

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

DANIEL J. REILLY

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____	Management Policies, Practices, and Organization
_____	Operating Income
<u> X </u>	Rate Base
_____	Allocations
_____	Rate of Return
_____	Rates and Tariffs

February 19, 2013

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Daniel J. Reilly, and my business address is 550 South Tryon,
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, U.S.
6 Franchised Electric and Gas (USFE&G) Accounting. DEBS provides various
7 administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or
8 Company) and other affiliated companies of Duke Energy Corporation (Duke
9 Energy).

10 **Q. ARE YOU THE SAME DANIEL J. REILLY WHO FILED DIRECT**
11 **TESTIMONY IN THESE PROCEEDINGS?**

12 A. Yes.

13 **Q. HAVE YOUR JOB RESPONSIBILITIES CHANGED SINCE THE TIME**
14 **OF THE FILING OF YOUR DIRECT TESTIMONY IN THESE**
15 **PROCEEDINGS?**

16 A. Yes. On August 1, 2012, I took a new position in the Company with new
17 responsibilities. I now have responsibility for the accounting activities within
18 Duke Energy's USFE&G businesses related to fixed assets, including
19 depreciation, materials and supplies inventory, and fuel (including both inventory
20 and payment of fuel invoices), and emission allowances.

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

3 A. The purpose of my Supplemental Direct Testimony is twofold. First, I am
4 adopting the Direct Testimony and the corresponding schedules sponsored by
5 Carl Council and filed in July 20, 2012, in these proceedings. Mr. Council has
6 accepted a new position with Duke Energy related to its accounting in nuclear
7 operations and is no longer in the position he described in his Direct Testimony.
8 As of August 1, 2012, I have assumed Mr. Council's responsibilities for plant
9 accounting. Second, I support several of the Company's objections to the January
10 4, 2013, Report of Investigation of the Staff of the Public Utilities Commission of
11 Ohio in these proceedings (Staff Report).

II. ADOPTION OF TESTIMONY

12 **Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES AND**
13 **BOOKS OF ACCOUNT OF DUKE ENERGY OHIO?**

14 A. Yes. The books of account for Duke Energy Ohio's regulated business follow the
15 Uniform System of Accounts prescribed by the Federal Energy Regulatory
16 Commission (FERC).

17 **Q. ARE YOU FAMILIAR WITH THE TESTIMONY SUBMITTED BY MR.**
18 **COUNCIL IN THESE PROCEEDINGS AND THE SCHEDULES**
19 **DESCRIBED IN HIS DIRECT TESTIMONY SUPPORTING THE**
20 **COMPANY'S NET PLANT IN SERVICE?**

21 A. Yes. I have reviewed the various schedules submitted by the Company and
22 sponsored by Mr. Council in his Direct Testimony, namely Schedules B-2, B-2.1,

1 B-2.2, B-2.3, B-2.4, B-2.5, B-3, B-3.1, B-3.2, B-3.2a, B-3.3, B-3.4, B-4, B-4.1, B-
2 4.2, B-6.2, B-9, and C-3.5. I also reviewed page 1 of both Schedule D-5A and
3 Schedule D-5B, and Supplemental Filing Requirements (C)(9), (C)(14), (C)(18),
4 (C)(19), (C)(21), (C)(22) and (C)(23).

5 **Q. AS DIRECTOR, USFE&G ACCOUNTING, DO YOU HEREBY ADOPT**
6 **THE DIRECT TESTIMONY OF CARL J. COUNCIL FILED IN THESE**
7 **PROCEEDINGS ON JULY 20, 2012, AS YOUR OWN?**

8 A. Yes. As a result of my assumption of the net plant accounting for Duke Energy's
9 USFE&G business unit, and through my thorough review of the schedules
10 submitted in these proceedings, I am very familiar with the Company's proposed
11 adjustments for net plant in service submitted in these proceedings and hereby
12 adopt these schedules and the support Mr. Council provided in his July 20, 2012,
13 Direct Testimony as my own Direct Testimony in these proceedings.

III. OBJECTIONS SPONSORED BY WITNESS

14 **Q. PLEASE DESCRIBE COMPANY OBJECTION NUMBER 5.**

15 A. Duke Energy Ohio objects to Staff's recommendation to amortize the
16 depreciation of the Company's old meters over 7.25 years, rather than accelerate
17 the depreciation expense over 2.75 years as requested by the Company in these
18 proceedings. The Staff's recommendation in this regard is in error in two
19 respects.

20 First, the Staff's recommendation to amortize these meters over a 7.25
21 year period fails to recognize that all of those meters will be replaced and/or
22 retired by 2014. Staff's recommendation to amortize these meters over 7.25 years

1 rather than depreciate them on an accelerated basis is thus erroneous and
2 understates the Company's depreciation expense.

3 Second, even if the Staff's proposal to amortize the expense over 7.25
4 were to stand, the proposed adjustment is overbroad. Staff's recommendation
5 adjusts the entire account (3700 and 3701) balance, which includes equipment
6 dollars that are not solely related to the legacy residential meters replaced as part
7 of the Smart Grid initiative as Staff intimated in its Report. The account includes
8 \$9,031,601 associated with Instrumentation Transformers. As such, the Staff's
9 recommended adjustment is overbroad and serves to reduce the Company's
10 depreciation expense.

IV. CONCLUSION

11 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL DIRECT**
12 **TESTIMONY?**

13 **A. Yes.**

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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 Daniel J. Reilly electronically filed by Ms. Elizabeth H Watts on behalf of Duke Energy Ohio, Inc.