

BEFORE**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Duke Energy Ohio, Inc., for an)	Case No. 12-1682-EL-AIR
Increase in Electric Distribution Rates.)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc., for Tariff)	Case No. 12-1683-EL-ATA
Approval.)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc., for Approval)	Case No. 12-1684-EL-AAM
to Change Accounting Methods.)	

DIRECT TESTIMONY OF**PEGGY A. LAUB****ON BEHALF OF****DUKE ENERGY OHIO, INC.**

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

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Peggy A. Laub, and my business address is 139 East Fourth Street,
3 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 Manager,
6 Accounting. DEBS provides various administrative and other services to Duke
7 Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated
8 companies of Duke Energy Corporation (Duke Energy).

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

11 A. I earned a Bachelor of Business Administration degree, with a major in
12 accounting from the University of Cincinnati in 1984.

13 In 1981, I began my career with The Cincinnati Gas & Electric Company,
14 the predecessor of Duke Energy Ohio, as a co-operative education student in the
15 Accounting Department. In 1984, I was employed full-time in the Tax
16 Department. I progressed through various positions to Coordinator, State & Local
17 Taxes. In 1998, I was transferred to the Regulated Business Unit's financial
18 group. In 2000, I was transferred to Fixed Assets Accounting and I was promoted
19 to manager in 2002. In May 2006, following the merger between Cinergy Corp.
20 and Duke Energy, I transferred to the Midwest U.S. Franchised Electric & Gas
21 accounting group. In November 2008, I transferred to Midwest Wholesale
22 Accounting as Manager, Accounting. In May 2010, I transferred to the Rate

1 Department and to my current position as Manager, Accounting.

2 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS MANAGER,**
3 **ACCOUNTING.**

4 A. As Manager, Accounting, I am responsible for the preparation of financial and
5 accounting data used in retail rate filings and various other rate recovery
6 mechanisms for Duke Energy Ohio and Duke Energy Kentucky, Inc. (Duke Energy
7 Kentucky).

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
9 **UTILITIES COMMISSION OF OHIO?**

10 A. Yes. I previously testified in a number of cases before the Public Utilities
11 Commission of Ohio (Commission) and other regulatory commissions. Most
12 recently I provided testimony on behalf of Duke Energy Ohio in Cases Nos. 11-
13 5809-GA-RDR and 12-1811-GE-RDR.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**
15 **PROCEEDINGS?**

16 A. I sponsor Schedules A-1, A-2, A-3, B-1, B-5, B-5.1, B-6, B-6.1, B-7, B-7.1, B-
17 7.2, C-1, C-2, C-2.1, C-3, C-3.1 through C-3.4, C-3.6 through C-3.28, C-5
18 through C-9.1, C-11.1 through C-12, and page 5 of Schedule D-5A and D-5B. In
19 addition, I address certain test year operating income and rate base adjustments. I
20 also sponsor Supplemental Filing Requirements (C)(7), (C)(8), (C)(13), (C)(16),
21 and (C)(24).

II. TEST YEAR AND DATE CERTAIN

1 **Q. WHAT ARE THE TEST YEAR AND DATE CERTAIN IN THESE**
2 **PROCEEDINGS?**

3 A. Pursuant to the Company's Motion to Set Test Period and Date Certain filed in
4 these proceedings on June 7, 2012, which was approved by the Commission in its
5 entry on July 2, 2012, the test year consists of the twelve months ended December
6 31, 2012, and the date certain is March 31, 2012.

III. SCHEDULES AND SUPPLEMENTAL FILING **REQUIREMENTS SPONSORED BY WITNESS**

7 **Q. PLEASE DESCRIBE SCHEDULE A-1.**

8 A. Schedule A-1 is the overall financial summary of Duke Energy Ohio's electric
9 distribution operations. The data presented on Schedule A-1 shows that the
10 Company will earn a 3.18 percent overall return on rate base for the test year and
11 that an increase of \$86.6 million over current electric distribution revenue is
12 required to earn a reasonable rate of return on its electric distribution rate base at
13 the Company's current cost of capital of 8.13 percent.

14 **Q. PLEASE DESCRIBE SCHEDULE A-2.**

15 A. Schedule A-2 sets forth the calculation of the gross revenue conversion factor.
16 The revenue conversion factor is used on Schedule A-1, Line 7 to compute the
17 revenue deficiency.

