

## BEFORE

## THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates.	) ) )	Case No. 12-1685-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	) ) )	Case No. 12-1686-GA-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of an Alternative Rate Plan for Gas Distribution Service.	) ) ) )	Case No. 12-1687-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	) ) )	Case No. 12-1688-GA-AAM

## DIRECT TESTIMONY OF

JAMES A. RIDDLE

ON BEHALF OF

DUKE ENERGY OHIO, INC.

PUCO

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

July 20, 2012

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**I.     INTRODUCTION AND PURPOSE**

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

2     A.     My name is James A. Riddle, and my business address is 139 E. Fourth Street,  
3             Cincinnati, Ohio 45202.

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

5     A.     I am Rates Manager, Pricing and Rates Options, for Duke Energy Business  
6             Services, LLC (DEBS). DEBS provides various administrative and other services  
7             to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated  
8             companies of Duke Energy Corporation (Duke Energy).

9     **Q.     PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL AND**  
10            **EDUCATIONAL BACKGROUND.**

11    A.     I received a B.S. degree in Agriculture from Wilmington College in Ohio in June  
12            1979. In June 1981, I received a Master of Science degree in Agricultural  
13            Economics from the Ohio State University. I worked as a Field Office  
14            Manager/Loan Officer for the Farm Credit System in Ohio from July 1981 to  
15            September 1985. In April 1986, I was hired by The Cincinnati Gas & Electric  
16            Company (CG&E), the predecessor to Duke Energy Ohio, as an Associate  
17            Economic Analyst. I became involved in all aspects of developing the Gas Long-  
18            Term Load Forecast, including data collection and organization, regression  
19            analysis, model building and solving, report writing, and dissemination of the  
20            forecast throughout CG&E.

21                 In 1990, my duties expanded beyond the Gas Load Forecast to include  
22            aspects of the Electric Load Forecast. I became involved in electric end-use

1 forecasting and have performed Conditional Demand Analyses on the electric  
2 residential sector. In 1995, I was promoted to Supervisor, Load Forecasting in the  
3 Retail Market Analysis Department with responsibility for the preparation of  
4 CG&E's Gas and Electric Load Forecasts.

5 I was promoted to the position of Manager, Load Forecasting in 1996. As  
6 Manager, I was responsible for the preparation of the Gas and Electric Load  
7 Forecasts of the Midwest and Carolinas operating company subsidiaries of Duke  
8 Energy, including Duke Energy Carolinas Inc., Duke Energy Ohio, Duke Energy  
9 Indiana, Inc., and Duke Energy Kentucky, Inc.

10 In September 2010, I accepted the position of Rates Manager, Pricing and  
11 Rates Options.

12 **Q. PLEASE DESCRIBE YOUR DUTIES AS RATES MANAGER, PRICING**  
13 **AND RATES OPTIONS.**

14 A. As Rates Manager, I am responsible for rate design, tariff administration, billing,  
15 and revenue reporting issues in Ohio. I prepare filings to modify charges and  
16 terms in Duke Energy Ohio's retail tariffs and develop rates for new services.  
17 During major rate cases, I am responsible for the design of the new base rates.  
18 Additionally, I frequently work with Duke Energy Ohio's customer contact and  
19 billing personnel to answer rate-related questions and to apply the retail tariffs to  
20 specific situations. Occasionally, I meet with customers and Company  
21 representatives to explain rates or provide rate training. I also prepare reports that  
22 are required by regulatory authorities.

1   **Q.   HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**  
2       **UTILITIES COMMISSION OF OHIO?**

3   A.   Yes. Among others, I provided testimony on behalf of Duke Energy Ohio in its  
4       last natural gas rate case, filed under Case No. 07-589-GA-AIR, *et al.*

5   **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**  
6       **PROCEEDINGS?**

7   A.   I describe the Company's rate design and other proposed changes to its gas tariff, as  
8       filed in these proceedings. My testimony also describes changes that have been  
9       made to the Company's retail gas rate schedules, riders, and service regulations as  
10      proposed in these proceedings, including five new proposed riders. My testimony  
11      provides support for certain schedules contained in the Standard Filing  
12      Requirements, including Schedules E-1, E-2, E-2.1, E-3, E-3.1, E-4, E-4.1, and E-  
13      5. Additionally, I sponsor Supplemental Filing Requirement (C)(11). I quantify  
14      the effect of these changes to Duke Energy Ohio's retail natural gas customers.

