

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 Gas) Case No. 12-1685-GA-AIR
Rates.)

In the Matter of the Application of Duke) Case No. 12-1686-GA-ATA
Energy Ohio, Inc., for Tariff Approval)

In the Matter of the Application of Duke)
Energy Ohio, Inc., for Approval of an) Case No. 12-1687-GA-ALT
Alternative Rate Plan for Gas Distribution)
Service.)

In the Matter of the Application of Duke)
Energy Ohio, Inc., for Approval to Change) Case No. 12-1688-GA-AAM
Accounting Methods.)

**DIRECT TESTIMONY
OF
KATHY L. HAGANS**

On Behalf of
The Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

February 25, 2013

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ATTACHMENT

KLH-1 Utility Testimony Submitted.

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Kathy Hagans. 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 a Principal Regulatory Analyst.

Q2. WOULD YOU PLEASE BRIEFLY SUMMARIZE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE?

A2. I earned a Master of Business Administration degree from Ashland University in and a Bachelor of Science degree from The Ohio State University. I joined the OCC in April 1983 as a Researcher. During the course of my employment at OCC, I have held various positions of increasing responsibilities in the Analytical Department including my current position.

Q3. WHAT ARE YOUR RESPONSIBILITIES AS PRINCIPAL REGULATORY ANALYST?

A3. My duties include research, investigation and analysis of utility filings at the Public Utilities Commission of Ohio ("Commission" or "PUCO") and the Federal Communications Commission, participation in special projects and investigations, and assistance in policy development and implementation.

1 ***Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED***
2 ***BEFORE THIS COMMISSION?***

3 ***A4.*** Yes, attached to my testimony as Attachment KLH-1 is a list of testimony I have
4 submitted before the PUCO and affidavits I have submitted before the PUCO and
5 the Federal Communications Commission.
6

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

9 ***A5.*** I have reviewed relevant parts of Duke Energy Ohio, Inc.'s ("Duke" or "Utility")
10 standard filing requirements and supporting workpapers, alternative regulation
11 plan, pre-filed testimony, responses to OCC discovery, responses to data requests
12 of the Staff of the Public Utilities Commission of Ohio ("Staff"), the Staff Report
13 of Investigation ("Staff Report") and its supporting workpapers. I have also
14 reviewed relevant documents and Opinion and Orders from other proceedings.
15

16 **II. PURPOSE OF TESTIMONY**
17

18 ***Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE***
19 ***PROCEEDINGS?***

20 ***A6.*** My testimony supports OCC's Objection No. 30 regarding comments made in the
21 Staff Report about Duke's proposed Advanced Utility Rider ("Rider AU"). The
22 Staff recommended that some SmartGrid costs be recovered from customers
23 through base rates set in this case while recommending that other costs be

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1 recovered from customers through Rider AU. Specifically, the Staff identifies
2 certain SmartGrid costs that should remain in Rider AU. These costs that the
3 Staff said should remain in Rider AU include the \$1,217,069 Undercollection of
4 its 2010 Revenue Requirement (“Undercollection”) adjustment proposed by
5 Duke. The Undercollection adjustment is included on Schedule 15 of the Direct
6 Testimony of Peggy A. Laub in the currently-pending Rider AU Case No. 12-
7 1811-GE-RDR (“Case No. 12-1811”).¹ Duke’s claimed Undercollection from
8 customers results from the possibility that the currently-effective Rider AU will
9 be in effect for nine months instead of a full year. It is my opinion that the Staff
10 inappropriately, unnecessarily, and prematurely stated, in this rate case, that this
11 Undercollection adjustment is a “prudent”² adjustment to be made in Case No.
12 12-1811.

13
14 ***Q7. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING THIS***
15 ***ISSUE.***

16 ***A7.*** I recommend that the determination of whether or not Duke’s proposed
17 Undercollection adjustment in Case No. 12-1811 is prudent should be made in
18 that case. It is not appropriate or necessary, and it is premature for the Staff to
19 render an opinion or the PUCO to decide whether the proposed Undercollection
20 adjustment is prudent in this rate case.

¹ Case No. 12-1811-GE-RDR was filed in June 2012 to reset Rider AU to recover gas SmartGrid costs incurred during 2011.

² Staff Report at 76 (January 4, 2013).

**Q8. DO YOU HAVE ANY OTHER RECOMMENDATIONS IF THE
COMMISSION ADDRESSES THE UNDERCOLLECTION ADJUSTMENT
ISSUE IN THIS RATE CASE?**

A8. Yes. If an adjustment to Rider AU is deemed necessary in Case No. 12-1811, that adjustment should be modified to exclude any SmartGrid costs that will be included in the base rates set in this rate case in order to avoid any double-recovery from customers. Both Duke and the Staff recommend that SmartGrid investment through the date certain, March 30, 2012, should be included in base rates set in this case. If the Undercollection adjustment proposed in Case No. 12-1811 is approved as calculated in that case, and the Commission approves SmartGrid investment for recovery in this rate case, and new base rates are effective prior to July 1, 2013, Duke will recover a return from customers on the same investment twice -- once by including the Undercollection adjustment in Rider AU and then again by including SmartGrid investment in rate base in this rate case. In addition, it is premature for the Staff to render an opinion on an adjustment in Case No. 12-1811 because the calculation of such an adjustment, if an adjustment is necessary, would be impacted by the timing of when rates set in both Case No. 12-1811 and this rate case go into effect.

III. AVOIDING DOUBLE-RECOVERY OF SMARTGRID COSTS FROM CUSTOMERS

Q9. PLEASE EXPLAIN THE PURPOSE OF RIDER AU AND HOW ISSUES IN THIS BASE RATE CASE MIGHT AFFECT THE OUTCOME OF CASE NO. 12-1811.

A9. Rider AU was approved in Case No. 07-589-GA-AIR as the vehicle for Duke to recover from customers the gas-related costs of its SmartGrid deployment. In the pending Case No. 12-1811, Duke is requesting approval to recover the revenue requirement associated with 2011 gas SmartGrid costs through Rider AU. The revenue requirement includes both a return on SmartGrid investment through December 31, 2011 and a return of expenses incurred during 2011. Duke proposes that the PUCO make the new Rider AU rate effective on April 1, 2013. Duke also proposes, in Case No. 12-1811, the Undercollection adjustment to ensure that it recovers its 2010 return on investment and costs. In Duke's view, the Undercollection adjustment is necessary if the new Rider AU goes into effect on April 1, 2013. This is because Rider AU rates set in the previous SmartGrid case did not go into effect until July 1, 2012. Thus, that Rider AU would only have been in effect for nine months.

In this rate case, Duke requests authority to "roll in" to base rates all SmartGrid investment and expenses through the date certain, or March 31, 2012. This would include all investment in gas SmartGrid as of March 31, 2012, and expenses associated with gas SmartGrid for the year 2011 and the first quarter of 2012. If

1 Duke's request in this case is approved, Duke proposes to withdraw its current
2 Rider AU proposal in Case No. 12-1811.³ This is because Rider AU, as it is
3 proposed in Case No. 12-1811, includes the same 2011 investment and expenses
4 as Duke proposes to include in base rates.⁴ Thus, Duke appears to recognize it
5 cannot recover the same investment and costs from customers in both cases.
6

7 ***Q10. WHY DID THE COMPANY FILE FOR RECOVERY OF THE SAME COSTS***
8 ***IN TWO CASES?***

9 ***A10.*** Duke does not address this specific question in its testimony in either case.
10

11 ***Q11. DO YOU HAVE AN OPINION AS TO WHY DUKE FILED FOR RECOVERY***
12 ***OF SMARTGRID COSTS IN BOTH CASES?***

13 ***A11.*** Yes. I believe Duke filed in both cases to "cover all of its bases" and to ensure
14 recovery of SmartGrid investment and costs from customers. As I stated above,
15 Duke proposes to withdraw its request for Rider AU in Case No. 12-1811 if the
16 PUCO approves its proposal to include SmartGrid investment and costs in base
17 rates in this case. It is typical for investment and costs related to its accelerated
18 mains replacement program ("AMRP") to be included in base rates and the
19 AMRP Rider to be reset to zero when Duke files a new rate case. Duke is
20 proposing a similar treatment here for SmartGrid costs.
21

³ Case No. 12-1685-GA-AIR, Direct Testimony of Peggy A. Laub at 24-25 (July 9, 2012).

⁴ Id. at 24 and *In the Matter of the application of Duke Energy Ohio, Inc., to Adjust Rider DR-IM and Rider AU for 2011 SmartGrid Costs*, Case No. 12-1811-GE-RDR, Direct Testimony of Peggy A. Laub at 12-15 (June 20, 2012).

1 ***Q12. WHAT IS THE PUCO STAFF'S RECOMMENDATION REGARDING***
2 ***DUKE'S REQUEST TO ROLL IN ALL SMARTGRID COSTS THROUGH***
3 ***DATE CERTAIN AND WITHDRAW ITS CURRENTLY-PROPOSED RIDER***
4 ***AU IN CASE NO. 12-1811?***

5 ***A12.*** The Staff recommends that customers pay some SmartGrid costs through base
6 rates in this case and pay other costs through Rider AU in Case No. 12-1811.⁵
7 Costs recommended to be included in this rate case are SmartGrid net plant
8 investment through date certain, March 31, 2012, and annualized depreciation and
9 property taxes on the date certain balance.⁶ In addition, the Staff recommends
10 that Rider AU in Case No. 12-1811 include prudent deferred operations and
11 maintenance ("O&M") expense, O&M savings, and Gas Furnace Program
12 expenses for 2011.⁷ The Staff also recommends the Undercollection of 2010
13 Revenue Requirement adjustment should remain in Rider AU as a "Prudent
14 GridMod cost[s]."⁸

⁵ Staff Report at 73-77 (January 4, 2013).

⁶ Id. at 74-75.

⁷ Id. at 76.

⁸ Id. The Staff uses the acronym GridMod to shorten Grid Modernization.

Q13. DO YOU AGREE WITH THE STAFF'S RECOMMENDATION IN THIS CASE TO ROLL SOME SMARTGRID COSTS INTO BASE RATES FOR CUSTOMERS TO PAY AND LEAVE SOME OTHER COSTS TO CONTINUE TO BE RECOVERED FROM CUSTOMERS THROUGH RIDER AU?

A13. For the most part, I agree. The Staff's recommendation for splitting recovery of SmartGrid costs between base rates in this rate case and Rider AU appears to ensure there will be full recovery of SmartGrid costs for Duke but no over-recovery of costs from customers. In other words, the goal of the Staff's methodology is that no costs would be included in base rates while also being included in Rider AU. Otherwise, the Company would double recover some SmartGrid costs from customers.

I agree with the intent to avoid any double recovery from customers of any and all costs associated with SmartGrid Rider AU. However, I do not agree with the Staff presenting an opinion in this case on the prudence of the Undercollection adjustment proposed in Case No. 12-1811.

Q14. WHY DO YOU DISAGREE WITH THE STAFF PRESENTING ITS OPINION REGARDING THE UNDERCOLLECTION ADJUSTMENT IN THIS CASE?

A14. The prudence of the Undercollection adjustment proposed by Duke in Case No. 12-1811 should only be considered in that case where the actual recovery of those costs will occur. Furthermore, it is premature to render an opinion on the

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1 prudence of the adjustment in this rate case. It is premature to render an opinion
2 on prudence because there are several different ways that the treatment of
3 SmartGrid costs could be resolved in this case. Thus, it is not known that there
4 will even be a need for an Undercollection adjustment in Case No. 12-1811 and
5 not known what should be the amount of the adjustment (if an adjustment is
6 necessary). For example, the adjustment will ultimately depend on which
7 SmartGrid costs are recovered through base rates and which are recovered
8 through Rider AU. In addition, the amount of any Undercollection adjustment
9 will depend on the timing of the effective date of new base rates set in this rate
10 case and the effective date of new Rider AU rates currently being reviewed in
11 Case No. 12-1811. All of these outcomes will impact the amount of the
12 Undercollection adjustment in Case No. 12-1811 and in fact whether an
13 adjustment is even necessary.

14

15 ***Q15. PLEASE EXPLAIN THE DIFFERENT POSSIBLE OUTCOMES GIVEN***
16 ***THE TREATMENTS OF SMARTGRID INVESTMENT COSTS IN THIS***
17 ***CASE AND THE TIMING OF NEW RATES, WHICH CAN HAVE AN***
18 ***IMPACT ON THE UNDERCOLLECTION ADJUSTMENT IN CASE NO. 12-***
19 ***1811.***

20 ***A15.*** There are several possible outcomes intertwining the timing of the effective date
21 of a new Rider AU rate and the inclusion of SmartGrid investment costs in base
22 rates in this rate case as follows:

