

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
Trisha J. Smith

Accounting and Electricity Division
Utilities Department
The Public Utilities Commission of Ohio

Staff Exhibit ____

March 20, 2013

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

2 A. My name is Trisha J. Smith. My business address is 180 East Broad Street,
3 Columbus, Ohio 43215-3793.

4

5 2. Q. By who are you employed?

6 A. I am employed by the Public Utilities Commission of Ohio.

7

8 3. Q. What is your current position with the Public Utilities Commission of Ohio?

9 A. My current position is a Utility Specialist 2 in the Accounting and Electricity
10 Division of the Utilities Department.

11

12 4. Q. Would you briefly state your educational background?

13 A. I received a Bachelor of Science in Business Administration degree from the
14 Ohio State University in June 1992, with a major in Accounting. I began my
15 current employment with the Public Utilities Commission of Ohio in April
16 1993.

17

18 5. Q. What are your responsibilities in this proceeding?

19 A. I am responsible for the Staff's calculation of payroll expense and related
20 taxes, pension and benefits expenses, medical costs, and interest expense.

21

22 6. Q. What's the purpose of your testimony in this proceeding?

23 A. The purpose of my testimony is to respond to Applicant Objections No. 8
24 regarding test year labor expense and No. 9 regarding interest synchronization.

1 I will also address OCC's operating income Objections No. 7 regarding test
2 year labor expense, Nos. 8 and 9 regarding pensions and benefits, No. 10
3 regarding medical costs and Nos. 11 and 12 regarding payroll taxes.
4

5 7. Q. The Company's Objection No. 8 objects to the Staff's proposed adjustments to
6 test year labor expense. Do you agree with this Objection?

7 A. The Staff agrees that the amount of actual labor expense for the test year, as
8 presented in Peggy Laub's testimony on page 14, is reasonable with one
9 adjustment. The Staff adjusted this number to eliminate part of the labor
10 expense associated with the 259 employees who left the Company due to
11 voluntary and involuntary separation programs during the test year. The
12 Staff's revised adjustment is reflected on Schedules TJS 1 and TJS 2.

13 8. Q. The Company objects to the Staff's interest synchronization calculation,
14 asserting that the incorrect rate base amount was used to determine the interest
15 expense.

16 Do you agree with this Objection?

17 A. Yes I do. The Staff report reflected the Applicant's proposed rate base
18 amount in the synchronization of interest expense calculation. The Staff's
19 rate base should be used to derive test year interest expense. The revised
20 adjustment is reflected on Staff's Schedule TJS 3.
21

1 OCC's Objections

2

3 9. Q. OCC's Objection No. 7 states that Staff erred in its calculation of test-year

4 annualized labor expense by including the wages for 2 Duke Energy Ohio

5 employees terminated in October and December 2012 due to separation.

6 The objection states that Staff also erred in including wages for 257

7 employees of Duke Energy Business Services terminated in October and

8 December 2012 due to the voluntary and involuntary separation programs.

9 Do you agree with this Objection?

10 A. Yes, in part. Staff agrees that some amount of the salary and incentive pay

11 included in labor expense for the 259 employees separated from the

12 Company should be eliminated from test-year labor expense. Greater than

13 98% of the employees terminated subject to separation during the test-year

14 left the Company in the last 6 months of the test-year. Staff therefore

15 believes that fifty percent of the annual salaries and incentive pay

16 attributable to the terminated employees should be eliminated from test-year

17 labor expense. Staff's revised labor expense adjustment is reflected on

18 Staff's Schedules TJS 1 and TJS 2.

1 10. Q. OCC's Objection No. 8 objects to the Staff not reducing the pension and
2 benefits expense adjustment by the fringe benefits expense attributable to
3 the 259 employees who were separated from the Company during the test-
4 year. Do you agree with this Objection?

5
6 A. Yes, in part. The Staff believes that a portion of the fringe benefits
7 attributable to the separated employees should be eliminated from test-year
8 pension and benefits expense. As stated above, greater than 98% of the
9 employees terminated subject to separation during the test year left the
10 Company in the last 6 months of the test-year. Staff therefore believes that
11 fifty percent of the fringe benefits expense attributable to the separated
12 employees be eliminated from pension and benefits expense. Staff's
13 revised pension and benefits adjustment is reflected on ScheduleTJS 4.
14

15 11. Q. OCC's Objection 9 states that the Staff erred in not using the actual benefits
16 loading rates for the test year ended December 31, 2012. Do you agree
17 with this Objection?

18 A. Yes. The Staff reflected the loading rates as of March 31, 2012 in the Staff
19 Report. The loading rates based on actual expenses for the test-year ended
20 December 31, 2012 should be used to determine the pension and benefits

1 expense adjustment. The Staff's revised adjustment is reflected on
2 Schedule TJS 4.

3
4 12. Q. OCC's Objection No. 10 regards the Staff's inclusion of a medical cost
5 adjustment. The OCC states that the adjustment is speculative and is
6 not based on a known and measurable change to Duke's medical costs
7 incurred. Do you agree with this objection?

8 A. Yes, in part. Staff agrees that the medical cost adjustment included in the
9 Application was not based on a known and measurable change in Duke's
10 medical costs. However, the Staff has since received the actual costs incurred
11 through December 31, 2012. These costs are included in the updated pension
12 and benefits loading factors applied to labor expense to determine test year
13 pension and benefits expense. Staff's revised adjustment is reflected on
14 Schedules TJS 4 and TJS 5.

15
16 13. Q. OCC's Objection No. 11 states that Staff erred in its calculation of payroll
17 taxes in that the Staff included payroll taxes for the 259 employees who left
18 the Company due to voluntary and involuntary separation programs. Do you
19 agree with this Objection?

20 A. Yes, in part. Staff adjusted payroll taxes to reflect the reduction in test-year
21

1 labor for fifty percent of the labor and fringe benefits expense allocable to the
2
3 employees who left the Company due to voluntary and involuntary
4 separation programs. The Staff's revised adjustment is reflected on Schedule
5
6 TJS 6.
7

8 14. Q. OCC's Objection No. 12 states that Staff erred in its calculation of test-year
9 payroll taxes in that it used Duke's proposed payroll overhead loading tax
10 rate of 7.65%. Do you agree with this Objection?
11

12 A. Yes. Two different loading tax rates should be applied to the appropriate
13
14 taxable wages for both Duke Energy Ohio and Duke Energy Business Service.
15
16 The social security taxable percentage is different for each. The Medicare
17
18 percentage of 1.45% is to be applied to the total taxable (Medicare) wages.
19
20 The 6.2% FICA tax is applied only to the taxable social security wages, which
21
22 differs between Duke Energy Ohio and Duke Energy Business Service. Staff's
23
24 revised adjustment is reflected on Schedule TJS 6.
25
26

27 15. Q. Does this conclude your testimony?
28

29 A. Yes it does. However, I reserve the right to submit supplemental testimony
30 as described herein, as new information subsequently becomes available or
31 in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Testimony of Trisha J. Smith, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the parties listed below, this 20th day of March, 2013.

/s/Thomas G. Lindgren
Thomas G. Lindgren
Assistant Attorney General

Parties of Record:

M. Howard Petricoff
Vorys Sater Seymour & Pease LLP
52 E. Gay Street
P.O. Box 1008
Columbus, Ohio 43216-1008

Andrew J Sonderman
Kegler Brown Hill & Ritter
65 East State Street
Suite 1800
Columbus, Ohio 43215

Deb J. Bingham
Office of the Ohio Consumers' Counsel
10 W. Broad Street, 18th Floor
Columbus, Ohio 43215

Patti Mallamee
Office of the Consumers' Counsel
10 W. Broad Street, Suite 1800
Columbus, Ohio 43215

Cathryn N. Loucas
The Ohio Environmental Council
1207 Grandview Avenue
Columbus, Ohio 43212

Lisa A DeMarcus-Eyckmans
Duke Energy Ohio
139 E. Fourth Street, 1212 Main
Cincinnati, Ohio 45201

Douglas E. Hart
441 Vine Street, Suite 4192
Cincinnati, Ohio 45202

Todd M. Williams
Williams Allwein & Moser, LLC
Two Maritime Plaza, 3rd Floor
Toledo, Ohio 43604

Colleen L. Mooney
OPAE
231 West Lima Street
Findlay, Ohio 45840

Teresa Orahood
Bricker & Eckler LLP
100 South Third Street
Columbus, Ohio 43215-4291

Elizabeth Watts
Duke Energy Ohio, Inc.
155 East Broad Street, Suite 2100
Columbus, Ohio 43215

Amy Spiller
Duke Energy Ohio
139 E. Fourth Street
1303-Main, P.O. Box 961
Cincinnati, Ohio 45201-0960

Michael L. Kurtz
Boehm, Kurtz & Lowry
36 E. Seventh Street, Suite 1510
Cincinnati, Ohio 45202

Carys Cochern
Duke Energy
155 East Broad Street, 21st Floor
Columbus, Ohio 43215

Ohio Manufacturers' Association
33 N. High Street
Columbus, Ohio 43215

Jennifer L. Lause
Direct Energy
21 E. State Street, 19th Floor
Columbus, Ohio 43215

Gina L. Brigner
Ohio Consumers' Counsel
10 W. Broad Street, 18th Floor
Columbus, Ohio 43215

Kimberly W. Bojko
Carpenter Lipps & Leland LLP
280 North High Street, Suite 1300
Columbus, Ohio 43215

Dianne Kuhnell
Duke Energy Business Services
139 E. Fourth Street EA025
P.O. Box 960
Cincinnati, Ohio 45201

Larry Sauer
Terry Etter
Ohio Consumers' Counsel
10 W. Broad Street, 18th Floor
Columbus, Ohio 43215

Thomas O'Brien
Bricker & Eckler LLP
100 South Third Street
Columbus, Ohio 43215-4291

Andrew J. Sonderman
Kegler Brown Hill & Ritter
65 East State Street, Suite 1800
Columbus, Ohio 43215

(1)	Electric Direct O&M Labor Expense (a)	\$ 6,095,389
(2)	Less: Labor Expense Allocable to Severanced Employees of DE Ohio (b)	\$ 9,835
(3)	Adjusted Electric Direct O&M Labor Expense (1) - (2)	\$ 6,085,554
(4)	Service Company O&M Labor Expense (c)	\$ 44,690,633
(5)	Less: Labor Expense Allocable to Severanced Employees of DEBS Ohio (b)	\$ 1,263,749
(6)	Adjusted Service Company O&M Labor Expense (4) - (5)	\$ 43,426,884
(7)	O&M Labor Expense Allocated from Gas & Electric Shared (d)	\$ 5,578,199
(8)	Year End December 31, 2012 (3) + (6) + (7)	\$ 55,090,637
(9)	Less: Test Year Electric Distribution O&M Labor Expense (e)	\$ 54,667,616
(10)	Labor Expense Adjustment (8) - (9)	\$ 423,021

- (a) Actual 2012 year end labor expense per books less service company labor per books less shared labor per books.
\$56,364,221-\$44,690,633-\$5,578,199 = \$6,095,389. Peggy Laub's testimony, page 17. Staff's DR 57-003 and DR 144.
- (b) Staff's Severance Expense Workpaper.
- (c) Staff's DR 57-003-SUPP DEC Attachment.
- (d) Staff's DR 144.
- (e) Applicant's W/PC-3.4d.

Labor Severance Expense

(1)	Total Severance Expense (a)	\$ (2,547,168)
(2)	Allocation Percentage (b)	<u>50%</u>
(3)	Adjusted Severance Expense (1) x (2)	\$ (1,273,584)
(4)	Percentage Allocable to DEBS (c)	99.23%
(5)	Percentage Allocable to DE Ohio (d)	0.77%
(6)	DEBS Severance Expense (3) x (4)	<u>\$ (1,263,749)</u>
(7)	DE Ohio Severance Expense (3) x (5)	<u>\$ (9,835)</u>

- (a) Derived from Response to Staff's DR 143-001: annual salary \$2,250,492 + annual incentive pay \$296,676 = \$2,547,168.
(b) Derived from Response to Staff's DR 126-003. Most of severance labor expense incurred in the last 6 months of the test year, or 50% of the test year.
(c) Derived from Response to Staff's DR 126-003: 257/259 employees from DEBS or 99.23%.
(d) Derived from Response to Staff's DR 126-003: 2/259 employees from DE Ohio or .77%.

DUKE ENERGY OHIO, INC.

CASE NO. 12-1682-EL-AIR

INTEREST EXPENSE DEDUCTIBLE

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

Schedule TJS 3

Page 1 of 2

PURPOSE and DESCRIPTION: To reflect income taxes at 35.00% due to interest deductible for tax purposes being based on rate base at March 31, 2012 as shown on Schedule B-1 and the weighted cost of debt of 2.48% as shown on Schedule D-1.

Municipal Income Tax

Federal Income Tax

Total

TOTAL AMOUNT	ALLOCATION CODE	PERCENT	JURISDICTIONAL AMOUNT
\$ 331	DALL	100.000%	\$ 331
14,548	DALL	100.000%	14,548
\$ 14,879			\$ 14,879

Schedule TJS 4

DUKE ENERGY OHIO, INC.
ELECTRIC DEPARTMENT
CASE NO. 12-1682-EL-AIR
ANNUALIZE PENSIONS AND BENEFITS EXPENSE
12 MONTHS ENDING DECEMBER 31, 2012

Line No.	Description	Source	DE-Ohio	DE-Business Services	Total Amount	Allocation Code	Allocation Percent	Jurisdictional Amount
1	Annualized Electric O&M Labor		\$ 11,663,753	\$ 43,426,884	\$ 55,090,637	DALL	100.000%	\$ 55,090,637
2								
3	Loading Rate		35.08%	23.12%				
4								
5	Annualized O&M Pension and Benefits Expense		4,091,645	10,040,296	14,131,941			14,131,941
6								
7	Allocated Executive Benefits in Test Year				995,586	DLAB	87.319%	869,336
8								
9	Total Annualized O&M Pension and Benefits Expense				15,127,527			15,001,277
10								
11	Test Year O&M Pension and Benefits Expense	Sch. C-2.1			17,314,818	DLAB	87.319%	15,119,126
12								
13	Adjustment (Line 9 - Line 11)				\$ (2,187,291)			\$ (117,849)
14								
15	Less: Fringe Benefits Allocable to Severanced Employees (a)							\$ (372,572)
16								
17	Total Pensions and Benefits Expense Adjustment							\$ (490,421)

(a) Derived from Response to Staff's DR 126-003. Most of the severance labor expense incurred in the last 6 months of the test year, or 50% of the test year: \$(745,143) x 50% = \$(372,572).

Schedule TJS 5

DUKE ENERGY OHIO, INC.
ELECTRIC DEPARTMENT
CASE NO. 12-1682-EL-AIR
INCREASED MEDICAL COSTS
12 MONTHS ENDING DECEMBER 31, 2012

Line No.	Description	Source	Total Amount	Allocation Code	Percent	Jurisdictional Amount
1	Annualized Electric O&M Labor	Sch. C-3.4	\$ -	DALL	100.000%	\$ -
2						
3	Medical portion of Loading Rate		15.42%			
4	Increase over budget		8.50%			
5	Adjusted Medical Loading Rate		16.73%			
6						
7	Annualized Medical Costs (Line 1 x Line 3)		-	DALL	100.000%	\$ -
8						
9	Annualized Increased Medical Costs (Line 1 x Line 5)		-	DALL	100.000%	\$ -
10						
11	Adjustment (Line 9 - Line 7)		\$ -	DALL	100.000%	\$ -

Increased Medical Costs Included in Pension and Benefits Expense. Total Employee Benefit Loading Rates Include Actual Medical Costs for 2012. OCC-INT-07-300(B) Attachment DEC SUPP.

		DEBS	Duke Energy	Total
(1)	Adjusted O&M Labor Expense	\$ 43,426,884	\$ 11,663,753	\$ 55,090,637
(2)	Taxable Percentage (b)	<u>75.68%</u>	<u>98.75%</u>	
(3)	Taxable Income (1) x (2)	\$ 32,865,466	\$ 11,517,956	
(4)	OASDI Tax Rate	<u>6.20%</u>	<u>6.20%</u>	
(5)	OASDI Tax (3) x (4)	\$ 2,037,659	\$ 714,113	
(6)	Medicare Tax Rate	<u>1.45%</u>	<u>1.45%</u>	
(7)	Medicare Tax (1) x (6)	\$ 629,690	\$ 169,124	
(8)	Annualized Payroll Taxes (5) + (7)	<u>\$ 2,667,349</u>	<u>\$ 883,237</u>	\$ 3,550,586
(9)	Less: Test year Payroll Taxes (c)			<u>\$ 4,054,165</u>
(10)	Annualized Payroll Taxes (8) - (9)			<u>\$ (503,579)</u>

(a) Staff's Schedule TJS 1 (labor).
(b) Staff's DR 09-001.
(c) Applicant's Schedule C-2.1: Total other federal less federal highway use tax, (\$4,046,188 - \$50 = \$4,046,138),
Plus employer local tax (\$8,027) = test year payroll taxes (\$4,054,165)

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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