

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	) Case No. 17-32-EL-AIR)
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	) Case No. 17-33-EL-ATA)
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	) Case No. 17-34-EL-AAM)
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Modify Rider PSR.	) Case No. 17-872-EL-RDR)
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Amend Rider PSR.	) Case No. 17-873-EL-ATA)
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	) Case No. 17-874-EL-AAM)
In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service.	) Case No. 17-1263-EL-SSO)))))
In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Amend its Certified Supplier Tariff, P.U.C.O. No. 20.	) Case No. 17-1264-EL-ATA))
In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Defer Vegetation Management Costs.	) Case No. 17-1265-EL-AAM)
In the Matter of the Application of Duke Energy Ohio, Inc., to Establish Minimum Reliability Performance Standards Pursuant to Chapter 4901:1-10, Ohio Administrative Code.	) Case No. 16-1602-EL-ESS))

SUPPLEMENTAL DIRECT TESTIMONY OF
CYNTHIA S. LEE
SUPPORTING OBJECTIONS TO STAFF'S REPORT
ON BEHALF OF
DUKE ENERGY OHIO, INC.

<u> </u>	Management policies, practices, and organization
<u> </u>	Operating income
<u> </u>	Rate Base
<u> </u>	Allocations
<u> </u>	Rate of return
<u> X</u>	Rates and tariffs
<u> X</u>	Other: Rate Case Drivers

June 6, 2018

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I. INTRODUCTION

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

2 A. My name is Cynthia S. Lee., and my business address is 550 South Tryon, DEC42A,
3 Charlotte, NC 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 Asset Accounting. DEBS provides various administrative and other services to Duke
7 Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated companies
8 of Duke Energy Corporation (Duke Energy).

9 **Q. ARE YOU THE SAME CYNTHIA S. LEE WHO PREVIOUSLY**
10 **SUBMITTED TESTIMONY IN THESE PROCEEDINGS?**

11 A. Yes, I am.

12 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**
13 **TESTIMONY?**

14 A. My Supplemental Direct Testimony will describe and support several of the
15 Company's objections to certain findings and recommendations contained in the
16 Report by the Staff of the Public Utilities Commission of Ohio (Staff) issued in
17 these proceedings on September 26, 2017 (Staff Report).

II. OBJECTIONS SPONSORED BY WITNESS

18 **Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 4.**

19 A. The Company's Objection Number 4 relates to Staff's recommended adjustments
20 to Leasehold Improvements related to the Fourth and Walnut (Clopay) building
21 and the Holiday Park building. The Clopay and Holiday Park buildings were used

1 and useful as of June 30, 2016, which is the date certain period in this case. In
2 fact, these assets were used and useful for over a year subsequent to the date
3 certain, since the Company did not vacate the buildings until September 2017
4 when the leases expired. Staff's position is contrary to the provisions for the
5 valuation of utility investment as prescribed in R.C. 4909.04. Finally, Staff's
6 position is inconsistent in that Staff ignores plant additions after the date certain
7 that were known and measurable at the time of the filing, but are not included in
8 the adjustments proposed.

9 The Company also objects to the amount of accumulated depreciation that
10 Staff has adjusted for due to the retirement of the St. Clair substation. The reserve
11 adjustment should be the same amount as the original cost (\$852,781), as
12 prescribed in Electric Plant Instruction No. 10, Additions and Retirements of
13 Electric Plant. In accordance with this instruction, when an asset is retired, the
14 entry is to debit FERC Account 108, Accumulated Reserve, and credit FERC
15 account 101, Electric Plant in Service, for the original cost of the asset.

16 **Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 5.**

17 A. The Company's Objection Number 5 relates to the Staff's recommendation with
18 regard to the capitalization of incentive pay. Duke Energy Ohio objects to Staff's
19 recommendation that "starting at the date certain in this case of June 30, 2016 and
20 going forward, the Company follow the O&M bonus pay expense accounting for
21 all capitalized bonus pay." First, Staff's recommendation is perplexing as it is
22 alluding to an unknown policy when it refers to "bonus pay expense accounting."
23 Duke Energy Ohio's capitalization policy, which has been audited by Staff in

1 numerous regulatory filings, includes the FERC CFR Plant Instruction No. 3,
2 which provides guidance for the components appropriately recorded in
3 construction cost, including labor and related labor expenses (account 107,
4 Construction Work in Progress, and subsequently reclassified to Electric Plant in
5 Service when the asset is placed in service, account 101). Duke Energy Ohio's
6 capitalization policy goes further to state that "full overhead costs (direct and
7 indirect) should be capitalized when construction is a continuous activity. In
8 either situation, bonuses paid to employees should be included in their total
9 compensation for allocating payroll-related costs to the project; bonuses should
10 not be allocated in their entirety directly to overhead." Second, to the extent Staff
11 is recommending that the Company invoke Staff's proposal with respect to
12 incentive pay in test year operation and maintenance (O&M) expense and/or
13 prospectively, the Company would oppose any changes to its capitalization
14 policy, which has already been reviewed and approved by the Commission.

15 Finally, it is impracticable to retroactively invoke any changes to the
16 policy back to June 30, 2016, as it is unduly burdensome and in conflict with the
17 Company's policy to expense these amounts as they are directly related to the
18 construction of assets on Duke Energy Ohio's books. Company witness Renee
19 Metzler will further expand upon why bonus pay is appropriately included in
20 Company compensation packages.

III. CONCLUSION

1 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL DIRECT**
2 **TESTIMONY?**

3 **A. Yes.**

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Commission of Ohio Docketing Information System on

6/6/2018 3:22:32 PM

in

Case No(s). 17-0032-EL-AIR, 17-0033-EL-ATA, 17-0034-EL-AAM, 17-0872-EL-RDR, 17-0873-EL-ATA, 1

Summary: Testimony Supplemental Direct Testimony of Cynthia S. Lee Supporting Objections to Staff's Report on behalf of Duke Energy Ohio, Inc. electronically filed by Mrs. Adele M. Frisch on behalf of Duke Energy Ohio, Inc. and D'Ascenzo, Rocco O and Kingery, Jeanne W and Watts, Elizabeth H