

FILE

14

RECEIVED-DOCKETING DIV

BEFORE

2011 OCT 28 PM 3: 39

THE PUBLIC UTILITIES COMMISSION OF OHIO

PUCO

In the Matter of the Application of Duke )  
Energy Ohio for Authority to Establish a )  
Standard Service Offer Pursuant to )  
Section 4928.143, Revised Code, in the ) Case No. 11-3549-EL-SSO  
Form of an Electric Security Plan, )  
Accounting Modifications and Tariffs for )  
Generation Service. )

In the Matter of the Application of Duke )  
Energy Ohio for Authority to Amend its ) Case No. 11-3550-EL-ATA  
Certified Supplier Tariff, P.U.C.O. No. 20. )

In the Matter of the Application of Duke )  
Energy Ohio for Authority to Amend its ) Case No. 11-3551-EL-UNC  
Corporation Separation Plan. )

---

DIRECT TESTIMONY OF

CHARLES R. WHITLOCK

ON BEHALF OF

DUKE ENERGY OHIO, INC.

---

October 28, 2011

This is to certify that the images appearing are an  
accurate and complete reproduction of a case file  
document delivered in the regular course of business.  
Technician JD Date Processed 10-28-11

## **TABLE OF CONTENTS**

	<b>PAGE</b>
<b>I. INTRODUCTION.....</b>	<b>1</b>
<b>II. SUMMARY OF DUKE ENERGY OHIO’S GENERATION PORTFOLIO ....</b>	<b>3</b>
<b>III. TRANSFER OF LEGACY GENERATION ASSETS .....</b>	<b>6</b>
<b>IV. CONCLUSION .....</b>	<b>10</b>

### Attachments:

CRW-1: Duke Energy Ohio Operating Generation Assets

CRW-2: Duke Energy Ohio Retired Generation Assets

**CHARLES R. WHITLOCK DIRECT**

## **I. INTRODUCTION**

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

2   A.   My name is Charles R. Whitlock, and my business address is 139 East Fourth  
3       Street, Cincinnati, Ohio 45202.

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

5   A.   I am employed by Duke Energy Business Services, LLC, (DEBS) as President,  
6       Midwest Commercial Generation (MCG), Commercial Businesses. DEBS  
7       provides various administrative and other services to Duke Energy Ohio, Inc.,  
8       (Duke Energy Ohio or the Company) and other affiliated companies of Duke  
9       Energy Corporation (Duke Energy).

10  **Q.   PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**  
11  **EXPERIENCE.**

12  A.   I am a graduate of the University of Alaska at Anchorage, with a Bachelor of  
13       Business Studies Degree in Accounting. I am also a graduate of the Mahler  
14       School of Advanced Management Skills Program and the Center for Creative  
15       Leadership Developing Strategic Leadership Program. I have taken advanced  
16       course work in business management at Harvard University.

17               Prior to joining Cinergy Corp. (Cinergy), I was a Senior Power Trader for  
18       Statoil Energy. I also held various positions with Vitol Gas and Electric, which  
19       included responsibilities for energy trading, marketing and risk management. I  
20       joined Cinergy in May 2000 as a power trader for Cinergy Services, Inc. I held  
21       positions of increasing responsibility within the trading organization, culminating  
22       in the position of Vice President, Power Trading. In 2004, I became Vice  
23       President, Portfolio Optimization. In this role, I managed the commodity

1 exposure related to the generation assets. I remained in this position through the  
2 merger with Duke Energy. I was named to my current position in October 2009.

3 **Q. WHAT IS MIDWEST COMMERCIAL GENERATION?**

4 A. MCG is the organization within Duke Energy Corporation that manages all  
5 aspects of non-regulated generation and market participation in the Midwest.

