DUKE ENERGY OHIO EXHIBIT____

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

SUPPLEMENTAL DIRECT TESTIMONY OF

PEGGY A. LAUB

ON BEHALF OF

DUKE ENERGY OHIO, INC.

______	Management policies, practices, and organization
__X__	Operating income
__X__	Rate Base
______	Allocations
______	Rate of return
______	Rates and tariffs
______	Other

February 19, 2013

TABLE OF CONTENTS

PAGE

I. INTRODUCTION 1
II. OBJECTIONS SPONSORED BY WITNESS 2
III. CONCLUSION 27

ATTACHMENTS

PAL-SUPP-1 Revised Schedule A-1

PAL-SUPP-2 Shared Employee Labor Allocations by Month

PAL-SUPP-3 Revised C-2.1 - 9 months actual 3 months budget compared to test period

PAL-SUPP-4 Revised C-2.1 - 12 months actual compared to test period

PAL-SUPP-5 STAFF-DR-01-025-001 Supplemental -Property Taxes for Real Property

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Peggy A, Laub. 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 Manager, Accounting. DEBS provides various administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. ARE YOU THE SAME PEGGY A. LAUB WHO PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THESE PROCEEDINGS?

A. Yes. I am.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. My Supplemental Direct Testimony will describe and support several of the Company's objections to certain findings and recommendations contained in the Report by the Staff of the Public Utilities Commission of Ohio (Staff) issued in these proceedings on January 4, 2013 (Staff Report).

Q. PLEASE DESCRIBE THE SUPPLEMENTAL ATTACHMENTS TO YOUR SUPPLEMENTAL DIRECT TESTIMONY.

A. Attachment PAL-SUPP-1 is a Supplemental Schedule A-1, Overall Financial Summary, showing the revenue requirement reflecting the Company's objections to the Staff Report. Attachment PAL-SUPP-2 shows examples of four typical shared employees' time allocations for the first eight months of the test period. Attachment PAL-SUPP-3 shows the unadjusted test year for Schedule C-2.1 compared to nine months actual and three months budget. Attachment PAL-SUPP-4 shows the unadjusted test year for Schedule C-2.1 compared to twelve months actual for calendar year 2012. Attachment PAL-SUPP-5 is page 1 of the Company's response to Staff-DR-25-001, showing the Company's property taxes for real property expense.

II. OBJECTIONS SPONSORED BY WITNESS

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 1.

A. The Company's first objection to the Staff Report is that the revenue increase proposed therein understates the revenue increase to which the Company is entitled. This objection is more fully described in the Supplemental Direct Testimony of William Don Wathen Jr. PAL-SUPP-1 Attachment shows Duke Energy Ohio's revenue requirement adjusted for the Company's objections to the Staff Report.

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 3.

A. Duke Energy Ohio objects to the Staff's recommendation to exclude the entire date certain net plant investment of $540,326 related to the Duke Energy Envision Center. The Envision Center facility is an educational tool utilized by the Company for educating customers, regulators, and the general public about the capabilities of grid modernization. The Envision Center features demonstrations of smart-modern substations with two-way, digital distribution network technology; a "smart" home complete with smart appliances, solar panels and a plug-in hybrid electric vehicle; an apartment; and small business complex with smart meters and a power delivery work center that monitors conditions with real-time data. Guided facility tours are available at no cost. The facility allows participants to gain first-hand experience with grid modernization and grid modernization-enabled technologies such as distribution automation, self-healing electric delivery grid, programmable appliances, and electric powered vehicle charging stations.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION TO THE STAFF'S ENVISION CENTER ADJUSTMENT.

A. The Staff's explanation for excluding this item was that the Envision Center is a "shared facility" and the Company "could not demonstrate how many customers were Ohio ratepayers."[1] The fact that it is a shared facility is inconsequential and not relevant because the Company is only requesting that the share allocable to Duke Energy Ohio's electric distribution be included in rate base. Therefore, excluding the entire allocated investment in the Envision Center only because it is a 'shared facility' is an invalid argument. Duke Energy Ohio shares a number of facilities with affiliates and/or other services (*e.g.*, gas distribution service, operations centers, local company headquarters, etc.). The fact that these facilities are shared is no basis for their exclusion from rate base.

Regarding the second apparent argument raised by the Staff, that the Company could not demonstrate how many Ohio customers visited the facility, the Envision Center has hosted and continues to host customers, state and local officials, and other industry professionals from all of its service territories,

[1] Staff Report at page 5.

including Ohio. Admittedly, Duke Energy Ohio does not condition the tours on whether an individual is a customer of Duke Energy Ohio but, by all accounts, it is an educational tool that allows the Company to demonstrate the capabilities of its grid modernization initiative currently being implemented in the Ohio service territory. The fact that the Company does not record the service provider or other details for each participant should not be prohibitive in terms of recovering this cost.

Thousands of customers and industry professionals visit this center annually to learn about Duke Energy Ohio's grid modernization initiative. In calendar year 2011, more than 3,500 individuals toured the facility. These tours have included Commissioners from the Public Utilities Commission of Ohio (PUCO or the Commission) and Staff employees, as well as the Office of the Ohio Consumers' Counsel (OCC) and members of its staff. The PUCO has acknowledged the usefulness and thus benefit of the facility insofar as it has requested access to the facility to schedule tours for foreign industry officials visiting the PUCO and the state of Ohio. Company records show that members of the PUCO, including both Commissioners and Staff, have attended the Envision Center demonstrations nine times since 2009, including as recently as 2012. Beyond the regulators, Company records also show that during 2012, the Envision Center hosted multiple educational tours for Ohio-based organizations, including, but not limited to: 1) four separate Girl Scout Troops (approx. 130 attendees total); 2) Boy Scout Troop (approx 40 attendees); 3) Cincinnati schools (2 events approx. 65 attendees); 4) Local area high schools (approx. 30 students);

5) Ohio colleges (*e.g.*, University of Cincinnati, Cincinnati State, approx 120 attendees); 6) Multiple large business customers/organizations (*e.g.*, Procter& Gamble, Ohio School Board, United Way-Ohio chapter, Cincinnati YMCA, Greater Cincinnati Energy Alliance (GCEA) totaling over 180 attendees). This is just a small indication of the Ohio organizations that benefit on an annual basis from the educational opportunities provided by the facility.

As a tool utilized by the Company, its customers, and the PUCO itself, Staff's adjustment to exclude all investment in the Envision Center is arbitrary and unreasonable and ignores benefits even the Commission has recognized that this facility provides to not only Duke Energy Ohio's customers, but the state of Ohio in general.

Q. WHAT IS THE RESULT OF CORRECTING THIS ADJUSTMENT?

A. The result is an increase to the Company's net plant in service, at the date certain, of $540,326.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 6.

A. The Company objects to the Staff's calculation of the Gross Revenue Conversion Factor (GRCF) because Staff failed to include a component for the maintenance fees associated with the annual assessments by the PUCO and the OCC that recognizes that for every additional dollar of revenue the Company receives it will be required to pay more in maintenance fees.

Q. DID THE STAFF REPORT PROVIDE ANY EXPLANATIONS FOR THIS ADJUSTMENT?

A. No.

Q. IS STAFF'S POSITION REASONABLE AND CONSISTENT WITH ITS OTHER RATEMAKING ADJUSTMENTS MADE IN THESE PROCEEDINGS?

A. Staff applies a double standard with this adjustment. For a number of adjustments the Staff made to the Company's test year revenue requirement, Staff suggests that only actual, known data should be used for such adjustments. Unfortunately, Staff only applies this logic to certain aspects of the Company's filing and fails to apply this logic consistently for <u>all</u> of the "known and measurable" changes to the Company's test year revenues and expenses. Nevertheless, for the PUCO and OCC maintenance fee adjustment, the Company incorporated only the "known and measurable" element of the adjustment to the GRCF. The basis for charging utilities these maintenance fees is revenue. All else being equal, the PUCO and OCC maintenance assessments charged to Duke Energy Ohio will increase if its revenue increases. This known and measurable cost should be recoverable in base rates.

Q. DO YOU HAVE A RECOMMENDATION FOR HOW THE PUCO AND OCC ASSESSMENTS SHOULD BE REFLECTED IN THE GRCF?

A. Yes. The GRCF proposed in the Company's Application appropriately reflects a known and measurable impact of the proposed change in the Company's overall revenue. Again, in light of Staff's apparent preference to incorporate known and measurable changes, the Staff's proposed adjustment to exclude this known and measurable change to the Company's operating cost should be rejected.

Q. WHAT IS THE RESULT OF CORRECTING THIS ADJUSTMENT?

A. The result is an increase to the Company's test year expense of $97,433.

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 7.

A. The Company objects to the Staff's proposed adjustment to property tax expense in that Staff failed to include any provision for property taxes related to real property. The Company's property tax expense for the test year is comprised of both real and personal property taxes. Staff adjusted personal property taxes for updated property valuation information, but failed to include any provision for the Company's real property tax expense. This information was provided to Staff as part of its discovery in these proceedings in response to Staff-DR-25-01, attached here to as PAL-SUPP-5; however, Staff failed to include any amount for property taxes for real property for the Company's operating expense. The failure to include any provision for real property taxes denies the Company the ability to recover what is otherwise a known and measurable expense. The Company assumes that this was simply an oversight because Staff did not discuss any reason for excluding real property tax in its Staff Report.

Q. WHAT IS THE RESULT OF CORRECTING THIS OVERSIGHT?

A. The result is an increase to the Company's test year expense of $360,072.

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 8.

A. The Company objects to the Staff's proposed adjustments to test year labor expense. Staff's adjustment is based upon unreasonable assumptions, is inconsistent in its own methodology, fails to recognize and properly account for monthly variances in employee counts, and completely ignores the Company's "known and measureable labor expense" for the test year. Instead, Staff seeks to create its own estimate of test year labor expenses that: (1) are based, in part, on actual data for historical periods outside the test year (calendar year 2011) that are unrepresentative of the test year expense; (2) wholly ignores labor charges for work performed by Duke Energy Ohio's sister utilities in accordance with Commission-approved service agreements; and (3) arbitrarily uses a single (two week) pay period for Duke Energy Ohio labor costs, including employee headcount, and imputes that single pay period expense over an entire year thus wholly ignoring variances in employee counts.

Q. PLEASE FURTHER EXPLAIN STAFF'S ADJUSTMENT RELATED TO LABOR FROM THE SERVICE COMPANY AND WHY THAT WAS IMPROPER.

A. Staff's methodology for calculating labor expense is inconsistent between and among the various categories of labor in that Staff uses different methodologies for labor costs from different sources inequitably. Staff's adjustment completely disregards the test year concept for labor expense related to Duke Energy Business Services (DEBS) labor and instead uses calendar year 2011 actual labor expenses, that is pre-test year labor, as labor allocated to Duke Energy Ohio. This assumption regarding the service company labor is flawed principally because it assumes that service company costs did not change from 2011 to the 2012 test period used in the Application.

The service company labor costs included in the Company's Application is a known and measurable change and is consistent with the test year filing requirement. The objective for labor expenses to reflect known and measurable changes has previously been advanced by the Staff itself.[2] Moreover, the Company's labor costs included in its Application are consistent with the test year concept required both under the Commission's filing requirements and Ohio Revised Code 4909.15.

Q. DID THE STAFF MAKE ANY FINDING THAT THE COMPANY'S SERVICE COMPANY LABOR ALLOCATIONS WERE UNREASONABLE OR UNACCEPTABLE?

A. No. Staff made no finding that the Company's data for service company labor costs, including the annualization adjustments for known wage increases, filed in these proceedings was unreasonable or inaccurate.

It is important to note that the Staff, in its Staff Report, agreed with the various service company allocations used in these proceedings. In fact, service allocation factors, including service company allocations was one of the areas for focus identified by the Staff in its June 20, 2012, letter filed in these proceedings whereby the Company was to provide detailed information as part of the management policies and practices audit. There is no reason to doubt that Staff thoroughly examined these allocations and, as reflected in the Staff report, there were no concerns. It is thus inexplicable that Staff would completely ignore the allocations as it pertains to test year labor expense from the service company. The test year data submitted by the Company in these proceedings is reasonable and consistent with the test year requirement in Chapter 4909.15 of the Ohio

[2] *See e.g.* Prefiled Testimony of Trisha J. Smith, Case No. 07-551-EL-AIR, *et al.*, page 4.

Revised Code and should be used for calculating the Company's service company labor expense.

Q. PLEASE FURTHER EXPLAIN STAFF'S ADJUSTMENT RELATED TO LABOR FROM DUKE ENERGY OHIO'S SISTER UTILITES AND WHY THAT ADJUSTMENT WAS IMPROPER.

A. Staff's adjustment ignores the fact that Duke Energy Ohio and its customers benefit by having access to resources from its sister utilities that can assist in Ohio when needed, both in an emergency and when it is more expedient/efficient to do so. This is particularly true with respect to its utility affiliate, Duke Energy Kentucky, whose service territory is contiguous with Duke Energy Ohio's service territory, separated only by the Ohio River.

Staff's labor adjustment fairly and appropriately recognizes a reduction in Ohio labor for services Duke Energy Ohio provides for its affiliate and that are reimbursed by the affiliate. However, Staff erroneously and unfairly ignores the corresponding expense Duke Energy Ohio incurs for like services its utility affiliate provides to Duke Energy Ohio. These services represent real and legitimate costs and are provided in accordance with Commission-approved service agreements and consistent with Ohio's corporate separation rules and regulations. The Staff's failure to recognize this entire category of expense is not logical and only seeks to arbitrarily and unfairly reduce the Company's labor costs.

If Staff's unreasonable adjustment stands, it will send an improper message to all Ohio utilities that are part of a multi-jurisdictional holding company structure (which includes most of the major electric and gas utilities) that the only way to be adequately be compensated for labor is to no longer use these affiliate services. The most compelling benefit of utilities sharing resources with its affiliates is reducing overall costs and improving reliability. Creating impediments to such sharing by limiting the cost recovery associated with such sharing of resources. The consequences include higher utility costs and potential negative impacts on reliability as utilities will not be able make the most efficient use of all resources available.

Q. WHAT TYPES OF SERVICES ARE PROVIDED BY DUKE ENERGY OHIO'S SISTER UTILITIES ON A RECURRING BASIS?

A. The operating company agreement and affiliate agreements already approved by the Commission and reviewed again by the Staff in this case, provide that Duke Energy Ohio may access additional personnel based on need or when such labor is more cost effective. The Operating Company Agreement was submitted as Attachment DJR-2 to the Direct Testimony of Duke Energy Ohio witness Daniel J. Reilly, now being adopted by Duke Energy Ohio witness Steven Michael Covington. The various services that can and are provided under this agreement are described in Article 1 of that agreement. As for charges from Duke Energy Kentucky in particular, these services can and do include any day-to-day function that the employee is capable of doing. The services could include, but are not limited to, general reliability work such as repairs to facilities from routine replacing of utility poles to replacing conductor, engineering, equipment testing and other services. Duke Energy Kentucky and Duke Energy Ohio share numerous facilities and their service territories are adjacent to each other. The Staff's adjustment to wholly eliminate the expense for these types of services fails to acknowledge the benefits of having such reliable and ready labor available, not to mention the potential for cost savings through a less expensive (and, thus, less costly to ratepayers on both sides of the river) affiliate labor resource, than to incur overtime or hire additional personnel.

Q. PLEASE EXPLAIN STAFF'S ADJUSTMENT RELATED TO DUKE ENERGY OHIO'S DIRECT LABOR EXPENSE AND WHY THAT ADJUSTMENT WAS IMPROPER.

A. Staff arbitrarily selected a single pay period in the 2012 calendar year (first pay period in August 2012) as a proxy for labor expense, and assumed employee headcount as being constant at this August 2012 snapshot level over the full twelve-month period of the test year. Staff's adjustment also included averages for both overtime rates and the amount of labor that is charged to operating and maintenance (O&M) expense versus capital. The methodology used by Staff for its adjustment is flawed in several respects and results in test year labor expenses that are substantially lower than the Company's proposed test year labor expense that was based on actual expense through April 30, 2012, with "known and measurable" changes. Staff's methodology in this regard also assumes a level of employee headcount for a period that is post merger consummation between Duke Energy and Progress Energy without any recognition of the associated level of costs to achieve that headcount through employee severance.

Q. PLEASE FURTHER EXPLAIN HOW STAFF'S LABOR ADJUSTMENTS ARE FLAWED?

A. First, Staff's adjustment understates overtime expense percentages in that it erroneously assumes that the personnel in different classifications work the same amount of overtime. For example, Duke Energy Ohio has personnel such as fleet services personnel, meter testers, and customer project coordinators who perform services over the year for many business units within Duke Energy Ohio (*e.g.* gas and electric operations) and directly assign their time depending upon the project. In other words, mechanics, meter testers, and customer project coordinators can perform work for either gas or electric operations. Taking a single pay period as a proxy for an entire year assumes the employee performs the same tasks for the same functions at the same level of expense, and fails to appropriately "smooth out" the test year overtime costs for the Company. Attachment PAL-SUPP-1 shows actual examples of time sheets for four such employees and how their time allocations differ over a number of pay periods. Staff's adjustment assumes that labor costs between and among the various business units cannot change weekly or daily. Staff fails to account for the fact that total labor costs, including overtime expense, varies throughout the year. If one were to employ Staff's methodology correctly, which Duke Energy Ohio is not advocating, the calculation should be done for each pay period for each employee in the year rather than a single period. Such a calculation would require an extensive amount of data and analysis on the part of the Staff and the Company to essentially reproduce what the Company's accounting system is designed to do. Even if the

Staff took every employee's time sheet for every pay period and actually did this extensive analysis, the end result should be the same as the Company's actual recorded labor expense. The fact that Staff's estimated labor expense is significantly different from the Company's actual labor expense illustrates the weaknesses of Staff's proposal to use a snapshot of labor expense.

Second, and similarly, Staff oversimplifies the calculation for O&M percentages and overtime. The O&M percentages and overtime percentages should be calculated for each specific type of employee. Staff erroneously calculates its O&M and overtime percentages based on a view of the Company that includes Duke Energy Ohio's non-regulated generation business and its gas distribution business.

Q. PLEASE EXPLAIN HOW THE STAFF'S USE OF A SINGLE PAY PERIOD TO IMPUTE THE COMPANY'S EMPLOYEE HEADCOUNT AT A TIME OTHER THAN THE DATE CERTAIN IN THESE PROCEEDINGS RESULTS IN FLAWED ASSUMPTIONS.

