

FILE

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke	)	
Energy Ohio for Authority to Establish a	)	
Standard Service Offer Pursuant to Section	)	
4928.143, Revised Code, in the Form of	)	Case No. 14-841-EL-SSO
an Electric Security Plan, Accounting	)	
Modifications and Tariffs for Generation	)	
Service.	)	
In the Matter of the Application of Duke	)	
Energy Ohio for Authority to Amend its	)	Case No. 14-842-EL-ATA
Certified Supplier Tariff, P.U.C.O. No. 20.	)	

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**DIRECT TESTIMONY OF**

**PATRICIA W. MULLINS**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

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#### Attachments:

- PWM-1:      Projected Statements of Income
- PWM-2:      Projected Balance Sheets
- PWM-3:      Projected Sources and Uses of Funds

## **I. INTRODUCTION**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A.   My name is Patricia W. Mullins, and my business address is 550 South Tryon  
3       Street, Charlotte, North Carolina 28202.

4   **Q.   BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5   A.   I am employed by Duke Energy Business Services LLC (DEBS) as Director of  
6       Regional Financial Forecasting. DEBS provides various administrative and other  
7       services to Duke Energy Ohio, Inc., (Duke Energy Ohio or the Company) and  
8       other affiliated companies of Duke Energy Corporation (Duke Energy).

9   **Q.   PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND**  
10   **PROFESSIONAL EXPERIENCE.**

11   A.   I graduated from Clemson University in 1987 with a Bachelor of Science degree  
12       in Accounting. I am a Certified Public Accountant in the state of North Carolina.  
13       I started my employment with Duke Power Company in 1987, as a staff  
14       accountant. I held various positions in a number of areas, including Internal  
15       Audit, Subsidiary Accounting, International Project Development, Duke Fluor  
16       Daniel, and Duke Capital Partners. I was an accounting manager in the  
17       Controllers area and also managed the accounting for Duke Power's Wholesale  
18       and Bulk Power businesses. After the merger between Cinergy Corp. and Duke  
19       Energy in 2006, I was promoted to Director of Derivative and Revenue Analysis.  
20       I assumed my current role as Director, Regional Financial Forecasting, in March  
21       of 2009. I currently lead forecasting for Duke Energy's Regulated Utility  
22       Business of Duke Energy Ohio, Duke Energy Kentucky, Inc. (Duke Energy

1 Kentucky), and Duke Energy Indiana, Inc. (Duke Energy Indiana). I also lead  
2 forecasting for the Gas Businesses of Duke Energy Ohio and Duke Energy  
3 Kentucky.

4 **Q. PLEASE SUMMARIZE YOUR DUTIES AS DIRECTOR, REGIONAL**  
5 **FINANCIAL FORECASTING.**

6 A. I am responsible for leading the financial planning and forecasting for Duke  
7 Energy Ohio, Duke Energy Kentucky, and Duke Energy Indiana. In such  
8 capacity, I review the assumptions for financial planning models used in the  
9 development of financial forecasts for these three entities.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**  
11 **UTILITIES COMMISSION OF OHIO?**

12 A. I have previously submitted written testimony to the Public Utilities Commission  
13 of Ohio (Commission).

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**  
15 **PROCEEDINGS?**

16 A. The purpose of my testimony is to sponsor pro forma financial projections in  
17 respect of the implementation of the Company's proposed electric security plan  
18 (ESP or Plan). Additionally, I will briefly discuss the forecast methodology and  
19 major assumptions underlying the financial forecast. My testimony addresses the  
20 effect of the ESP upon the Company for the duration of the Plan, as required by  
21 O.A.C. 4901:1-35-03(C)(2).

## **II. DISCUSSION**

1   **Q.   WHAT ARE THE ATTACHMENTS FOR WHICH YOU ARE**  
2       **RESPONSIBLE?**

3   A.   I am sponsoring all or part of the following items:

- 4           •   PWM-1:     Projected Statements of Income
- 5           •   PWM-2:     Projected Balance Sheets
- 6           •   PWM-3:     Projected Sources and Uses of Funds

7   **Q.   PLEASE IDENTIFY AND DESCRIBE ATTACHMENT PWM-1.**

8   A.   Attachment PWM-1 is the Projected Statements of Income that incorporate the  
9       proposed ESP structure for Duke Energy Ohio's electric business for the annual  
10      periods 2015 through 2018.

11  **Q.   PLEASE IDENTIFY AND DESCRIBE ATTACHMENT PWM-2**

12  A.   Attachment PWM-2 contains the Projected Balance Sheets for Duke Energy Ohio  
13      for years ended 2015 through 2018.

14  **Q.   PLEASE IDENTIFY AND DESCRIBE ATTACHMENT PWM-3.**

15  A.   Attachment PWM-3 is the Projected Sources and Uses of Funds for Duke Energy  
16      Ohio for the period between 2015 and 2018.

17  **Q.   HOW ARE THESE ATTACHMENTS AND SCHEDULES RELEVANT TO**  
18       **THE COMPANY'S REQUEST FOR AN ESP?**

19  A.   As I have been informed, Ohio law allows for an electric distribution utility such  
20      as Duke Energy Ohio to extend to its customers a standard service offer in the  
21      form of an ESP. In seeking approval of such an offer, the Company must satisfy

1 certain criteria. Relevant to my testimony is the requirement that the Company  
2 provide pro forma financial projections.

3 Specifically, I understand that Duke Energy Ohio must provide pro forma  
4 financial projections of the effect of that Plan's implementation upon the  
5 Company, for the duration of the ESP. Additionally, the information provided by  
6 the Company must include the assumptions made and methodologies used in  
7 preparing the pro forma financial projections.

8 **Q. WHAT IS THE DURATION OF THE ESP THAT YOU USED FOR**  
9 **PURPOSES OF DEVELOPING THE PRO FORMA FINANCIAL**  
10 **PROJECTIONS YOU ARE SPONSORING?**

11 A. The pro forma financial projections attached to and incorporated into my  
12 testimony reflect the full calendar years impacted by the three-year term of the  
13 next ESP being proposed by the Company. Because the proposed term of the  
14 next ESP includes partial years for 2015 and 2018, the forecast period included in  
15 my testimony includes calendar years 2015 through 2018.

16 **Q. WHAT IS THE METHODOLOGY THAT YOU EMPLOYED IN**  
17 **PREPARING THE PRO FORMA FINANCIAL PROJECTIONS?**

18 A. The pro forma financial statements were developed consistent with the  
19 methodology utilized by the Company for preparing its normal operating forecast.  
20 This process involves input from various groups within the Company. The key  
21 forecasting inputs from these groups relate to the forecasting of load, operating  
22 and maintenance expenses (O&M), capital expenditures, and financing.

1   **Q.   DESCRIBE THE ESP-RELATED ASSUMPTIONS MADE FOR**  
2       **PURPOSES OF DEVELOPING THESE PRO FORMA FINANCIAL**  
3       **PROJECTIONS.**

4   A.   The forecasted data used in these proceedings is based on the most recent five-  
5       year plan and has been modified based upon the following material assumptions:

- 6           •   The projected Income Statement, shown in Attachment PWM-1, includes  
7               the following major assumptions:
  - 8                   ○   No new base rate increases
  - 9                   ○   Approval of the Distribution Capital Investment Rider
  - 10                  ○   Full recovery of the cost of procuring SSO service
  - 11                  ○   Continuation of certain existing riders, including but not limited to  
12                       Riders DR-IM, BTR, and UE-GEN.
- 13          •   Capital spending reflected in the forecasted balance sheet and cash flow  
14               statement is based on the Company's capital budget, including provisions  
15               for the distribution reliability programs addressed in the Direct Testimony  
16               of Company witness Marc W. Arnold.

### III.   CONCLUSION

17   **Q.   WERE ATTACHMENTS PWM-1 THROUGH PWM-3 PREPARED BY**  
18       **YOU OR UNDER YOUR SUPERVISION?**

19   A.   Yes.

1   **Q.    IS THE INFORMATION CONTAINED IN ATTACHMENTS PWM-1**  
2       **THROUGH PWM-3 TRUE AND ACCURATE TO THE BEST OF YOUR**  
3       **KNOWLEDGE AND BELIEF?**

4   **A.    Yes.**

5   **Q.    DOES THE INFORMATION PRESENTED IN ATTACHMENTS PWM-1**  
6       **THROUGH PWM-3 REPRESENT A REASONABLE PROJECTION OF**  
7       **DUKE ENERGY OHIO'S ELECTRIC BUSINESS PRO FORMA**  
8       **FINANCIALS FOR THE AFFECTED PERIOD?**

9   **A.    Yes.**

10  **Q.    DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

11  **A.    Yes.**



**Duke Energy Ohio - Regulated Electric**  
**ESP Filing - pro-forma**  
**Projected Statements of Income**  
**\$\$ in Millions**

	2015	2016	2017	2018
<b>Revenue</b>				
Regulated Electric	1,018	1,082	1,109	1,138
Other Electric Revenue	1	1	1	1
<b>Total Revenue</b>	<b>1,019</b>	<b>1,083</b>	<b>1,110</b>	<b>1,138</b>
<b>Expense</b>				
Fuel used in Electric Generation and Purchased Power	320	323	324	325
Operations & Maintenance	239	240	246	253
Depreciation & Amortization	119	129	132	135
Property and Other Taxes	188	194	200	206
<b>Total Operating Expenses</b>	<b>865</b>	<b>885</b>	<b>902</b>	<b>919</b>
<b>Other Income and Expenses</b>	<b>4</b>	<b>6</b>	<b>8</b>	<b>10</b>
<b>EBIT</b>	<b>158</b>	<b>203</b>	<b>217</b>	<b>230</b>
<b>Interest Expense</b>	<b>45</b>	<b>50</b>	<b>54</b>	<b>55</b>
<b>Income Taxes</b>	<b>41</b>	<b>56</b>	<b>59</b>	<b>63</b>
<b>Net Income</b>	<b>71</b>	<b>97</b>	<b>103</b>	<b>112</b>

Duke Energy Ohio - Regulated Electric & Gas  
ESP Filing - pro-forma  
Projected Balance Sheets  
\$\$ in Millions

	2015	2016	2017	2018
<b>Assets</b>				
Current Assets	331	293	353	296
Investments and Other Assets (1)	730	700	684	669
Plant, Property, and Equipment	5,699	5,971	6,293	6,608
Less Accumulated Depreciation & Amortization	(1,617)	(1,727)	(1,841)	(1,961)
Net Plant	4,082	4,244	4,452	4,647
Regulatory Assets and Deferred Debits	345	324	303	285
<b>Total Assets</b>	<b>5,488</b>	<b>5,561</b>	<b>5,792</b>	<b>5,897</b>
<b>Liabilities and Equity</b>				
Short Term Debt	(0)	39	0	45
Current Maturities of Long Term Debt	4	2	2	451
Other Current Liabilities	265	284	299	318
Long Term Debt	1,499	1,499	1,599	1,149
Deferred Credits & Other Liabilities	1,296	1,323	1,351	1,380
<b>Total Liabilities</b>	<b>3,065</b>	<b>3,146</b>	<b>3,251</b>	<b>3,343</b>
Common Stock	374	374	374	374
Additional Paid in Capital	378	378	378	378
Retained Earnings	1,671	1,663	1,790	1,802
<b>Total Equity</b>	<b>2,423</b>	<b>2,414</b>	<b>2,541</b>	<b>2,554</b>
<b>Total Liabilities and Equity</b>	<b>5,488</b>	<b>5,561</b>	<b>5,792</b>	<b>5,897</b>

(1) Includes goodwill

Duke Energy Ohio - Regulated Electric & Gas  
ESP Filing - pro-forma  
Projected Sources and Uses of Funds  
\$\$ in Millions

	2015	2016	2017	2018
<b>Operating Activities</b>				
Earnings Available for Common	134	166	177	187
<b>Adjustments to Net Income</b>				
Depreciation & Amortization	188	201	205	209
Deferred Income Tax	13	17	17	19
Changes in Regulatory Assets	(30)	(33)	(31)	(33)
Changes in Working Capital	9	5	9	9
Other Adjustments to Net Income	20	14	10	12
Cash from Operations	334	369	386	403
<b>Investing Activities</b>				
Capital Expenditures	(290)	(304)	(353)	(344)
AFUDC Debt / Capitalized Interest	(1)	(1)	(2)	(2)
Cash Provided by (Used in) Investing Activities	2	2	2	2
Cash Provided by (Used in) Investing Activities	(288)	(303)	(352)	(344)
<b>Financing Activities</b>				
Issuance of Long-Term Debt	225	-	100	-
Redemption of Long-Term Debt	(155)	(4)	(2)	(2)
Other Financing	(20)	38	(78)	83
Capital Contributions From/(To) Parent	(50)	(145)	(35)	(160)
Cash from Financing Activities	(0)	(111)	(15)	(79)
Total Change in Cash	45	(45)	19	(20)
Beginning Cash and Cash Equivalents	9	54	10	29
Ending Cash and Cash Equivalents	54	10	29	10