## **II.   FILING REQUIREMENTS**

15   **Q.   PLEASE DESCRIBE SCHEDULE E-1.**

16   A.   Schedule E-1 encompasses the proposed rate schedules in a clean form.

17   **Q.   PLEASE DESCRIBE SCHEDULE E-2.**

18   A.   Schedule E-2 contains the Company's current rate schedules.

19   **Q.   PLEASE DESCRIBE SCHEDULE E-2.1.**

20   A.   Schedule E-2.1 contains the Company's proposed tariffs in scored and redlined  
21      form.

22   **Q.   PLEASE DESCRIBE SCHEDULE E-3.**

1 A. Schedule E-3 presents the rationale for the proposed changes. The sheet number  
2 of the respective current and proposed rates within Schedules E-1 and E-2 is  
3 contained in the Data Reference section.

4 **Q. PLEASE DESCRIBE SCHEDULE E-3.1.**

5 A. Schedule E-3.1 presents the components and computation of the customer charge.  
6 This computation has been completed for residential customers under Rates RS,  
7 RFT, RSLI, and RFTLI, non-residential customers under Rates GS-S, GS-L, FT-S,  
8 and FT-L, and large volume interruptible customers under Rate IT. The General  
9 Service class is split between small customers, those using less than or equal to  
10 4,000 Ccf per year, and large customers. As continuation of the Company's move  
11 toward cost of service in developing the proposed customer charge, I propose that all  
12 of the current fixed charges on the customer's bill, *e.g.*, Rider AMRP, become  
13 combined in to a single customer charge component of the rates.

14 **Q. PLEASE DESCRIBE SCHEDULE E-4.**

15 A. Schedule E-4 is the required revenue summary schedule depicting revenues at the  
16 current rate level and at the proposed rate level. Sales figures and the associated  
17 revenues are brought forward from Schedule E-4.1. Gas costs included in the  
18 Schedule E-4 revenue comparison reflect a Gas Cost Recovery Rate (GCR) of  
19 \$5.912 per Mcf. The GCR rate was calculated based on the Estimated Gas Cost  
20 (EGC) components from the twelve most recent monthly GCR filings, for the twelve  
21 months ended March 2012. These summaries identify sales and total revenues by  
22 rate schedule, and the percent of revenue each rate schedule contributes to total

1 revenue. In addition, Schedule E-4 displays the amount and percent increase  
2 proposed for each class of service.

3 **Q. PLEASE DESCRIBE SCHEDULE E-4.1.**

4 A. Schedule E-4.1 is a series of analyses that develop the revenues shown on  
5 Schedule E-4. It shows billing determinants by rate schedule and customer class,  
6 appropriately blocked to comply with the Commission's Standard Filing  
7 Requirements. The billing determinants are based on three months weather  
8 normalized actual and nine months forecasted sales for the period. The summary  
9 information from Schedule E-4.1 is carried over to Schedule E-4.

10 **Q. WHAT IS WEATHER NORMALIZATION?**

11 A. Generally, gas sales fluctuate with changes in the weather. Weather normalization  
12 is an adjustment of actual historical gas sales to account for the impacts of  
13 differences between actual weather and normal weather. That is, the historical  
14 values of residential, commercial, and other sales are adjusted to what they would  
15 have been if normal weather had occurred. Normal weather is based on actual  
16 historical data from a prior period of time.

17 Normal weather is used to produce the sales forecast; therefore, by  
18 definition, the sales forecast is weather normal. Duke Energy Ohio witness Jose  
19 Merino testifies to the Company's process of weather normalization.

20 **Q. DO YOU HAVE AN OPINION AS TO WHETHER IT IS REASONABLE**  
21 **TO WEATHER NORMALIZE DUKE ENERGY OHIO'S TEST PERIOD**  
22 **GAS SALES?**

1 A. Yes. In my opinion, it is reasonable to weather normalize Duke Energy Ohio's  
2 gas sales for the test period.

3 **Q. WHAT IS THE BASIS FOR YOUR OPINION?**

4 A. For ratemaking purposes, it is important to establish a representative level of test  
5 period sales. Weather can have a significant influence on a gas utility's level of  
6 sales. Establishing rates based on an unrepresentative level of sales due to  
7 unseasonably warm or cold weather during the test period would likely result in  
8 Duke Energy Ohio either earning more or less than its allowed rate of return.  
9 Therefore, I conclude that it would be reasonable to adjust the actual sales during  
10 the test period (which are the first three months of 2012) to represent the level of  
11 sales that would have occurred under normal weather.

12 **Q. HAVE YOU PREPARED STANDARD FILING REQUIREMENT**  
13 **SCHEDULES E-4.2 AND E-4.3?**

14 A. No. Schedules E-4.2 and E-4.3 requires the submission of actual statistics. This  
15 schedule cannot be prepared now since the test year in this docket is the twelve  
16 months ending December 31, 2012. It will be prepared as soon as actual data are  
17 available and filed according to the Commission's regulations.

18 **Q. PLEASE DESCRIBE SCHEDULE E-5.**

19 A. Schedule E-5 is a typical bill comparison that presents the effect of the proposed  
20 rates, showing the amount and percent increases for bills at various consumption  
21 levels.

22 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT**  
23 **(C)(11).**



1 A. Supplemental Filing Requirement (C)(11) consists of monthly sales by rate  
2 schedule consistent with Schedule C-2.1.

### III. RETAIL GAS RATE SCHEDULES AND RIDERS

3 Q. WHAT ARE THE COMPANY'S RETAIL GAS RATE SCHEDULES?

4 A. The Company's retail gas rate schedules include Rates RS – Residential Service,  
5 RFT - Residential Firm Transportation Service, RSLI - Residential Low Income  
6 Service, and RFTLI - Residential Firm Transportation Low Income Service, Rates  
7 GS-S - General Service - Small, GS-L - General Service - Large, FT-S - Firm  
8 Non-Residential Transportation Service - Small, and FT-L - Firm Non-Residential  
9 Transportation Service - Large, and Rate IT – Interruptible Transportation  
10 Service. The General Service and Firm Non-Residential Transportation classes  
11 are split between small customers, using less than or equal to 4,000 Ccf per year  
12 and large customers.

### IV. RATE DESIGN

13 Q. PLEASE DESCRIBE SOME OF THE CONSIDERATIONS THAT GUIDED  
14 YOUR RATE DESIGN.

15 A. First, in its last rate case the Company supported and the Commission-approved  
16 the concept that rates charged to core markets, which includes firm customers in  
17 the residential, commercial, industrial and other public authority classes, should  
18 be set at levels that approximate their costs of providing service. It is reasonable  
19 for customers to pay rates based on the cost of providing them with service.

20 The rates that the Company has proposed maintain that concept by holding  
21 to the current level of Fixed Delivery Charges. Likewise, my proposed

1 allocations to the commodity components of these rates reflect my goal of  
2 balancing these same considerations.

3 **Q. HAS A TARIFF FOR RATE RS BEEN PREPARED?**

4 A. Yes. For residential customers, I have proposed changing the monthly customer  
5 charge from \$25.33 to \$33.03 per month. Note that this change reflects combining  
6 all of the current fixed charges on the customer's bill into one fixed charge.  
7 Residential customers are currently paying \$5.73 in the fixed monthly charge for  
8 Rider AMRP and \$0.99 for Rider AU. These rider charges will be re-set to zero in  
9 these proceedings. The remainder of the revenue requirement, after subsidy and  
10 excess revenue reductions, was satisfied in the block steps of the rate.

11 **Q. HAVE TARIFFS FOR RATE GS-S AND FT-S BEEN PREPARED?**

12 A. Yes. For the Rates GS-S/FT-S, I have proposed an increase in the monthly customer  
13 charge from \$45.00 to \$91.64 per month. This change reflects combining all of the  
14 current fixed charges on the customer's bill into one fixed charge. Customers are  
15 currently paying \$44.67 in the fixed monthly charge for Rider AMRP and \$0.99 for  
16 Rider AU. The remainder of the revenue requirement, after subsidy and excess  
17 revenue reductions, was satisfied in the energy charge.

18 **Q. HAVE TARIFFS FOR RATE GS-L AND FT-L BEEN PREPARED?**

19 A. Yes. For the Rates GS-L/FT-L, I have proposed an increase in the monthly  
20 customer charge from \$180.00 to \$226.64 per month. This change reflects  
21 combining all of the current fixed charges on the customer's bill into one fixed  
22 charge. Customers are currently paying \$44.67 in the fixed monthly charge for

1 Rider AMRP and \$0.99 for Rider AU. The remainder of the revenue requirement,  
2 after subsidy and excess revenue reductions, was satisfied in the energy charge.

3 **Q. HAVE TARIFFS FOR RATE GS-L AND FT-L BEEN PREPARED?**

4 A. Yes. For Rate IT, I have proposed an increase in the monthly customer charge from  
5 \$595.86 to \$597.83 per month. This change reflects combining all of the current  
6 fixed charges on the customer's bill into one fixed charge. Customers are currently  
7 paying \$0.99 for Rider AU. I have increased the commodity rate and combined it  
8 with the current commodity-based charge of \$0.17000 for Rider AMRP.

#### **V. TARIFF CHANGES**

9 **Q. DOES THE COMPANY PROPOSE ANY TEXT CHANGES IN ITS**  
10 **TARIFF SCHEDULES?**

11 A. Yes. Duke Energy Ohio proposes the following text changes to its tariff:

- 12 (1) Changes to its Service Regulations – Section II, Sheet No. 21.6, under  
13 paragraph (6) Use of Service to allow use of natural gas for the fueling of  
14 natural gas vehicles and the language under paragraph (8) Right-of-Way;
- 15 (2) Language changes to Rate FRAS – Full Requirements Aggregation  
16 Service, Sheet No. 44 that better reflect the current state of aggregation;
- 17 (3) Minor text and formatting changes to Rider EFBS, Enhanced Firm  
18 Balancing Service, Sheet No. 50;
- 19 (4) Language changes to Rider X, Main Extension Policy, Sheet No. 62, to  
20 allow the Company to extend mains beyond the customary 100 feet with  
21 little or no additional charge to the customer for construction costs under  
22 specific conditions and qualifications. The purpose of this change falls in

1 line with Rider ED (economic development) in that it will encourage  
2 expansion or relocation of customers and facilities in Ohio. Duke Energy  
3 Ohio witness Gary J. Hebbeler discuss the Company's changes in more  
4 detail; and

5 (5) Additional language to Charge for Reconnection of Service, Sheet No. 82,  
6 which allows the Company to recover the Fixed Delivery Service Charge  
7 from those customers who may voluntarily disconnect their gas service  
8 only to reconnect that same gas service at the same premises within an  
9 eight-month time period.

10 **Q. DOES THE COMPANY PROPOSE ANY NEW RATES AND RIDERS?**

11 **A.** Yes. Five new rate schedules are allowed as follows:

12 (1) Rate GGIT, Gas Generation Interruptible Transportation Rate proposes a  
13 new rate for interruptible local delivery service for natural gas to be used  
14 in any commercial gas fire electric generators, including but not limited to  
15 customer-owned co-generation. This new rate better reflects the current  
16 state of the industry and the Company's ability to provide service to the  
17 customers eligible under this new rate. As part of this proposal, the  
18 Company is cancelling and withdrawing Rate SSIT, Spark Spread  
19 Interruptible Transportation Rate.

20 (2) Rider NGV, Natural Gas Vehicle Fueling Rider, addresses Company gas  
21 service as it pertains to the private and/or commercial fueling of natural  
22 gas vehicles. It addresses the qualifications, rates, and charges as well as  
23 customer and Company responsibilities related to the provision of gas

1 service to fuel natural gas vehicles, especially as it concerns the Company  
2 introduction of propane-air gases into the system and its potential impact  
3 on natural gas fueling equipment and natural gas vehicles.

4 (3) Rider ED, Economic Development Incentive Rider, is designed to fund  
5 economic development activities and projects to encourage businesses to  
6 locate and/or to expand their existing operations in Ohio. The goal of the  
7 rider is to collect \$1 million per year towards this funding.

8 The proposed charges are as follows:

	<u>Annual CCF</u>	<u>Charge</u>	<u>Total \$</u>
Residential	336,863,050	\$0.001290 per CCF	\$ 434,522.50
	<u>Annual Number of Bills</u>	<u>Charge</u>	
Non-Residential	376,985	\$1.50 per month	<u>\$ 565,477.50</u>
			\$1,000,000.00

9 (4) Rider FRT, Facility Relocation – Mass Transportation. This Rider is  
10 discussed in the Direct Testimony of Duke Energy Ohio witnesses  
11 William Don Wathen Jr. and James E. Mehring.

12 (5) Rider ASRP, Accelerated Service Replacement Program Rider, allows the  
13 Company to recover, through annual rate adjustments, costs related to the  
14 replacement of pre-1971 coated steel main-to-curb and curb-to-meter  
15 service lines, as well as unprotected metallic main-to-curb and curb-to-  
16 meter service lines. In addition and where applicable, the Company will  
17 move meters from inside a structure to an acceptable location outside a  
18 structure for those services being replaced in conjunction with the

1                   Company's ASRP Program. Duke Energy Ohio witnesses Hebbeler and  
2                   Wathen discuss the Company's proposal for this program in more detail.

3   **Q.   PLEASE EXPLAIN THE RATE DESIGN FOR RIDER ASRP.**

4   A.   I propose that Rider ASRP mirror the rate design for Rider AMRP because the  
5           programs are similar in nature. Mr. Wathen discusses the Company's proposal to  
6           calculate annually a net revenue requirement adjustment based on net cost changes  
7           attributable to the ASRP. This Rider, which will continue to be calculated based on  
8           calendar year data, is proposed to become effective May 1 of each remaining year of  
9           the program. I propose that the Company's annual adjustment continue to be  
10          allocated during the next year based on the base revenue distribution approved in  
11          this case. In subsequent years, I recommend that the allocation be done on the basis  
12          of actual base revenues billed, by rate class, during the just completed calendar year,  
13          consistent with the procedure under Rider AMRP. The new allocations are  
14          contained in the Company's annual filing and subject to Commission review and  
15          approval as part of the proposed annual review process.

16                I further propose that in the development of the ASRP Rider, the annual  
17                revenue adjustments allocated to Rates RS, RSLI, RFT, RFTLI, GS-S, GS-L, FT-S,  
18                and FT-L should continue to be recovered totally in the monthly fixed customer  
19                charge component of the rate.

20                With respect to Rate IT, I recommend that the dollars allocated for recovery  
21                under this rider be recovered through an adjustment to the commodity delivery  
22                charge. My overriding concern is the significant usage differences between the  
23                customers served under this rate, and how individual customers would be

1 disproportionately affected if the Rider is set up to recover these annual costs in the  
2 customer charge component of the rate.

**VI. CONCLUSION**

3 **Q. HOW DOES THE COMPANY PROPOSE THAT THE COMPANY'S**  
4 **TARIFFS, INCLUDING THE PREVIOUSLY DISCUSSED RATES AND**  
5 **CHARGES, BE IMPLEMENTED?**

6 A. Duke Energy Ohio proposes that the revised tariff, including the rates and charges  
7 complying with the Commission's order in these proceedings, be established  
8 effective January 1, 2013.

9 **Q. WERE THE SCHEDULES YOU DESCRIBED ABOVE PREPARED BY**  
10 **YOU OR UNDER YOUR SUPERVISION?**

11 A. Yes.

12 **Q. IS THE INFORMATION CONTAINED IN SCHEDULES E-1, E-2, E-2.1, E-**  
13 **3, E-3.1, E-4, E-4.1, E-5, AND SUPPLEMENTAL FILING REQUIREMENT**  
14 **(C)(11) ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND**  
15 **BELIEF?**

16 A. Yes.

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

18 A. Yes.