A. As discussed above, the obvious problem with this methodology is that it assumes a level of employees at a particular date, later than the March 31, 2012, date certain, to represent the Company's test year labor expense. In this instance, Staff selected a pay period in August 2012. In addition to the obvious problem of assuming that one pay period is representative of an entire year, August 2012 also represents a period that happens to reflect lower headcount as a result of a voluntary severance offer to employees following the merger between Duke Energy and Progress Energy. Staff's estimated labor expense, therefore, includes the benefits of the reduction in headcount following employee severance. Staff failed to reflect any of the costs to achieve those merger-related savings. In fact, Staff explicitly included an adjustment in its Staff Report to exclude merger-related costs.

In order to achieve those employee reductions resulting from merger, the Company incurred significant severance costs. Obviously, the Company would not be allowed to include merger-related costs without including merger-related savings; so, it makes no more sense for the Staff to include merger-related savings without merger related costs, including the costs excluded by the Staff and the costs incurred after March 31, 2012, that were not known at the time of the filing. If it wants to adjust for actual employee headcount and take advantage of reductions due to the merger completion, there must also be recognition of <u>all</u> the costs to achieve those reductions. The Company's base case was prepared before the merger was consummated and well before any of the headcount reductions. The Company, as required, based its labor costs on amounts that were known and measurable at the time of the filing.

Q. DOES STAFF'S ADJUSTMENT TO LABOR EXPENSE SATISFY THE OBJECTIVE OF SMOOTHING OUT THE LABOR EXPENSE FOR THE TEST YEAR?

A. No. Using one pay period as representative of the entire twelve months of labor expenses cannot be considered a reasonable effort to "smooth out" this expense. In its Staff Report filed in the FirstEnergy rate case, Case No. 07-551-EL-AIR, *et al.*, the Commission Staff witness sponsoring the labor adjustment used six months of actual data to recommend a labor adjustment. To support the use of six months, Ms. Trisha J. Smith, explained that "[t]he Staff used an average employee count to smooth out any variances in employee counts. The Commission has historically relied on the known and measurable requirement when determining employee levels." In these proceedings, Staff ignores what it previously declared an objective of the Commission, *i.e.*, smoothing out expenses inasmuch as it uses a single pay period rather than any average over a reasonable period of time.

Rather than reviewing the labor expenses included in Duke Energy Ohio's Application, which were based on the best possible data available at the time the Application was filed, Staff chose to ignore this and, instead, proposed an adjustment that fails to meet its own objective of smoothing out expenses, fails to recognize actual labor expenses incurred during the test year, and fails to incorporate known and measurable changes for this test year expense.

Q. IS THERE AN OBJECTIVE AND REASONABLE WAY TO TEST THE VALIDITY OF THE STAFF'S PROPOSED LABOR EXPENSE FOR THE TEST YEAR?

A. Of course. All one has to do is compare the result of the Staff's proposed labor expense to actual expenses. The table below includes a summary of the annual labor expenses based on four possible scenarios. The first line reflects Company's initial proposed labor expense. The second and third lines reflect actual labor costs for the twelve month periods ending August 31, 2012 (the date the Staff relied upon for updating the direct labor costs), and for the twelve months ending

December 31, 2012 (the twelve month period used for the test year in this case). The last line reflects Staff's proposed test year labor expense.

Source	Amount
Per Application	$57,610,052
September 1, 2011, thru August 31, 2012, per books	$56,660,554
January 1, 2012, thru December 31, 2012, per books	$56,364,221
Staff Report	$54,030,925

The first three lines in the table above are based on actual labor costs charged to Duke Energy Ohio's electric distribution business. The last line is Staff's imputed number based on a single pay period in August 2012. Comparing Staff's proposed labor expense to the <u>actual</u> labor expenses for any of the three twelve-month periods above clearly demonstrates the unfair results that Staff's methodology produces. The Company's labor costs are what they are and the Staff itself has supported the Company's cost allocation methodologies and processes upon which the actual labor costs above were determined. There is no evidence submitted by the Staff that it disagreed with any of the Company's allocation processes; and consequently, there is no basis for substituting Staff's result for labor expense for the Company's actual proven labor expense. Finally, where the Company's actual per books labor expense is a "known and measurable" quantity, Staff's calculation clearly does not rise to that standard and should be rejected.

Consistent with 4909.15(A)(4) of the Ohio Revised Code, Duke Energy Ohio's test period labor represents its cost of rendering electric distribution service to its customers. Staff's proposed adjustment significantly undervalues this cost as evidenced by the Company's actual labor expenses experienced in calendar year 2012, consequently, the test period of these proceedings. Staff's proposed adjustment to labor expense results in the Company being unable to recover its cost of rendering utility service.

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 9

A. Duke Energy Ohio objects to Staff's interest synchronization calculation. It is most likely a clerical error in the worksheet but Staff's adjustment Schedule C-3.10 to reflect the interest synchronization cannot be correct. The interest synchronization adjustment essentially adjusts the Company's actual test year interest expense so that it equals the weighted-average cost of debt, from Schedule D-1, multiplied by the rate base. Because the Staff proposed adjustments to the Company's rate base, but did not propose any adjustment to the weighted-average cost of debt, the interest synchronization expense must change. In the Staff Report, however, there is no change in the interest synchronization adjustment proposed by the Company despite the changes to rate base proposed by the Staff. Consequently, the Staff's interest synchronization adjustment is incorrect and should be adjusted when the final rate base value is determined.

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 10.

A. Duke Energy Ohio objects to Staff's recommendation to adjust the Company's test year revenue requirement for actual data for a few selected operating and maintenance (O&M) expense accounts to the exclusion of all other accounts where variances between forecasted and actual data occurred. Staff characterizes this adjustment as its budget adjustment.

Q. DESCRIBE THE BUDGET ADJUSTMENT BEING PROPOSED BY THE STAFF.

A. Per the Staff Report, page 13:

> Staff adjusted the budgeted portion of specific expense accounts included in the Applicant's test year. The Staff's investigation determined the adjustment was necessary due to the significant variance with the account actual in both the test year and in prior years. The Staff adjusted the accounts for actual for the first three quarters of the test year and used a thirteen month average for each month of the remaining quarter.

In simple terms, Staff reviewed the budgeted portion of the test year expenses and selected five individual cost items out of over forty accounts (not including sub-accounts), that contained what Staff perceived as a significant variance between budget and actual expense, and determined that because the actual expense charged to that same account differed, and in all instances were less than the budgeted amount of the expense, there should be a negative adjustment.

Q. IS THERE ANY VALIDITY IN STAFF'S PROPOSED BUDGET ADJUSTMENT?

A. No. Staff's proposal is flawed in a number of ways. First, the Staff's adjustment is unreasonably biased in that it only addresses five individual cost items where it found that the budgeted amount exceeded the actual amount. The most significant problem with Staff's adjustment is that by only focusing on subsets of five single accounts, Staff completely ignored other variances in the other sub accounts which, when reflected for actual amounts, offset Staff's adjustments.

Second, the concept of updating test period data for actual calendar year expense, let alone doing so on a selective and incomplete basis, undermines the statutory basis for the test period itself. R.C. 4909.15 requires utilities to file based upon a test period. The idea of updating the test year revenue requirement for the "latest" known actuals places an impossible standard on the Company insofar as it cannot possibly file a rate case with a test year populated exclusively with actual data and still comply with R.C. 49019.15.

Third, the Staff uses different and inconsistent methodologies to make its adjustments to the five O&M sub-accounts. Although the Staff Report suggests that the "Staff adjusted the accounts for actual for the first three quarters of the test year and used a thirteen month average for each month of the remaining quarter," it actually uses three different methodologies for its adjustments. Even if the Staff's proposal to adjust budgeted test year expenses for actual results is accepted, the validity of the adjustment is undermined by the failure to use a consistent methodology for such adjustment not to mention the selectivity of making the adjustments to some but not all such accounts.

Q. HOW IS THE STAFF'S PROPOSED BUDGET ADJUSTMENT BIASED?

A. The detail of the O&M expenses included in the Company's test year revenue are included on Supplemental Schedule (C)(8), which was filed with the Application and has been updated throughout the year with actual data as it becomes available. This schedule is an account table with over one hundred unique lines of data representing all of the O&M expense categories included in the Company's test year revenue requirement. Out of all those unique subaccounts, the Staff chose to focus on even more detailed components of those subaccounts to compare the amounts budgeted for April 2012 through December 2012 to actual data recorded in those same accounts for the period April 2012 through September 2012, and to actual data from a prior period. Duke Energy Ohio Witness Patricia Mullins explains this in greater detail in her Supplemental Direct Testimony.

The Commission should not accept Staff's recommendation to adjust these expenses as the Staff's proposal would unreasonably deny the Company recovery of a real and legitimate expense incurred in carrying out its obligations as an electric distribution utility.

Q. PLEASE FURTHER EXPLAIN THE INCONSISTENT METHODOLOGIES USED BY STAFF IN ITS BUDGET ADJUSTMENTS.

A. Although the Staff suggests in its Staff Report that it uses consistent methodologies for its five budget adjustments, it actually used three different methods to makes its adjustments. For Account No. 924000, the Staff simply assumes the September 2012 actual expense will persist for October, November, and December of the test year. For Account No. 904891, Staff simply zeroes out the actual dollars for all months in the test year. For the other three accounts, the Staff's adjustment is consistent with its description of the adjustment. The point of this discussion is that the Staff's adjustment, however illogical and inaccurate for all of the reasons described herein, is also not even consistently done. The lack of consistency adds further evidence to the arbitrary nature of the Staff's adjustment.

Q. IS THERE A REMEDY FOR THE STAFF'S ERRONEOUS EFFORT TO UPDATE THE TEST YEAR O&M EXPENSE?

A. Preferably, the Staff would review the reasonableness of the Company's overall test year O&M expense in total rather than parsing through hundreds of subaccounts and resource types looking for only those accounts where the Company's detailed budget data does not synch up with actual data. An expense does not necessarily disappear just because the actual expense is accounted for differently than how it was budgeted. Company witness Ms. Mullins provides additional testimony explaining the differences between budgeted and actual data that would lead to the errors Staff is making by all but five subaccounts for this adjustment. If the Staff had fairly reviewed the totality of the Company's actual O&M expense against the amount included in the application, it would show that the Company's test year O&M expense was reasonable and in line with total actual expense. Furthermore, just because one element of the Company's overall expenses may end up being lower than was originally forecast, it is unfair to not review all other accounts to see if there were increases that may offset the decreases noted by the Staff. Staff adjustment unfairly reduces the Company's test year O&M expense by $6,588,638.

Q. DID YOU ATTEMPT TO DUPLICATE STAFF'S ANALYSIS FOR THE UPDATED DATA THROUGH SEPTEMBER 30, 2012?

A. Yes, however, I used only one methodology, using data available to Staff at the time it conducted its audit, to update the October 2012 through December 2012, where Staff used three different methods to update selected portions of the test period. Again, using data available to the Staff at the time of its audit, I took actual data, per books, for all O&M accounts through September 2012 and assumed budget for the remaining three months of the test year and created Attachment PAL-SUPP-3. This attachment is essentially a reproduction of the Company's Schedule C-2.1 showing unadjusted O&M as filed in the test year and adding a column to show the same information with updated actual data through September 30, 2012. The total O&M expenses calculated in this reasonable and fair manner actually shows that the updated test year O&M expenses are much higher than the amount included in the Application.

To further demonstrate the unreasonableness of Staff's adjustment, I created Attachment PAL-SUPP-4, which is the same as Supplement Attachment PAL-3 except that actual data for all of 2012 is included for comparison to the original test year amounts. There is no better way to validate or invalidate the amount the Company included in its Application for overall test year expenses that to compare it with the actual data for total O&M expenses for the same period. Attachment PAL-SUPP-4 validates that the Company's test year was reasonable. At the same, it invalidates the Staff's proposed adjustment insofar as Staff's adjustment produces a test year O&M expense significantly below what the Company has demonstrated is a reasonable amount based on known and measurable data.

While it is appealing to attempt to update expenses included in the test year each month with actual data to replace projected data, it is clearly unfair to opportunistically update only the very few costs that favor one party over another.

Put simply, if the Commission updates ANY of the test year O&M expenses for more contemporary actual data, it must update ALL of the test year O&M expenses on the same basis.

Q. WHY IS IT UNREASONABLE TO ADJUST THE TEST PERIOD FOR THE MOST CONTEMPORARY ACTUAL DATA?

A. The Ohio Revised Code explicitly defines the test period to be used by a utility for setting rates, Chapter 4909.15(C) states as follows:

> (1) Except as provided in division (D) of this section, the revenues and expenses of the utility shall be determined during a test period. The utility may propose a test period for this determination that is any twelve-month period beginning not more than six months prior to the date the application is filed and ending not more than nine months subsequent to that date. The test period for determining revenues and expenses of the utility shall be the test period proposed by the utility, unless otherwise ordered by the commission. (2) The date certain shall be not later than the date of filing, except that it shall be, for a natural gas company, not later than the end of the test period.

In order to comply with this rule, Duke Energy Ohio could not have proposed a test year that included any more than six months of actual data. The Company's Application was filed in early July 2012. Excluding any other requirement for filing rate cases, the latest actual data that could possibly have been included in this application would have been through June 30, 2012. However, that does not account for the fact that the Company is required to provide legal notice of the increase thirty days before the Application is filed including the amount of the rate increase to be sought.. In reality, it takes some time to close the Company's accounting books and it takes additional time to analyze the data, develop a cost of service study, and design rates for filing the application. Consequently, the latest actual data that can practically be included in the test year is through March 31, 2012. In this case, the Company filed for rates based on test year made up of three months of actual data and nine months of budgeted data, which includes actual data as contemporary as it could possibly be while still complying with the law.

The notion of subjecting the utility to updates for actual expenses as the actual data becomes available creates an unreasonable standard for conducting the rate case review for the Company and all intervenors. This is a particular problem when the parties to a case only use the new actual data to make only adjustments that favor their position.

Q. IS THERE ANY HISTORY OF THE STAFF MAKING AN ADJUSTMENT TO THE BUDGETED PORTION OF A COMPANY'S TEST YEAR FOR ACTUAL DATA?

A. Regarding the issue of adjustments to budgeted data, I reviewed the Staff Reports submitted in several major electric and gas rate case from 2001 to current, and only found one example of the Staff recommending such an adjustment. Importantly, in the single instance where the Staff made such a proposal, it updated <u>all</u> O&M accounts for actual expenses rather than opportunistically picking out just a few to adjust. The case I am referring to is the most recent rate cases for AEP Ohio's operating companies (Columbus Southern Power and Ohio Power), Case No. 11-351-EL-AIR, *et al.*, and Case No. 11-352-EL-AIR, *et al.*

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 13.

A. The Company objects to the Staff's recommended adjustment to the test year expense for PUCO maintenance fees. There was a clerical error when comparing the test period to the actual expense.

Q. PLEASE EXPLAIN THE CLERICAL ERROR AND THE IMPACT OF THIS ADJUSTMENT.

A. On Staff's Schedule C-3.15 the regulatory fees adjustment excludes the assessment for the Division of Forecasting Fee. The result of this correction is an increase to the Company's test year expense of $111,693.

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 14.

A. Duke Energy Ohio objects to Staff's recommended revenue requirement where the adjustments made to rate base and O&M impact other expenses that are directly related to these items. Staff did not challenge the loading rates used for pensions and benefits expenses, payroll taxes, or future medical costs. The magnitude of all these expenses in the test year revenue requirement is based on the magnitude of the Company's labor expense. Because Staff made inappropriate adjustments to the Company's test year labor expense (see Objection No. 8), there was a cascading impact on the test year amounts for pensions and benefits expense, payroll taxes, and future medical costs (as reflected in the Staff Report and the Company's filing in Schedules C-3.17, C-3.18, and C-3.27). This objection also includes the income and other taxes related to the Company's objections in this case.

III. CONCLUSION

Q. WERE ATTACHMENTS PAL-SUPP-1 THROUGH PAL-SUPP-5 PREPARED BY YOU AND UNDER YOUR DIRECTION AND CONTROL?

A. Yes.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes.

DUKE ENERGY OHIO, INC.
CASE NO. 12-1682-EL-AIR
OVERALL FINANCIAL SUMMARY
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

DATA: 3 MONTHS ACTUAL & 9 MONTHS ESTIMATED
TYPE OF FILING: "X" ORIGINAL UPDATED REVISED
WORK PAPER REFERENCE NO(S).: SEE BELOW

SCHEDULE A-1
PAGE 1 OF 1
WITNESS RESPONSIBLE:
P. A. LAUB

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	PROPOSED TEST YEAR
1	Rate Base	B-1	1,111,991,426
2	Current Operating Income	C-1	34,985,459
3	Earned Rate of Return (Line 2 / Line 1)		3.15%
4	Requested Rate of Return	D-1A	8.13%
5	Required Operating Income (Line 1 x Line 4)		90,404,903
6	Operating Income Deficiency (Line 5 - Line 2)		55,419,444
7	Gross Revenue Conversion Factor	A-2	1.5667604
8	Revenue Deficiency (Line 6 x Line 7)		86,828,990
9	Revenue Increase Requested	E-4	86,828,990
10	Adjusted Operating Revenues	C-1	360,388,775
11	Revenue Requirements (Line 9 + Line 10)		447,217,765

Month	Worker ID	B.U.	Business Unit description	Res. Type	Resource Description	Job Title	Hours
Jan-12	18305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	15
		75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	16
					Prepaid Sick Time - Paid	Office Coordinator	40
					Vacation Pay	Office Coordinator	28
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	101
Feb-12	18305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	19.93
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	140.07
Mar-12	018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	22
		75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	16
					Vacation Pay	Office Coordinator	28
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	94
Apr-12	018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	20
		75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	10
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	130
May-12	018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	30
		75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	3
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	127
Jun-12	018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	26
		75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	32
					Vacation Pay	Office Coordinator	44
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	138
Jul-12	018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	18
		75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	8
					Vacation Pay	Office Coordinator	5
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	129
Aug-12	018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	17
		75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	18
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	125

Month	Worker ID	B.U.	Business Unit description	Res. Type	Resource Description	Job Title	Hours
Jan-12	25937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	24
		75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	24
					Prepaid Sick Time - Paid	Service Mechanic A	40
					Vacation Pay	Service Mechanic A	56
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	56
Feb-12	25937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	36
		75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	16
					SafeMtg/UnionBusi-ST	Service Mechanic A	3
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	105
Mar-12	025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	31
		75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	8
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	121
Apr-12	025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	86.5
		75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	8
					SafeMtg/UnionBusi-ST	Service Mechanic A	8.5
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	57
May-12	025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	61
		75025	DE Ohio Other Elec	14002	SafeMtg/UnionBusi-ST	Service Mechanic A	2
					Vacation Pay	Service Mechanic A	8
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	89
Jun-12	025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	81
		75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	8
					SafeMtg/UnionBusi-ST	Service Mechanic A	2
					Vacation Pay	Service Mechanic A	24
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	125
Jul-12	025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	49
		75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	8
					SafeMtg/UnionBusi-ST	Service Mechanic A	2
					Vacation Pay	Service Mechanic A	32
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	69
Aug-12	025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	35.5
		75025	DE Ohio Other Elec	14002	Callout Minimum OT	Service Mechanic A	1
					SafeMtg/UnionBusi-ST	Service Mechanic A	1.5
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	123

Month	Worker ID	B.U.	Business Unit description	Res. Type	Resource Description	Job Title	Hours
Jan-12	26451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	32
		75025	DE Ohio Other Elec	14002	Holiday Pay	Meter Tester	16
					Prepaid Sick Time - Paid	Meter Tester	40
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	112
Feb-12	26451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	93.5
		75025	DE Ohio Other Elec	14002	SafeMtg/UnionBusi-ST	Meter Tester	10
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	56.5
Mar-12	026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	134
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	26
Apr-12	026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	136.5
		75025	DE Ohio Other Elec	14002	Holiday Pay	Meter Tester	8
					SafeMtg/UnionBusi-ST	Meter Tester	2.5
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	13
May-12	026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	154
		75025	DE Ohio Other Elec	14002	SafeMtg/UnionBusi-ST	Meter Tester	2
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	4
Jun-12	026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	181
		75025	DE Ohio Other Elec	14002	Holiday Pay	Meter Tester	24
					SafeMtg/UnionBusi-ST	Meter Tester	3
					Vacation Pay	Meter Tester	32
Jul-12	026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	141.5
		75025	DE Ohio Other Elec	14002	Holiday Pay	Meter Tester	8
					SafeMtg/UnionBusi-ST	Meter Tester	1.5
					Vacation Pay	Meter Tester	8
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	1
Aug-12	026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	121
		75025	DE Ohio Other Elec	14002	SafeMtg/UnionBusi-ST	Meter Tester	7
					Vacation Pay	Meter Tester	32

	Worker	B.U.	Business Unit description	Res. Type	Resource Description	Job Title	Hours
Jan-12	89434	75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	8
					Prepaid Sick Time - Paid	Office Coordinator	40
					Short-Term Disability	Office Coordinator	104
					Vacation Pay	Office Coordinator	48
Feb-12	89434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	6
		75025	DE Ohio Other Elec	14002	Short-Term Disability	Office Coordinator	136
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	18
Mar-12	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	38
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	110
Apr-12	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	36
		75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	8
					Vacation Pay	Office Coordinator	8
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	108
May-12	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	42
		75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	16
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	102
Jun-12	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	48
		75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	24
					Vacation Pay	Office Coordinator	28
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	140
Jul-12	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	38
		75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	8
					Vacation Pay	Office Coordinator	8
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	106
Aug-12	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	36
		75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	16
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	108

OPERATING REVENUE AND EXPENSES BY ACCOUNT - Unadjusted Total
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

DATA: 9 Months Actual and 3 Months Budget
TYPE OF FILING: ORIGINAL "X" UPDATED REVISED
WORK PAPER REFERENCE NO(S).: SUPPLEMENTAL (C)(8)

SCHEDULE C-2.1
PAGE 1 OF 1
WITNESS RESPONSIBLE:
P.A. LAUB

LINE NO.	ACCT. NO.	ACCOUNT TITLE	UNADJUSTED TOTAL (Test Year) ($)	UNADJUSTED TOTAL (ACTUAL 9x3) ($)	VARIANCE ($)
1		**Operation and Maintenance Expenses**			
2	580	Supervision & Engineering	9,360	2,557	(6,803)
3	581	Load Dispatching	3,129,430	3,907,670	778,240
4	582	Station Expenses	917,159	1,093,591	176,432
5	583	Overhead Lines	906,983	1,121,987	215,004
6	584	Underground Lines	1,394,262	1,577,293	183,031
7	585	Street Lighting & Signal Systems	7,378	28,675	21,297
8	586	Meter Expense	1,177,985	1,337,629	159,644
9	587	Customer Installations	5,355,070	5,977,524	622,454
10	588	Miscellaneous Distribution	9,806,318	7,763,691	(2,042,627)
11	591	Structures	308,663	322,118	13,455
12	592	Station Equipment	2,031,568	2,462,427	430,859
13	593	Overhead Lines	24,055,781	34,548,919	10,493,138
14	594	Underground Lines	2,038,318	2,213,870	175,552
15	595	Line Transformers	505,318	618,747	113,429
16	596	Street Lighting & Signal Systems	1,307,647	1,178,428	(129,219)
17	597	Meters	1,131,949	980,651	(151,298)
18	598	Miscellaneous Distribution Plant	(358,644)	(343,608)	15,036
19	901	Supervision and Engineering	736	1,426	690
20	902	Meter Reading Expense	5,273,505	4,411,385	(862,120)
21	903	Customer Records and Collections	28,328,253	27,058,697	(1,269,556)
22	904	Uncollectible Accounts	5,309,552	6,905,538	1,595,986
23	426891	Sale of Accounts Receivable Fees - Elec.	938,141	875,043	(63,098)
24	905	Miscellaneous Customer Accounts	1,027	1,304	277
25	908	Customer Assistance	34,510	29,757	(4,753)
26	909	Information and Instructional Advertising	83,180	74,997	(8,183)
27	910	Misc. Customer Service and Information Expense	9,955,657	11,016,325	1,060,668
28	911	Supervision	0	(9,913)	(9,913)
29	912	Demonstrε Total Sales Expense	55	13,067	13,012
30	913	Advertising	347,962	432,144	84,182
31	920	Administrative & General Salaries	15,680,013	18,765,139	3,085,126
32	921	Office Supplies & Expenses	9,725,625	10,503,677	778,052
33	922	Administrative Expenses Transferred - Credit	75	104	29
34	923	Outside Services Employed	7,241,194	8,740,675	1,499,481
35	924	Property Insurance	1,949,859	983,329	(966,530)
36	925	Injuries & Damages	1,452,133	2,481,969	1,029,836
37	926	Employee Pension & Benefits	17,314,818	18,738,046	1,423,228
38	928006	State Regulatory Commission Expense	954,394	913,030	(41,364)
39	928055	Federal Regulatory Commission Expense	34,513	34,513	0
40	929	Duplicate Charges-Credit	524,794	(893,784)	(1,418,578)
41	930.1	General Advertising Expenses	23,033	31,210	8,177
42	930.2	Miscellaneous General Expenses	11,102,313	9,812,744	(1,289,569)
43	931	Rents	4,967,549	5,046,859	79,310
44	935	Maintenance of Equipment	390,215	(898,827)	(1,289,042)
45					
46		Total Operating Expense	175,357,651	189,860,623	14,502,972