6 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS PRESIDENT, MCG,  
7 COMMERCIAL BUSINESSES.**

8 A. I am responsible for the Midwest commercial generation fleet, which includes the  
9 generating assets that are owned by Duke Energy Ohio but are functionally  
10 operated as a separate affiliate under Ohio's corporate separation rules and  
11 regulations. Currently, I am responsible for the safe, reliable, and economic  
12 supply of capacity and power, including fuel and emission allowances, to Duke  
13 Energy Ohio's standard service offer (SSO) customers. I am also responsible for  
14 the commercial risk management of all components of Duke Energy Ohio's non-  
15 SSO generation, including risk management associated with prices for power,  
16 capacity, fuel, emission allowances, and congestion, as well as the Company's  
17 participation in wholesale auctions. I have managerial responsibility for over 600  
18 employees in the MCG organization. Finally, I continue to function as the  
19 President of Duke Energy Retail Services, LLC, a competitive retail electric  
20 service and retail natural gas provider in Ohio, Pennsylvania, and Michigan.

21 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC  
22 UTILITIES COMMISSION OF OHIO (COMMISSION)?**

23 A. Yes.

24 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**

1           **PROCEEDING?**

2       A.     In the Stipulation and Recommendation filed on October 24, 2011 (Stipulation),  
3           the Signatory Parties agreed that Duke Energy Ohio would transfer its generation  
4           assets to an affiliate or subsidiary and further agreed to recommend waiver of the  
5           Commission's rules applicable to approval for the transfer of generating assets.  
6           For the Commission to evaluate the Stipulation, I understand that it must  
7           determine whether the Stipulation is in the public interest and benefits our  
8           customers. Thus, without intending to conflict with the provisions of the  
9           Stipulation concerning the transfer and, more specifically, the waiver of certain  
10          Commission rules, I address here the benefits of the contemplated transfer.

11                 Specifically, the purpose of my testimony is to support the provisions of  
12          the Stipulation that address the transfer, by Duke Energy Ohio, of all of its  
13          directly owned current operating and retired generation assets to an affiliate or  
14          subsidiary. I also explain how transferring the generating assets currently owned  
15          by Duke Energy Ohio into a separate company benefits ratepayers and is in the  
16          public interest.

17       Q.     **WHAT ARE THE ATTACHMENTS FOR WHICH YOU ARE**  
18           **RESPONSIBLE?**

19       A.     I am sponsoring two Attachments. Attachment CRW-1 is a list of Duke Energy  
20          Ohio's Operating Generation Assets, as I further describe below. Attachment CRW-  
21          2 is a list of Duke Energy Ohio's Retired Generation Assets.

22           **II.     SUMMARY OF DUKE ENERGY OHIO'S**  
              **GENERATION PORTFOLIO**

          Q.     **PLEASE IDENTIFY DUKE ENERGY OHIO'S GENERATION ASSETS.**

1 A. A list of Duke Energy Ohio's currently operating generation assets, including  
2 Duke Energy Ohio's current ownership share, is attached to my testimony as  
3 Attachment CRW-1. The assets listed on Attachment CRW-1, which I will refer to  
4 in the remainder of my testimony as the Operating Generation Assets, do not  
5 include assets in which Duke Energy Ohio has no ownership share but that may be  
6 owned by any subsidiary or affiliate of Duke Energy Ohio.

7 **Q. WHAT ARE THE OPERATING GENERATION ASSETS?**

8 A. The Operating Generation Assets are assets currently owned by Duke Energy Ohio  
9 that were, prior to January 1, 2001, regulated assets used and useful in providing  
10 retail electric service in Duke Energy Ohio's certified territory. When Ohio  
11 deregulated electric generation service, this set of generating assets were  
12 functionally separated from Duke Energy Ohio, the regulated distribution utility.  
13 Since 2001, the energy and capacity of these plants have been dedicated to serving  
14 Duke Energy Ohio's retail electric customers.

15 **Q. PLEASE DESCRIBE THE MAKE-UP OF DUKE ENERGY OHIO'S**  
16 **OPERATING GENERATION ASSET PORTFOLIO.**

17 A. Duke Energy Ohio has, as part of the Operating Generation Assets, an ownership  
18 share in six coal-fired generating stations: Beckjord (units 1-6), Conesville (unit 4),  
19 Killen (unit 2), Miami Fort (units 7 and 8), Stuart (units 1-4) and Zimmer (unit 1).  
20 Duke Energy Ohio is responsible for the operation of the Zimmer, Miami Fort and  
21 Beckjord stations.

22 In addition, Duke Energy Ohio owns, either in whole or in part, combustion  
23 turbine (CT) facilities. These Operating Generation Assets include Beckjord CTs  
24 (units 1, 2, 3, 4), Miami Fort CTs (units 3, 4, 5, 6), Killen CT, and Dicks Creek

1 CTs (units 1, 3, 4, 5), as well as Stuart Diesels.

2 **Q. WHAT DO YOU MEAN WHEN YOU SAY THAT THE OPERATING**  
3 **GENERATION ASSETS ARE FUNCTIONALLY SEPARATED FROM**  
4 **THE DISTRIBUTION BUSINESS OF DUKE ENERGY OHIO?**

5 A. The Operating Generation Assets are still owned by Duke Energy Ohio. However,  
6 since early this decade, due to Ohio's change in law in 1999 that initiated  
7 deregulation, these assets have been managed as if they were wholly owned by a  
8 separate generation affiliate and treated as merchant assets. That is, the MCG  
9 group is viewed as an affiliate of Duke Energy Ohio, the regulated entity, for  
10 purposes of complying with the Commission's rules on corporate separation.  
11 Duke Energy Ohio no longer earns a regulated rate of return on these assets, as it  
12 does on the transmission and distribution side of its business. However, since  
13 1999, the assets have been dedicated to the customers of Duke Energy Ohio and  
14 these customers may choose not to take generation service from Duke Energy  
15 Ohio. As Duke Energy Ohio is the provider of last resort, these assets have been  
16 held in reserve, even if a customer switches to an alternative provider. This  
17 dynamic limits the Company's ability to cover its costs to maintain and operate  
18 these assets.

19 **Q. WHY IS FUNCTIONAL SEPARATION AN IMPORTANT CONCEPT IN**  
20 **THESE PROCEEDINGS?**

21 A. Pursuant to the terms of the Stipulation filed in these proceedings, the Operating  
22 Generation Assets will no longer be relied upon to provide energy for Duke  
23 Energy Ohio's ratepayers. However, the operation of these assets will continue  
24 unchanged, as the functional separation has been in place since January 1, 2001.

1   **Q.   DOES DUKE ENERGY OHIO OWN ANY INTEREST IN GENERATING**  
2       **ASSETS THAT ARE NOT CURRENTLY OPERATIONAL?**

3   A.   Yes. Several of the plants owned by Duke Energy Ohio include units that have  
4       been retired. In addition, the Company owns a number of generating plants that  
5       have been retired, some as long as almost a century ago. Duke Energy Ohio,  
6       throughout its corporate history going back to the incorporation of its ultimate  
7       predecessor, Cincinnati Gas Light & Coke Company in 1837, has owned numerous  
8       generation facilities, the records of many of which are no longer easily located.  
9       However, Duke Energy Ohio has endeavored to list, on Attachment CRW-2, as  
10      many of such retired operating assets (Retired Generation Assets) as are currently  
11      known.

12               For the remainder of my Direct Testimony, I will collectively refer to the  
13      Operating Generation Assets and the Retired Generation Assets as the Legacy  
14      Generation Assets.

### **III.   TRANSFER OF LEGACY GENERATION ASSETS**

15   **Q.   PLEASE DESCRIBE THE OBJECTIVE OF TRANSFERRING THE**  
16       **LEGACY GENERATION ASSET PORTFOLIO FROM DUKE ENERGY**  
17       **OHIO TO AN AFFILIATE OR SUBSIDIARY.**

18   A.   The objective of transferring the Legacy Generation Assets to an affiliate or  
19       subsidiary is to allow the Company to fully embrace competitive markets. The  
20       Stipulation filed in these proceedings requires Duke Energy Ohio to transfer the  
21       Legacy Generation Assets to an affiliate or a subsidiary, by no later than December  
22       31, 2014. The ESP under which Duke Energy Ohio will operate in providing for  
23       its customers will now be predicated upon a competitive auction pricing



1 mechanism. This will bring the benefits of competition in both wholesale and  
2 retail markets to customers of Duke Energy Ohio. As is evident from the  
3 Stipulation, Duke Energy Ohio is exiting the retail electric generating function and  
4 will rely upon market structures to provide customers with safe, reliable, and  
5 adequate generation service. Upon the transfer of the Legacy Generation Assets,  
6 Duke Energy Ohio will have realized the legislature's intent, as expressed more  
7 than decade ago, to fully separate the generation business. It is noteworthy that, in  
8 the past several years, other Ohio utilities have successfully fulfilled their SSO  
9 obligations for non-shopping customers without directly owning generation.

10 **Q. WHY WILL THE TRANSFER OF THE LEGACY GENERATION ASSETS**  
11 **NOT OCCUR IMMEDIATELY AFTER THE STIPULATION IS**  
12 **APPROVED?**

13 A. The process to transfer the Legacy Generation Assets will begin immediately after  
14 the Stipulation is approved, but could potentially take as long as one year, as the  
15 transfer also requires Federal Energy Regulatory Commission (FERC) approval.  
16 Pursuant to FERC rules, there is a 180-day comment period, with the opportunity  
17 for the FERC to extend this period by an additional 180 days. In addition to FERC  
18 approval, a myriad of legal and other internal issues needs to be completed,  
19 including such matters as creating accounting records, determining and executing  
20 on a capital structure, systems migration, contract assignment, employee matters,  
21 and deed transfers. This work will begin after the Stipulation is approved, but will  
22 take some time to complete.

23 **Q. WHY SHOULD DUKE ENERGY OHIO TRANSFER ITS LEGACY**  
24 **GENERATION ASSETS TO AN AFFILIATE OR SUBSIDIARY?**

1 A. The Stipulation confirms why Duke Energy Ohio should transfer the Legacy  
2 Generating Assets to an affiliate, and this issue is discussed in detail in the  
3 Supplemental Testimony of Duke Energy Ohio witness Julia S. Janson. I would  
4 note, generally, that the Stipulation results in the use of a competitive bidding  
5 process (CBP) to procure the supply needed to serve the SSO customers, reflecting  
6 a complete severing of the nexus between Duke Energy Ohio's generation and its  
7 load. The CBP in other territories has resulted in the lowest SSO price in the state.  
8 The transfer of assets allows Duke Energy Ohio to effectively plan for reliable  
9 service in the competitive market and provides clarity for Duke Energy Ohio  
10 customers, many of whom were represented by Signatory Parties to the  
11 Stipulation, around how their generation supply will be procured and priced in the  
12 future. Similarly, the Stipulation protects Duke Energy Ohio's financial stability  
13 by removing the uncertainty that comes with fulfilling the provider of last resort  
14 obligation via owned generation.

15 **Q. PLEASE EXPLAIN HOW TRANSFERRING THE LEGACY**  
16 **GENERATION ASSETS TO AN AFFILIATE OR SUBSIDIARY BENEFITS**  
17 **CUSTOMERS AND IS REASONABLE AND IN THE PUBLIC INTEREST.**

18 A. As acknowledged in the Stipulation, transferring the assets embraces competition.  
19 The competitive market contemplated by the Ohio General Assembly and this  
20 Commission has finally arrived, and its perpetuation is assured via the Stipulation.  
21 Duke Energy Ohio's customers have clearly accepted the retail electric market,  
22 making provision in the Stipulation for continued use of competitive auctions. The  
23 separation of the assets will further enhance the competitive retail electric service  
24 market by placing the generation function on a level playing field with other

1 wholesale and retail competitive generation providers. Ultimately, openness,  
2 competitiveness, and transparency of the retail market are advanced by the  
3 Stipulation. After Duke Energy Ohio initiates SSO auctions to serve its load and  
4 its price for retail electric generation service is determined by the market, there is  
5 no reason for Duke Energy Ohio, as a pure electric distribution utility, to continue  
6 to legally own generation assets. All customers will benefit from the prices  
7 available from the competitive retail and wholesale electric markets. This is  
8 precisely what was originally contemplated with the transition plans in the early  
9 part of the decade and what is further supported by the 2008 legislation.

10 Duke Energy Ohio will satisfy its obligation to provide reasonable and  
11 adequate retail electric service to its customers. Customers who do not wish to  
12 rely upon Duke Energy Ohio will still have the opportunity to find alternative  
13 pricing options through competitive retail electric service providers.

14 **Q. WHEN IS DUKE ENERGY OHIO PROPOSING TO COMPLETE THE**  
15 **TRANSFER OF ITS LEGACY GENERATION ASSETS?**

16 A. As set forth in the Stipulation, Duke Energy Ohio will complete the transfer of its  
17 Legacy Generation Assets on or before December 31, 2014. Duke Energy Ohio  
18 has agreed, in the Stipulation, to transfer such assets as soon as practicable after  
19 the Commission's approval of the Stipulation and upon receipt of necessary  
20 regulatory approvals.

21 **Q. WILL DUKE ENERGY OHIO OR ITS SUBSIDIARIES OR AFFILIATES**  
22 **PARTICIPATE IN DUKE ENERGY OHIO'S AUCTIONS, PRIOR TO**  
23 **COMPLETING THE ASSET TRANSFER?**

24 A. The terms of the Stipulation allow affiliates and subsidiaries of Duke Energy Ohio

1 to participate in SSO auctions. However, Duke Energy Ohio itself agreed, in the  
2 Stipulation, not to participate in such auctions for so long as Rider ESSC is in  
3 place, regardless of whether it has or has not yet transferred the Legacy Generation  
4 Assets.

#### **IV. CONCLUSION**

5 **Q. WERE ATTACHMENTS CRW-1 AND CRW-2 PREPARED BY YOU OR**  
6 **UNDER YOUR DIRECTION AND CONTROL?**

7 A. Yes.

8 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY IN**  
9 **THIS PROCEEDING?**

10 A. Yes.

Duke Energy Ohio's Operating Generation Assets are as follows:

<b>Station</b>	<b>Ownership</b>
Beckjord 1	100.00%
Beckjord 2	100.00%
Beckjord 3	100.00%
Beckjord 4	100.00%
Beckjord 5	100.00%
Beckjord 6	37.50%
Beckjord CT 1	100.00%
Beckjord CT 2	100.00%
Beckjord CT 3	100.00%
Beckjord CT 4	100.00%
Conesville 4	40.00%
Dick's Creek CT 1	100.00%
Dick's Creek CT 3	100.00%
Dick's Creek CT 4	100.00%
Dick's Creek CT 5	100.00%
Killen 2	33.00%
Killen CT	33.00%
Miami Fort 7	64.00%
Miami Fort 8	64.00%
Miami Fort CT 3	100.00%
Miami Fort CT 4	100.00%
Miami Fort CT 5	100.00%
Miami Fort CT 6	100.00%
Stuart 1	39.00%
Stuart 2	39.00%
Stuart 3	39.00%
Stuart 4	39.00%
Stuart Diesels	39.00%
Zimmer 1	46.50 %

Duke Energy Ohio's Retired Generation Assets are as follows:

<b>Station</b>
Plum Street Station
Newport Station
Loveland Station
Middletown Station
West End Units 1, 2, 3, 4, 5
Miami Fort Units 1, 2, 3, 4, 5
Dick's Creek CT 2
Miami Fort CT 1, 2