

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke	:	
Energy Ohio, Inc. For an Increases in	:	Case No. 12-1682-EL-AIR
Electric Rates	:	
	:	
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	:	Case No. 12-1684-EL-AAM
Change Accounting Methods.	:	

Pre-filed Testimony
of
Patrick J. Donlon
Rates Division
Utilities Department

Staff Exhibit _____

March 19, 2013

1 1. Q. Please state your name and business address.

2 A. My name is Patrick Donlon and my business address is 180 East Broad
3 Street, Columbus, Ohio 43215.
4

5 2. Q. By whom and in what capacity are you employed?

6 A. I am employed by The Public Utilities Commission of Ohio as Rates
7 Division Administrator in the Utilities Department.
8

9 3. Q. How long have you been in your present position?

10 A. I assumed my present position in August 2012.
11

12 4. Q. What are your responsibilities in your current position?

13 A. I am responsible for managing several Staff members and actively
14 participating in investigations of assigned phases of rate case applications
15 and other financial audits of public utility companies subject to the
16 jurisdiction of the PUCO.
17

18 5. Q. Will you describe briefly your educational and business background?

19 A. I received a Bachelor of Science degree in Accounting with a minor in
20 Economics Management from Ohio Wesleyan University in 2000. In 2010

21 I earned a Master of Business Administration degree from Franklin
22 University.

23 From January 2001 to July 2001 I worked as Director of Accounts Payable
24 for Joshua Homes. In July 2001, I joined American Electric Power (AEP)
25 as an Accountant in the Generation Accounting Department. In this role I
26 was responsible for general ledger accounting, which included preparation
27 of the income statement and balance sheets of the generation portion of
28 AEP subsidiaries, accounting for all the sales, purchases and usage of EPA
29 Emission allowances, as well as the accounting and billing of POLR
30 subsidiaries in the ERCOT market. I was also extensively involved in the
31 creation and implementation of a new computer system to track emissions.
32 I was involved with the creation of invoices used for divesting AEP's
33 generation units within the ERCOT market. I spent nine months as an
34 Hourly Energy Trader for AEP focusing in the Southwestern Power Pool
35 (SPP) market. I was responsible for optimizing energy cost for AEP within
36 the SPP market and ensuring that AEP was able to fulfill its load
37 requirements hourly.

38
39 From July 2006 through January 2008, I worked for Time Warner Cable
40 (TWC) as a Financial Analyst.

42 In 2008, I rejoined AEP as a Fuel, Emissions and Logistics (FEL)
43 Coordinator. In this role, I was responsible for Coal Forecasting, analysis
44 of fuel inventories, emission tracking, quality and generation performance
45 as well as other ad hoc analysis. I was also the FEL coordinator for all IT
46 projects evolving the coal forecasting system. In 2010, I accepted a
47 position within the Commercial Operations division of AEP. In this new
48 role, my main responsibility was developing dispatch cost for AEP's
49 generation fleet, calculating daily estimated off-system sales revenue,
50 tracking market conditions and assisting in optimization of the generation
51 fleet. I also served as AEP's representative on PJM's Cost Development
52 Subcommittee.

53
54 6. Q. Have you testified in prior proceedings before the Commissions?

55 A. Yes.

56
57 7. Q. In which cases have you presented testimony?

58 A. DP&L 12-426-EL-SSO

59
60 8. Q. What is the purpose of your testimony in this proceeding?

61 A. The purpose of my testimony is to address an objection from the
62 Company relative to adjustments Staff made to test-year budgeted
63 expenses.
64

65 9. Q. In Company Objection #10, the Company objects to the Staff's test
66 year budget adjustment. The Company claims that the adjustment
67 is unreasonably biased for the following reasons:

- 68 • ...”adjustment is arbitrary, unreasonable, and violates long-
69 standing prohibitions on single-issue ratemaking.”
- 70 • ...”adjustment is selective and results-driven by intentionally
71 and deliberately not proposing a consistent adjustment to all
72 accounts.”
- 73 • “It [the adjustment] violates traditional regulatory principles, not
74 to mention any reasonable concept of fairness...”
- 75 • “Staff cannot arbitrarily select only a few of those accounts that
76 serve to reduce the company's expenses...”

77
78
79 10. Q. Can you give specific reasons why you believe Staff's approach
80 to the test year budget adjustment is reasonable?

81 A. Staff reviewed every operation and maintenance (O&M)
82 expense account presented in Supplemental (c) (8). Staff then
83 applied the Generally Accepted Auditing Standards (GAAS)
84 SAS No. 122.07 concept of materiality to determine if and
85 which O&M expense accounts should be reviewed with greater
86 detail.

87
88 11. Q. Could you elaborate on the concept of materiality according to
89 GAAS SAS No. 122.07?

90 A. The concept of materiality is applied by the auditor (in this case
91 Staff) when both planning and performing the audit, and in

evaluating the effect of identified misstatements on the audit and uncorrected misstatements, if any, on the financial statements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users that are taken based on the financial statements. Judgments about materiality are made in light of surrounding circumstances, and involve both qualitative and quantitative considerations.

