor has done with respect to the bad  
20 debt recovery rate?

21           A. My interpretation of 3-B is the auditor  
22 has compared the bad debt recovery rate used in the  
23 calculation that was permitted by the rate case and  
24 found no difference. If there would have been a  
25 difference, the auditor would have noted that and

1 quantified them.

2 Q. Thank you. And finally number 5, same  
3 question, what is it that the auditor has found with  
4 respect to the interest rate utilized by Duke Energy  
5 Ohio?

6 A. It states that the auditors -- and the  
7 wording is, we agreed with the interest rates  
8 utilized by the company.

9 In that instance, I interpreted that to  
10 be the auditors checked the interest rates that were  
11 being applied in the calculation and those agreed to  
12 another -- a similar document the company utilizes  
13 for its short-term interest rates and found no  
14 difference.

15 HEARING OFFICER PHILLIPS-GARY: So they  
16 found that they were applying the proper interest  
17 rates, correct?

18 THE WITNESS: Yes.

19 HEARING OFFICER PHILLIPS-GARY: Thank  
20 you.

21 HEARING OFFICER PARROT: Thank you,  
22 Mr. Sarver. We have no further questions for you.

23 HEARING OFFICER PHILLIPS-GARY: The  
24 witness may be excused.

25 HEARING OFFICER PARROT: All right. I

1 believe the parties have stipulated to the admission  
2 of Commission Ordered Exhibits 1 and 2 as well as  
3 Joint Exhibit Number 1, is that correct, Ms. Watts?

4 MS. WATTS: That's correct, Your Honor.

5 HEARING OFFICER PARROT: Those exhibits  
6 will be admitted into the record.

7 (EXHIBITS ADMITTED INTO THE RECORD.)

8 HEARING OFFICER PARROT: Are there any  
9 objections to the admission of Staff Exhibit  
10 Number 1?

11 MS. WATTS: No objections.

12 HEARING OFFICER PARROT: And Staff  
13 Exhibit Number 1 is admitted as well.

14 (EXHIBITS ADMITTED INTO THE RECORD.)

15 HEARING OFFICER PARROT: With respect to  
16 Duke Energy's proofs of publication, it's my  
17 understanding that that exhibit will be filed at a  
18 later date.

19 MS. WATTS: Yes, Your Honor. We'd ask  
20 that that be marked as Duke Energy Ohio Exhibit 1 and  
21 assuming that there are -- that it's admitted into  
22 evidence, we'll provide that to the docket later  
23 today.

24 (EXHIBIT IDENTIFIED FOR THE RECORD.)

25 HEARING OFFICER PARROT: That exhibit

1 will be marked as late filed Duke Energy Ohio  
2 Exhibit 1 and will be admitted into the record.

3 (EXHIBIT ADMITTED INTO THE RECORD.)

4 MS. WATTS: Thank you.

5 HEARING OFFICER PARROT: Is there  
6 anything else to come before us today?

7 MR. REILLY: No, Your Honor.

8 HEARING OFFICER PARROT: With that, these  
9 cases are submitted on the record and we are  
10 adjourned.

11 MR. REILLY: Thank you, Your Honor.

12 MS. WATTS: Thank you, Your Honor.

13 (Thereupon, the hearing was concluded at  
14 10:20 a.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Tuesday, January 25, 2011, and carefully compared with my original stenographic notes.

---

Deborah J. Guzzo, Registered  
Professional Reporter and  
Notary Public in and for the  
State of Ohio.

My commission expires June 25, 2012.  
(2669-DJG)

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Summary: Transcript Transcript of Duke Energy Ohio hearing held on 01/25/11. electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Guzzo, Deborah Mrs.