OCC EXHIBIT NO._____

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

DIRECT TESTIMONY
OF
BETH E. HIXON

On Behalf of the
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215
(614) 466-8574

February 19, 2013

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Beth Hixon. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio Consumers' Counsel ("OCC") as the Assistant Director of Analytical Services.

Q2. WOULD YOU PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A2. I received a Bachelor of Business Administration degree in accounting from Ohio University in June 1980. For the period June 1980 through April 1982, I was employed as an Examiner in the Field Audits Unit of the Ohio Rehabilitation Services Commission ("ORSC"). In this position, I performed compliance audits of ORSC grants to, and contracts with, various service agencies in Ohio.

In May 1982, I was employed in the position of Researcher by the OCC. In 1984, I was promoted to Utility Rate Analyst Supervisor and held that position until November 1987, when I joined the regulatory consulting firm of Berkshire Consulting Services. In April 1998, I returned to the OCC and have subsequently held positions as Senior Regulatory Analyst, Principal Regulatory Analyst, and Assistant Director of Analytical Services.

Q3. WHAT EXPERIENCE DO YOU HAVE IN THE AREA OF UTILITY REGULATION?

A3. In my positions with the OCC, and as a consultant with Berkshire Consulting Services, I have performed analysis and research in numerous cases involving utilities' base rates, fuel and gas rates and other regulatory issues. I have worked with attorneys, analytical staff, and consultants in preparing for, and litigating, utility proceedings involving Ohio's electric companies, major gas companies, and several telephone and water utilities. At the OCC, I also chair the OCC's internal electric team, participate in and/or direct special regulatory projects regarding energy issues, and provide training on regulatory technical issues.

Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE REGULATORY COMMISSIONS?

A4. Yes. I have submitted testimony before the Public Utilities Commission of Ohio ("PUCO" or "Commission") in the cases listed in Attachment BEH-1. I have also submitted testimony in a case before the Indiana Utility Regulatory Commission, as shown on BEH-1.

Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR TESTIMONY?

A5. In preparing my testimony for this proceeding I reviewed documents pertinent to my testimony from Duke Energy Ohio's ("Duke") standard filing requirements and supporting workpapers, pre-filed testimony, responses to OCC's discovery,

responses to data requests of the PUCO Staff's (also referred to as the "Staff") and the Staff Report of Investigation ("Staff Report"). I have also reviewed pertinent documents and Opinion and Orders from other PUCO proceedings.

II. PURPOSE OF TESTIMONY

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A6. The purpose of my testimony is to address Duke's "Application for Approval to Change Accounting Methods," and the related part of the Staff Report, regarding Duke's requests to defer certain storm costs and collect those deferred costs from customers through future distribution rates ("base rates").

Q7. WHAT IS YOUR RECOMMENDATION REGARDING DUKE'S PROPOSED STORM COST DEFERRAL?

A7. I recommend that the Commission deny Duke's request to defer storm costs for future collection from customers. Duke's proposal is unreasonable. But, if the Commission grants Duke's storm cost deferral request, I recommend that the Commission modify Duke's proposal to (1) define the "storm costs" which may be deferred and (2) order Duke to provide appropriate detail and documentation of costs deferred, upon seeking collection of the deferred costs from customers.

III. STORM COST DEFERRAL REQUEST

Q8. WHAT IS DUKE'S PROPOSAL REGARDING STORM COSTS?

A8. Duke witness Don Wathen generally explains the storm cost deferral request in his testimony at pages 13 through 14. A "regulatory asset account" is proposed in which Duke would defer "storm costs" that exceed a "base amount" of storm costs that are in test year expenses determined in this rate case. The "base amount" of storm costs included by Duke in test year expenses in this case is $4.4 million.

The regulatory asset would increase when actual annual storm costs exceed the "base amount," and would decrease when actual storm costs are less than the "base amount." A carrying cost, at Duke's long-term cost of debt approved in this rate case, would accrue on the monthly storm cost deferral balance, positive or negative. In its next distribution rate case, Duke would include the deferred storm costs for collection in future distribution base rates through an amortization of the regulatory asset balance (positive or negative) over a period of time to be proposed by Duke at that time.

Q9. DID THE PUCO STAFF MAKE A RECOMMENDATION TO THE COMMISSION REGARDING DUKE'S PROPOSED STORM COST DEFERRAL?

A9. No. While a general description of Duke's storm cost deferral request is presented on page 1 of the Staff Report, the Staff made no recommendation on that request.

Q10. DO YOU AGREE WITH THE PUCO STAFF'S LACK OF A RECOMMENDATION TO THE COMMISSION REGARDING DUKE'S STORM COST DEFERRAL REQUEST?