12. Q. Why is it appropriate to use the concept of materiality for this filing?

A. While the Supplemental (c)(8) might not be the type of financial statement most people think of, in the Company's filing, it is a financial statement, which is intended to be used to influence economic decisions about the Company's viability. As the Company points out in its objection to the Staff Report, there are more than seventy individual accounts that make up the O&M expense. Due to time constraints, Staff cannot research each account in depth. Thus, Staff must determine a quantitative and qualitative analysis method to determine the O&M accounts that should be reviewed in more detail.

114
115 13. Q. What qualitative and quantitative considerations did Staff make
116 to base their judgments about materiality for the O&M
117 expenses?

118
119 A. Staff received the historic actuals charged to each O&M expense
120 account for the years 2009, 2010 & 2011. Staff averaged the
121 historical cost for each O&M expense account, and then Staff
122 calculated the dollar value variance between the three year
123 historical average and the Test Year Budget. Next Staff took the
124 variance and divided that by the Test Year Budget amount for
125 each O&M expense account. If the variance for any O&M
126 expense account was an absolute value of two hundred thousand
127 (\$200,000) or greater and the percentage variance (variance
128 divided by Test Year Budget amount) was an absolute value of
129 twenty percent (20%) or greater, those accounts were chosen for
130 further investigation.

131
132 14. Q. How many accounts were flagged as a result of the qualitative
133 and quantitative analysis?

134 A. Thirty-one (31) O&M expense accounts.
135

136 15. Q. After the thirty-one O&M expense accounts were identified how
137 did Staff review those accounts?

138 A. Staff then looked at each individual account identified and
139 compared them to each of the three historical years, the test year
140 budget and the 3 year average. Some of the O&M expenses
141 stood out immediately as there were instances of one of the
142 historical years being an anomaly, therefore skewing the three
143 year average. Those accounts were then reviewed with a two
144 year average of historical expenses to determine materiality. A
145 few accounts were determined to be offset by other accounts,
146 thus reducing the variance when those accounts were netted. An
147 example of this would be accounts 903250 Customer Billing –
148 Common and 903300 Cust Collecting – Local. Other accounts,
149 when reviewed in more detail showed the annual trends to be
150 consistent and steadily increasing or decreasing over the years.
151 Data Requests were issued for the remaining accounts that were
152 flagged, whose variances could not be intuitively analyzed at the
153 high level.

154
155 16. Q. Could you please list the specific Staff Data Requests that were
156 most beneficial to your analysis and why?

157 A. Staff Data Requests 88, 89, 90 and 93. In Staff Data Request
158 88, Staff requested the budget rational and monthly breakout of
159 the test year by resource code of certain 500 accounts. Staff
160 Data Request 89 asked for the same information for certain 900
161 accounts. In Staff Data Request 90, Staff requested the actuals
162 from January 2011 through August 2012 broken out by resource
163 code for certain 900 accounts. Staff Data Request 93 asked for
164 the same information as Staff Data Request 90 for certain 500
165 accounts. Staff used these Data Requests to break down each
166 account into sub-categories determined by the Company. The
167 sub-categories allowed Staff to drill down in each account, into
168 the subsets that the Company provided to Staff. The sub-
169 categories showed specific areas in each account that caused the
170 larger variance. Through qualitative and quantitative analysis of
171 the sub-categories, Staff was able to determine the specific
172 adjustments that were needed.

173
174 17. Q. Are there any areas in which the Staff accepts the Company's
175 newly submitted data?

176 A. The Company supplied expanded information with their
177 Objections to the Staff Report. Staff agrees with information
178 supplied by the Company regarding three of the five accounts

that were adjusted. In Attachment PWM-SUPP-1 of the Supplemental Direct Testimony of Patricia W. Mullins, the Applicant provided specific information regarding Accounts 903100, 904891 and 924000. The Company also provided explanations regarding the data presented in the attachment. After examining the additional information, Staff decided that the Company's position regarding the three accounts was valid. Staff will adjust its schedules to reflect the exclusion of the three accounts from the adjustment as follows:

Account 903100 -	\$ 565,461
Account 904891 -	1,278,462
Account 924000 -	<u>1,513,303</u>
Total	\$ 3,357,226

The total of the three accounts in question, \$3,357,226, will be subtracted from Staff's initial adjustment of \$6,588,638. Staff's revised test year budget expense adjustment is \$3,231,412.

18. Q. Does this adjustment support that Staff's methodology was flawed?

A. No. The adjustment is indicated based upon the additional data provided by the Company to prove the validity of their Test

200 Year budgeting process that was available to Staff, until after
201 filing the Staff Report.

202

203 19. Q. Does this conclude your Testimony?

204

205 A. Yes. However, I reserve the right to submit supplemental testimony as
206 described herein, as new information subsequently becomes
207 available or in response to positions taken by other parties.

208

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Testimony of Patrick J. Donlon, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the parties listed below, this 19th day of March, 2013.

/s/Thomas G. Lindgren

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This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

3/19/2013 5:04:41 PM

in

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

Summary: Testimony electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO