

**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.)	

**ADDITIONAL DIRECT TESTIMONY
OF
KATHY L. HAGANS
(ADOPTING A PORTION OF TESTIMONY OF DAVID J. EFFRON)**

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

April 30, 2013

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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 Principle Regulatory Analyst.

Q2. ARE YOU THE SAME KATHY HAGANS WHO FILED TESTIMONY ON BEHALF OF THE OCC IN THESE PROCEEDINGS ON FEBRUARY 25, 2013?

A2. Yes.

II. PURPOSE OF TESTIMONY

Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A3. The purpose of my testimony is to adopt a portion of the Direct Testimony of David J. Effron that was pre-filed in these proceedings on February 25, 2013. Mr. Effron is currently serving as a witness in an out of state proceeding and is unavailable to testify on the needed timeline in this phase of Duke Energy Ohio, Inc.'s ("Duke") case. My adoption of a portion of the testimony of Mr. Effron was agreed to by the parties at the hearing on April 29, 2013.

III. ADOPTION OF TESTIMONY

***Q4. ARE YOU FAMILIAR WITH THE DIRECT TESTIMONY SUBMITTED BY
DAVID J. EFFRON IN SUPPORT OF OCC OBJECTION 27 IN THESE
PROCEEDINGS AND THE SCHEDULES AND ATTACHMENTS
PERTAINING TO THAT ISSUE?***

A4. Yes. I have reviewed the Direct Testimony, Schedules and Attachments sponsored by Mr. Effron and submitted by OCC on February 25, 2013 with regard to the portion of Mr. Effron's testimony on Manufactured Gas Plant ("MGP") Costs. Specifically, I am adopting his recommendation for an appropriate period over which any allowable MGP costs should be amortized for recovery from Duke's customers (OCC Objection 27.) Discussion of this issue appears on pages 9 through 12 of Mr. Effron's Direct Testimony. In addition, Mr. Effron's Attachment DJE-4 supports his Direct Testimony on the MGP cost amortization issue.

***Q5. DO YOU HEREBY ADOPT AS YOUR OWN THE DIRECT TESTIMONY OF
DAVID J. EFFRON FILED IN THESE PROCEEDINGS ON FEBRUARY 25,
2013, PERTAINING TO THE MGP COST AMORTIZATION PERIOD?***

A5. Yes, with one correction. I adopt as my own testimony the MGP amortization portion of Mr. Effron's testimony, including Attachment DJE-4 and the information and support Mr. Effron provided in his Direct Testimony in these proceedings. The portions of Mr. Effron's testimony (including Attachment DJE-

1 4) that I am adopting and that now become my own testimony are attached hereto.

2 I make one correction to Mr. Effron's Direct Testimony as follows: Line 6 on
3 page 12 should read "appropriate and could have the effect of imposing
4 unreasonable costs on customers."

5

6 ***Q6. DID MR. EFFRON HAVE ANY OTHER TESTIMONY PERTAINING TO***
7 ***MGP COST ISSUES?***

8 ***A6.*** Yes, Mr. Effron had testimony in support of OCC Objection No. 28, in which
9 OCC objected that the Staff did not offset accumulated deferred income taxes
10 against the gross balance of deferred Manufactured Gas Plant costs on which
11 carrying charges are calculated. That portion of the testimony appears on pages
12 13 and 14 of Mr. Effron's Direct Testimony.

13

14 ***Q7. ARE YOU ALSO ADOPTING THAT PORTION OF MR. EFFRON'S***
15 ***TESTIMONY?***

16 ***A7.*** No. OCC is no longer pursuing that issue in litigation.

17

18 ***Q8. DOES THIS CONCLUDE YOUR TESTIMONY?***

19 ***A8.*** Yes.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Additional Testimony of Kathy L. Hagans Adopting a Portion of Testimony of David J. Effron* was served via electronic transmission to the persons listed below on this 30th day of April 2013.

/s/ Larry S. Sauer

Larry S. Sauer
Assistant Consumers' Counsel

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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 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 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 TESTIMONY
OF
DAVID J. EFFRON**

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

February 25, 2013

*Direct Testimony of David J. Effron
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 12-1685-GA-AIR, et al.*

1 modify the amortization of intangible plant included in pro forma test year
2 operating expenses.
3

4 ***Q21. PLEASE EXPLAIN YOUR PROPOSED MODIFICATIONS TO THE***
5 ***AMORTIZATION OF INTANGIBLE PLANT.***

6 ***A21.*** My proposed adjustments to the amortization of intangible plant are summarized
7 on my Schedule DJE-C-3.5a. With regard to common intangible plant, the 2002
8 and 2007 vintages of common intangible plant became fully amortized in the
9 2012 test year. Elimination of the amortization of these vintages reduces the pro
10 forma amortization of common intangible plant by \$1,143,000. On a
11 jurisdictional basis, this adjustment reduces the depreciation and amortization of
12 common plant allocable to gas distribution operations by \$189,000. This
13 adjustment is reflected on OCC Schedule C-3.5 accompanying the testimony of
14 Mr. Soliman.
15

16 **D. Manufactured Gas Plant Costs**
17

18 ***Q22. IS DUKE PROPOSING TO RECOVER COSTS ASSOCIATED WITH THE***
19 ***REMEDIATION OF FORMER MANUFACTURED GAS PLANT ("MGP")***
20 ***SITES FROM CUSTOMERS IN THIS CASE?***

21 ***A22.*** Yes. The Utility estimated that by the end of 2012 it would have incurred
22 \$65,333,000 of MGP costs, including \$5,047,000 of carrying costs. Duke is

*Direct Testimony of David J. Effron
On Behalf of the Office of the Ohio Consumers' Counsel
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1 proposing to recover those costs from customers over three years and includes
2 annual amortization of \$21,778,000 in its revenue requirement.

3

4 ***Q23. HOW HAS THE STAFF TREATED DUKE'S PROPOSAL TO RECOVER***
5 ***MGP COSTS THROUGH THE BASE RATES BEING ESTABLISHED IN***
6 ***THIS CASE?***

7 ***A23.*** First, the Staff made substantial adjustments to the MGP costs subject to recovery
8 from customers¹. Like Duke, the Staff recommends that the eligible MGP
9 expenses should be recovered over a three-year period, including carrying costs².
10 However, the Staff recommends that rather than recovering the eligible MGP
11 costs through base rates, Duke should apply to recover the authorized MGP
12 expenses by means of a rider.³

13

14 ***Q24. ARE YOU PROPOSING ANY MODIFICATIONS TO THE RECOVERY***
15 ***METHOD PROPOSED BY THE STAFF?***

16 ***A24.*** Yes. Mr. Campbell and Mr. Hayes address the recovery of MGP costs, and I do
17 not address the extent to which MGP costs should be recoverable from customers,
18 which costs (if any) should be recoverable, or whether any eligible costs should
19 be recovered through base rates or through a rider. However, if the MGP costs
20 are deemed to be recoverable from customers, there should be certain
21 modifications to the calculation of the amount to be recovered annually,

¹ Staff Report, at 45-52.

² Id., at 47.

³ Id.

*Direct Testimony of David J. Effron
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PUCO Case No. 12-1685-GA-AIR, et al.*

1 regardless of whether the costs are recovered through base rates or by means of a
2 rider.

3

4 ***Q25. WHAT MODIFICATIONS ARE YOU RECOMMENDING TO THE STAFF'S***
5 ***METHOD OF CALCULATING THE ANNUAL RECOVERY OF MGP***
6 ***COSTS?***

7 ***A25.*** I am recommending two modifications. First, the amortization period of three
8 years should be modified. Second, the method of calculating carrying charges on
9 the deferred MGP costs should be modified.

10

11 ***Q26. WHY SHOULD THE AMORTIZATION PERIOD OF THREE YEARS BE***
12 ***MODIFIED?***

13 ***A26.*** In response to OCC Interrogatory No. 05-175, Duke stated that the three year
14 amortization period reflects the approximate time expected between rate cases.
15 Staff did not cite any independent justification for recommending a three year
16 amortization period. However, by adopting Duke's three year amortization
17 period, Staff appears to agree with Duke's rationale for choosing that period.

18

19 If the expected period between rate cases is actually three years, that might be a
20 reasonable basis for normalizing rate case costs, as such costs would be expected

21

*Direct Testimony of David J. Effron
On Behalf of the Office of the Ohio Consumers' Counsel
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1 to recur every three years.⁴ However there is no reasonable expectation that the
2 MGP costs will recur every three years. In fact, Staff notes that “Except for
3 certain ongoing environmental monitoring costs, the MGP costs are one-time
4 nonrecurring expenses”⁵. Given, the “one-time nonrecurring” nature of these
5 costs, and their potential magnitude, a three year amortization period is not
6 appropriate or and could have the effect of imposing reasonable costs on
7 customers.

8
9 In addition, the manufactured gas plants ceased operation many years ago. It is
10 not reasonable to impose the significant costs of remediation of the MGP sites
11 over such a short time period where those plants and the production from those
12 plants have likely never been of benefit to current Duke customers and where the
13 environmental liability was realized over many decades.

14

15 ***Q27. WHAT DO YOU RECOMMEND?***

16 ***A27.*** There is no magic formula for determining the appropriate amortization period for
17 deferred costs. However, given the potential magnitude of deferred MGP costs
18 that customers may be required to pay, the one-time nature of these costs, and the
19 fact that the costs relate to the clean-up of plants that operated decades ago, I
20 believe that an amortization period of at least ten years would be appropriate.

21

⁴ Even if the time between rate cases were deemed to be the appropriate basis for amortization of the MGP costs, the average time between Duke’s recent gas rate cases has been closer to five years than to three years. Therefore, based on the time between rate cases, the amortization period should be five years, not three years.

⁵ Staff Report, page 47.

**Duke Energy Ohio
Case No. 12-1685-GA-AIR
OCC Fifth Set of Interrogatories
Date Received: September 21, 2012**

OCC-INT-05-175

REQUEST:

Referring to Schedule C-3.2, how was the amortization period of three years determined?

RESPONSE:

The three-year amortization period reflects the approximate time expected between rate cases.

PERSON RESPONSIBLE: Peggy A. Laub

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Case No(s). 12-1685-GA-AIR, 12-1686-GA-ATA, 12-1687-GA-ALT, 12-1688-GA-AAM

Summary: Testimony Additional Direct Testimony of Kathy L. Hagans (Adopting a Portion of Testimony of David J. Effron) on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Patti Mallarnee on behalf of Sauer, Larry S.