OPERATING REVENUE AND EXPENSES BY ACCOUNT - Unadjusted Total
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

DATA: 12 Months Actual and 0 Months Budget
TYPE OF FILING: ORIGINAL "X" UPDATED REVISED
WORK PAPER REFERENCE NO(S).: SUPPLEMENTAL (C)(8)

SCHEDULE C-2.1
PAGE 1 OF 1
WITNESS RESPONSIBLE:
P.A. LAUB

LINE NO.	ACCT. NO.	ACCOUNT TITLE	UNADJUSTED TOTAL (Test Year)	UNADJUSTED TOTAL (ACTUAL 12x0)	VARIANCE
			($)	($)	($)
1		**Operation and Maintenance Expenses**			
2	580	Supervision & Engineering	9,360	4,074	(5,286)
3	581	Load Dispatching	3,129,430	4,382,030	1,252,600
4	582	Station Expenses	917,159	1,205,504	288,345
5	583	Overhead Lines	906,983	1,095,848	188,865
6	584	Underground Lines	1,394,262	1,536,189	141,927
7	585	Street Lighting & Signal Systems	7,378	32,370	24,992
8	586	Meter Expense	1,177,985	1,244,465	66,480
9	587	Customer Installations	5,355,070	6,071,244	716,174
10	588	Miscellaneous Distribution	9,806,318	6,880,867	(2,925,451)
11	591	Structures	308,663	303,161	(5,502)
12	592	Station Equipment	2,031,568	2,607,114	575,546
13	593	Overhead Lines	24,055,781	37,810,730	13,754,949
14	594	Underground Lines	2,038,318	2,467,727	429,409
15	595	Line Transformers	505,318	702,220	196,902
16	596	Street Lighting & Signal Systems	1,307,647	1,030,544	(277,103)
17	597	Meters	1,131,949	896,951	(234,998)
18	598	Miscellaneous Distribution Plant	(358,644)	(336,085)	22,559
19	901	Supervision and Engineering	736	1	(735)
20	902	Meter Reading Expense	5,273,505	3,839,806	(1,433,699)
21	903	Customer Records and Collections	28,328,253	26,600,281	(1,727,972)
22	904	Uncollectible Accounts	5,309,552	7,600,192	2,290,640
23	426891	Sale of Accounts Receivable Fees - Elec.	938,141	782,626	(155,515)
24	905	Miscellaneous Customer Accounts	1,027	2,052	1,025
25	908	Customer Assistance	34,510	29,482	(5,028)
26	909	Information and Instructional Advertising	83,180	67,695	(15,485)
27	910	Misc. Customer Service and Information Expense	9,955,657	10,269,754	314,097
28	911	Supervision	0	(10,845)	(10,845)
29	912	Demonstrɛ Total Sales Expense	55	24,268	24,213
30	913	Advertising	347,962	422,719	74,757
31	920	Administrative & General Salaries	15,680,013	25,617,051	9,937,038
32	921	Office Supplies & Expenses	9,725,625	11,773,170	2,047,545
33	922	Administrative Expenses Transferred - Credit	75	358	283
34	923	Outside Services Employed	7,241,194	10,050,788	2,809,594
35	924	Property Insurance	1,949,859	487,538	(1,462,321)
36	925	Injuries & Damages	1,452,133	2,236,679	784,546
37	926	Employee Pension & Benefits	17,314,818	19,080,833	1,766,015
38	928006	State Regulatory Commission Expense	954,394	726,085	(228,309)
39	928055	Federal Regulatory Commission Expense	34,513	34,513	0
40	929	Duplicate Charges-Credit	524,794	(1,598,057)	(2,122,851)
41	930.1	General Advertising Expenses	23,033	45,518	22,485
42	930.2	Miscellaneous General Expenses	11,102,313	9,151,894	(1,950,419)
43	931	Rents	4,967,549	5,500,530	532,981
44	935	Maintenance of Equipment	390,215	(892,353)	(1,282,568)
45					
46		Total Operating Expense	175,357,651	199,777,531	24,419,880

DEO Real Property Allocation by Function
2011 pay 2012

Total Real Property Value	**96,227,530**
Total Real Property Tax	**5,429,956**

Electric	**Real Prop Cost per Return**		**Real Prop Value**	**Real Prop Tax**
Production	488,238,873	72.43%	69,697,600	3,932,917
Transmission	14,354,505	2.13%	2,049,646	115,658
Distribution	17,423,769	2.59%	2,492,293	140,636
General	129,746,143	19.25%	18,523,800	1,045,267
	649,763,290		**92,763,339**	**5,234,478**
Gas				
Production	3,888,646	0.58%	558,120	31,494
Transmission	0	0.00%	0	0
Distribution	1,697,743	0.25%	240,569	13,575
General	18,661,166	2.77%	2,665,503	150,410
	24,247,555		**3,464,192**	**195,479**
Total	**674,010,845**		**96,227,531**	**5,429,957**

Note: Includes Land & Real Prop Structures
Common Real Prop is allocated to general plant in the amount of 85.87% for electric & 14.13% for gas.
This is consistant with the return and valuation.