BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates.	)	Case No. 12-1685-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)	Case No. 12-1686-GA-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for the Approval of an Alternative Rate Plan for Gas Distribution Service.	)	Case No. 12-1687-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods	)	Case No. 12-1688-GA-AAM

DIRECT PREPARED TESTIMONY OF MATTHEW WHITE ON BEHALF OF INTERSTATE GAS SUPPLY, INC.

February 25, 2013

Q1. Please state your full name, title and business address.

A1. My name is Matthew White. I am employed by Interstate Gas Supply, Inc. ("IGS") as In-House Counsel. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

Q2. Please provide your background and qualifications.

A2. I received a Bachelor of Arts from Ohio University. I also received a Juris Doctor and Masters in Business Administration from the College of William & Mary. In 2007, I began working at the law firm of Chester, Wilcox & Saxbe as an energy and utilities lawyer. At Chester Wilcox, I participated in numerous Public Utilities Commission ("Commission") proceedings relating to utility matters, including natural gas and electric rate cases and electric power siting cases. I also have worked on power and gas sales transactions and pipeline siting and development. From 2010-2012, I was chairman of the Columbus Bar Association's Energy Law Committee. In 2011, I was hired as an in-house attorney for IGS Energy working in IGS's regulatory affairs department. As a regulatory attorney, I advocate for fair, open and competitive restructured energy markets at public utility commission proceedings throughout the United States. I also have experience working on matters at RTO/ISOs and at the Federal Energy Regulatory Commission. In addition to my regulatory work, I participate in IGS's numerous clean energy initiatives, including compressed natural gas vehicles and combined heat and power development.

Q3. On whose behalf are you testifying today?

A3. I am testifying on behalf of IGS Energy.

Q4. Please describe IGS Energy

A.4. IGS is a certified competitive retail natural gas ("CRNG" or "Choice") supplier serving customers in the Duke Energy Ohio, Vectren Energy Delivery of Ohio, Dominion East Ohio and Columbia Gas of Ohio ("Columbia") territories. IGS has over 23 years of experience serving natural gas customers in Ohio. IGS is also currently serving electric customers in the AEP, FirstEnergy, Duke Energy Ohio and the Dayton Power & Light service territories. Throughout the United States IGS provides natural gas and electric service to over 1 million customers in 11 states and in over 30 utility programs. IGS has approximately 400 employees working at its headquarters in Dublin, Ohio.

Q5. What is the purpose of your testimony?

A5. The purpose of my testimony is to present the position of IGS Energy as to the deficiencies in the current tariff of Duke Energy Ohio, Inc. ("Duke"). The deficiencies were summarized in IGS's Objections to the Staff Report filed on February 4, 2013 in this proceeding. Specifically, I will address the state mandate embodied in several of the Sections of 4929.02(A), Revised Code which directs that competitive markets set retail natural gas price and service terms. My testimony will then focus on the current barriers in the Duke Energy Ohio tariff which are contrary to the State's Energy Policy and I will provide suggested amendments to Duke's current tariff that should address these inconsistencies. Finally, I will suggest changes to Duke's proposed natural gas vehicle (NGV) tariff that will help promote NGV infrastructure development.

Q6. Will you articulate the policy of the State as described in Section 4929.02(A), Ohio Revised Code?

A6. In the late 1990s, over 15 years ago, the Ohio General Assembly codified the policy of the state of Ohio as it relates to its position on natural gas competition. In 2001 the legislature updated the Policy to add government aggregation as part of the competitive programs. Simply stated, Ohio's policy is to foster effective competition in Ohio, so that regulated natural gas commodity service can be eliminated. Section 4929.02(A)(7), Ohio Revised Code ("R.C."), states that it is the Policy of the State to:

> Promote an expeditious transition to the provision of natural gas services and goods in a manner that achieves effective competition and transactions between willing buyers and willing sellers to reduce or eliminate the need for regulation of natural gas services and goods under Chapters 4905. and 4909. of the Revised Code[.]

When this language was inserted into the Ohio Revised Code, although traditional transportation programs were in place for larger commercial and industrial customers for two decades, programs for residential and small commercial customers in Ohio did not begin until around 1997-1998. As such, Ohio Choice programs were in their infancy in the early 2000s and the State recognized that it may take time to restructure the markets to ensure effective competition developed. However, R.C. 4929.02(A)(7) makes clear that natural gas distribution utilities should remove obstacles retail customers when purchasing gas in the competitive market.

Q7. In Objection No. 3, IGS Energy stated that the Staff failed to thoroughly review the labor, executive and administrative costs associated with Duke procuring and

supplying natural gas to the standard service customers. Are there aspects of Duke's application that are inconsistent with State Energy Policy?

A7. Yes, as is clear from the testimony of Mr. Mehring, the cost of procuring natural gas , the cost of scheduling and balancing, and the cost of providing customer information for commodity supply for Gas Cost Recovery ("GCR") customers are all provided by Duke utility personnel and are recovered by Duke in base rates. However, Choice customers as well as GCR customers, pay Duke's distribution base rates; and, thus, Choice customers are paying for natural gas procurement, daily scheduling and related support for GCR customers. Since shopping customers have their gas procurement, daily scheduling, and related support provided by their CRNG provider, shopping customers are paying twice for these services given the base rate inclusion of the same types of costs for GCR services. The costs of procuring and administering gas for the GCR customer, if rolled into the base rates, must be accompanied by a credit to the shopping customers to avoid this inequity and barrier to effective competition. This credit should be designed and implemented so that Duke is compensated for its personnel and equipment costs in supplying the natural gas commodity, but in such a manner as to ensure that those costs are paid exclusively by GCR customers.

Q8. Are there other charges besides the base rate that shopping customers are paying that are inappropriate?

A8. Yes. All shopping customers must pay the Balancing Fee which is known as Rider FBS (Firm Balancing Service). Rider FBS is designed to cover the estimated portion of those costs associated with daily balancing from CRNG providers and aggregators. The Rider

FBS rate is based on a formula designed to cover the demand charge that Duke pays to Columbia Gas Transmission (TCO) for transportation into and out of storage, in other words, the cost to move a Dth on a peak day. The FBS rate varies with the TCO demand charge. It is my understanding that the current FTS rate is $.176 per Mcf and that was reset in June of 2010 based upon the TCO demand of rate of $4.2372 per Dth.

Rider FBS pays for additional firm storage capacity and firm transportation on the TCO system. Those assets are assets that could be used to meet peak day requirements as well as provide balancing services. Prohibiting CRNGS suppliers from fully maximizing the TCO assets (which CRNG suppliers pay for) when temperatures get close to and reach a peak day, raises the costs to competitive customers without justification. Under the current FBS service, shopping customers and the competitive retail natural gas suppliers are not allowed to use those assets for delivery at any temperature.

Currently, CRNG suppliers are told the amount of gas they are required to deliver in the system in order to meet their customers' demand. CRNG suppliers must pay this storage and transport balancing fee but CRNG suppliers are not able to fully utilize the assets. Instead, Duke Energy Ohio assigns these assets to its Asset Manager who in turn attempts to sell the capacity. Thus, it is entirely possible that competitive retail natural gas service suppliers pay for this capacity twice (once through the balancing fee and a second time for the same level of assets to meet the peak day delivery requirements).

Although Duke has created an Enhanced Firm Balancing Service that does allow for release of assets, it does not change the fact that the assets that are being paid for through the FBS service the suppliers are not getting the full value for.

Q.9 How should the Commission address the inequities described above with respect to shopping customers paying for the cost of GCR natural gas and CRNG suppliers not getting full access to FBS assets?

A9. One means of addressing these inequities is to create a charge to GCR customers that would be credited to all distribution customers. This would rectify the inclusion in base rates of commodity related procurement costs and reduce the inequity created by base rate inclusion. In Pennsylvania, a similar process has been underway by all the major gas utility companies, resulting in identification of commodity related procurement costs in base rates ranging from 4 cents per Mcf to 12 cents per Mcf. In addition, the credit to distribution rate customers should take into consideration the fact that Choice suppliers are not receiving the full value of the FBS assets that they pay for. In essence, GCR customers are using similar assets for balancing *and* peaking services, while shopping customers are receiving only the value for balancing service. Therefore, I believe that it is reasonable to charge GCR customers 17 cents per MCF, which is essentially the FBS charge CRNG suppliers pay, with the revenue from that charge to be credited back to distribution customers. When you take consideration the inclusion of base rates the cost Duke acknowledges are solely GCR related, and the balancing only services provided from the FBS assets, coupled with GCR customers receiving the full value for all of the above, a 17 cent per MCF charge to the GCR is justified.

Q10. Are there any other suggested changes to the FBS service?

A10. Yes. I would also suggest that the definition of "Adjusted Target Supply Quantities", which appears on Addendum to Sheet No. 44 Page 1 of 12, should be modified to no longer permit Duke to unilaterally make adjustments to the daily deliveries but rather allow adjustments based only in connection with bringing closer to zero any Annual Reconciliation volumes throughout the year. Currently, the definition allows Duke to not only adjust the suppliers target supply quantity based upon variations in anticipated weather and other supply related factors, which is appropriate, but also permits adjustments based upon things "the Company may require". This is too broad, and allows Duke to make adjustments to daily deliveries with or without a corresponding weather or related need. The definition should be narrowed to ensure that the daily deliveries are adjusted only for changes directly related to anticipated usage and, as needed to allow suppliers to bring any imbalance closer to zero between annual reconciliations.

In addition currently Duke does not provide any information regarding their formulas for creating the demand curves or weather stations utilized in forecasting their temperatures. This information would be useful to CRNG suppliers in creating their own forecasts and should be made available by Duke to ensure CRNG suppliers can optimize their own assets for the benefit of Choice customers.

Q11. In Objection No. 2, IGS Energy stated that the Staff Report unreasonably and unlawfully failed to direct Duke to modify its billing system to increase the number of billing codes for commodity supply products of CNRGS providers. Is the

number of Duke product codes satisfactory for competitive retail natural gas service providers?

A11. No. Since Duke does not have a bill ready system for consolidated bills, each CRNGS must provide Duke with a code that Duke's billing computer can apply to charge the shopping customer. Thus, the number of products that a CRNGS can offer its consolidated billing customers is set at no more than 40. Since most residential and small commercial customers insist on a single gas bill, the limit of 40 rate codes severely limits both the innovation and value that a CRNGS can offer in the Duke service area. By comparison, Columbia Gas of Ohio allows CRNGS 100 mass market rate codes. Vectren has no limit and East Ohio limits 15 per pool, which generally produces a number close to the Columbia offer.

Q12. In Objection No. 1, IGS Energy stated that the Staff's Report unreasonably and unlawfully failed to recommend that the Economic Development Incentive Rider should ensure that funds collected from such Rider are used in a competitively neutral manner whether the Rider is funded from ratepayer or shareholder dollars. Is it clear to you that the Economic Development Incentive Rider applies to all customers?

A12. No. It is not clear from the proposed tariff language that shopping customers are eligible. I recommend that the "Applicability" section of the proposed Rider ED be modified to read as follows: "Applicable to all retail shopping and non-shopping jurisdictional customers in the Company's natural gas service territory." This change would clarify that Rider ED applies to all customers.

Q13. You stated earlier that you participated in IGS's numerous clean energy initiatives, including compressed natural gas vehicles. Are there any issues with respect to Duke's proposed natural gas vehicle ("NGV") tariff you wish to address?

A13. Yes. According to the testimony of Witness Mehring, among other things, Duke's NGV tariff will require both commercial and residential NGV infrastructure that receive natural gas from Duke's system to register with Duke. Duke will then be able to notify all NGV infrastructure owners when propane is injected into Duke's distribution system. Generally I support the adoption of an NGV tariff for Duke as propane has potential to severally damage NGV infrastructure operating on Duke's system.

Q14. Do you have any additional recommendations for Duke's NGV tariff?

A14. Yes. Duke should have a tariff that contains provisions that allows for the extension of distribution pipeline to compressed natural gas ("CNG") fast fill stations. The tariff should also allow for CNG fast fill stations to receive appropriate amount of gas pressure from the distribution system.

Q15. Why should there be a special provisions for the extension of distribution pipeline to CNG fast fill stations?

A15. CNG fast fill station have unique characteristics that merit special provisions for pipeline extension. CNG fast fill stations require connection to high pressure gas lines that are not always located near CNG station sites. Further, the usage of CNG stations tend to have base load usage meaning that the usage of natural gas tends to be relatively constant

throughout the year. Also, CNG filling station projects usage tends to increase over time as vehicles in the area convert to CNG. Because of these unique characteristics it is difficult to appropriately price CNG fast fill station interconnection under the standard distribution tariff provisions.

Q16. Why is it difficult to appropriately price CNG station interconnection under standard tariff provisions?

A16. First, due to the limited access to high pressure pipeline on the utility system, often high pressure pipeline must be extended to station locations. These line extensions can be quite costly. Further, utilities base the cost of pipeline extension charged to the customer, in part, on the expected usage of the station, in that the more usage the utility expects at the location, the less the utility will charge the customer for pipeline extension. However, because of the relative novelty of CNG fast fill stations, and the amount of time it takes to ramp up usage, utilities often underestimate the usage for CNG stations. This means that most, if not all, of the pipeline extension costs are charged to the customer. Because of the limitations of the standard utility pipeline extension tariff, CNG fast fill station developers are often either forced to place stations next to high pressure pipelines which substantially limits CNG station location opportunities, or pay significant costs to extend high pressure pipelines to the station.

Q17. How should Duke's NGV tariff be constructed to remedy the difficulties of pipeline extension to CNG stations?

A17. Duke's CNG tariff should require that CNG station owners receive credit for the unique system attributes of CNG stations when pricing pipeline extension to CNG stations. I

recommend several guiding principles when formulating a CNG tariff for Duke. First, Duke's usage estimates for CNG stations should be based on the long term expected usage of a refueling station. Second, when pricing pipeline extensions to CNG stations, CNG station developers should receive credit for baseload usage which tends to be less costly to the system than traditional heat load usage. Finally, there should be a mechanism to refund CNG stations the cost of pipeline installation when the usage at the station exceeds the expected usage.

Q18. Are there other reasons to appropriately price CNG fast fill station pipeline extensions?

A18. Yes. CNG fast fill stations have great potential to substantially increase the amount of natural gas that flows through the utility distribution system. Thus, it is in the utility's best interest to remove barriers to entry for CNG infrastructure development. Further, natural gas is a cleaner burning fuel than gasoline. Natural gas is also less costly than gasoline and is almost entirely produced domestically; therefore there is a societal benefit to encouraging CNG infrastructure development.

Q19. How do you recommend the Commission modify Duke's application to address your concerns about CNG pipeline extension costs?

A19. The Commission should order Duke to conduct a collaborative with interested stakeholders tasked with creating a special tariff for the installation of natural gas pipeline to CNG fast fill infrastructure. The tariff should take into consideration the unique characteristics of CNG station infrastructure and be designed to appropriately price CNG

pipeline infrastructure costs. The tariff should also contain provisions that require Duke to give adequate pressure to CNG fast fill stations when pressure is available on Duke's system.

Q. 20. Does this conclude your testimony?

A20. Yes, it does, but I reserve the right to offer rebuttal testimony.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing document was served this 25th day of February, 2013 by electronic mail delivery upon the persons listed below.

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