

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke	:	
Energy Ohio, Inc. for Approval of a Grid	:	Case Nos. 14-1160-EL-UNC
Modernization Opt-Out Tariff and for a	:	14-1161-EL-AAM
Change in Accounting Procedures	:	
Including a Cost Recovery Mechanism.	:	

**PREFILED TESTIMONY
OF
DAVID M. LIPTHRATT
RATES & ANALYSIS DEPARTMENT
RESEARCH & POLICY DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit _____

October 2, 2015

TESTIMONY OF DAVID LIPTHRATT

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

A. My name is David M. Liphtratt. My address is 180 East Broad Street,
Columbus, Ohio 43215-3793.

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

A. I am employed by the Public Utilities Commission of Ohio (the Commission or PUCO) as the Chief of the Research and Policy Division of the Rates and Analysis Department.

3. Q. Would you briefly state your educational background?

A. I earned a Bachelor of Arts Degree that included a Major in Political Science and a Minor in History from the University of Georgia. Subsequently, I earned a Masters in Public Administration Degree with a focus on public budgeting and finance and policy analysis from the University of Georgia. In addition, I earned a post-baccalaureate Certificate of Accounting Concentration at Columbus State Community College. I am a Certified Public Accountant (Ohio License # CPA.48876). Moreover, I have attended various seminars and rate case training programs sponsored by this Commission, professional trade organizations, and the utility industry community.

1 4. Q. Please outline your work experience.

2 A. I have previously served as a Budget/Management Analyst for the Ohio
3 Office of Budget and Management and a Fiscal Officer for the Ohio
4 Department of Commerce. I currently serve as a Public Utilities Adminis-
5 trator with the Public Utilities Commission of Ohio. In each of these roles I
6 have been responsible for various accounting and financial-related tasks
7 and responsibilities.

8
9 5. Q. Have you testified in prior proceedings before the Commission?

10 A. Yes.
11

12 **PURPOSE OF MY TESTIMONY**

13 6. Q. What is the purpose of your testimony in this proceeding?

14 A. I will be addressing issues pertaining to Duke Energy Ohio, Inc.'s (the
15 Company) proposed Grid Modernization opt-out tariff, specifically relating
16 to the IT portion of the one-time fixed charge and the request for deferral of
17 ongoing costs.
18

19 **GENERAL DESCRIPTION OF THE APPLICATION**

20 7. Q. Please describe the Company's request regarding the deferral of one-time
21 fixed charges and ongoing costs.

1 A. In its Application, the Company requested deferral authority for the Infor-
2 mation Technology (IT) system costs and the ongoing costs related to the
3 integration of traditional meters into the Company's system. The Company
4 calculated a one-time total cost of \$777,998 and an annual ongoing total
5 cost of \$353,468.

6
7 In Staff data request 09-002, Staff asked the Company for clarification and
8 support regarding the request for deferral authority related to the ongoing
9 costs. In the response to Staff data request 09-002, the Company stated that
10 it "is not seeking deferral of ongoing costs" and that "the Company only
11 seeks deferral of the IT system related costs."

12
13 8. Q. Has the Company revised its IT costs since its application was filed?

14 A. Yes. In response to Staff data request 02-002, the Company stated that on
15 July 24, 2014, the Company reduced the budgeted or estimated expenses
16 associated with the IT system changes down to \$370,343. According to the
17 Company, the final "actual costs of the project ended up being \$243,122."¹
18

¹ Direct Testimony of Justin C. Brown filed on Behalf of Duke Energy Ohio, Inc. at 4 (Sep. 18, 2015).

1 9. Q. What about the remainder of the proposed non-IT one-time costs of
2 \$91,857.50 that is comprised of meter repair/testing, meter storage labor,
3 costs of traditional meters, and distribution maintenance (i.e., meter
4 swaps/installs)?

5 A. The Company proposes that the non-IT costs of \$91,857.50 be charged up-
6 front to customers.
7

8 10. Q. Will you be addressing the non-IT related, one-time expenses or the
9 ongoing or recurring expenses as proposed by the Company?