18 **Q. WHAT ITEMS ARE INCLUDED IN THIS REVENUE CONVERSION**
19 **FACTOR?**

20 A. The revenue conversion factor includes the city of Cincinnati Franchise Tax, the
21 Commercial Activities Tax, the Commission and the Office of the Ohio Consumers'

1 Counsel (OCC) annual assessments, certain municipal income taxes, and federal
2 income taxes. The rates used represent either the most current applicable rates or
3 statutory rates as of the time of the filing. Also included in this factor is an
4 uncollectible account factor.

5 **Q. PLEASE DESCRIBE SCHEDULE A-3.**

6 A. Schedule A-3 is a calculation of mirrored construction work in progress (CWIP)
7 revenue surcredit rider. As indicated on this schedule, the Company has no
8 mirrored CWIP revenue.

9 **Q. PLEASE DESCRIBE SCHEDULE B-1.**

10 A. Schedule B-1 is the jurisdictional rate base summary. The rate base components
11 listed on this summary are supported by the various Section B schedules. The
12 plant in service and reserve for accumulated depreciation were summarized from
13 Schedules B-2 and B-3, sponsored by Duke Energy Ohio witness Carl J. Council,
14 Jr. The working capital and other items of rate base were summarized from
15 Schedules B-5, which I sponsor, and B-6, which I co-sponsor with Duke Energy
16 Ohio witness Keith G. Butler. The total jurisdictional electric distribution rate
17 base, as shown on this schedule, is \$1,116,672,916 at the date certain, March 31,
18 2012.

19 **Q. PLEASE DESCRIBE SCHEDULES B-5 AND B-5.1.**

20 A. Schedule B-5 is a summary of allowance for working capital, which includes cash
21 working capital, materials and supplies (M&S) and customer service deposits.
22 Additional detail for all of these items is shown on Schedule B-5.1, including the
23 average thirteen-month balance and the actual balance as of March 31, 2012, the

1 date certain in these proceedings.

2 **Q. HOW MUCH CASH WORKING CAPITAL ALLOWANCE IS BEING**
3 **REQUESTED BY DUKE ENERGY OHIO IN THESE PROCEEDINGS?**

4 A. Duke Energy Ohio is not making a request for cash working capital allowance in
5 these proceedings.

6 **Q. WHY HAS THE COMPANY INCLUDED NO CASH WORKING**
7 **CAPITAL IN RATE BASE?**

8 A. The question in determining the appropriate level of cash working capital to
9 include in rate base is essentially one of reasonableness. Many jurisdictions
10 consistently use a formula method, such as the one-eighth method to estimate cash
11 working capital. This method is accepted at the Federal Energy Regulatory
12 Commission (FERC) and by several other state regulators, including the Kentucky
13 Public Service Commission, which regulates Duke Energy Ohio's subsidiary
14 company, Duke Energy Kentucky.

15 Admittedly, a lead/lag study is a more detailed approach but it is a costly
16 and time consuming exercise, and it typically invites considerable dispute over the
17 assumptions used to develop the study. In addition to these reasonable approaches
18 of using the lead/lag study or the one-eighth method, the Company submits that its
19 proposal to include \$0 for its cash working capital allowance is well within the
20 bounds of reasonableness.

21 **Q. PLEASE DESCRIBE HOW YOU ESTIMATED THE BALANCE OF**
22 **MATERIALS AND SUPPLIES TO INCLUDE ON SCHEDULES B-5 AND**
23 **B-5.1.**

1 A. The Company does not project changes in its other M&S balance as part of the
2 budget process. Consequently, in order to reasonably estimate the monthly
3 balance during the test year, the Company has reflected the actual average balance
4 for the thirteen months ended March 31, 2012. Using a thirteen-month average is
5 preferable to using the balance at any single point in time as an average eliminates
6 the impact of any seasonal fluctuations, favorable or unfavorable, that may exist at
7 any point in time. The process of allocating the M&S balance to electric
8 distribution is described in Supplemental Filing Requirement (C)(13), which is
9 discussed later in my testimony.

10 **Q. SHOULD THE COMPANY BE ALLOWED TO INCLUDE ITS**
11 **INVESTMENT IN MATERIALS AND SUPPLIES IN RATE BASE EVEN**
12 **IF THERE IS NO REQUEST FOR CASH WORKING CAPITAL?**

13 A. Yes. The two items are separate components of rate base. I have been advised by
14 counsel that Section 4909.15 of the Ohio Revised Code draws a distinction
15 between a utility's investment in cash working capital and its investment in
16 materials and supplies. As this provision states:

17 (1) The valuation as of the date certain of the property of the public
18 utility used and useful or, with respect to a natural gas company,
19 projected to be used and useful as of the date certain, in rendering
20 the public utility service for which rates are to be fixed and
21 determined. The valuation so determined shall be the total value as
22 set forth in division (C)(8) of section 4909.05 of the Revised Code,
23 and a reasonable allowance for materials and supplies and cash
24 working capital as determined by the commission. (emphasis
25 added).

26 The unambiguous language here indicates that an allowance for materials
27 and supplies is appropriate regardless of whether there is any request for cash

1 working capital. In this case, the Company is making no request for cash working
2 capital, as is its prerogative, but it is requesting an allowance for materials and
3 supplies.

4 **Q. IS IT YOUR UNDERSTANDING THAT A LEAD/LAG STUDY IS**
5 **REQUIRED FOR THE COMMISSION TO APPROVE ANY**
6 **ALLOWANCE FOR CASH WORKING CAPITAL?**

7 A. Yes, that is my understanding. O.A.C. Chapter 4901-7 includes Appendix A,
8 which provides a set of instructions for rate proceedings before the Commission.
9 In Section B(E)(1) of Appendix A, the requirement for a cash working capital
10 allowance provides that “[a]n allowance for cash working capital shall be
11 supported by a recent lead/lag study.” The fact that the Company is asking for no
12 allowance for cash working capital renders this requirement moot – there is no
13 request to support.

14 Furthering the conclusion that cash working capital and other working
15 capital are separate separable rate base items, the same section of Appendix A
16 distinguishes cash working capital from “Miscellaneous Working Capital,” such
17 as materials and supplies.

18 There is no explicit provision in the Commission’s rules or in the Ohio
19 Revised Code that remotely suggests that a lead/lag study related to cash working
20 capital is a requirement to support an allowance for non-cash working capital.

21 **Q. PLEASE DESCRIBE SCHEDULE B-6.**

22 A. Schedule B-6 is a summary of other rate base items including any adjustments to
23 these balances as contained on Schedule B-6.1. The items include post-retirement

benefits, customer deposits, accumulated deferred investment tax credits, accumulated deferred income taxes, and other rate base adjustments. The investment tax credit balances for the 6 percent and the 10 percent credits are non-jurisdictional pursuant to the normalization requirements of the Internal Revenue Code.

Q. PLEASE EXPLAIN WHY CUSTOMER SERVICE DEPOSITS ARE INCLUDED AS A DEDUCTION FROM RATE BASE ON SCHEDULE B-6.

A. Customer service deposits represent funds held by the Company in advance of service. These funds are included on Schedule B-6 because they provide the Company with a source of capital. The Commission's rules (O.A.C. 4901-7-01) specifically identify this item as one to be included on Schedule B-6. It also prescribes that items included on Schedule B-6 are to be included at the date certain balance.

Q. HOW DID YOU DERIVE THE FIGURE SHOWN ON SCHEDULES B-6 FOR CUSTOMER SERVICE DEPOSITS?

A. The estimate of customer service deposits to be included in Schedule B-6 is the date certain balance as of March 31, 2012, allocated to electric operations based on the ratio of electric customers to total gas and electric retail customers.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR POST-RETIREMENT LIFE INSURANCE AND HEALTH INSURANCE BENEFITS INCLUDED ON SCHEDULE B-6 AS A REDUCTION IN RATE BASE.

A. In prior proceedings, the Commission has allowed the Company to internally fund its post-retirement life insurance and health insurance benefits. Accordingly, the

1 amount included on Schedule B-6 represents cumulative expense recovery included
2 in rates, net of benefits paid.

3 **Q. PLEASE DESCRIBE SCHEDULE B-6.1.**

4 A. Schedule B-6.1 summarizes the adjustments to the various other rate base item
5 balances contained on Schedule B-6. Certain balances are eliminated or adjusted
6 to reflect the ratemaking treatment of these or related items in this filing.