A10. No. The appropriate recommendation is that the Commission should deny Duke's proposed storm cost deferral because the deferral request is unreasonable and lacks sufficient specificity. It is unreasonable because Duke's proposal would permit it to track changes in only one expense element (i.e., storm costs) of its total revenue requirement. The presumption under such tracking is that Duke is entitled to collect, from customers, costs incurred that are higher than the amount of those costs used to determine distribution rates in this case. Under this presumption, a utility is not required to prove to the Commission that the level of expenses it incurred for that one element resulted in financial harm. In proposing to track only one expense element (i.e., storm costs), the costs incurred for other types of expenses (that may be lower than what was included for those expenses in determining base rates) are not considered. Because of this, Duke's storm cost proposal does not allow for the Commission to consider potentially offsetting

other expense reductions that can protect customers by providing a more complete picture as to whether the utility suffered financial harm.

Q11. DOES DUKE'S DEFERRAL PROPOSAL PROVIDE FOR A CREDIT TO THE REGULATORY ASSET WHEN STORM COSTS ARE LOWER THAN THE BASE AMOUNT?

A11. Yes.

Q12. DOES DUKE'S PROPOSAL—FOR A CREDIT TO THE REGULATORY ASSET WHEN STORM COSTS ARE LOWER THAN THE BASE AMOUNT—RESOLVE YOUR CONCERN FOR CUSTOMERS?

A12. No. Duke's proposal does consider higher and lower costs related to one expense element (i.e., storm costs), but it does not consider changes in the level of other expense elements of Duke's cost to serve distribution customers (i.e., total revenue requirement). For example, if Duke were to undergo a significant labor reduction following the PUCO's approval of base rates in this case, the proposed storm cost deferral mechanism will not take into consideration the reduction in labor expenses that occurred -- and that may have offset the increase in storm costs that Duke seeks to collect in the future from customers. Duke's proposal could harm consumers as it ignores changes in other expenses that could benefit consumers.

Q13. YOU STATED THAT DUKE'S PROPOSAL LACKS SPECIFICITY. WHAT SPECIFC DETAILS ARE LACKING IN DUKE'S STORM COST DEFERRAL PROPOSAL?

A13. As proposed in Mr. Wathen's testimony, Duke's storm costs deferral lacks specificity on critical details regarding how the proposal would work. First, the term "storm costs" is undefined. Through Duke's responses to inquiries by OCC and the Staff,[1] Mr. Wathen clarified that not all storm costs would be deferred; only costs related to "major storms" would be deferred.

Second, it is also unclear from Duke's testimony whether "storm costs" to be deferred would incorporate capital costs. However, in response to OCC Interrogatory No. 102, Mr. Wathen stated that "storm costs" do not include capital costs, since Duke proposed to defer only "incremental O&M [Operation and Maintenance] expenses" that may be "charged to any account."

Third, Duke's proposal fails to recognize that, in seeking collection from customers, Duke has the burden of proof to demonstrate that costs were reasonable and prudent. In Mr. Wathen's testimony at page 13, he simply states that the deferred costs will be "recovered in base rates" set in Duke's next

[1] *See* Attachment BEH-2, Duke response to OCC-INT-08-102 and Attachment BEH-3, Duke response to Staff-DR-095-001.

distribution rate case. However, in response to OCC Interrogatory No. 105,[2] Duke states that it "fully expects that it will be held to the same standard" to which AEP Ohio was recently held. That standard is for the utility to have "the burden of proof of demonstrating all the costs were prudently incurred and reasonable."[3]

Fourth, the term "incremental" as it relates to O&M expenses associated with major storms is not clearly defined in Duke's proposal. From a numerical standpoint, "incremental" costs can be viewed as those amounts above the "base amount" established in this case. However, the storm costs considered for deferral also need to be "incremental" to normal Duke expenses. "Incremental" expenses should be defined as costs that Duke would not have incurred absent the major storm. For example, Duke's costs for its internal labor (and related fringe benefits and payroll taxes) incurred for regular work hours would be paid to those Duke employees, regardless of whether they were working on storm restoration or on normal non-storm duties. The importance of the meaning of "incremental" costs was raised by both OCC and the Staff in Duke's past storm cost collection case.[4]

[2] Attachment BEH-4, Duke response to OCC-INT-08-105.

[3] Attachment BEH-4, Duke response to OCC-INT-08-105 and Ohio Power, Case No. 11-346-EL-SSO et al., Opinion and Order at 69 (August 8, 2012).

[4] Duke Energy Ohio, Case No. 09-1946-EL-RDR, Staff comments at 3 and OCC comments at10 (February 23, 2010).

Fifth, Duke has not made clear that it will maintain detailed accounting of, and documentation supporting, the storm costs deferred that is sufficient for the Commission to audit such costs at the time collection is sought from customers.

Duke should be directed to not defer expenses that are the same types of costs that the Commission previously found to be inappropriate and removed from Duke's collection of 2008 storm costs:[5]

- Duke should not be allowed to defer expenses for discretionary supplemental pay awarded to salaried employees.[6]
- Duke Energy Ohio should not be allowed to defer costs for work done by other utilities' employees, including affiliates, that are paid for by customers in other jurisdictions. Storm costs deferred should be offset by payments received by Duke Energy Ohio from other utilities for work done by Duke Energy Ohio's employees.[7]

[5] Duke Energy Ohio, Case No. 09-1946-EL-RDR, Opinion and Order at 23-24 (January 11, 2011).

[6] Duke Energy Ohio, Case No. 09-1946-EL-RDR, Opinion and Order at 13 (January 11, 2011). The Commission disallowed $3.3 million in compensation paid to salaried employees, in addition to their regular salaries.

[7] Duke Energy Ohio, Case No. 09-1946-EL-RDR, Opinion and Order at 13-14 (January 11, 2011). The Commission disallowed $1.4 million in affiliate-related costs to recognize payments from affiliates to Duke-Ohio.

- Duke should only be allowed to defer contractor expenses for work done in the Utility's service territory and for which Duke Energy Ohio is clearly the responsible utility.[8]

Q14. IF THE COMMISSION WERE TO GRANT DUKE'S STORM COST DEFERRAL REQUEST, SHOULD DUKE'S PROPOSAL BE MODIFIED?

A14. Yes. If the Commission grants Duke's request, which I do not recommend, the Commission should modify Duke's proposal to protect customers. In this regard, the Commission should require Duke to provide the details that I discussed in my preceding answer in this testimony. To summarize, if the Commission does not reject Duke's request as I recommend, the Commission should:

(1) Find that Duke may defer only "major storm"-related incremental O&M expenses that Duke would not have incurred absent the major storm;

(2) Require Duke to maintain detailed accounting records and documentation sufficient for audit by the Commission;

(3) Order Duke not to defer expenses of the same types of costs that the Commission previously found to be inappropriate and removed from Duke's collection of 2008 storm costs; and

[8] Duke Energy Ohio, Case No. 09-1946-EL-RDR, Opinion and Order at 16 (January 11, 2011), The Commission disallowed $2.8 million of contractor expenses for which an affiliate was the responsible party and disallowed $7.0 million in contractor expenses to recognize that expenses should be allocated to Duke affiliates in other states.

(4) Order that, upon Duke's seeking collection of the deferred costs from customers,

- Duke has the burden of proof in a hearing to demonstrate that the storm costs were prudently incurred and reasonable, and
- Duke should provide an explanation of how it complied with the Commission's direction not to defer any types of storm costs that the Commission previously found to be inappropriate and removed from Duke's collection of 2008 storm costs.

Q15. DOES THIS CONCLUDE YOUR TESTIMONY?

A15. Yes. However, I reserve the right to incorporate new information that may subsequently become available. I also reserve the right to supplement my testimony in the event that Duke, the PUCO Staff or other parties submit new or corrected information and/or if additional information is provided through discovery.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Beth E. Hixon* was served via electronic transmission to the persons listed below on this 19th day of February 2013.

/s/ Terry L. Etter
Terry L. Etter
Assistant Consumers' Counsel

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Beth E. Hixon
Testimony Submitted on Public Utility Regulation

As an employee of the Office of the Ohio Consumers' Counsel (OCC):

Company	Docket No.	Date
Ohio Power	83-98-EL-AIR	1984
Ohio Gas	83-505-GA-AIR	1984
Dominion East Ohio Gas	05-474-GA-ATA	2005
Dayton Power & Light	05-792-EL-ATA	2006
Duke Energy Ohio	03-93-EL-ATA et al.	2007
Dominion East Ohio	08-729-GA-AIR	2008
AEP Ohio	08-917-EL-SSO et al.	2008
AEP Ohio	11-346-EL-SSO et al.	2012

As an employee of Berkshire Consulting Service:

Company	Docket No.	Date	Client
Toledo Edison	88-171-EL-AIR	1988	OCC
Cleveland Electric Illuminating	88-170-EL-AIR	1988	OCC
Columbia Gas of Ohio	88-716-GA-AIR et al.	1989	OCC
Ohio Edison	89-1001-EL-AIR	1990	OCC
Indiana American Water	Cause No. 39595	1993	Indiana Office of the Utility Consumer Counsel
Ohio Bell	93-487-TP-CSS	1994	OCC
Ohio Power	94-996-EL-AIR	1995	OCC
Toledo Edison	95-299-EL-AIR	1996	OCC
Cleveland Electric Illuminating	95-300-EL-AIR	1996	OCC
Cincinnati Gas & Electric	95-656-GA-AIR	1996	City of Cincinnati, OH

Duke Energy Ohio
Case No. 12-1682-EL-AIR
OCC Eighth Set of Interrogatories
Date Received: October 23, 2012

OCC-INT-08-102

REQUEST:

Referring to Duke Energy Ohio witness Wathen's discussion on storm costs at pages 13-14 of his Direct Testimony:

A. What is Mr. Wathen's definition of "storm costs" that would be deferred?

B. Would storm costs deferred include capital costs?

C. Costs in what accounts, by number and description of each account, would be deferred?

RESPONSE:

A. See response to Staff-DR-95-001.

B. There may be capital costs associated with a storm restoration; however, the proposed storm deferral mechanism is only for incremental O&M expenses associated with storms.

C. Incremental costs charged to any account that is allocable to electric distribution. Refer to Schedule C-2.1 of the Company's Application for a summary of the accounts that could potentially be charged for storm expense.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Ohio
Case No. 12-1682-EL-AIR
Staff Ninety-Fifth Set Data Requests
Date Received: September 19, 2012

STAFF-DR-095-001

REQUEST:

Regarding the proposed Storm Cost Recovery Mechanism please answer the following questions:

1. Is the proposal to recover the total cost of ALL storms over the threshold amount?

2. If this recovery is for "major" storms only, define "major."

3. What is the base amount for which the deferral will be based? Please provide support for this number. (Is it the $4.4 million that is mentioned on page 13, line 19 of Mr. Wathen's testimony or the $5 million referred to in the sentence, "…for the last four years, such costs have trended around $5 million…" (line 17)?) Do these amounts include non-incremental labor and benefits.

4. Please provide the amount of storm costs for the last four years, net of non-incremental labor and benefits. Please show the expenses broken out by internal labor (incremental), contract labor, logistics, and material (if the information is currently available).

RESPONSE:

1. Yes. Duke Energy Ohio is proposing to establish a regulatory asset account to defer storm costs over a base amount which will be established in the test year revenue requirement in these proceedings. Both the base amount and future deferrals will consist of only incremental storm costs.

2. The recovery is for "major" storms only. The Company uses <u>The Institute of Electrical and Electronics Engineers, Inc. Guide for Electric Power Distribution Reliability Indices</u> to determine if a storm qualifies as a Major Event Day ("MED"). See Staff-DR-95-001(a) Attachment for a copy of the guide.

3. The base amount for which the deferral will be based is $4.4 million. The amount consists of three months of actual and nine months of budgeted data for costs charged to specific storm related process codes. The entire $4.4 million is considered to be incremental costs.

Account	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
588100			157										157
592100			2,909										2,909
593000	288	4,223	677,602	408,333	408,333	408,333	408,333	408,333	408,333	408,333	408,333	408,333	4,357,110
Total	288	4,223	680,667	408,333	408,333	408,333	408,333	408,333	408,333	408,333	408,333	408,333	4,360,176

4. See Staff-DR-095-001(b) Attachment.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Ohio
Case No. 12-1682-EL-AIR
OCC Eighth Set of Interrogatories
Date Received: October 23, 2012

OCC-INT-08-105

REQUEST:

At page 13, lines 10-13 of the Direct Testimony of Duke Energy Ohio witness Wathen, referring to the "next base rate case" in which the utility will seek to amortize the storm costs regulatory asset for recovery in base rates, does Duke Energy Ohio expect to have the burden of proof that the deferred storm costs were reasonable and prudent?

RESPONSE:

In its August 8, 2012, order in Case No. 11-346-EL-SSO approving AEP Ohio's Storm Damage Recovery Mechanism, the Commission advised AEP Ohio that "[i]n the event an application for additional storm damage recovery is filed, AEP-Ohio shall bear the burden of proof of demonstrating all the costs were prudently incurred and reasonable."

Duke Energy Ohio fully expects that it will be held to the same standard when it seeks recovery of deferred storm damage costs.

PERSON RESPONSIBLE: William Don Wathen, Jr.

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

Summary: Testimony Direct Testimony of Beth E. Hixon on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Patti Mallarnee on behalf of Etter, Terry L Mr.