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- 1 (a) If the Commission decides that the SmartGrid investment
2 and expenses should not be rolled into base rates and
3 instead should continue to be recovered from customers
4 entirely through Rider AU, then Duke's proposed
5 Undercollection adjustment is moot as long as new Rider
6 AU rates to be set in Case No. 12-1811 do not go into
7 effect before July1, 2013. This is because the Rider AU
8 currently in effect and recovering 2010 costs, will have
9 been in effect for one year and thus there is no need for any
10 adjustment in Case No. 12-1811.
- 11 (b) If the Commission decides that Duke should roll SmartGrid
12 investment and expenses into the test year in this rate case
13 and approves the Utility's proposal to withdraw its Rider
14 AU from Case No. 12-1811, then the Undercollection
15 adjustment is also moot.
- 16 (c) If the Commission decides that SmartGrid investment
17 should be rolled into base rates in this case and that other
18 costs should be recovered through Rider AU, as proposed
19 by the Staff, and if both a new Rider AU and new base
20 rates go into effect before July 1, 2013, then the
21 Undercollection adjustment proposed in Case No. 12-1811
22 should be reduced so that customers are not made to over-
23 pay Duke. Under this scenario, the adjustment to Rider AU

1 should be reduced by the revenue requirement associated
2 with the return on 2010 SmartGrid investment that is
3 included in rate base in this rate case.⁹ Only the revenue
4 requirement associated with the return of expenses should
5 be considered in any adjustment made in Case No. 12-1811
6 as an under-recovery.¹⁰ This would avoid Duke having a
7 double recovery from customers of a return on the same
8 investment through both the AU Rider and gas distribution
9 rates.

11 ***Q16. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.***

12 ***A16.*** I recommend the Commission not consider the prudence of Duke's proposed
13 Undercollection adjustment in this rate case but instead protect customers by
14 considering prudence in the same case where that adjustment is being proposed,
15 which is the currently-pending Case No. 12-1811. It is premature to address the
16 merits of the Undercollection adjustment in this rate case because the timing of
17 new base rates and new Rider AU rates, and the outcome of this rate case in terms
18 of where SmartGrid costs and investment are recovered, all need to be decided
19 before the Undercollection adjustment can be calculated in Case No. 12-1811.
20 But, if an adjustment is deemed appropriate in Case No. 12-1811 and SmartGrid
21 investment is rolled into this rate case as the Staff has proposed, the

⁹ The amount of reduction to the adjustment will depend on the effective date of new base rates.

¹⁰ The amount of expenses potentially under-recovered in this circumstance will depend on the effective date of the newly approved Rider AU rate in Case No. 12-1811.

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1 Undercollection adjustment should be reduced (meaning customers should pay
2 less to Duke) so that Duke does not double-recover from customers a return on
3 the same investment through both Rider AU and base rates set in this case.
4

5 ***Q17. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

6 ***A17.*** Yes. However, I reserve the right to incorporate new information that may
7 subsequently become available. I also reserve the right to supplement my
8 testimony in the event that Duke, the Staff or other parties submit new
9 information.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the *Direct Testimony of Kathy J. Hagans on Behalf of the Office of the Ohio Consumers' Counsel* was served on the persons stated below via electronic service this 25th day of February 2013.

/s/ Larry S. Sauer

Larry S. Sauer

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Kathy L. Hagans**List of Utility Testimony and Affidavits Submitted**

Testimony Submitted	
<u>Company</u>	<u>Docket Number(s)</u>
Cleveland Electric Illuminating Company	88-108-EL-EFC
Ohio Edison Company	89-1001-EL-AIR
Cincinnati Gas & Electric Company	91-410-EL-AIR
Cincinnati Bell Telephone Company	93-432-TP-ALT
	93-551-TP-CSS
Ohio Bell Telephone Company	93-487-TP-ALT
	93-576-TP-CSS
Monongahela Power Company	94-1918-EL-AIR
Cincinnati Bell Telephone Company	96-899-TP-ALT
Bell Atlantic/GTE Merger	98-1398-TP-AMT
PUCO Impairment Proceeding	03-2040-TP-COI
The Cincinnati Gas & Electric Company	05-218-GA-GCR
Duke Energy of Ohio, Inc.	07-589-GA-AIR.

Affidavits Submitted	
<u>Company</u>	<u>Docket Number(s)</u>
United Telephone Company of Ohio d/b/a Sprint	02-2117-TP-ALT
Cincinnati Bell Telephone Company	04-720-TP-ALT
United Telephone Company of Ohio d/b/a Sprint	07-760-TP-BLS
Ohio Bell Telephone Company d/b/a AT&T Ohio	08-107-TP-BLS
Verizon North, Inc.	08-989-TP-BLS
United Telephone Company of Ohio d/b/a Embarq	08-1041-TP-BLS
Verizon North, Inc.	08-989-TP-BLS
FCC Section 251 Unbundling	WC Docket No. 04-313
	CC Docket No. 01-338

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Summary: Testimony Direct Testimony of Kathy L. Hagans on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Patti Mallarnee on behalf of Sauer, Larry S.