7 **Q. PLEASE DESCRIBE SCHEDULE B-7.**

8 A. Schedule B-7 is a summary of the jurisdictional allocation factors used in the
9 development of the revenue requirement. Prior to deregulation of the generation
10 business and the associated unbundling of electric utility services, the distinction
11 “jurisdictional” and “non-jurisdictional” costs was more associated with retail
12 versus wholesale costs. With unbundling, the only “jurisdictional” costs, *i.e.*, costs
13 regulated by the Commission, are distribution costs and there are no
14 “jurisdictional” wholesale distribution customers. Therefore, the allocation factors
15 shown are those used to allocate certain costs between distribution and other
16 electric functions (*i.e.*, transmission and generation).

17 **Q. PLEASE DESCRIBE SCHEDULES B-7.1 AND B-7.2.**

18 A. Schedule B-7.1 provides statistics used to develop the jurisdictional allocation
19 factors shown on Schedule B-7. The requirement for Schedule B-7.2 is to provide
20 an explanation of changes to allocation factors since the prior Case No. 08-709-
21 EL-AIR, *et al.* There are no allocation factors in this case since all the costs are
22 100 percent jurisdictional.

23 **Q. PLEASE DESCRIBE SCHEDULE C-1.**

1 A. Schedule C-1 sets forth the Company's jurisdictional *pro forma* income statement
2 for the twelve months ending December 31, 2012, at both the current and
3 proposed rates, and assumes that the total amount of the requested increase
4 calculated on Schedule A-1 is authorized in these proceedings. The current
5 adjusted operating results for the test year were summarized from Schedule C-2.
6 Test year revenue at the proposed rates was developed by adding the increase in
7 revenue as set forth on Schedule E-4 to the adjusted operating revenues. The *pro*
8 *forma* results (column C) were developed by calculating the operating income
9 effect of the requested increase (column B) and adding these amounts to the
10 adjusted revenue and expense (column A). If the full increase were to be
11 authorized, the resulting rate of return would be 8.13 percent, which is the
12 Company's proposed rate of return.

13 **Q. PLEASE DESCRIBE SCHEDULE C-2.**

14 A. Schedule C-2 shows the Company's jurisdictional adjusted electric operating
15 income associated with its distribution operations for the test year at current rates.
16 This schedule includes unadjusted jurisdictional revenue and expense amounts
17 from Schedule C-2.1, and a summary of the adjustments per Schedule C-3.

18 **Q. PLEASE DESCRIBE SCHEDULE C-2.1.**

19 A. Schedule C-2.1 lists the unadjusted test year operating revenue and expenses, by
20 account. These amounts were derived from the Company's financial records and are
21 summarized and carried forward to Schedule C-2. Also shown on Schedule C-2.1 is
22 the jurisdictional allocation of each cost to electric distribution.

23 **Q. PLEASE DESCRIBE SCHEDULE C-3 AND THE ADJUSTMENTS**

1 **SHOWN ON SCHEDULES C-3.1 THROUGH C-3.28.**

2 A. Schedule C-3 is a summary of the jurisdictional adjustments to operating revenues
3 and expenses set forth on Schedules C-3.1 through C-3.28. The effect of each
4 adjustment on Net Operating Income is shown on Line 43. The cumulative impact
5 of the adjustments is summarized on Schedule C-3, page 1 of 5, and carried
6 forward to Schedule C-2.

7 **Q. WHY ARE ADJUSTMENTS TO TEST YEAR ACTUAL AND BUDGET**
8 **INFORMATION NECESSARY?**

9 A. These adjustments are required to reflect the representative ongoing level of
10 revenues and expenses that the Company would experience in a normal year. Some
11 adjustments are required to even out or eliminate the impacts of journal entries
12 made to the actual book accounting data that comprise the first three months in the
13 test year. Other adjustments are to reflect the level of revenue and expenses that
14 would have occurred had all known prospective changes been in effect during the
15 test year.

16 The test year adjustments ensure that prevailing revenues and expenses are
17 properly included in the determination of an ongoing level of rates. Duke Energy
18 Ohio must reflect a proper level of cost in order to give the Company a reasonable
19 opportunity to earn its authorized return. Not capturing these adjustments and
20 reflecting them in the Company's test year would impair the Company's ability to
21 earn a fair rate of return on its electric distribution operations or could result in the
22 Company over-recovering its costs.

23 **Q. PLEASE EXPLAIN THE ADJUSTMENTS TO OPERATING INCOME.**

1 A. Schedule C-3.1 adjusts test year revenue and expense in order to: (1) annualize
2 revenue; (2) eliminate "unbilled" revenue; (3) eliminate Rider ECF revenue; and
3 (4) include in the test year revenue attributable to two special contracts. The
4 federal income tax effects of this adjustment are shown on Schedule C-3. The
5 combined jurisdictional adjustment is a net \$13,845,658 decrease in operating
6 income.

7 **Q. PLEASE EXPLAIN WHY YOU ANNUALIZE REVENUE.**

8 A. Because the test year includes three months of actual data, it is necessary to make
9 certain adjustments to ensure that the revenue included in the test year is
10 representative of the annual level the Company can expect from its ongoing
11 operations. Also, the methodology employed by the Company to budget revenue
12 for the nine months used in the test year is based on averages to simplify the
13 budgeting process. The revenue by Rate Code as developed on Schedule E-4,
14 applying currently approved rates to test year sales, is a more precise method for
15 determining the test year revenue and is the level that should be used in these
16 proceedings.

17 **Q. WHY DID THE COMPANY ELIMINATE UNBILLED REVENUE AND**
18 **EXPENSE?**

19 A. The Company eliminated the estimated unbilled revenue and expense from its
20 operating results to be consistent with the revenue and volume computations
21 contained on Schedule E-4. The revenue and volume amounts on Schedule E-4 are
22 based on adjusted test year billing statistics and do not reflect estimated unbilled
23 sales.

1 **Q. PLEASE DESCRIBE THE OTHER ADJUSTMENTS INCLUDED IN**
2 **DUKE ENERGY OHIO'S FILING.**

3 A. Schedule C-3.2 eliminates energy efficiency and decoupling revenue and expense
4 levels from the test year since these amounts are recovered from customers
5 through Rider DR-SAW. This jurisdictional adjustment results in a decrease in
6 revenue of \$34,486,413 and a decrease in operating and maintenance (O&M)
7 expense of \$19,906,515.

8 Schedule C-3.3 adjusts operating income for the estimated cost of
9 presenting this case. The Company proposes to defer this expense and amortize it
10 over a three-year period. The Company also proposes to eliminate the
11 amortization of rate case expense approved in Case No. 08-709-EL-AIR, *et al.*,
12 that is included in the test year. The rate case expense approved in that case will
13 be fully amortized before the new rates go into effect; consequently, an additional
14 adjustment was made to eliminate existing rate case expense amortization from
15 the test year. The three-year amortization period reflects the approximate expected
16 time between rate cases. The net jurisdictional adjustment results in an increase in
17 annual operating expenses of \$53,324.

18 Schedule C-3.4 adjusts operating income to reflect the annualization of the
19 Company's payroll costs based on the twelve months ended April 30, 2012,
20 adjusted for annual salary increases. As detailed on work paper WPC-3.4b and
21 WPC-3.4c, annualized labor was determined by using the most recent twelve
22 months of labor and then applying any applicable wage increases that were not
23 already reflected in the twelve months of actual labor. This jurisdictional

1 adjustment to salaries and wages represents an increase in expenses of
2 \$2,942,436.

3 Schedule C-3.6 adjusts operating income to include, as an operating
4 expense, interest computed at 3 percent per annum on the date certain balance of the
5 electric distribution business' share electric operations customer service deposits.
6 This jurisdictional adjustment results in an increase in O&M expense of \$467,051.

7 Schedule C-3.7 adjusts operating income to eliminate test year revenue
8 and expense related to the existing Rider DR-IKE (Hurricane Ike Rider) approved
9 in Case No. 09-1946-EL-AIR. The adjustment results in a \$5,363,901 decrease in
10 operating revenue and a corresponding decrease of \$5,354,385 in amortization
11 expenses.

12 Schedule C-3.8 adjusts operating income to annualize property tax
13 expense based on the Ohio Average Property Tax Rate for 2011 (per \$1,000 of
14 valuation) and the estimated valuation percentages on date certain plant. Also
15 included in this computation is the property tax on the average electric distribution
16 Materials and Supplies (M&S) balance. This jurisdictional adjustment to property
17 tax expense results in an increase in taxes other than income taxes of \$3,948,269.

18 Schedule C-3.9 is an adjustment to add back savings already realized by
19 customers. The test year expenses related to meter reading and meter orders are
20 lower than the test year expenses in Case No. 08-709-EL-AIR, *et al.* Customers
21 are being credited with these savings through Rider DR-IM (Distribution
22 Reliability Infrastructure Modernization Rider associated with the Company's grid
23 modernization program). Per our stipulation in Case No. 10-2326-GE-RDR the

1 “costs and savings attributable to SmartGrid flowed through Rider DR-IM will
2 not also be flowed through electric distribution base rates.” This adjustment
3 results in an increase in O&M expense of \$2,565,568.

4 Schedule C-3.10 adjusts operating income to reflect interest expense
5 deductible for federal income tax purposes. The *pro forma* tax deduction is based
6 on the embedded weighted cost of long-term debt of 2.48 percent as shown on
7 Schedule D-1A. This adjustment reflects federal income tax at 35 percent on the
8 interest cost included in the cost of capital. The adjustment has been determined
9 by multiplying the weighted cost of long-term debt and the jurisdictional rate
10 base, as indicated on Schedule B-1. Also included as a part of this adjustment is
11 the elimination of interest-related tax Schedule M items and deferred taxes. This
12 jurisdictional adjustment results in a \$444,504 decrease in income tax expense.

13 Schedule C-3.11 is an adjustment to eliminate, consistent with past
14 Commission precedent, a portion of the Company’s Edison Electric Institute dues
15 that are not traditionally approved for recovery in retail rates by the Commission.
16 This adjustment also adds to expense an amount of the dues that was
17 inappropriately allocated to gas operations. The net effect of this adjustment
18 increases O&M expense by \$24,328.

19 Schedule C-3.12 adjusts operating income to eliminate the Ohio Excise
20 Tax Rider (*i.e.*, “kWh tax”) revenues and expenses from the test year. This
21 jurisdictional adjustment results in a decrease in revenue of \$69,521,224 and a
22 decrease in taxes other than income taxes of \$69,888,878.

23 Schedule C-3.13 is marked as “Reserved for Future Use,” which indicates

1 that no adjustments have been made on this schedule.

2 Schedule C-3.14 adjusts operating income to eliminate non-jurisdictional
3 expenses from the test year. Included in unadjusted test year expense are industry
4 association dues, advertising expenses, and other expenses that are not
5 recoverable in electric distribution rates. The Company proposes to eliminate
6 these charges through a jurisdictional adjustment that decreases O&M expense by
7 \$618,056.

8 Schedule C-3.15 adjusts operating income to annualize the Commission
9 and OCC annual assessments to the latest known levels. This jurisdictional
10 adjustment results in a \$1,073,459 increase in O&M expense.

11 Schedule C-3.16 adjusts operating income to annualize uncollectible
12 expense based on the adjusted base revenue shown on Schedule C-2, less
13 interdepartmental revenue and rents, times the uncollectible expense factor shown
14 on Schedule A-2. This adjustment is consistent with the methodology used in
15 prior proceedings. This jurisdictional adjustment results in a \$2,969,768 decrease
16 in O&M expense. The adjustment also eliminates \$7,301,531 of revenues
17 collected from the Company's uncollectible expense rider.

18 Schedule C-3.17 adjusts operating income to annualize pension and
19 benefits expense based on annualized labor expense, as determined on Schedule
20 C-3.4, and the budgeted loading rate. This jurisdictional adjustment is similar to
21 the adjustment performed in prior cases and adopted by this Commission and
22 results in a decrease in O&M expenses of \$2,392,829.

23 Schedule C-3.18 adjusts operating income to annualize payroll taxes based

1 on annualized salaries and wages as determined on Schedule C-3.4. This
2 jurisdictional adjustment results in an increase in taxes other than income expense
3 of \$566,102.

4 Schedule C-3.19 reflects an adjustment to annualize the Commercial
5 Activities Tax. This jurisdictional adjustment results in a net increase in O&M
6 expense of \$74,726.

7 Schedule C-3.20 is marked as "Reserved for Future Use," which indicates
8 that no adjustments have been made on this schedule.

9 Schedule C-3.21 adjusts expense for an expected increase in the amount of
10 vegetation management costs as described in the Direct Testimony of Duke
11 Energy Ohio witness Richard D. Harrell. This jurisdictional adjustment results in
12 an increase in expense of \$700,000.

13 Schedule C-3.22 is marked as "Reserved for Future Use," which indicates
14 that no adjustments have been made on this schedule.

15 Schedule C-3.23 adjusts operating income to eliminate costs to achieve the
16 merger with Progress Energy that were included in the test year. This
17 jurisdictional adjustment results in a decrease in expense of \$266,310.

18 Schedule C-3.24 is marked as "Reserved for Future Use," which indicates
19 that no adjustments have been made on this schedule.

20 Schedule C-3.25 is marked as "Reserved for Future Use," which indicates
21 that no adjustments have been made on this schedule.

22 Schedule C-3.26 adjusts operating income to eliminate grid modernization
23 revenues and expenses from the test year. This jurisdictional adjustment results in

1 a decrease in revenue of \$16,864,771 and a decrease in other expenses of
2 \$11,457,257.

3 Schedule C-3.27 is an adjustment to reflect the cost of expected increases
4 in medical expenses. This jurisdictional adjustment results in an increase in O&M
5 expense of \$791,606.

6 Schedule C-3.28 is an adjustment to reflect the expected incremental cost
7 of implementing an electric street light audit program requested by various local
8 municipalities. This jurisdictional adjustment results in an increase in O&M
9 expense of \$286,165.

10 **Q. PLEASE DESCRIBE SCHEDULES C-5, C-6, AND C-7.**

11 A. Schedule C-5 is entitled "Social and Service Club Dues." No costs are reflected
12 in this case for employee social or service clubs membership dues. Schedule C-6
13 entitled "Charitable Contributions" indicates that there are no charitable
14 contributions charged to jurisdictional electric operating expenses. Schedule C-7
15 provides detail, by account, of test year Customer Service and Informational
16 Expense, Sales Expense, and General Advertising Expense.

17 **Q. PLEASE DESCRIBE SCHEDULE C-8.**

18 A. Schedule C-8 sets forth the estimated expense of presenting this case. The top
19 half of this schedule compares the expenses estimated to be incurred in these
20 proceedings to the expenses for the Company's prior two rate cases. The Company
21 proposes to defer this expense and amortize it over a three-year period. This
22 amount is included in test year operating expense through the adjustment
23 contained in Schedule C-3.3.

1 **Q. PLEASE DESCRIBE SCHEDULE C-9.**

2 A. Schedule C-9 contains a summary of all payroll costs and related benefits and taxes
3 included in O&M expense for the test year. The adjustments made to labor expense,
4 pension and benefits expense, FICA taxes, and unemployment taxes from Schedules
5 C-3.4, C-3.17, C-3.18, and C-3.27 were also included on this schedule to arrive at
6 the total adjusted payroll cost.

7 **Q. PLEASE DESCRIBE SCHEDULE C-9.1.**

8 A. Schedule C-9.1 is the Total Company Payroll Analysis for the most recent five
9 years. Page 1 summarizes the total Company payroll information, while pages 2
10 and 3 reflect the same information for the union and non-union employee
11 classifications.

12 **Q. PLEASE DESCRIBE SCHEDULES C-11.1, C-11.2, C-11.3, AND C-11.4.**

13 A. Schedules C-11.1 through C-11.4 set out the electric sales statistics for the total
14 company and the jurisdictional revenues in these proceedings. The years 2007
15 through 2011 are based on actual data. The test year twelve months ending
16 December 31, 2012, reflects three months actual and nine months projected data.
17 Years 2013 through 2017 are projected and provide information from the
18 Company's electric sales forecast.

19 **Q. PLEASE DESCRIBE SCHEDULE C-12.**

20 A. Schedule C-12 is an analysis of the reserve for uncollectible accounts for the most
21 recent three calendar years and the test year. Shown on this schedule are the
22 beginning reserve balance, the current year provision, recoveries, charge-offs, and
23 ending balances. The ratio of net write-offs and the ratio of uncollectible

1 expenses are also computed. Beginning in February 2002, Duke Energy Ohio's
2 receivables have been sold to Cinergy Receivables Company LLC. The reserve
3 that existed at that time has been reversed over time and no additional reserves are
4 necessary; therefore, the balance is \$0.

5 **Q. PLEASE DESCRIBE SCHEDULE D-5.**

6 A. Schedule D-5 contains comparative financial data for the years 2002 through 2011
7 and the test year ending December 31, 2012. This information was obtained from
8 various departments throughout the Company.