10 A. No. Staff witness Rutherford addresses those issues and recommendations
11 in her testimony.
12

13 11. Q. In summary, how is the Company's proposed one-time charge calculated?

14 A. Duke states through the testimony of witness Justin Brown that, if the
15 Commission grants the IT system cost deferral, the one-time fee per
16 customer will be \$126.70, which is derived by dividing the non-IT portion
17 of the one-time costs of \$91,857.50 by the anticipated 725 customers.
18 Duke further states, through testimony that, if the deferral is not granted,
19 the one-time fee per customer would be \$462.04, which includes the non-IT
20 costs (\$91,857) and the updated IT costs (\$243,122) divided by the
21 anticipated 725 customers.
22

RECOMMENDATIONS

12. Q. What is Staff's recommendation related to the potential deferral of ongoing costs?

A. As previously mentioned, in data request 09-002, Staff asked the Company for clarification and support regarding the request for deferral authority related to the ongoing costs. In the response to data request 09-002, the Company stated it "is not seeking deferral of ongoing costs" and that "the Company only seeks deferral of the IT system related costs." Therefore, Staff recommends that ongoing costs not be granted deferral authority.

13. Q. Does the Staff support the Company's Request for deferral?

A. In reviewing deferral requests, Staff uses the following deferral criteria:

1. whether the current level of costs included in the last rate case insufficient;
2. whether the costs requested to be deferred are material in nature;
3. whether the problem was outside of the Company's control;
4. whether the expenditures are atypical and infrequent;
5. whether the costs would result in financial harm to the Company; and

1 6. whether the Commission could encourage the utility to do
2 something it would not otherwise do through the granting of
3 deferral authority.
4

5 Staff believes this request does not meet the deferral criteria listed above. In
6 response to Staff data request 07-002, the Company stated that it would
7 have both capitalized and expensed IT costs included in the last base rate
8 case. Staff believes that the Company has not shown that IT related costs
9 embedded in the last rate case are insufficient in comparison to current
10 levels of spending, nor has the Company shown that the \$243,122
11 requested in this proceeding is warranted for deferral treatment. Therefore,
12 the \$243,122 requested in this proceeding is not warranted for deferral
13 treatment. Furthermore, Staff believes IT charges of this nature and magni-
14 tude are neither atypical nor infrequent.
15

16 Secondly, as part of its Form 10-K operating income, the Company
17 reported \$187 million in 2014, \$182 million in 2013, and \$159 million in
18 2012. Given these levels of operating income, Staff does not believe the
19 \$243,122 associated with IT system changes are material in nature or would
20 result in financial harm to the Company.
21

1 Thirdly, per its response to Staff data request 01-004, the Company-issued
2 project timeline associated with the IT system changes shows the project
3 start date as January 28, 2014. Given that rules requiring electric utilities to
4 file tariffs to allow residential customers an advanced meter opt out service
5 did not go into effect until December 18, 2014, Staff believes the IT system
6 changes were discretionary. Therefore these changes were not outside the
7 Company's control, and the Company would have made these changes
8 whether deferral authority were granted or not.

9
10 In summary, ongoing costs should not be granted deferral treatment based
11 upon the Company's clarification through data requests that it is not seek-
12 ing such authority. Staff further reasons that the IT system change costs
13 totaling \$243,122 does not meet the necessary requirements for deferral
14 treatment in part because the nature of the costs are sufficiently represented
15 in the Company's last base rate case and they did not meet the deferral cri-
16 teria. Therefore, Staff does not recommend granting the Company's
17 deferral request for IT costs.

CONCLUSION

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14. Q. Doe this conclude your testimony?

A. Yes. However, I reserve the right to incorporate new information that may subsequently become available through outstanding discovery or otherwise.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of **David M. Lipthratt** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 2nd day of October, 2015.

/s/ John H. Jones

John H. Jones

Assistant Attorney General

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Summary: Testimony Prefiled Testimony of David M. Lipthratt submitted by Assistant Attorney General John Jones no behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio