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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., to Establish its Fuel and Economy Purchased Power Component of its Market-Based Standard Service Offer for 2011.	)))))	Case No. 11-974-EL-FAC
In the Matter of the Application of Duke Energy Ohio, Inc. to Establish its System Reliability Tracker of its Market-Based Standard Service Offer for 2011.	))))	Case No. 11-975-EL-RDR

SUPPLEMENTAL TESTIMONY OF

WILLIAM DON WATHEN JR.

ON BEHALF OF

DUKE ENERGY OHIO, INC.

September 7, 2012

398093

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Don Wathen Jr. and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

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

A. I am employed by Duke Energy Business Services LLC (DEBS) as Director of Rates and Regulatory Strategy for Ohio and Kentucky.

Q. ARE YOU THE SAME WILLIAM DON WATHEN JR. WHO FILED DIRECT TESTIMONY IN THESE PROCEEDINGS?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. I will discuss the recommendations contained in the Management/Performance and Financial Audit of the Fuel and Purchased Power and System Reliability Tracker Riders of Duke Energy Ohio, Inc., for the Public Utilities Commission of Ohio (Audit Report) and the proposal of Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) to address the recommendations. I also support the Company's adjustment for Rider RECON and its proposal to account for any further costs and credits that are due to the Company's Standard Service Offer (SSO) customers related to American Electric Power's (AEP Ohio) operation of the Conesville jointly owned unit 4 for costs incurred prior to December 31, 2011.

II. OVERVIEW OF AUDIT REPORT RECOMMENDATIONS

Q. PLEASE BRIEFLY DESCRIBE THE SIGNIFICANCE OF THE AUDIT REPORT.

A. The Audit Report memorializes the audit of the Company's fuel costs (including any renewable energy costs) as well as its system reliability costs for the time period of January 1, 2011, through December 31, 2011. A significant feature of this report is that it also the final audit of the Company's Price-to-Compare-Fuel and Purchased Power Rider (Rider PTC-FPP) and System Reliability Adjustment-System Reliability Tracker (Rider SRA-SRT). As of January 1, 2012, the Company is operating under a new Electric Security Plan (ESP) and no longer recovers any fuel or fuel-related costs (*e.g.*, environmental reagents, emission allowances, etc.) from its SSO customers. The new ESP also eliminated Rider SRA-SRT as a means for recovering costs for purchasing capacity for SSO load. A new mechanism, Rider RECON, was approved as part of the new ESP, to make a final true-up of any costs associated with these two riders as part of the transition from the old ESP to the new ESP. I explain Rider RECON and the impact of the Company's new ESP in my Direct Testimony filed in these proceedings on March 1, 2012. Thus, this Audit Report also serves as the guide for the true-up of costs through Rider RECON.

Q. DOES CUSTOMER SWITCHING CONTINUE TO IMPACT THE TRUE-UP OF RIDERS PTC-FPP AND SRA-SRT?

A. Yes. Like its predecessor riders, Rider RECON is bypassable, or avoidable, to customers who switch to a competitive supplier. And, Duke Energy Ohio has experienced and continues to experience significant levels of customer switching among its retail customers, particularly among commercial and industrial customers. The table below shows the approximate levels of switching as a percent of load, an annualized basis, for each customer class, at the end of 2008, 2009, 2010, and 2011, and as of June 30, 2012.

Switching by Customer Class as of:					
	12/31/08	12/31/09	12/31/10	12/31/11	6/30/12
Residential	1.56%	8.83%	25.64%	34.45%	41.96%
Commercial	6.36%	42.19%	75.79%	80.01%	75.24%
Industrial	0.33%	75.97%	87.45%	95.85%	78.61%
Total Retail	2.55%	41.54%	59.92%	67.59%	65.22%

Switching directly affects the ability to fully recover costs under Rider PTC-FPP in a given recovery period. If the Company collected more or less revenue in a period for Rider PTC-FPP than its eligible costs for that period, the over- or under-recovery flowed through the next period's Rider PTC-FPP's reconciliation adjustment (RA) component. While the Company bases its recovery rate on an expectation of SSO sales, the ability to fully true-up the over- or under-recovery was dependent on the ultimate level of SSO sales during the recovery period. As a result, every kilowatt-hour that switched from Duke Energy Ohio's SSO meant there was one less kilowatt-hour to spread prior period over- or under-collections for future recovery. This had the potential either to exacerbate switching when the Rider PTC-FPP increased because costs were under-collected in a prior period or to create a subsidy to non-switchers if costs were over-collected in a prior period to be refunded in a future period.

Rider RECON is also bypassable and, consequently, part of the price-to-compare. Because it is a bypassable charge, the Company's ability to true-up its unrecovered costs from the Rider PTC-FPP and Rider SRA-SRT is also dependent upon current and future switching levels for the duration of the Rider RECON. Although the Company develops the Rider RECON rate assuming a level of SSO sales, unexpected increases or decreases in the level of SSO sales, for whatever reason, including switching, will impact the amount of Rider RECON collected and may result in the Company over- or under-collecting the amount needed for the true-up.

Q. PLEASE SUMMARIZE THE RECOMMENDATIONS CONTAINED IN THE AUDIT REPORT.

A. The Audit Report contained numerous findings and three recommendations. The three recommendations are as follows:

- As part of this year's integrated resource plan, revise the plan for meeting the alternative energy requirements into the future based on the current ESP program (refer to Finding VII-1);
- Ensure that RECON rider adjustments are properly incorporated into subsequent filings (refer to Recommendation IX-1); and
- Continue to monitor billing situations where kWh data does not match so as to find out what is causing billing issue (refer to Finding IX-3).

Q. PLEASE BRIEFLY EXPLAIN THE AUDIT REPORT RECOMMENDATION REGARDING THE COMPANY'S PLAN FOR MEETING ALTERNATIVE ENERGY REQUIREMENTS AND THE COMPANY'S RESPONSE TO THIS RECOMMENDATION.

A. Recommendation VII-1 in the Audit Report refers to the Company's integrated resource plan and notes that the plan should be revised to meet alternative energy requirements into the future based on the current ESP program. Duke Energy Ohio agrees with the spirit of this recommendation in developing a long-term plan to meet Ohio's alternative energy requirements. The Company's new ESP sets the Company on a path to develop a long-term compliance strategy introducing a collaborative process for expanding renewable resource options. And, the Company has met this requirement with the submission of a ten-year plan with its most recent compliance filing in Case No. 12-1214-EL-ACP. Although this was not submitted as part of the Company's integrated resource plan, I believe that the submission of a stand-alone plan in a Commission docket satisfies this recommendation.

Q. PLEASE BRIEFLY EXPLAIN THE AUDIT REPORT RECOMMENDATION REGARDING THE MONITORING OF BILLING SITUATIONS WHERE kWh DATA DOES NOT MATCH, AND THE COMPANY'S RESPONSE TO THAT RECOMMENDATION.

A. To verify that the correct Rider PTC-FPP and Rider SRA-SRT rates had been included on the Duke Energy Ohio electric bills, the auditor reviewed a random sample selection of monthly bills from mid-month and end-of-month bill cycles for the months of March, June, September, and December of 2011. The auditor selected 99 sample bills, representing 45 different Duke Energy Ohio billing rates. The delivery rider and Rider PTC-FPP charges were recalculated and compared to rates included in the quarterly Rider PTC-FPP filings. In one item, in the billing system, distribution kWh was not equal to generation kWh, resulting in a CMS billing error. The Company opened an IT ticket to research billing issue. The Company could not find any other instances similar errors.

The recommendation is simply to continue to monitor the monthly billing data through the use of an Excel spreadsheet. The Company does not take this recommendation as intending for it to implement a redundant billing system and perform this calculation with each and every account as such an endeavor would be imprudent and extraordinarily costly. This conclusion is further supported by the fact that Duke Energy Ohio was unable to find any additional instances of this discrepancy. As part of its standard utility practice, the Company agrees to monitor billing data on a statistical sample basis.

Q. PLEASE BRIEFLY EXPLAIN THE RECOMMENDATION THAT RIDER RECON ADJUSTMENTS ARE PROPERLY INCORORATED IN FUTURE ADJUSTMENTS AND THE COMPANY'S RESPONSE TO THAT RECOMMENDATION.

A. Duke Energy Ohio made its first Rider RECON adjustment filing during the first quarter of 2011 as was contemplated in the new ESP. That filing included known adjustments through September 2011 and estimated/forecasted costs through December 31, 2011. The reason the Company included estimated/forecasted costs at that time was the final accounting and closing of books for 2011 was not completed at the time of that initial filing. Then on or about May 25, 2012, Duke Energy Ohio made a second Rider RECON filing that included all of the costs attributable to Rider PTC-FPP and Rider SRA-SRT known at that time through December 31, 2011.

This recommendation is simply to make sure all costs that are appropriate for recovery under Rider RECON are accounted for and included. Duke Energy Ohio completely agrees with this recommendation. The fact that new evidence regarding the costs incurred before January 1, 2012, is still coming to light, as described in the testimony of Salil Pradhan, does not undermine the overarching objective of Rider RECON, which is to make sure customer and shareholder are made whole during the period for which Rider PTC-FPP and Rider SRA-SRT were applicable. Under the terms of the Commission's Order approving the ESP, Rider RECON will continue until no later than two quarters following the final order in the Company's audit of its Rider PTC-FPP.

Q. HAVE ALL ADJUSTMENTS TO RIDER RECON BEEN ACCOUNTED FOR TO DATE?

A. No. There are still fuel and fuel-related costs to be trued-up through Rider RECON related to jointly owned plants operated by AEP Ohio. Also, the Company recently became aware of some minor costs related to a governmental imposition fee in a contract for coal that was burned for the benefit of SSO load during the applicable period of Rider PTC-FPP. Duke Energy Ohio witness Pradhan provides an overview of the issues associated with the jointly owned plants and explains the governmental imposition fees in his direct testimony. Mr. Pradhan also provides an estimate of the total dollar amount the Company is seeking to recover via Rider RECON.

Q. PLEASE EXPLAIN HOW AEP OHIO'S OPERATION OF THE JOINTLY OWNED COAL FIRED UNITS IS IMPACTING THE RIDER RECON ADJUSTMENT.

A. AEP Ohio operates the Conesville 4 unit that is jointly owned among Duke Energy Ohio and the Dayton Power & Light Company. Conesville Unit 4 was used and useful in serving Duke Energy Ohio's SSO load under its old ESP. As is explained more fully by Company witness Pradhan, AEP Ohio provides Duke Energy Ohio with a monthly number for tons of coal and dollars per ton to be included in its total fuel related to this plant.

Duke Energy Ohio recently learned that AEP Ohio, was accounting for certain costs as an adjustment to the dollars per ton which then impacted the weighted-average cost of inventory (WACI) for coal rather than as a current period income statement gain or loss. AEP Ohio's treatment of these costs as an impact to the WACI resulted in inappropriate allocations of certain costs between Duke Energy Ohio's SSO and non-SSO loads. These costs are in two categories: (1) liquidated damages for a coal contract related to 2010 and 2011 under deliveries that was settled in 2011, and (2) costs for the AEP Ohio Conesville wash plant closure.

Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO THESE ADJUSTMENTS?

A. Duke Energy Ohio is proposing to adjust the Rider RECON, consistent with the Auditor's recommendation, to reflect the proper allocation of these costs between SSO and non-SSO loads so that each is paying their fair share no more and no less. This results in a net adjustment of approximately $1,640,000.

Q. IS THE COMPANY'S PROPOSAL CONSISTENT WITH THE AUDIT REPORT RECOMMENDATIONS AND THE STIPULATION IN THE COMPANY'S ESP THAT ESTABLISHED RIDER RECON?

A. Yes. The unambiguous purpose of Rider RECON is to true-up any over or under collections of fuel costs from the ESP through December 31, 2011. These costs are fuel costs related to those prior periods. The only reason these adjustments were not previously made was because AEP Ohio's accounting was not transparent. Duke Energy Ohio only recently found out about the nature of the costs after having questioned AEP Ohio about the increases to the WACI for coal for several months. Had AEP Ohio accounted for these costs as a gain or loss, the costs would have been transparent and already been recovered, either through the Rider PTC-FPP during the fourth quarter of 2011 or through the initial Rider RECON filing.

For the liquidated damages portion of the costs, the Company is simply reallocating the total of the costs assigned to the Company based upon the SSO/non-SSO split as of the time the damage was incurred in 2010 and 2011. To the extent costs related to the liquidated damages have already flown through Rider PTC-FPP and Rider RECON based upon the monthly fuel expense from the balance sheet during late-2011 and 2012, respectively, that amount has offset the balance due.

For the wash plant closure costs, the Company is simply taking the total costs assigned to Duke Energy Ohio from AEP Ohio for the period ending December 31, 2011, and spreading the closure costs out over the life of the plant. This produces an annual amortization expense over the life of the asset. Mr. Pradhan's analysis then makes assumptions about the extent to which the asset provided service to SSO vs. non-SSO customers. As Mr. Pradhan observes in his analysis, the regulatory model in Ohio has changed numerous times over the life of this asset such that, at times, 100 percent of the cost allocated to Duke Energy Ohio for this wash plant would have benefitted all of our retail customers. More recently, Duke Energy Ohio has seen up to two-thirds of its retail load switch to alternative suppliers. With switching, only a fraction of the costs allocated to Duke Energy Ohio for the wash plant would have been used to serve our SSO. Mr. Pradhan's analysis makes a reasonable estimate of the value of the wash plant to retail load over the life of that asset.

Q. WHAT IS THE NET IMPACT OF THESE ADJUSTMENTS, INCLUDING THE GOVERNMENT IMPOSITION FEES, TO RIDER RECON?

A. Based on the analysis provided by Mr. Pradhan, the total adjustment is $1,640,000 as shown below.

Issue	Amount*
Governmental Imposition	$68,000
Liquidated Damages for Coal Contract	$350,000
Wash Plant Closure Costs	$1,222,000
Total to Recover	$1,640,000

- Per testimony of Salil Pradhan

III. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.