9 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(7).**

10 A. Supplemental Filing Requirement (C)(7) requires the filing of working papers
11 supporting the schedules provided in the Application. The electronic worksheet
12 files are supplied on compact disc as part of the Application. A list of these
13 electronic files is provided as Supplemental Filing Requirement (C)(7).

14 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(8).**

15 A. Supplemental Filing Requirement (C)(8) is a worksheet showing, by FERC
16 account, monthly test year data, which agrees with Schedule C-2.1, Column 1.
17 Taxes Other Than Income Taxes are itemized and totaled.

18 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(13).**

19 A. The information provided in response to Supplemental Filing Requirement (C)(13)
20 describes the calculation of the M&S component listed on Schedule B-5.1.
21 Supplemental Filing Requirement (C)(13)(a) asks for the computation of the M&S
22 used for construction, additions, and extensions. Supplemental Filing Requirement
23 (C)(13)(b), page 1 lists the monthly balances of M&S by function, and page 2 lists

1 the balances by account. The percentage of M&S applicable to new construction is
2 developed on Supplemental Filing Requirement (C)(13)(c). The Company does not
3 maintain its inventory in such a way that it can list the balances by function. The
4 functional balances were estimated using a percentage developed on Supplemental
5 Filing Requirement (C)(13)(c), which also lists monthly withdrawals by function.

6 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(16).**

7 A. Supplemental Filing Requirement (C)(16) requests information regarding other
8 rate base items included in Schedule B-6.

9 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(24).**

10 A. Supplemental Filing Requirement (C)(24) requests test year and two most recent
11 calendar years' employee levels by month. The required information is provided
12 on Schedule C-9.1.

13 **Q. WHAT INFORMATION DID YOU RECEIVE FROM OTHER DUKE**
14 **ENERGY OHIO WITNESSES IN THESE PROCEEDINGS?**

15 A. I received test year budgeted revenue and O&M from Duke Energy Ohio witness
16 Patricia Mullins. I received Plant in Service data from Duke Energy Ohio witness
17 Mr. Council, which he presented on Schedules B-2 through B-4.2 and B-6.2. I
18 received accumulated deferred investment tax credit and accumulated deferred
19 income tax balance information from Duke Energy Ohio witness Butler, which I
20 used on Schedule B-6. I also received the federal income tax rate, Ohio property
21 tax valuation notice, and average Ohio property tax rate from Mr. Butler. I
22 received cost of capital information from Duke Energy Ohio witness Stephen G.
23 De May, which he presented on Schedule D-1. This schedule also includes the

recommended rate of return on common equity proposed by Duke Energy Ohio
witness Roger A. Morin, Ph.D.

**Q. ARE THE COSTS ASSOCIATED WITH DUKE ENERGY OHIO'S
ELECTRIC GRID MODERNIZATION PROGRAM INCLUDED IN
THESE PROCEEDINGS?**

A. No. Consistent with a commitment made by the Company in a Stipulation approved by the Commission in Case No. 10-2326-GE-RDR, the costs for the electric grid modernization are recovered through Rider DR-IM and are not included as part of these proceedings. Schedules B-2.5b and C-3.26 reflect the adjustments made to exclude the Grid Modernization costs from the base electric distribution revenue requirement. All of revenue requirement associated with the electric portion of the Company's grid modernization program will continue to be collected via Rider DR-IM through at least the period that includes recovery of costs incurred for grid modernization through 2014.

IV. CONCLUSION

**Q. WERE ALL OF THE SCHEDULES AND SUPPLEMENTAL FILING
REQUIREMENTS YOU SPONSOR PREPARED BY YOU OR UNDER
YOUR DIRECT SUPERVISION?**

A. Yes.

**Q. IS THE INFORMATION YOU SPONSOR IN SCHEDULES A-1, A-2, A-3, B-
1, B-5, B-5.1, B-6, B-6.1, B-7, B-7.1, B-7.2, C-1, C-2, C-2.1, C-3, C-3.1
THROUGH C-3.28, C-5 THROUGH C-9.1, C-11.1 THROUGH C-12, AND
PAGE5 OF D-5 AND SUPPLEMENTAL FILING REQUIREMENTS (C)(7),**

1 **(C)(8), (C)(13), (C)(16),AND (C)(24) ACCURATE TO THE BEST OF YOUR**
2 **KNOWLEDGE AND BELIEF?**

3 A. Yes.

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

5 A. Yes.