

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.)	

SUPPLEMENTAL DIRECT TESTIMONY OF

PATRICIA W. MULLINS

ON BEHALF OF

DUKE ENERGY OHIO, INC.

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

February 19, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION AND PURPOSE	1
II. OBJECTIONS SPONSORED BY WITNESS	1
III. CONCLUSION	6

ATTACHMENT

PWM-SUPP-1 Comparison of Actual Expenses

I. INTRODUCTION AND PURPOSE

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

2 A. My name is Patricia W. Mullins, and my business address is 550 South Tryon Street,
3 Charlotte, North Carolina 28202.

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

5 A. I am employed by Duke Energy Business Services LLC (DEBS) as Director,
6 Regional Financial Forecasting. DEBS provides various administrative and other
7 services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other
8 affiliated companies of Duke Energy Corporation (Duke Energy).

9 **Q. ARE YOU THE SAME PATRICIA W. MULLINS WHO FILED DIRECT**
10 **TESTIMONY IN THESE PROCEEDINGS?**

11 A. Yes.

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

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

II. OBJECTIONS SPONSORED BY WITNESS

18 **Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 10.**

19 A. Duke Energy Ohio objects to Staff's recommendation to adjust the Company's
20 test year revenue requirement for actual data for a few selected operating and
21 maintenance (O&M) expense accounts to the exclusion of all other accounts

1 where variances between forecasted and actual data occurred. Staff characterizes
2 this adjustment as its budget adjustment. The Company's proposed test year
3 O&M expense is representative of its ongoing normal cost of providing electric
4 distribution service to its customers. The test year O&M expense reflects three
5 months of actual data (January 1, 2012, through March 31, 2012) and nine months
6 of budgeted data (April 1, 2012, through December 31, 2012).

7 In Schedule C-2.1 of the Company's Standard Filing Requirements, there
8 are more than forty individual accounts, not including sub accounts, which make
9 up the O&M expense for the test year. Of those accounts and sub accounts, Staff
10 selected just five to adjust due to what Staff considered a "significant variance"
11 between the amounts included in the test year compared with actual results for
12 part of the test year and compared with prior years. Coincidentally, all of the
13 adjustments proposed by Staff lowered O&M expense and, consequently, lowered
14 the Company's revenue requirement. By neglecting to also adjust the other O&M
15 accounts, Staff failed to recognize that there were increases to other O&M
16 accounts that mostly offset the lower O&M selected by Staff. It is patently unfair
17 for Staff to only consider the actual expense for those accounts that serve to
18 reduce the Company's forecasted budget used to determine the Company's
19 expenses in these proceedings, and ignore any offsetting adjustments for actual
20 expense increases in the other accounts.

21 The Company stands by its original data for the test year O&M expense;
22 however, if the Public Utilities Commission of Ohio (Commission) chooses to
23 update the data to reflect actual experience in 2012, then it must address all of the

O&M accounts and all resource types and not just those that function to lower the revenue requirement.

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

A. 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 100 unique lines of data, which includes all of the O&M expense categories included in the Company's test year revenue requirement. Out of 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. The five cost items the Staff selected were:

- Account 903100 (Subcategory: Postage & Freight)
- Account 904891 (Subcategory: Loss on Sale of Accounts Receivable)
- Account 924000 (Subcategory: Financial Services)
- Account 929000 (Subcategory: Duplicate Charges)
- Account 930200 (Subcategory: Service Company Overhead)

Even if it were appropriate to just look at the budget versus actual for just one expense, Staff's proposal fails to recognize differences in the way dollars are allocated for budgeting purposes and how the expense is recorded for actual expense.

1 **Q. CAN YOU PLEASE PROVIDE SPECIFIC EXAMPLES TO SHOW HOW**
2 **STAFF’S ADJUSTMENTS TO THE AFOREMENTIONED ACCOUNTS**
3 **WERE FLAWED?**

4 A. Yes. In Attachment PWM-SUPP-1, I provide a few examples of how actual
5 charges are included in other subaccounts of the same Account. By way of
6 example and using one of the accounts unfairly impacted by the Staff, I provide
7 details on how postage and freight was budgeted and how it was recorded for
8 actual expenses. For budgeting purposes, which is what nine months of the test
9 year was based on, the resource type “postage and freight” was budgeted to four
10 different subaccounts, all appropriately under FERC Account 903, Customer
11 Records and Collection Expense. For the test year, the sum of all postage and
12 freight expense budgeted to Account 903 was \$2, 067,826. If Staff, as part of its
13 comparison to actual expense as of September 30, 2012 (the time period that Staff
14 chose to make its adjustments), had reviewed all of the actual postage and freight
15 expense charged to Account 903, Staff would have seen that the total charges for
16 postage and freight were actually \$2,102,500. The actual expense was thus higher
17 than originally included in the Application. Staff’s methodology and adjustment
18 suggest that the Company’s test year expense for postage and freight was only
19 \$1,502,365 (the Company’s test year amount less Staff’s adjustment). Clearly,
20 Staff’s adjustment does not achieve the objective it had in mind insofar as it
21 misrepresents the actual costs for postage and freight.

22 Staff makes a similar mistake with its adjustment to Account 904 and
23 Account 924. Attachment PWM-SUPP-1 reflects the adjustment that should be

1 made by Staff for this account if its intent was to accurately reflect the updated
2 actual data for these cost items.

3 The Company's budgeting guidelines suggest budgeting at the
4 higher/summary account level rather than at the subaccount level. Some, but not
5 all, functional responsibility centers go beyond the summary account level and
6 budget at the subaccount level. This discretion is generally left to the
7 responsibility centers. The responsibility center is the lowest level of budget
8 responsibility and supports reporting of costs for a departmental view. As a
9 result, the level of accountability for managing actual versus budget variances
10 should be considered when determining the level of budget detail. The
11 Company's budget is more focused on the reasonableness at the account level
12 expense versus populating all subaccounts. Staff, through its selective
13 adjustments, has pulled apart the budget at a subaccounts level and has selectively
14 adjusted only a few of the accounts to reflect actual expense. Staff's selective
15 methodology wholly ignores the fact that actual expenses may be accounted for
16 through different subaccounts than what was initially forecasted. Staff's
17 adjustment in this respect is truly an example of failing to see the forest through
18 the trees. The Company's monthly management review of Actual vs. Budget
19 variances focuses on the account level details, not the subaccounts. It is neither
20 accurate nor fair to focus on only the five selected subaccounts for truing up for
21 actual expense, completely ignoring all other corresponding actual expenses.

1 **Q. DO YOU BELIEVE THE COMMISSION SHOULD ACCEPT STAFF'S**
2 **PROPOSED BUDGET ADJUSTMENTS AS SET FORTH IN THE STAFF**
3 **REPORT?**

4 A. No. The Commission should not accept Staff's recommendation to adjust these
5 expenses as Staff's proposal would unreasonably deny the Company recovery of a
6 real and legitimate expense incurred in carrying out its obligations as an electric
7 distribution utility. The Commission should follow the test year concept and
8 approve the forecasted budget expenses as submitted by the Company. However,
9 if the Commission believes that there should be recognition of variances to the
10 forecasted budget to actual expenses incurred through the test year, then all
11 accounts and subaccounts must be adjusted to fairly and accurately reflect the
12 Company's true expenses. Selecting just five subaccounts that happen to serve to
13 reduce the Company's level of expenses to a level arbitrarily determined by Staff
14 is patently unfair and, in this case, serves to undervalue the Company's costs to
15 provide service to customers.

III. CONCLUSION

16 **Q. WAS ATTACHMENT PWM-SUPP-1 PREPARED BY YOU AND UNDER**
17 **YOUR DIRECTION AND CONTROL?**

18 A. Yes.

19 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL DIRECT**
20 **TESTIMONY?**

21 A. Yes.

Duke Energy Ohio
Electric Budgeted Test Year vs 9x3 Variance
Account by Resource Type

Acct	Res Type	Res Type Descr	Test Period	9 x 3	Variance	Staff Budget Adj C-3.13
903100	33001	Postage & Freight	\$ 565,461.00	\$ 188,487.00	\$ (376,974.00)	\$ (565,461.00) (1)
903200	33001	Postage & Freight	\$ 534,888.00	\$ 178,296.00	\$ (356,592.00)	\$ - (1) (3)
903300	33001	Postage & Freight	\$ 427,914.00	\$ 142,638.00	\$ (285,276.00)	\$ - (1) (3)
903000	33001	Postage & Freight	\$ 539,562.87	\$ 1,593,079.00	\$ 1,053,516.13	\$ - (1) (3)
		903 Postage & Freight	\$ 2,067,825.87	\$ 2,102,500.00	\$ 34,674.13	\$ (565,461.00)
904891	99810	Accounting Entry-Elec	\$	\$	\$	\$
904891	99810	Accounting Entry-9 mos. Gas	\$ 1,089,954.73	\$ (1,028,312.61)	\$ (2,118,267.34)	\$ (1,092,167.00) (2)
904003	99810	Accounting Entry	\$ 3,587,846.00	\$ 6,478,535.00	\$ 2,890,689.00	\$ (186,295.00) (2)
		904 Accounting Entry	\$ 4,677,800.73	\$ 5,450,222.39	\$ 772,421.66	\$ - (2) (3)
924000	71001	Financial Services	\$ 1,526,556.15	\$ 518,042.85	\$ (1,008,513.30)	\$ (1,513,303.00) (4)
925000	71004	Workers Compensation	\$ 500,297.88	\$ 634,246.36	\$ 133,948.48	\$ - (3);(4)
	99810	Accounting Entry	\$ 371,308.93	\$ 882,168.15	\$ 510,859.22	\$ - (3);(4)
925051	71002	Liability Insurance	\$ 239,523.00	\$ 718,569.81	\$ 479,046.81	\$ - (3);(4)
			\$ 2,637,685.96	\$ 2,753,027.17	\$ 115,341.21	\$ (1,513,303.00)

- 1) Budget in accounts 0903100, 0903200 and 0903300. The actuals came through account 0903000.
- 2) Gas and Electric are combined in staff budget adjustment. Also, actuals are in both accounts 0904003 and 0904891.
- 3) Items not adjusted by staff, but need to be included as budget / actual offset.
- 4) Budget is in account 0924 and actual is in account 0925.

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Case No(s). 12-1682-EL-AIR, 12-1683-EL-ATA, 12-1684-EL-AAM

Summary: Testimony Supplemental Direct Testimony of Patricia W. Mullins electronically filed by Ms. Elizabeth H Watts on behalf of Duke Energy Ohio, Inc.