DUKE ENERGY OHIO EXHIBIT_____

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

PUBLIC VERSION

SUPPLEMENTAL DIRECT TESTIMONY OF

WILLIAM DON WATHEN JR.

SUPPORTING OBJECTIONS TO STAFF'S REPORT

ON BEHALF OF

DUKE ENERGY OHIO, INC.

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

June 6, 2018

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Don Wathen Jr., and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

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

A. I am employed by Duke Energy Business Services LLC (DEBS), as Director of Rates and Regulatory Strategy for Ohio and Kentucky. DEBS provides various administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. ARE YOU THE SAME WILLIAM DON WATHEN JR. WHO PREVIOUSLY SUBMITTED TESTIMONY IN THESE PROCEEDINGS?

A. Yes, I am.

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

A. My Supplemental Direct Testimony adopts the Direct Testimony of Company witness Peggy A. Laub, who has retired from the Company. My testimony also will describe and support several of the Company's objections to certain findings and recommendations contained in the Report by the Staff of the Public Utilities Commission of Ohio (Staff) issued in these proceedings on September 26, 2017 (Staff Report). The Company filed its Objections to the Staff Report of Investigation and Summary of Major Issues on October, 26, 2017.

II. ADOPTION OF TESTIMONY

Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF PEGGY A. LAUB FILED IN THE COMPANY'S ELECTRIC DISTRIBUTION RATE CASE?

A. Yes.

Q. DO YOU HEREBY ADOPT THAT TESTIMONY AS YOUR OWN?

A. Yes.

Q. PLEASE EXPLAIN WHY YOU ARE ADOPTING MS. LAUB's TESIMONY.

A. As I previously described, Ms. Laub retired from the Company in late 2017. Prior to her retirement, Ms. Laub was a direct employee of mine and therefore, I am very familiar with her work. I have reviewed her testimony and the schedules and data she sponsored in this proceeding and I adopt it as my own.

III. OBJECTIONS SPONSORED BY WITNESS

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 1.

A. The Company's first objection to the Staff Report is that the revenue requirement proposed therein understates the Company's actual cost of service, and the relief it is entitled. The Company fully supported its case for an increase in revenue in its Application with expert testimony and supporting schedules. As will be discussed further in my Supplemental Direct Testimony and in the Supplemental Direct Testimony and Direct Testimony of other Company witnesses, Duke Energy Ohio is willing to accept certain adjustments proposed by Staff; however, Staff's overall revenue requirement calculation significantly understates the costs incurred by the Company to continue providing safe and reliable electric distribution service to its customers.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 2.

A. Duke Energy Ohio objects to Staff's recommendation to the Public Utilities Commission of Ohio (Commission) to exclude the impact on the Company's test year expenses associated with incremental fees assessed by the Commission and the Ohio Consumers' Counsel (OCC).

Q. DID STAFF PROVIDE AN EXPLANATION FOR EXCLUDING THESE FEES?

A. In its Report, Staff stated that "[t]here is no direct, causal relationship between the revenues collected by a company and the amount the company is assessed."

Q. IS STAFF CORRECT THAT THERE IS NO DIRECT, CAUSAL RELATIONSHIP BETWEEN REVENUE AND THE ASSESSMENTS FROM THE COMMISSION AND THE OCC?

A. No. The plain language of the statutes authorizing these assessments, R.C. 4905.10 and R.C. 4911.18, states that both fees are based on a utility's proportion of total receipts (revenue). In my role in the Company, I receive invoices for both assessments and am very well aware of the basis for calculating the Company's share of the assessments. Staff's argument that there is no 'direct, causal relationship' between the utility's revenue and the amount of the assessment is simply wrong. All things being equal, incremental revenue for a utility subject to these fees necessarily means that it is charged a greater share for both assessments. Contrary to Staff's logic, there is indeed a "direct, causal relationship" between revenue and the amount of the assessment.

Although it is true that the revenue for all other utilities cannot be known with certainty and the total budget for both the Commission and the OCC cannot be known with certainty, it is nonsensical to ignore the one known fact, *i.e.*, higher retail revenue for Duke Energy Ohio will mean higher assessments from both the Commission and the OCC. The fact that other variables are unknown or unknowable is no reason to disallow this expense. The only known fact is that higher revenue increases the share of assessments charged to Duke Energy Ohio.

Q. **IS THERE ANY INDICATION THAT STAFF HAS CHANGED ITS VIEW ON THE DIRECT CAUSAL RELATIONSHIP BETWEEN REVENUE AND THE MAINTENANCE FEES CHARGED TO UTILITIES?**

A. Yes. In its Staff Report filed on March 12, 2018, in the Dayton Power & Light (DP&L) rate case (Case No. 15-1830-EL-AIR), the Staff suggested that the Commission approve a rider to separately recover the "SSO generation revenue percentage of the PUCO/OCC assessment expense."[1] There would be no reason to create a rider for an expense that was independent of revenue; so, the Staff's recommendation in the DP&L rate case to begin tracking the PUCO/OCC assessments explicitly acknowledges the role revenue plays in determining the amount of these assessments.

Q. **WHAT IS YOUR RECOMMENDATION REGARDING THE MAINTENANCE FEES?**

A. The Commission should reject Staff's proposal to exclude the Commission and OCC maintenance fees from the gross revenue conversion factor. Staff's proposal

[1] Staff Report in Case No. 15-1830-EL-1830, *et al.*, page 28, filed on March 12, 2018.

ignores the plain language of the Ohio Revised Code and contradicts positions it has taken in other cases insofar as the concept of assigning these charges on a "proportional" basis necessarily means that there is a "direct and causal" relationship between revenue and the magnitude of these fees charged to any utility subject to these fees.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 3.

A. Duke Energy Ohio objects to Staff's exclusion of materials and supplies from the Company's rate base valuation. Staff offered no assessment of the reasonableness or prudency of the amounts reported by the Company for materials and supplies as of June 30, 2016. Instead, Staff dismissed the Company's investment in materials and supplies because Staff inappropriately tied any investment in materials and supplies to a utility's cash working capital needs determined through a lead/lag study. Denying the Company's investors a return on their significant investment in materials and supplies simply because the Company did not perform a lead/lag study is contrary to the plain language of R.C. 4909.15(A)(1) and the Commission's own rules, O.A.C. 4901-7-01, Appendix A. In fact, there is no requirement that a lead/lag study is necessary for materials and supplies. As discussed below, Staff supported its position solely on the notion that the Commission has the "discretion" to determine the components of working capital and cash working capital.

Q. DOES THE PLAIN LANGUAGE OF OHIO'S RATEMAKING STATUTES OR THE COMMISSION'S RULES SUPPORT A POSITION THAT INCLUSION OF MATERIALS AND SUPPLIES IS CONDITIONED UPON A UTILITY INCLUDING A LEAD/LAG STUDY FOR CASH WORKING CAPITAL?

A. Not at all. Although I am not a lawyer, I have more than twenty-five years of extensive experience in utility ratemaking and in my capacity as Director of Rates and Regulatory Strategy for Duke Energy Ohio. I am familiar with the ratemaking statutes and rules in Ohio and other jurisdictions, and am experienced in applying such rules and policies to the Company's ratemaking. It is very clear what the utility is allowed to include in rate base for materials and supplies and for cash working capital. R.C. 4909.15(A)(1) provides, in relevant part, as follows:

> (1) The valuation as of the date certain of the property of the public utility used and useful or, with respect to a natural gas company, projected to be used and useful as of the date certain, in rendering the public utility service for which rates are to be fixed and determined. The valuation so determined shall be the total value as set forth in division (C)(8) of section 4909.05 of the Revised Code, and a reasonable allowance for *materials and supplies and cash working capital* as determined by the commission. (*Emphasis added).*

Contrary to Staff's position that there is some inexorable nexus between a Company's investment in materials and supplies and its investment in cash working capital, necessitating a lead/lag study, the Revised Code is unambiguous. These are two <u>different</u> rate base items. Nothing in that statute suggests that a utility should be deprived of a return on its investment in materials and supplies if it does not perform a lead/lag study and asks for no return on *cash* working capital. The statute plainly states that the valuation of the utility's investment for rate base purposes "shall" include a "reasonable allowance" for (1) materials and supplies *and* (2) cash working capital.

If the statute were not clear enough, the Commission's own rules, and specifically O.A.C. 4901-7-01, Appendix A, further support the position that materials and supplies is a rate base item that is distinct from cash working capital.

> (E) Working Capital
>
> (1) Allowance for working capital (Schedule B-5)
>
> Provide a summary schedule showing the calculation of working capital included in the proposed rate base. Show each individual component and describe the methodology used to calculate each component. An allowance for cash working capital shall be supported by a recent lead-lag study. The recent lead-lag study must accurately represent conditions during the test period. A lead lag study is defined as a procedure for determining the weighted average of the days for which investors or customers supply cash working capital to operate the utility.
>
> (2) Miscellaneous working capital items (Schedule B-5.1) Provide, the test year average (thirteen months), and the date certain balances of items specified on Schedule B-5.1, if applicable, and reflected in the computation shown on Schedule B-5. Allocate the average and date certain balances to the jurisdiction using appropriate allocation factors. The information to be provided on this schedule for each item may be in a summary form, provided that the detail and calculation be included in working papers. These working papers shall be keyed to the appropriate item on the schedule and made available to the commission staff as specified in the "General Instructions," paragraphs (A)(8), and (C)(7) in Chapter II of this appendix.

Paragraph (E)(1) confirms that a request for a *cash* working capital allowance must be supported by a lead/lag study. The Company acknowledges this rule; it is not seeking *cash working capital* and it did not develop or file a lead/lag study. It is equally clear that any determination regarding an allowance for cash working capital is independent of determinations regarding materials and supplies. There is no language that requires a lead/lag study for an allowance for materials and supplies. If the legislature had intended for an allowance for materials and supplies to be conditioned upon a utility filing a lead/lag study, it would have said as much in the statute. Similarly, if the Commission had interpreted the statute to create such a limitation, it could just as easily have approved language in O.A.C. 4901-7-1 to do that. Neither the rules nor the statutes expressly exclude materials and supplies from the Company's rate base valuation in the absence of a lead/lag study.

Q. DOES THE POSSIBILITY THAT THE CASH WORKING CAPITAL COULD BE NEGATIVE HAVE ANY BEARING ON THE AMOUNT OF MATERIALS AND SUPPLIES THAT SHOULD BE REFLECTED IN THE COMPANY'S RATE BASE?

A. No. Again, the Commission's rules and the Ohio Revised Code are unambiguous. A lead/lag study is only required if the Company is asking for an "allowance" for *cash working capital*. The only logical inference that can be drawn from this term is that it would be a positive number. It is equally inconceivable that a Company would "ask" for a negative allowance for a discrete rate base item, such as cash working capital. The term "allowance" implies that it is a positive number. In either event, a lead/lag study is only required for cash working capital and not for materials and supplies.

Q. DOES THE COMMISSION HAVE THE DISCRETION TO ALLOW A UTILITY TO INCLUDE MATERIALS AND SUPPLIERS IN RATE BASE, EVEN IF A LEAD/LAG STUDY IS NOT PERFORMED?

A. For all the reasons discussed above, the Company believes that it does. Staff has, in the past, relied on its belief that the Commission does have such discretion as the basis for its recommendations to exclude materials and supplies from rate base. As recently as the Company's last base rate case, Staff defended its position by noting that the "emphasis" of R.C. 4909.15(A)(1) should be placed on the phrase "as determined by the Commission."[2] Staff's argument is that the Commission has the discretion to include or exclude materials and supplies in rate base, whether or not a lead/lag study is included. Consistent therewith, given that the Commission does indeed have that discretion, the Company is asking the Commission to exercise that discretion and recognize that the Company's June 30, 2016, rate base included $29,819,070 of investment in materials and supplies needed to support the safe and reliable operation of its distribution system. The dollars invested in materials and supplies are no different than dollars invested in plant, as either investment warrants the opportunity to earn a fair and reasonable return.

Q. ARE YOU AWARE OF ANY OTHER EVIDENCE THAT THE COMMISSION HAS SUCH DISCRETION?

A. Yes. As recently as November 22, 2017, Staff filed its Staff Report in another

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[2] *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates*, Case No. 12-1682-EL-AIR, *et al.*, Testimony of Kerry Adkins, pg. 3 (March 20, 2013).

General rate case, Ohio Gas Co. (Ohio Gas), Case No. 17-1139, *et al.*[3] In that filing, Staff addressed the working capital and cash working capital to be included in rate base for Ohio Gas. According to Staff, it "calculated the allowance for cash working capital based on the formula method approach, <u>which has been approved by the Commission in previous cases</u>," (emphasis added). It is important to note that this formula method is NOT a lead-lag study but, rather a common regulatory method that assumes the cash working capital requirement is equal to forty-five days' worth of O&M expenses. So, for Ohio Gas, Staff recommended a cash working capital component of rate base even though that utility did not file a lead-lag study. According to Staff's Schedule B-5, from the Ohio Gas Case, attached hereto as Supplemental Attachment WDW-4, Staff's proposed rate base included approximately $487,000 in materials and supplies for Ohio Gas[4] even though Ohio Gas did not perform a lead-lag study.

Q. IS STAFF'S RECOMMENDATION FOR OHIO GAS CONSISTENT WITH ITS RECOMMENDATION FOR DUKE ENERGY OHIO?

A. No. Staff's recommendation for working capital in the Ohio Gas rate case stands in stark and inexplicable contrast to its recommendation in Duke Energy Ohio's case. If Staff believed the formula method was appropriate to estimate the cash working capital for any utility, it should have also done so for Duke Energy Ohio. Staff supports its position for a working capital adjustment for Ohio Gas, in the absence of a utility-submitted lead lag study, by recognizing that this Commission

[3] *In the Matter of the Application of Ohio Gas Company for an Increase in Gas Distribution Rates*, Case No. 17-1139-GA-AIR, *et al.*, Staff Report, pg. 9 (November 27, 2017).
[4] *In the Matter of the Application of Ohio Gas Company for an Increase in Gas Distribution Rates*, Case No. 17-1139-GA-AIR, *et al.*, Staff Report, pg. 52 (November 27, 2017).

"has approved the formula method in previous cases."[5] Yet Staff chose to not follow that precedent for Duke Energy Ohio. In fact, Staff goes beyond simply not providing a cash working capital allowance for Duke Energy Ohio and eliminates all working capital, including materials and supplies, from rate base apparently as a penalty for not providing a lead-lag study. So, for Ohio Gas, Staff allows a significant rate base addition in the form of cash working capital and makes no recommendation to exclude other working capital even though, just like Duke Energy Ohio, Ohio Gas did NOT file a lead-lag study.

Q. DID OHIO GAS AND DUKE ENERGY OHIO FILE THEIR RATE CASES UNDER THE SAME PROVISIONS OF THE OHIO REVISED CODE (R.C.) AS DUKE ENERGY OHIO?

A. Yes. Ohio Gas stated in its Application that it was filing its rate case under R.C. 4909.18.[6] Duke Energy Ohio's Application in these proceedings was also made under the authority of R.C. 4909.18.

Q. IS THERE ANY REASON WHY STAFF OR THE COMMISSION SHOULD INTERPRET OR APPLY THE LAW UNDER R.C. 4909.18 IN A DIFFERENT MANNER FOR DIFFERENT UTILITIES?

A. Nothing that I am aware of. I have been involved in utility regulation for many years and have found that regulators do best when they apply rules consistently among the utilities they regulate. Staff's inconsistency in applying the rules for establishing rate base is confounding, unfair, and creates unneeded confusion and uncertainty in the rate case process. Staff acknowledges the importance of

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[5] Id., Pg. 9.

[6] *In the Matter of the Application of Ohio Gas Company for an Increase in Gas Distribution Rates*, Case No. 17-1139-GA-AIR, *et al.*, Application, paragraphs. 2 (May 31, 2017).

working capital and cash working capital and does not seem bothered by the lack of a lead-lag study for some utilities. Staff and this Commission should apply the same standard to all utilities that are governed by the same laws and regulations.

Q. IS DUKE ENERGY OHIO ASKING THAT THE COMMISSION INCLUDE A CASH WORKING CAPITAL COMPONENT IN ITS RATE BASE?

A. No. Duke Energy Ohio is still asking for $0 cash working capital; however, there should be no 'penalty' to Duke Energy Ohio for not filing a lead-lag study if other utilities, subject to exactly the same laws and regulations, are not treated exactly the same way. Simply put it is unfair.

Q. WHAT IS THE COMPANY'S RECOMMENDATION REGARDING MATERIALS AND SUPPLIES?

A. The Company recommends that the Commission ignore Staff's suggestion to exclude materials and supplies from its rate base valuation. Following prior advice from Staff, the Commission does have the "discretion" to recognize that materials and supplies represent a known and measurable investment made by the Company and, therefore, should be included in rate base.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 6.

A. Duke Energy Ohio objects to Staff's adjustment for interest synchronization. In reviewing the electronic version of Staff's revenue requirement model, it was apparent that the worksheet supporting Staff's interest synchronization adjustment (Staff's WPC-3.7a) included a clerical error. The interest synchronization adjustment starts with multiplying the weighted-average cost of debt in Schedule

D-1 by the rate base from Schedule B-1. Staff made a number of adjustments to the Company's rate base resulting in a rate base amount lower than the rate base proposed by the Company. Staff's calculation mistakenly applied the weighted-average cost of debt to the Company's proposed rate base rather than Staff's proposed rate base. Correcting this clerical error increases the Company's revenue requirement by approximately $505,000.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 7.

A. Duke Energy Ohio objects to Staff's proposal for conducting and filing a depreciation study within five years.

Q. WHY DOES THE COMPANY OBJECT TO THE RECOMMENDATION FOR FILING A NEW DEPRECIATION STUDY?

A. The Company is objecting only to the timing of this requirement. Assuming the Commission approves continuation of Rider DCI and accepts Staff's recommendation to require the Company to file a base distribution rate case by May 31, 2023, Staff's requirement for the timing of a new depreciation study could mean that the Company would have to conduct and file two depreciation studies in the course of six years.

A simple, logical, and acceptable clarification would be that the Company conduct and file a depreciation study by the earlier of May 31, 2023, or the date of its next base rate case. This would allow the Company to avoid the potential burden of filing two depreciation studies within six years.

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NUMBER 8.

A. The Company objects to Staff's proposed adjustments to test year labor expense.

Staff's adjustment is based upon unreasonable assumptions, is inconsistent in its own methodology, contains errors, and completely ignores the Company's "known and measureable labor expense" for the test year. Instead, Staff sought to create its own estimate of test year labor expenses that is fraught with numerous mistakes, mixing actual data for labor allocated from the service company with a confusing and misguided methodology to develop an estimate of labor for all other labor charged to Duke Energy Ohio and inexplicably ignores actual changes in test labor costs that were known and measurable long before the Staff Report was filed.

Q. DESCRIBE STAFF'S METHODOLOGY FOR CALCULATING LABOR COSTS ALLOCATED TO DUKE ENERGY OHIO FROM DUKE ENERGY BUSINESS SERVICES?

A. Staff relied on actual data for the entire test year provided by Company in response to Staff-DR-149. Staff adjusted the total amount to exclude costs for Demonstration & Selling Expense (Account 912), costs related to the Piedmont merger, and costs related to energy efficiency. As it relates to the Staff's estimate of labor costs charged to Duke Energy Ohio from DEBS, the Company has no issue other than Staff's failure to annualize wage increases that occurred during the test year, as I will discuss below.

Q. DESCRIBE THE REMAINDER OF STAFF'S LABOR ADJUSTMENTS.

A. Although the Company provided a reasonable estimate of labor costs charged from its affiliate companies for its test year expense and ultimately updated those costs to reflect actual costs for the entire twelvemonths of the test year, Staff ignored those figures and unnecessarily created a formula to estimate labor costs other than labor costs charged from DEBS. First, there was no reason to estimate such costs for the test year as "actual" data for the test year was provided to the Staff, which Staff apparently found reliable enough to rely on for the DEBS labor costs. Second, the formula Staff used for the non-DEBS labor costs is fraught with multiple errors that render its calculation nonsensical and meaningless.

Staff provided the Company with workpapers to support its labor adjustments in its version of Schedule C-3.14. I have attached Staff's workpapers related to Schedule C-3.14 to my testimony as Public Supplemental Attachment WDW-1. The Confidential Supplemental Attachment WDW-1 is being filed under the seal of a Motion for Protective and will be provided to all parties of record upon the execution of a Confidentiality Agreement. To estimate labor costs charged to Duke Energy Ohio originating from Duke Energy Ohio and all of its affiliates except for DEBS, Staff attempted to develop an estimate of headcount by position, hours charged to Duke Energy Ohio, and an hourly rate. For its estimates of Duke Energy Ohio labor, it created separate schedules for exempt employees and union employees, as shown in Staff's Schedules WPC-3.14c, WPC-3.14d, and WPC-3.14e. Staff's footnotes suggest that it relied on data provided by the Company in its response to Staff-DR-54 to develop the headcount information and the average hourly wage rate.

In its response to Staff-DR-54, the Company provided labor cost information for each year beginning with 2012 and through the end of the test period. In the spreadsheets provided by the Company, the labor costs were exclusively for costs that were charged to operation and maintenance (O&M) expense, as evidenced by the fact that the Company's response included only those costs charged to FERC O&M accounts (Accounts 581-935).

To calculate hourly wage rates, Staff used the information provided by the Company for the years 2013, 2014, and 2015, with labor costs by employee and by hours worked to calculate an average hourly rate.

In its calculations, shown on WPC-3.14c, WPC-3.14d, and WPC-3.14e, Staff took the calculated average hourly wage rate and multiplied that average by an estimate of the hours. The sum of all of these calculations was then multiplied by a factor Staff incorrectly assumed was needed to allocate those labor costs between capitalized labor and labor that would be expensed.

Even if the Company agreed with any of Staff's methodology up to this point, the last step of allocating between capital and O&M is redundant. The data from Staff-DR-54, which Staff relied on to compute its estimated hourly wage rates, was already exclusively O&M-related. In other words, Staff's estimate of hourly wages could only have represented the average hourly wages that would be expensed, not capitalized.

By applying a factor in WPC-3.14c, WPC-3.14d, and WPC-3.14e to allocate between capital and O&M, Staff significantly understated the magnitude of labor cost that its formula should have produced. Combined, Staff's methodology, if corrected, would suggest that the Company's labor costs for the test year should be increased by $12,536,183, which is the difference between the sum of "Total Direct Labor Dollars" (that are already 100 percent O&M) and

Staff's calculated "Electric Distribution O&M Direct Labor Expense," in the table below, which double allocates between O&M and capital.

Staff's Estimate of Labor Expense (For Charges from Duke Energy Ohio)			
	Staff Workpaper Source		
	Exempt & Non-Exempt WPC-3.14c	IBEW WPC-3.14d	UWUA/IUU WPC-3.14e
Total Direct Labor Dollars	$19,377,596	$4,622,842	$642,730
Electric Distr O&M Percent[a]	*56.34%*	*56.34%*	*11.77%*
Electric Distr O&M Direct Labor Expense	$10,917,338	$2,604,509	$75,649
[a] Staff's allocation factor should have been 100% since all of the source information it relied on was already exclusively O&M.			

Q. IS THERE A SIMILAR PROBLEM WITH STAFF'S ESTIMATE OF LABOR COSTS CHARGED TO DUKE ENERGY OHIO FROM AFFILIATES (OTHER THAN DEBS)?

A. Yes. Again relying on information provided by the Company in response to Staff-DR-54, Staff made the same mistake of assuming the costs provided in that data request had not already been split between capital and expense. All of the FERC Accounts shown in the response to Staff-DR-54 were O&M Accounts; therefore, all of the costs Staff relied on to estimate average hourly wages were already only O&M. Staff's step to further allocate its estimated labor costs shown in WPC-3.14f, WPC-3.14g, and WPC-3.14h significantly understated the amount of labor attributable to these entities. Correcting those errors would result in Staff's methodology showing an increase of $635,995 in the revenue requirement from its current estimate, which is the difference between the "Total Direct Labor Dollars" (that are already 100 percent O&M) and Staff's "Electric Distribution O&M Direct Labor Expense," in the table below, which double again double allocates between O&M and capital.

Staff's Estimate of Labor Expense (Excluding Charges from Duke Energy Ohio and DEBS)			
	Staff Workpaper Source		
	Exempt WPC-3.14f	Non-Exempt – Other Labor WPC-3.14g	Union – Other Labor WPC-3.14h
Total Direct Labor Dollars	$642,730	$62,056	$63,921
Electric Distr O&M Percent[(a)]	*11.77%*	*33.92%*	*56.34%*
Electric Distr O&M Direct Labor Expense	$75,649	$21,049	$36,013
Staff's allocation factor should have been 100% since all of the source information it relied on was already exclusively O&M.			

Q. IF STAFF'S CALCULATIONS PROVIDED IN ITS WORKPAPERS WPC-3.14c THROUGH WPC-3.14h WERE CORRECTED, WHAT WOULD BE THE ESTIMATE OF TOTAL LABOR EXPENSE USING STAFF'S METHODOLOGY?

A. Again, the amounts calculated by Staff as "Total Direct Labor Dollars," in WPC-3.14c through WPC-3.14h, are already 100% O&M; so, adding the "Total Direct Labor Dollars" in each of the six workpapers equals $25,411,875. To that number, add Staff's estimate of DEBS labor, $34,205,832 (Staff's WPC-3.14b1), and the "total" labor costs produced by Staff's methodology is $59,617,707, before allocating between transmission and distribution. Allocating that amount to distribution, suggests that if Staff's workpapers are corrected, the Company's test year labor expense would be $56,536,068 ($59,617,707 * 94.831%).

Q. ARE YOU RECOMMENDING THAT THE COMMISSION USE STAFF'S METHODOLOGY, CORRECTED TO OMIT THE REDUNDANT ALLOCATION BETWEEN O&M AND CAPITAL?

A. No. Staff's methodology, if corrected, produces a nonsensical result suggesting that the Company's test year labor expense is significantly and unreasonably higher than the Company's proposed test year amount or its actual labor expense for the test year.

Q. IS THERE A REASONABLE ALTERNATIVE TO ESTIMATE THE COMPANY'S TEST YEAR LABOR EXPENSE?

A. Inasmuch as the test year has already ended, the Company recommends that the Commission simply use the most actual data provided for labor costs from all sources incurred during the test year (Staff-DR-116). Notably, Staff did not raise any concerns about the allocation methodologies or processes underlying the Company's assignment of labor costs and deemed the actual labor charged from DEBS to be a reasonable level to include in the Company's test year.

Q. DID STAFF MAKE ANY FINDING THAT THE COMPANY'S ALLOCATIONS WERE UNREASONABLE?

A. No. Staff made no finding that the Company's data for service company labor costs as filed in these proceedings was unreasonable or inaccurate. To the contrary, Staff noted in the Staff Report that it agreed with the various allocations used in these proceedings. There is no reason to doubt that Staff thoroughly examined these allocations and, as reflected in the Staff Report, there were no concerns. It is thus inexplicable that Staff would completely ignore the allocations as they pertain to test year labor expense from affiliated companies. The test year data submitted by the Company in these proceedings is reasonable and consistent with the test year requirement in R.C. 4909.15 and should be used for calculating the Company's service company labor expense.

Q. WERE THERE OTHER ERRORS YOU IDENFITIED IN STAFF'S WORKPAPERS, WPC-3.14c THROUGH WPC-3.14h?

A. Yes. Staff apparently based its estimate of average hourly wages on historical years, 2013, 2014, and 2015. It is not apparent that Staff's methodology recognized any increases in those wages to reflect increases that would have occurred between that time to the test year, therefore, the wage rates, even if used properly, appear to underestimate the current wage rates.

Q. WITH ALL THE CORRECTIONS TO THE STAFF REPORT, WHAT DOES THE COMPANY RECOMMEND THE COMMISSION USE FOR THE TEST YEAR LABOR EXPENSE?

A. The Company maintains that the amount in its original application is reasonable; however, if the Commission chooses to modify the test year amount, it should ignore the Staff's recommendation and simply use the actual labor costs adjusted for known wage increases. In response to Staff-DR-116, the Company provided its actual test year labor expense. In its filing and in exchanges with Staff, the Company agreed to remove costs related to the Piedmont merger, costs charged to FERC Account 912, and labor related to energy efficiency that should be excluded from base distribution rates ($47,738). Netting those adjustments against actual total labor costs charged to Duke Energy Ohio for the twelve months ending March 31, 2017, of $51,606,102, results in a labor expense of $49,575,083. Allocating that amount between distribution and transmission, using the allocation factor in the case, results in a total distribution labor expense of

$47,012,547.

The final adjustment that should be made for the test year labor expense is to annualize the wage increases that occurred beginning in March 2017, the last month of the test year. Because the increase happened during the test year, it is a known and measurable change that should be reflected in the Company's test year labor expense. The adjustment to annualize labor for the March 2017 wage increase is shown in the table below.

Total Labor (Unadjusted)	$51,606,102
Less: Dem & Selling Exp (Account 912) [7]	1,863,754
Less: Piedmont Costs to Achieve	119,413
Less: EE Labor	47,738
Adjusted Labor	$49,575,083
Annualize March 2017 Wage Increase (@ 3%)	1,363,318
Annualized Test Year Labor Costs	50,938,515
Allocation to Distribution	94.831%
Corrected Test Year Labor Expense	$48,305,503
Staff's Proposed Labor (Staff Report, WPC-3.14a1)	$45,646,784
Increase Over Staff's Proposed Test Year Labor	$2,658,719

This figure is lower than the amount in the Company's Application ($50,560,353 as shown in WPC-3.14a of the Company's Application) but higher than Staff's estimate of $45,646,784, as shown in Staff's WPC-3.14a1, line 11. Therefore, the Company recommends that Staff's estimate of labor expense be increased by $2,658,719, as Staff's proposed labor expense results in the Company being unable to recover its cost of rendering utility service as provided

[7] Staff's workpapers note that it removed $899,572 for Account 912; however, this is only the amount allocated for DEBS. The amount shown is the Account 912 allocated from all affiliates and directly charged to Duke Energy Ohio.

in R.C. 4909.15(A)(4).

It is also worth noting that the labor expense proposed for the April 1, 2016, through March 31, 2017, test year is significantly less (~10 percent less) than the amount included in the existing base rates established in Case No. 12-1682-EL-AIR.

Q. STAFF'S PROPOSED TEST YEAR LABOR EXPENSE INCLUDES LABOR ATTRIBUTABLE TO ENERGY EFFICIENCY. DID YOU INCLUDE ANY OF THIS LABOR IN YOUR ESTIMATES?

A. No. As I discuss below, the Company objects to including labor associated with energy efficiency into base distribution rates; therefore, I am not recommending inclusion of any of this labor in the overall estimate of the Company's labor and labor-related cost.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 9.

A. Duke Energy Ohio objects to Staff's proposal to eliminate incentive compensation. Company witness Renee Metzler provides a discussion of the importance of incentive pay in Duke Energy's overall compensation philosophy and why the Commission should not disallow any of the Company's incentive pay. However, if the Commission decides to accept Staff's recommendation that incentive pay related to the Company's earnings be eliminated from the test year revenue requirement, it is still necessary to correct the errors in Staff's estimate. Staff's adjustments go too far, because they eliminate incentives that are not tied to achieving the Company's financial goals, and because Staff imputes incorrect plans and weighting metrics for categories of employees.

Q. WILL YOU DESCRIBE THE ERRORS IN STAFF'S CALCULATION OF INCENTIVE COST IT IS RECOMMENDING BE DISALLOWED?

A. Staff's Schedule C-3.14c and its supporting workpaper, C-3.14a3, indicates that Staff relied on the Company's responses to Staff-DR-11, Staff-DR-112, Staff-DR-115, Staff-DR-120, and Staff-DR-129 for its calculations. In its response to Staff-DR-11, the Company provided a number of documents describing its various short-term, long-term, and executive incentive plans. In that response, the Company provided plan documents that clearly stated the short-term incentive (STI) for most non-union employees is comprised of two components for determining eligibility for short-term incentive payout: (1) the achievement of corporate goals; and (2) achievement of team goals. Each of those two components account for 50 percent of the overall employees' total incentive payout potential. The portion of the STI payout tied to achieving defined corporate goals is further divided into three separate categories with their own assigned weighting as follows: (1) earnings per share (30 percent); (2) operational excellence (15 percent); and (3) customer satisfaction (5 percent). Thus, for the vast majority of employees, their STI payout opportunity related to corporate earnings is only 30 percent of the employee's total incentive payout opportunity. Company witness Metzler offers additional details and background on the Company's overall compensation philosophy, including its various short and long-term incentive plans.

In its work paper, WPC-3.14a3, Staff incorrectly assumed that 50 percent of the total STI payout is attributable to achieving earnings-related metrics. Assuming Staff only intended to eliminate the portion of STI payouts related to the achievement of the Company's financial goals, Staff's use of a 50 percent payout reduction thus eliminated too much of the Company's test year compensation expense, and far more than the actual portion of the incentive payout opportunity tied to achieving the Company's financial goals.

Staff's workpapers also oversimplify the pool of employees participating in the STI plan and imply that all of the incentives are either for Duke Energy Corporation's highest ranking executives or union employees, which is simply not the case. Because of this misconception, Staff apparently assumed the same, albeit incorrect, STI formula applied to all employees when, in fact, the weighting for achievement of financial goals is different for each employee category. Staff's adjustment is incorrect because only the highest ranking Duke Energy Corporation executive leadership positions have a 50 percent weighting in the STI tied to the Company's achievement of financial goals. The vast majority of employees, including non-executive leadership have a far lower 30 percent weighting in the STI formula tied to the Company's financial goals. The incentive opportunities of union employees further differ based upon their applicable collective bargaining agreement and may or may not include an earnings-related component. Staff's reduction does not accurately reflect the actual incentive weightings tied to the achievement of financial goals under Duke Energy Corporation's actual STI plans. Company witness Metzler provides a more extensive description of the formula but, for purposes of addressing the calculation, the correct weighting should be used if the Commission disallows incentive compensation tied to the achievement of financial goals.

The second error in Staff's analysis is its apparent confusion over the formula for long-term incentives (LTI). In lines (7) and (8) of Staff's WPC-3.14a3, Staff described two LTI plans. What Staff called "Restricted Stock Awards" in line (7), however, is a component of overall compensation that is independent of achieving any Company financial goals. I am familiar with this plan myself as it is part of my own total compensation. The Restricted Stock Unit Plan provides restricted stock units (RSUs) as part of the eligible employees' total compensation, with award levels calculated based exclusively on one's base salary multiplied by a fixed target percentage for his or her position, which is determined based on market data. The employee will be provided this compensation in the form of RSUs, which vest over a three-year period, with any vested RSUs being paid in the form of shares of Duke Energy Corporation common stock. The Company's financial performance does not factor into the amount of the payment. As Ms. Metzler testifies, the RSU Plan is part of a competitive compensation package that serves to attract and retain high-caliber leaders, and is an entirely different LTI plan from what is used for Duke Energy Corporation's highest ranking executives.

As I previously indicated, participation in the Executive LTI is limited to the Company's highest-ranking executives, accounting for a very small portion of the total number of Duke Energy employees. The Executive LTI Plan has a portion of the award (30%) granted in RSUs, the other 70% granted in performance shares, which, for 2017, incorporate three performance measures based on TSR (25%), earnings per share (EPS) (50%) and safety (25%).

In Line 8 of WPC-3.14a3, Staff purports to exclude incentives related to financial performance paid to "executives" under the Executive LTI Plan. The Company provided Staff with a copy of its Executive LTI plan in its response to Staff-DR-11-001(h). These plans are now also provided as Confidential Attachment RM-3(a)-(c) Ms. Metzler's testimony. The RSU component of the Executive LTI is no different than the RSU component to the non-executives. In neither case is the amount of the payment based in any way, shape, or form on the Company's financial performance.

Exec LTI Components	Weighting
RSUs (non-financial)	30%
Performance Award (financial & non-financial)	70%
Total	**100%**

For the Performance Award portion of the Executive LTI, it is calculated based on financial and financial goals.

Performance Award Portion of Exec LTI	Weighting
Safety (non-financial)	25%
Total Shareholder Return (financial)	25%
Earnings Per Share (financial)	50%
Total	**100%**

As is clearly shown, a substantial portion, almost half, of the Executive LTI payout is based on measures completely unrelated to financial targets or company earnings. Staff's over-simplification or its misunderstanding of RSUs removes a substantial portion of reasonable and eligible employee expense from the Company's test year.

Q. ARE THERE ANY OTHER PROBLEMS WITH THE STAFF'S CALCULATION OF THE INCENTIVE PAY ADJUSTMENT?

A. Yes. First of all, as I discussed above, because the labor for energy efficiency should NOT be included in the distribution base rates, the incentive pay associated with such labor should also NOT be included in distribution base rates. Secondly, Staff's workpapers calculating incentive pay adjustment contains a math error. The math error is inconsequential if the Commission rejects the Staff's proposal to include labor costs and incentive pay for energy efficiency but as I will discuss below, Staff's workpaper, Schedule C-3.14c, does contain an arithmetic error.

Q. ASSUMING THE COMMISSION ACCEPTS STAFF'S PROPSOSAL TO ELIMINATE <u>ONLY</u> INCENTIVE PAY TIED TO THE ACHIEVEMENT OF FINANCIAL GOALS, WHAT WOULD BE THE DIFFERENCE IN STAFF'S ADJUSTMENT?

A. In Supplemental Attachment WDW-2, I have included a copy of the Staff's original schedules and workpapers and a revised version of those schedules and workpapers, reflecting (1) the correct percentages of the STI, the Non-Executive LTI, and the Executive LTI, and (2) the elimination of the incentive pay for energy efficiency.

The first page of Supplemental Attachment WDW-2 is a copy of Staff's Schedule C-3.14c. In this schedule, Staff summarizes its calculations of incentive (bonus) pay it is recommending and proposing an adjustment to the Company's test year expense. Because Staff is recommending that labor and labor-related costs for energy efficiency be included in distribution base rates, it apparently adds this component to the overall test year expense. In line 5 of Schedule C-3.14c, Staff suggests that there is $294,844 already in the Company's test year expenses. But that is not the case. The Company included $0 for energy efficiency labor or labor-related cost in the test year for the reasons I discuss below. Line 5 of the Staff's Schedule C-3.14c should say $0. Making that correction would change Line 8 to be $133,800, and then the figure in Line 9 would be accurate, at least for the numbers shown in this schedule. Again, the energy efficiency portion should be ignored as the labor and labor-related costs for energy efficiency should not be included in base rates.

Focusing on the remaining portion of Staff's Schedule C-3.14c, reference is made to workpaper WPC-3.14a3. The second page of Supplemental Attachment WDW-2 is a reproduction of this Staff workpaper with the portion for energy efficiency excluded. The figures on Line 11 of this workpaper tie to the figures on Lines 1, 4, and 7 of Staff Schedule C-3.14c. On the third page of Supplemental Attachment WDW-2, I recalculate the amounts in Staff's WPC-3.14a3 using the correct percentages for the Company's incentive programs that are tied to the achievement of financial goals.

Assuming the Commission agrees with Staff that incentives related to the achievement of the Company's financial goals should not be allowed and that labor and labor-related costs for energy efficiency should not be included in distribution base rates, correcting Staff's calculation reverses $1,859,567 of its proposed adjustment.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 10.

A. Duke Energy Ohio objects to Staff's proposal to transfer recovery of labor and labor-related expense from the Company's Energy Efficiency and Peak Demand Response Rider (Rider EE/PDR) to base rates. Staff's proposal increases the Company's base distribution revenue requirement to be recovered in base rates and presumably will exclude, in future Rider EE/PDR filings, any labor costs associated with the Company's compliance with Ohio's energy efficiency mandates.

Staff's proposal reverses years of precedent for recovery of costs related to energy efficiency and, if approved, would seem contrary to Ohio laws, including R.C. 4928.65(A)(1), which requires that all customer bills include the "individual customer cost of the utility's compliance with" renewable energy standards, energy efficiency standards, and peak demand response programs; and R.C. 4928.6611, which allows customers to opt out of utilities' portfolio plans.

Q. HAS DUKE ENERGY OHIO HISTORICALLY RECOVERED ITS LABOR COSTS ASSOCIATED WITH ENERGY EFFICIENCY VIA RIDERS?

A. Going back at least to the beginning of deregulation in Ohio, incremental labor associated with energy efficiency has been included separately in the energy efficiency riders. Without providing any rationale for this abrupt change, Staff's proposal inexplicably departs from well-established precedent separating all costs for energy efficiency and peak demand response from base rates.

Q. IS THERE ANY CHANCE THAT DUKE ENERGY OHIO'S LABOR COSTS FOR ENERGY EFFICIENCY COULD VARY FROM THE AMOUNT STAFF IS RECOMMENDING TO BE INCLUDED IN BASE RATES?

A. Yes. Due to a recent Commission decision limiting the amount of costs Duke Energy Ohio may recover in its Rider EE/PDR, it is possible that the Company may scale back its activity for some period of time and, instead, rely on banked savings to meet some or all of its mandated targets. If that were to occur, the Company's labor and labor-related costs related to energy efficiency would decline, all the more reason to keep 100 percent of these labor costs in the Rider EE/PDR.

Q. WHY DOES THE COMPANY BELIEVE STAFF'S PROPOSAL IS INCONSISTENT WITH PROVISIONS IN THE OHIO REVISED CODE?

A. As I understand, the plain language of R.C. 4928.65(A) requires that the cost of Duke Energy Ohio complying with the energy efficiency and peak demand response mandates be apparent to customers on their bills. Burying a component of the cost of compliance with these mandates in base rates would make it difficult, if not impossible, to accurately reflect to each customer the cost of complying with the mandates. By including an amount in base rates, all that would or could be known to a customer would be how much of their bill was attributable to the amount included in the test year expense. Whether the actual labor cost was higher or lower than the amount included in base rates would never be recoverable by the Company or known to the customer.

Staff's proposal also undermines the ability of customers to opt out of the utilities' portfolio plans, as provided for under R.C. 4928.6611.

> Beginning January 1, 2017, a customer of an electric distribution utility may opt out of the opportunity and ability to obtain direct benefits from the utility's portfolio plan. Such an opt out shall extend to all of the customer's accounts, irrespective of the size or service voltage level that are associated with the activities performed by the customer and that are located on or adjacent to the customer's premises.

To the extent labor costs for EE/PDR are included in base rates, customers eligible to opt out of the portfolio plans will still be paying for at least the labor costs for energy efficiency via their base distribution rates and, thus, will be unable to avoid this component of the cost of the Company's portfolio plan.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 11.

A. Duke Energy Ohio objects to Staff's adjustment to property taxes in that Staff failed to include property taxes on materials and suppliers. Using data provided by the Company, Staff recommended updating the Company's test year property tax expense to reflect the most current rates and valuations but, when it updated the property tax expense, it eliminated all of the Company's property taxes on materials and supplies.

Q. IS THERE ANY BASIS FOR STAFF TO EXCLUDE PROPERTY TAXES ON MATERIALS AND SUPPLIES?

A. No basis was noted in the Staff Report. As discussed above, Staff recommended that the Company not be allowed to include materials and supplies in rate base for the purpose of earning a return, due to the Company's not having filed a lead/lag study to support its cash working capital needs. Absent a lead/lag study, Staff recommended that there be no allowance for materials and supplies in rate base and thus no return on this investment.

It is possible that Staff was mistakenly applying its opposition to the Company recovering a return on materials and supplies to the question of whether the Company can recover actual property taxes it pays to the Ohio Department of Taxation for its investment in materials and supplies. Whether the Company is allowed to earn a return on its investment in materials and supplies is a subject for the Commission to consider. However, the Ohio Department of Taxation does not make such a distinction. Independent of whatever cash working capital needs the Company has and independent of whether it files a lead/lag study with its property tax returns, Duke Energy Ohio is assessed property tax on the value of its materials and supplies. It is a cost the Company actually incurs and should be recoverable from ratepayers.

It is unreasonable and completely improper to deny the Company recovery of property taxes assessed by the state of Ohio on any used and useful plant, including materials and supplies. Whether the Commission allows a return on investment in materials and supplies is wholly irrelevant to whether the Company is charged property taxes on that investment.

Q. IS STAFF'S POSITION CONSISTENT WITH COMMISSION PRECEDENT?

A. No, it is not consistent with prior Commission precedent or with the Ohio Revised Code. In its Order approving the Company's most recent gas base rate case, the

Commission unequivocally stated that the utility is entitled, under R.C. 4909.15(A)(4), to recover its "cost to the utility of rendering the public utility service for the test period."[8] The Supreme Court upheld that view when it issued an order[9] denying an appeal in that case. Property taxes assessed to Duke Energy Ohio are unquestionably a "cost of doing business as a public utility in response to" state law.[10] Staff's proposal to disallow recovery of property taxes in this case, assessed by the Ohio Department of Taxation, which are normal, recurring, and necessary costs to Duke Energy Ohio of providing electric distribution service, flatly turns Commission precedent and the Ohio Revised Code on their heads.

Q. WHAT IS THE IMPACT OF CORRECTING STAFF'S PROPERTY TAX ADJUSTMENT TO RECOGNIZE THE UPDATED RATES AND VALUATION?

A. After updating the rates and valuations for the property taxes on materials and supplies, Staff's property tax adjustment should be $1,311,118.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 12.

A. Duke Energy Ohio objects to Staff's proposal to exclude costs related to an important public information and education service campaign.

Q. WHY DOES THE COMPANY OBJECT TO STAFF'S OPPOSITION TO COMPAN'S PROPOSAL FOR A PUBLIC INFORMATION AND EDUCATION SERVICE CAMPAIGN?

A. Staff only stated that it would recommend no cost recovery as the expenses

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[8] *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in its Natural Gas Distribution Rates*, Case No. 12-1685-GA-AIR, Opinion and Order, at pp. 58-59 (Nov. 13, 2013).
[9] *In re Application of Duke Energy Ohio, Inc.*, 2017-Ohio-5536, 150 Ohio St.3d 437 (June 29, 2017).
[10] Id. at ¶ 9.

related to this proposed program were not incurred during the test year.

Q. IS STAFF'S RATIONALE REASONABLE?

A. No. Staff's proposal is neither reasonable nor consistent with other recommendations it makes in the Staff Report. Staff made a number of recommendations in the Staff Report to disallow costs that *actually* were incurred during the test year (*e.g.*, overhead lines, storm costs, labor costs, etc.) arguing, in most cases, that the costs are not reflective of ongoing expenses. In this case, Staff proposed to disallow costs that will be reflective of ongoing costs if the Commission approves the proposal. Staff's asymmetrical proposals are not logical and certainly not appropriate for ratemaking.

The Company's proposed public service advertising campaign is intended to benefit customers. Staff's recommendation to disallow recovery of the associated costs would result in the Company forgoing the campaign altogether unless some other form of cost recovery is available. In that way, Staff's position is unreasonable as it will deprive customers of all the benefits that were intended from this program.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER. 13.

A. Duke Energy Ohio objects to Staff's exclusion of test year amortization expenses for incremental costs related to its preparing, filing, and litigating its electric security plan (ESP).

Q. DID STAFF PROVIDE ANY EXPLANATION FOR ITS PROPOSAL TO REMOVE THIS EXPENSE FROM THE TEST YEAR REVENUE REQUIREMENT?

A. Staff only stated that it "finds that the costs associated with the litigation of the current standard service offer case (Case No. 17-1263-EL-SSO) are not appropriate for ratemaking purposes." Staff's position is surprising inasmuch as the costs of preparing, filing, and litigating an electric security plan are legitimate and verifiable expenses that are necessary for the "[d]istribution utility to provide [a] standard service offer." It is my understanding, R.C. 4928.141 *requires* the distribution utility to provide a standard service offer in the form of either an ESP or a market rate offer (MRO). Regardless of the form of the standard service offer, the Company has no choice but to make a filing with the Commission to implement it. The costs of developing, prosecuting, and litigating this filing is a cost borne by the distribution utility and therefore should be recoverable from distribution customers.

Similar to other costs incurred by the distribution utility in the test year, the cost associated with the ESP filing is a "cost to the utility of rendering the public utility service for the test period."[11]

Q. DID STAFF OFFER AN ALTERNATIVE FOR RECOVERING THIS NECESSARY EXPENSE?

A. No. Staff did not make any finding as to the reasonableness or prudence of the Company's costs to prepare, file, and litigate its ESP but simply proposed that such costs are "not appropriate for ratemaking purposes." Staff similarly did not question whether the costs of preparing, filing, and litigating the base rate case are "appropriate for ratemaking" but, for whatever reason, found that comparable costs to prepare, file, and litigate the ESP are not appropriate for ratemaking.

[11] R.C. 4909.15(A)(4).

This position is nonsensical.

If Staff does not believe such costs are appropriate for recovery in base rates, Staff should propose an alternative form of recovery, as these costs are necessary costs incurred by the Company to comply with a legal requirement to provide valuable standard service offer to all of its customers.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 14.

A. Duke Energy Ohio objects to Staff's adjustment to overhead lines expense. Staff's adjustment starts with the Company's proposed test year expense for Account 583100, Overhead Lines Expense, and simply that figure divides by five, as shown in Schedule C-3.24 of the Staff Report.

Q. DID STAFF PROVIDE ANY EXPLANATION FOR REDUCING THIS ACCOUNT BY EIGHTY PERCENT?

A. Staff did not provide any explanation that sheds any meaningful light on its rationale. The Operating Income section of the Staff Report states that the adjustment is to "show an amount that more accurately reflects an appropriate level of expense to include for ratemaking purposes."[12] The only other reference to the adjustment is found on Staff's Schedule C-3.24, page 139 of the Staff Report, describing the recommendation as intended "[t]o adjust distribution pole inspection expenses and amortize the expense over a 5 year period."

Staff provided the Company with what it described as work papers and DRs for Schedules C-3.24 through C-3.26 in the Duke Energy Ohio rate case. I have attached the two responses to Staff data requests that it included as support for its recommended adjustment to Account 583100. See Supplemental

[12] Staff Report, at pg. 17.

Attachment WDW-3.

Q. DO THE RESPONSES TO STAFF'S DATA REQUESTS, RELIED UPON BY STAFF TO REDUCE ACCOUNT 583100 EXPENSE BY EIGHTY PERCENT, SUPPORT STAFF'S RECOMMENDATION?

A. Nothing in the response to either data request referenced by Staff remotely supports its recommendation to reduce Overhead Lines expense. The first data request referenced by Staff was Duke Energy Ohio's response to Staff-DR-78-001. In that question, Staff asked for an explanation of why Account 583 and other accounts are higher in the test year than in prior years. The Company provided the following answer:

> Account 583100 – Increased significantly in the test year due to increased spending on maintenance activities, primarily performed by Osmose Utilities Services, Inc. These activities include pole inspection, pole excavation and treatment of the poles. In years 2013, 2014, and 2015, O&M was credited as part of a correction to capitalize previously expensed transformer and labor costs.

In this response, the Company gave a reasonable explanation of (1) why actual expenses in the test year were higher than in previous years, and (2) why prior years were lower. Nothing in that response explains why Staff would simply eliminate 80 percent of the test year expense.

In the other response that Staff referenced, Staff-DR-106-001, the Company was asked how often it inspects, excavates, and treats poles, as well as whether these activities are done in regular intervals every certain number of years. The Company responded that "[d]istribution pole inspections (ground-line treatment) in Ohio are performed every 10 years." Unless Staff was confused by the response, there is nothing in the Company's answer that supports Staff's recommendation to eliminate 80 percent of the Company's test year expense for Overhead Lines Expense.

If Staff had some other reason for making this recommendation, it is not apparent from its Staff Report or the material it provided as support.

Q. IS STAFF'S ADJUSTMENT APPROPRIATE?

A. No. First, Staff's adjustment unreasonably discounted the actual expense incurred during the test year. The Company provided updated data for the actual expenses recorded to Account 583100 for the entire test period. In its response, Duke Energy Ohio documented that $2,648,032 was recorded in Account 583100 for the period April 1, 2016, through March 31, 2017. The actual expense for the entire test period was only $17,292 (<1%) less than the amount included in the Application. Staff's proposal to arbitrarily reduce this one expense account by 80 percent is entirely at odds with the basic ratemaking principle that test year expenses should be recoverable. It is also at odds with R.C. 4909.15(A)(4) that provides that the utility is entitled to recover its cost for rendering electric distribution service for the test year.

Admittedly, normalization of expenses is a regulatory mechanism designed to "smooth out" expenses for setting rates; however, Staff's methodology to adjust this expense is not even "normalization." Consider Staff's adjustment to storm costs, Schedule C-3.8. For this adjustment Staff used actual data for the most recent five-year period and averaged these costs in order to normalize the expense. Compare that more sensible methodology with Staff's adjustment to Account 583100 where it completely ignored all historical expenses and simply divided the Company's proposed test year expense by five. That method is not "normalizing" at all – for this adjustment, Staff simply arbitrarily reduced the test year expense.

The Company believes that its test year expense is appropriate; however, if the Commission does seek to normalize the cost for Account 583100, Staff's proposed adjustment should be significantly modified. The following table summarizes the Company's actual expenses for Account 583100 for the last five calendar years.

Account 583100 Overhead Lines Expense – Other	
2012	$769,845
2013	151,261
2014	117,847
2015	663,012
2016	2,834,810
Average	**$907,355**

Staff's recommended level of test year expense for Account 583100 was $494,957 (Staff's WPC-3.24a). If Staff at least truly normalized the Account 583100 expense over five years, as it did for other expenses, rather than just reducing the Company's test year expense by 80 percent, the difference would increase the operating expense of the Company by $412,398 ($907,355 - $494,957) compared to the amount in the Staff Report.

Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NUMBER 15.

A. Duke Energy Ohio objects to Staff's recommended revenue requirement where the adjustments made to O&M impact other expenses that are directly related to these items. Staff did not challenge the loading rates used for pensions and benefits expenses, payroll taxes, or future medical costs. The magnitude of all these expenses in the test year revenue requirement is based on the magnitude of the Company's labor expense. Because Staff made inappropriate adjustments to the Company's test year labor expense (see Objection Number 8), there was a cascading impact on the test year amounts for pensions and benefits expense, payroll taxes, and future medical costs. This objection also includes the income and other taxes related to the Company's objections in this case.

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

A. Duke Energy Ohio objects to several Staff recommendations regarding the Company's proposed changes to its Distribution Capital Investment Rider (Rider DCI).

- The Company objects to Staff's recommendation that the Commission reject the proposed expansion of Rider DCI to include distribution-related general, intangible, and common plant.
- The Company objects to Staff's recommended caps for Rider DCI.
- The Company objects to Staff's failure to recommend approval of the Company's proposal to recover the incremental cost of audits of Rider DCI.

Q. DID STAFF PROVIDE ANY RATIONALE FOR OPPOSING THE EXPANSION OF RIDER DCI?

A. No. Staff suggested that the Company's "proposed modifications are unnecessary and not germane to a distribution investment rider as has been adopted by the Commission in non-stipulated, previously contested cases in which it has rendered a decision on each of the merits of such requests."

As an initial matter, the Company's proposed changes to Rider DCI are most certainly relevant and, importantly, the changes are also necessary to allow the Company to achieve the very goals that the Commission has identified as the reasons for approving distribution riders for electric distribution utilities (EDUs). The incentive to proactively modernize infrastructure should extend to all investments made to achieve those goals, including investments in general, intangible, and common plant. Secondly, as I discussed extensively in my direct testimony, the Commission should be fair to all EDUs and be consistent in the regulatory framework for all. Allowing FirstEnergy utilities, for example, to include general and intangible plant in their distribution riders while not affording other EDUs the same consideration is unreasonably capricious and is unfair to those EDUs not afforded the same treatment. Timely recovery of the cost of such investments is no less important to one EDU than it is to any other EDU.

Regarding Staff's comment that the proposed changes are not germane to the distribution rider, the Company's is not proposing to include all general, intangible, and common plant. Only general, intangible, and common plant that is attributable to "distribution" service is being sought for inclusion in Rider DCI. As it is only the distribution-related plant being sought for inclusion in Rider DCI, it is clearly germane to this rider.

Q. STAFF'S COMMENTS APPEAR TO SUGGEST THAT THE COMMISSION IS BOUND IN THIS CASE BY THE PROVISIONS OF RIDER DCI ESTABLISHED IN PRIOR ELECTRIC SECURITY PLANS.

IN YOUR OPINION, CAN THE COMMISSION EXTEND AND MODIFY RIDER DCI IN THIS CASE?

A. First of all, Staff contradicts itself on this point. For Rider DCI, Staff seemed to suggest that the terms established in the Company's last ESP limit any future changes to this rider. Also in the Staff Report, Staff takes the exact opposite position by suggesting that the terms of the existing Rider DSR, also approved in the last ESP, <u>should be</u> modified in this proceeding.

In reality, the Commission's past practice suggests that it has broad authority to create, modify, or cancel existing riders in a rate case. For example, the Commission approved a rider, Rider DR-IKE, for Duke Energy Ohio to recover storm restoration expenses related to Hurricane Ike as part of Case No. 08-709-EL-AIR, *et al.* Also, the Commission approved rider recovery of natural gas plant remediation expense as part of the Company's last natural gas base rate case, Case No. 12-1685-GA-AIR, *et al.* Similarly, Staff has been very clear in testimony and in briefs that an EDU could implement the same riders whether it was operating under an MRO or an ESP. The following excerpt from the transcript of Patrick Donlon's cross-examination in Case No. 16-395-EL-SSO makes this position clear:

> EXAMINER PRICE: Are you saying you think
> staff believes that there could be a SmartGrid rider
> irrespective of whether it was an ESP or MRO?
>
> THE WITNESS: Yes.
>
> EXAMINER PRICE: So it will be a wash.
>
> THE WITNESS: Yes.

EXAMINER PRICE: Thank you.

Q. (By Mr. Michael) And, Mr. Donlon, staff
in reaching that conclusion again in -- on lines 99
through 101, staff did not consider the cost of these
storm cost riders, correct?

A. Again, staff believes it could be an (sic)
either ESP or MRO, so it would be a wash.

Q. Okay. Just in the interest of time,
Mr. Donlon, I am going to ask you about a couple more
riders the same question, and you tell me if your
answer is different. The decoupling rider?

A. It's the same answer.

Q. Okay. The DIR?[13]

A. Same answer.[14]

Staff reiterated its point in its Initial Post-Hearing Brief in that same case:

> When considering what the effect of an MRO might be it is important to recognize that the MRO would not happen in a vacuum. Regardless of how the energy is provisioned for the standard service offer (whether through an MRO or an ESP) the needs that drive the creation of the various riders that appear in the amended stipulation would remain the same. There would still be storm damage that would need to be repaired. Economic development would still be needed. Energy efficiency would still need support and on and on. While these riders might be created in an MRO directly or through some other means, they would still be created. The needs they address simply are not dependent upon how the energy in the lines is purchased. They would exist in either scenario and are, therefore, a wash and need not be considered in the ESP v. MRO analysis. They do not make a difference.[15]

Importantly, the Commission approved DP&L's Rider DIR in its Finding and

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[13] DIR is a reference to the Distribution Investment Rider, which is analogous to Duke Energy Ohio's Rider DCI, as included in the Stipulation approved by the Commission on October 20, 2017, in Case No. 16-395-EL-SSO.

[14] *In the Matter of the Application of The Dayton Power and Light Company for Approval of its Electric Security Plan*, Case No. 16-395-EL-SSO, Transcript Vol. V, at pp. 888-889.

[15] Id., Post-Hearing Brief of Staff of the Public Utilities Commission of Ohio, at pg. 11 (May 5, 2017).

Order, in Case No. 16-395-EL-SSO, on October 20, 2017.

The Company shares Staff's opinion that the needs that are addressed by riders are not dependent upon energy in the lines is purchased and that riders would exist "in either" an ESP or an MRO. Just as Staff believes that riders would exist even if the utility is operating under an MRO, it stands to reason that such authority to approve and create such riders arises out of the Commission's broad ratemaking authority under R.C. 4909. The riders being proposed in this application may be approved under the Commission's broad authority under R.C. 4909. The suggestion that the Commission has no authority to approve riders outside the authority of R.C. 4928 is simply absurd.

Q. IS THERE ANY OTHER HISTORY OF THE COMMISSION APPROVING SUCH RIDERS IN RATE CASE APPLICATIONS?

A. Yes. In the 2007 base distribution rate case filed by the FirstEnergy Operating Companies, Case No. 07-551-EL-AIR, *et al.*, Staff recommended[16] and the Commission approved[17] a placeholder rider, Rider AMI/Modern Grid, for the companies' smart grid investments. In the same case, Staff recommended approval of a new rider proposed by the FirstEnergy companies to establish a rider for demand-side management.

Similarly, in AEP Ohio's most recent base distribution rate cases (Case No. 11-351-EL-AIR, *et al.*), the Commission approved a deferred asset recovery rider (Rider DARR) and a pilot throughput balancing adjustment rider (Rider

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[16] *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals*, Case No. 07-551-EL-AIR, Staff's Reports of Investigation, at pg. 90 (Ohio Edison and Toledo Edison) and pg. 91 (Cleveland Electric Illuminating) (Dec. 4, 2007).
[17] Id., Opinion and Order, at pg. 45 (Jan. 21, 2009).

PTBR). All of these riders were approved under the Commission's broad rate-making authority under R.C. 4909.

Q. IS THE COMPANY OPPOSED TO ESTABLISHING CAPS OR ESTABLISHING A REQUIREMENT TO FILE ITS NEXT BASE RATE CASE?

A. The Company is willing to establish revenue caps for Rider DCI as long as the caps are reasonable. The caps proposed by Staff are unreasonable and, for 2018, conflict with existing caps approved by the Commission in Case No. 14-841-EL-SSO. The Company is willing to abide by Staff's recommendation for filing its next base rate case by a date certain but will not agree to a stay out period.

Q. WHY DOES THE COMPANY BELIEVE THE STAFF'S PROPOSED CAPS ARE UNREASONABLE?

A. First, the caps assume no recovery of distribution-related general, intangible, and common plant. As noted above, the Company believes Rider DCI should include recovery related to these investments. Secondly, the caps conflict with existing caps established pursuant to an order by the Commission in Case No. 14-841-EL-SSO. In its April 2, 2015, Order in that proceeding, the Commission established a cap of $35 million in Rider DCI revenue just for the first five months of 2018. In this proceeding, Staff suggested a cap of $14 million for the entire twelve months of 2018.

It is not possible to know when the Commission will issue an order in this proceeding, resetting the baseline for Rider DCI but, assuming a date later than the beginning of the year, Staff's recommended cap of $14 million for all of 2018 is unreasonable, with or without the Commission approving the expansion of Rider DCI for distribution-related general, intangible, and common plant.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION REGARDING RECOVERY OF AUDIT FEES RELATED TO RIDER DCI.

A. Staff failed to address the proposal raised by the Company that it be allowed to recover any incremental costs associated with audits of the rider. Such fees are costs that will be incurred by the Company without any means of recovery and it is unfair to allow another EDU[18] to recover such fees and arbitrarily deny recovery for Duke Energy Ohio. Staff should have recommended approval of this proposal.

Q. WILL YOU SUMMARIZE THE COMPANY'S OBJECTIONS TO STAFF'S RECOMMENDATIONS FOR RIDER DCI?

A. As observed by Staff and as evidenced by prior Commission decisions, the Commission may extend and modify riders, including the Company's Rider DCI, as part of a rate case. The Commission's goals of providing EDUs with the incentive to proactively modernize the distribution grid is ensured by continuation of Rider DCI and enhanced if expanded to allow for the inclusion of distribution-related general, intangible, and common plant. Applying the same regulatory framework for all EDUs should be among the Commission's top objectives so that all of its regulated utilities are treated evenly and fairly, especially when it comes to recovery of costs. Aligning an important cost recovery mechanism like Rider DCI with the similar rider approved for another EDU under the Commission's jurisdiction is a significant step toward ensuring that all EDUs are

[18] FirstEnergy utilities include recovery of audit fees in their quarterly Rider DCR filings.

treated with an even hand.

Although the Company is willing to accept reasonable annual revenue caps for Rider DCI and the requirement to file a new base rate case before a set date, the caps must be reasonable and consistent with the Commission's prior orders. Lastly, the Commission should approve the Company's request to recover the incremental costs of audits for Rider DCI.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 17.

A. Duke Energy Ohio objects to Staff's proposal to potentially limit recovery of costs for advancing battery storage technology. Staff's proposal, combined with its proposal to limit Rider DCI to only FERC Accounts 360-374, has the potential to discourage deployment of battery technology.

Q. HOW CAN THE COMMISSION ACCOMMODATE STAFF'S PROPOSAL TO LIMIT RIDER DCI TO ONLY FERC ACCOUNTS 360-374 WITH THE COMPANY'S REQUEST TO ADVANCE BATTERY TECHNOLOGY?

A. Although the Uniform System of Accounts does provide that certain battery storage investments are recorded in an account eligible for Rider DCI, the Commission should provide explicit authority to include battery storage in Rider DCI, even if the investment in this equipment is ultimately recorded in FERC Accounts other than Accounts 360-374.

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

A. Duke Energy Ohio objects to Staff's adjustment to storm expense and its proposal to implement Rider DSR just to flow through the current balance of the regulatory asset.

Q. WHY DOES THE COMPANY OBJECT TO STAFF'S ADJUSTMENT FOR STORM EXPENSE?

A. Staff's proposed adjustment to the Company's test year expenses for major storms is based on five-year average of actual costs, likely to normalize the expense. The Company is willing to accept this adjustment conditioned upon (1) correction of Staff's adjustment and (2) approval of its request to continue Rider DSR with one modification.

Q. IS STAFF'S PROPOSED STORM COST EXPENSE ACCURATELY CALCULATED?

A. Staff provided workpapers (WPC-3.8a) that demonstrate it accurately calculated the average of the last five years' expense; however, after its calculation, Staff curiously rounds down the result of the averaging. Staff's calculated five-year average of storm costs is $4,325,017, but Staff then rounded the number down to $4,300,000 for inclusion in rates, which unfairly reduces the Company's test year expense by $25,017. Staff apparently considered this extra $25,017 too small to include in its calculated result but, for another adjustment, Schedule C-3.26, it makes adjustments to test year expenses that are worth $855 and $30. If Staff was making adjustments to test year expense for amounts under $1,000, or even under $50, it is not consistent to exclude $25,017 of the Company's test year expense just for rounding.

Q. WHY DOES THE COMPANY OBJECT TO STAFF'S PROPOSAL FOR REFUNDING THE CURRENT BALANCE OF DEFERRED STORM COSTS IN RIDER DSR?

A. Staff's recommendation that the Company file for refund of its accumulated balance modifies the terms of Rider DSR, as approved in Case No. 14-841-EL-SSO. The provisions of Rider DSR, prescribed by the Commission in that Order, state that the Company will file to implement Rider DSR when the balance of the deferral exceeds $5 million. As noted above with respect to Rider DCI, the Commission has the authority to modify (create, extend, modify, or eliminate) riders, even as part of a rate case. The Company is willing to implement a revised Rider DSR beginning with the date of new rates in this case but believes it would be more appropriate to include all distribution costs related to major storms in Rider DSR.

Following Staff's proposal would mean that the Company would implement Rider DSR to flow potentially very small dollar amounts through Rider DCI and would not solve some of the administrative burden of comparing actual storm costs to amounts in base rates.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 19.

A. Duke Energy Ohio objects to Staff's inclusion in base rates of payments made by the Company for excess generation from net metering customers. These costs should be subject to rider recovery and should not be part of base distribution rates.

Q. WHY DOES THE COMPANY BELIEVE THESE COSTS SHOULD BE SUBJECT TO RIDER RECOVERY?

A. Although the magnitude of the cost is relatively small at current participation levels for net metering, it is a cost that is volatile and subject to change. The value of the payments will change due to the level of participation in net metering and due to the changes in the basis for paying these customers for excess generation. There is no way for the Company to predict how many customers will participate in net metering or how much excess generation it will be required to compensate. Furthermore, because the payments for excess generation are based on generation rates under the Company's standard service offer, those rates are subject to change annually.

Q. WHY DOES THE COMPANY BELIEVE THESE COSTS ARE INAPPROPRIATE FOR RECOVERY IN DISTRIBUTION RATES?

A. Because the Commission deemed net metering a "non-competitive service," Staff argues that the payment for excess generation is a distribution service. No legal analysis is required to deduce that payments for excess generation, whether competitive or non-competitive, are not a distribution service. First of all, the payments are for excess generation, not for excess distribution service. Secondly, Duke Energy Ohio, its affiliates, and likely all utilities, record the cost of these payments in FERC Account 555, Purchased Power. None of these payments are included in the description of allowed expenses for distribution accounts under the FERC Uniform System of Accounts (Title 18 of the Code of Federal Regulations).

Whether one considers excess generation from net metering customers to be competitive or non-competitive does not change the nature of the service. It is generation as the payments are for energy made available to the system.

Q. WHAT IS THE COMPANY'S RECOMMENDATION FOR RECOVERY OF PAYMENTS TO NET METERING CUSTOMERS FOR EXCESS GENERATION?

A. The Company withdrew its proposal for net metering in this case but proposed, in its pending ESP case, Case No. 17-1263-EL-SSO, to recover the cost of net metering payments via its Supplier Cost Reconciliation Rider (Rider SCR). Because the excess generation provided by net metering customers offsets the load obligation for SSO service, the costs of payments for excess generation should be borne by those customers who benefit from the generation provided by net metering, *i.e.*, SSO customers. Recovery via Rider SCR will accomplish that objective. Admittedly, as Rider SCR is exclusively related to the standard service offer being considered in the pending ESP, resolution of this issue occur in the pending ESP case and not this proceeding.

Q. THE COMMISSION RECENTLY ISSUED PROPOSED NEW RULES FOR NET METERING IN ITS ORDER IN CASE NO. 12-2050-EL-ORD. IF THESE NEW RULES ARE ULTIMATELY IMPLEMENTED, WILL THAT CHANGE YOUR RECOMMENDATION ABOVE?

A. The Company's proposal to recover the cost of payments for excess generation is applicable even under the new rules.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 20.

A. The Company objects to Staff's failure to recommend that the Commission approve a return on equity (ROE) at the high end of the range calculated by Staff.

The high end of Staff's range overlaps with the Company's recommended range insofar as the Company's ROE witness, Dr. Roger A. Morin recommended a range of 10.1 percent to 10.70 percent, which overlaps Staff's range between 9.22 percent and 10.24 percent.

An appropriate ROE for Duke Energy Ohio would be in the range where Staff and the Company's ranges overlap.

Q. IS THERE ANY RECENT ACTION BY THE COMMISSION OR THE COMMISSION STAFF THAT SUPPORTS THIS RECOMMENDATION?

A. Yes. Staff recently signed a stipulation in AEP Ohio's pending ESP filing, Case No. 16-1852-EL-SSO, agreeing to use 10.0 percent for capital-related riders.[19] Inasmuch as Duke Energy Ohio and AEP Ohio are comparable EDUs, operating under the same regulatory jurisdiction in Ohio, fairness would dictate that shareholders of these EDUs be allowed comparable returns on their investment, particularly when they have similar risk profiles.

In addition, the Staff issued its Staff Report in the pending rate case involving DP&L and included a recommended range for return on equity for DP&L of between 9.59 percent and 10.61 percent, with a mid-point of 10.10 percent.[20] At issue in the DP&L rate case, as with Duke Energy Ohio's rate case, is the appropriate return for a distribution-utility. In that respect, DP&L's electric distribution business has a very similar risk profile to Duke Energy Ohio's distribution business. There is no rational basis for the Staff to recommend or for

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[19] *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 16-1852-EL-SSO, *et al.*, Joint Stipulation and Recommendation, at pg. 6 (Aug. 25, 2017).
[20] *See* Staff Report, page 19, filed on March 12, 2018, in Case No. 15-1830-EL-AIR, *et al.*

the Commission to approve an ROE for one jurisdictional utility with a midpoint that is 37 basis points higher than the midpoint of an ROE range with very similar risks.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 22.

A. Duke Energy Ohio objects to Staff's proposal to modify its uncollectible rider related to generation service, Rider UE-GEN. On page 53 of its Staff Report, Staff made a number of recommendations related to the existing arrangement for purchasing receivables from competitive retail electric service (CRES) providers, including a recommendation for the Company to conduct a "comprehensive audit" of its purchase of receivables program when it makes its next annual filing for review of Rider UE-GEN.

Q. WHAT CHANGES DID STAFF PROPOSE TO THE COMPANY'S EXISTING PURCHASE OF RECEIVABLES PROGRAM?

A. Staff's recommendation primarily centers on its belief that the current practice of buying receivables from CRES providers participating the purchase of receivables program should be modified to include a discount rate.

Q. DID STAFF EXPLAIN WHY IT BELIEVES THE CURRENT ARRANGEMENT IS NO LONGER APPROPRIATE?

A. Staff seems to believe that the existing program invites CRES providers to engage in riskier behavior with no incentive to "[perform] their due diligence regarding their customers' credit." Staff did not support this conclusion with any evidence but suggested that CRES providers begin paying a discount to participate in the purchase of receivables program.

Q. DOES THE COMPANY HAVE ANY CONCERNS WITH THE STAFF'S PROPOSAL?

A. The Company has no objection to establishing a non-zero discount rate for CRES providers participating in the purchase of receivables program but Staff's proposal is overly simplified and, importantly, not appropriate for this electric base rate case proceeding.

The proposal is oversimplified because the discount rate is only one component of the purchase of receivables program. Among other things, the arrangement includes specific dates for the flow of funds between the Company and the CRES providers. Changes in the timing of payments may also have to be addressed if the Commission requires a change in the discount rate.

The proposal is misplaced because, if approved in the base distribution rate case, it may deprive numerous CRES providers from having an opportunity to participate in an issue that will have a significant impact on their operations. As of the date of the Staff Report, there were only four intervenors representing CRES providers (IGS, Direct Energy, RESA, and Calpine), yet there are over eighty CRES providers operating in Duke Energy Ohio's service territory. Making such a change without allowing affected parties any chance to respond does not seem like an appropriate approach.

Q. IS THERE A MORE APPROPRIATE FORUM FOR STAFF'S PROPOSED CHANGES TO THE PURCHASE OF RECEIVABLES PROGRAM?

A. Yes. The Company is currently litigating its fourth ESP. Supplier tariffs are an important subject in the electric security plan filing and matters that affect suppliers are more appropriately addressed in that forum where those affected parties are more likely to be on alert for matters that affect them.

Q. DOES THE COMPANY OBJECT TO STAFF'S PROPOSAL FOR A COMPREHENSIVE AUDIT?

A. Subject to some reasonable guidelines and subject to the Company being allowed to recover the costs for such an audit, the Company is willing to work with Staff to design an appropriate audit of its purchase of receivables program.

Any audit must be reasonable in scope. Staff seems to be suggesting that the Company engage in a detailed audit of each of the dozens of suppliers participating in the purchase of accounts receivables program. The expense of such an audit could significantly outweigh any benefit gained by such a comprehensive audit but, again, the Company is willing to work with Staff to design an appropriate audit.

Cost recovery is an important condition of agreeing to such an audit. Staff observed that "the credit and business risk of CRES suppliers should not be the responsibility of the Company's ratepayers." In fairness, the credit and business risk should not be the responsibility of the Company's shareholders either. Therefore, the Company recommends that the incremental cost of any audit(s) of CRES providers participating in the purchase of receivables program be borne exclusively by the CRES providers; *i.e.*, those entities whose credit and business risk are at issue.

I will note, however, that even this recommendation is being made in a case where many (if not most) affected entities were unaware that they would be affected.

IV. PENDING STIPULATION

Q. WILL YOU DESCRIBE HOW THE STIPULATION THAT WAS FILED IN THIS CASE ON APRIL 13, 2018, IMPACTS THE OBJECTIONS TO THE STAFF REPORT FILED BY THE COMPANY?

A. The Company and a number of intervenors in this proceeding signed a stipulation and recommendation settling the pending electric base distribution case, Duke Energy Ohio's ESP, its pending application to implement its Price Stabilization Rider (Rider PSR), and its pending electric service standards case (Stipulation). There were several parties who signed the Stipulation in support of the terms, some other intervenors signed the document indicating that they would not oppose the Stipulation, and other intervenors who did not sign and indicated that they would oppose the Stipulation.

I filed separate testimony in the consolidated proceedings outlining the provisions of the Stipulation; so, there is no need to discuss the terms in this testimony.

Importantly, as it relates to the Company's Objections to the Staff Report, the Stipulation, is a comprehensive resolution of all of the consolidated cases, and would settle all of the issues, including the Company's Objections to the Staff Report filed on September 26, 2017. The Commission should consider these objections and the Company's testimony insofar as evaluating the reasonableness of the Stipulation as a comprehensive resolution of not only this distribution rate case, but of all the consolidated cases. However, if the Commission rejects the Stipulation or makes material modifications, the Commission should consider all of the evidence provided by the Company in the filed Objections and supporting testimony in approving the Company's electric base distribution revenue requirement.

V. CONCLUSION

Q. WERE SUPPLEMENTAL ATTACHMENTS WDW-1 THROUGH WDW-4 TO YOUR SUPPLEMENTAL DIRECT TESTIMONY PREPARED BY YOU OR AT YOUR DIRECTION?

A. Yes.

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

A. Yes.

Case No. 17-32-EL-AIR
Labor Summary

WPC-3.14a1

Line No.	Description	WORK PAPER REFERENCE		Amount	
(1)	Duke Energy Business Services	Staff's WPC-3.14b1		$ 34,205,832	
(2)	Exempt O&M Labor Expense	Staff's WPC-3.14c	$ 274,485		
(3)	Union IBEW 1347 O&M Labor Expense	Staff's WPC-3.14d	$ 10,917,338		
(4)	Union UWUA 600 O&M Labor Expense	Staff's WPC-3.14e	$ 2,604,509		
(5)	Total Duke Energy Ohio (2) + (3) + (4)			$ 13,796,332	
(6)	Exempt - Other O&M Labor Expense	Staff's WPC-3.14f	$ 75,649		
(7)	Non-Exempt - Other	Staff's WPC-3.14g	$ 21,049		
(8)	Union - Other O&M Labor Expense	Staff's WPC-3.14h	$ 36,013		
(9)	Total Duke Other (6) + (7 + (8)			$ 132,712	
(10)	Total Duke Labor (1) + (5) + (9)			$ 48,134,875	
(11)	Percentage to Distribution (a)		94.831%		$ 45,646,784
(12)	Energy Efficiency Labor	Staff's WPC-3.14b2	94.831%	$ 2,363,537	$ 2,241,365
(13)					$ 47,888,149

(a) Staff Data Request 113

Derived from DR 149				
Account Long Descr CB	(Multiple Items)	Removes	ACCT 912 Dem and Selling DR 119	DR 119 says these costs are all promotional. PUCO does not permit expenses that are promotional in nature.
Journal Descr JD	(Multiple Items)		Piedmnt CTA Gov	Remove Piedmont gas merger costs
Allocation Pool Descp	(Multiple Items)		Energy Efficiency	Remove energy efficiency costs. All EE labor costs should be captured in DR 80.

Sum of Monetary Amount JD	Column Labels												
Row Labels	1	2	3	4	5	6	7	8	9	10	11	12	Grand Total
11000	$ 1,593,578	$ 1,663,042	$ 1,784,996	$ 1,884,146	$ 1,699,816	$ 1,674,281	$ 1,595,058	$ 1,785,010	$ 1,738,920	$ 1,752,907	$ 1,609,115	$ 1,302,398	$ 20,083,367
Labor	$ 1,593,578	$ 1,663,042	$ 1,784,996	$ 1,884,146	$ 1,699,816	$ 1,674,281	$ 1,595,058	$ 1,785,010	$ 1,738,920	$ 1,752,907	$ 1,609,115	$ 1,302,398	$ 20,083,367
13001		$ 1											$ 1
Premium Pay		$ 1											$ 1
11002	$ 412,019	$ 493,904	$ 731,449	$ 863,908	$ 595,852	$ 541,518	$ 563,714	$ 597,378	$ 837,411	$ 497,520	$ 523,969	$ 456,661	$ 7,106,905
Labor-Union	$ 412,019	$ 493,904	$ 731,449	$ 863,908	$ 595,852	$ 541,518	$ 563,714	$ 597,378	$ 837,411	$ 497,520	$ 523,969	$ 456,661	$ 7,106,905
12000	$ 18,218	$ 10,628	$ 21,633	$ 21,102	$ 7,718	$ 14,091	$ 23,343	$ 28,840	$ 36,635	$ 12,465	$ 17,496	$ 17,296	$ 229,465
Overtime	$ 18,218	$ 10,628	$ 21,633	$ 21,102	$ 7,718	$ 14,091	$ 23,343	$ 28,840	$ 36,635	$ 12,465	$ 17,496	$ 17,296	$ 229,465
12004	$ 103,235	$ 73,919	$ 170,550	$ 264,235	$ 125,004	$ 144,012	$ 186,936	$ 128,154	$ 216,223	$ 96,388	$ 86,371	$ 99,667	$ 1,694,694
Overtime-Union	$ 103,235	$ 73,919	$ 170,550	$ 264,235	$ 125,004	$ 144,012	$ 186,936	$ 128,154	$ 216,223	$ 96,388	$ 86,371	$ 99,667	$ 1,694,694
18001	$ 236,424	$ 123,006	$ 181,317	$ 186,056	$ 228,544	$ 254,587	$ 365,503	$ 193,277	$ 268,118	$ 187,342	$ 341,286	$ 616,678	$ 3,184,143
Unproductive Labor Allocated	$ 236,424	$ 123,006	$ 181,317	$ 186,056	$ 228,544	$ 254,587	$ 365,503	$ 193,277	$ 268,118	$ 187,342	$ 341,286	$ 616,678	$ 3,184,143
18005	$ 550,122	$ 76,605	$ 120,267	$ 114,291	$ 82,391	$ 175,137	$ 176,592	$ 78,849	$ 187,157	$ 77,521	$ 66,394	$ 221,930	$ 1,927,256
Unproduct Labor Alloc-Union	$ 550,122	$ 76,605	$ 120,267	$ 114,291	$ 82,391	$ 175,137	$ 176,592	$ 78,849	$ 187,157	$ 77,521	$ 66,394	$ 221,930	$ 1,927,256
Grand Total	$ 2,913,587	$ 2,440,705	$ 3,010,212	$ 3,335,739	$ 2,779,326	$ 2,803,730	$ 2,911,148	$ 2,791,508	$ 3,274,465	$ 2,624,143	$ 2,646,680	$ 2,714,680	$ 34,205,832

Duke Energy Ohio, Inc
Case No. 17-32-EL-AIR
Duke Service Company Labor and Energy Efficiency Labor

WPC-3.14b

Line No.	Duke Service Company Labor	
(1)	Service Company Labor	$ 34,205,832
(2)	Energy Efficiency Labor	$ 2,363,537
		$ 36,569,368

WPC-3.14b1

Line No.	Duke Service Company Labor (a)	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Total
(1)	Labor 11000	1,884,146	1,699,816	1,674,381	1,595,058	1,765,010	1,738,920	1,752,907	1,609,115	1,593,578	1,663,042	1,784,996	1,302,398	20,063,367
(2)	Premium Pay 11001										1			1
(3)	Labor Union 11002	865,908	595,852	541,518	563,714	597,378	827,411	497,520	523,969	412,019	493,504	731,449	456,661	7,106,905
(4)	Overtime 12000	21,102	7,718	14,091	23,343	28,840	36,635	12,465	17,496	18,218	10,628	21,633	17,296	229,465
(5)	Overtime- Union 12004	264,235	125,004	144,012	186,936	128,154	216,223	96,388	86,371	103,235	73,919	170,550	99,667	1,694,694
(6)	Unproductive Labor Allocated 18001	186,056	228,544	254,592	365,503	193,277	268,118	187,342	343,286	236,424	123,006	181,317	616,678	3,184,143
(7)	Unproduct Labor Alloc-Union 18005	114,291	82,391	175,137	176,592	78,849	187,157	77,521	66,394	550,122	76,605	120,267	221,930	1,927,256
(8)	Total DEBS Loaded Labor	3,335,739	2,739,326	2,803,730	2,911,148	2,791,508	3,274,465	2,624,143	2,646,630	2,913,597	2,440,705	3,010,212	2,714,630	34,205,832

(a) Staff Data Request 149

ke Energy Ohio, Inc
se No. 17-32-EL-AIR
ke Energy Ohio Exempt and Non-Exempt Employees

e No.	Exempt and Non-Exempt	Account Associate	Account Executive	Associate Revenue Analyst	Business Operations Specialist	Business Ops Analyst	Customer Account Specialist	Dir Regional Large Acct Mgt	Engineer II	Manager Ohio Customer Choice	Meter Route Analyst
(1)	Number of Employees (a)	1	4	2	1	3	3	1	2	1	0.63
(2)	Annual Straight - Time Hours (b)	2080	2080	2080	2080	2080	2080	2080	2080	2080	2080
3)	Total Straight - Time Hours	2080	8320	4160	2080	6240	6240	2080	4160	2080	1300
4)	Average Hourly Rate (a)	[redacted]									
5)	Total Direct Labor Dollars (3) x (4)										
6)	Electric Distribution O&M Labor Percentage (d)										
7)	Electric Distribution O&M Direct Labor Expense (11) x (12)										

a) Derived from Applicant's Response to Staff Data Request 54
b) Straight Time Hours in One Year
c) Derived from Applicant's Schedule C-9.1 Exempt 3 Year Average 2013 - 2015 O&M Percentage.

WPC-3.14c

Mgr stribution sign Engg	Revenue Services Specialist II	Sr Acct Mgr Customer Choice	Sr Engineering Technologist	Sr Large Account Executive	Sr Revenue Services Spec	Supv Construction &Maintenan ce	Supv Field Metering	Supv Large Acct Mgmt Tech Svc	Supv Meter Engineering	Supv Meter Lab Services	Supv Meter Reading	Technical Svc Specialist II	Total
1	1	1	1	1	1	1	1	1	1	1	0.00	1	30.625
2080	2080	2080	2080	2080	2080	2080	2080	2080	2080	2080	2080	2080	
2080	2080	2080	2080	2080	2080	2080	2080	2080	2080	2080	0	2080	
[redacted]													2,332,077
													11.77%
													$ 274,485

Duke Energy Ohio, Inc
Case No. 17-32-EL-AIR
Duke Energy Ohio Union IBEW

Line No.	IBEW Local 1347	Construction Helper	Groundperson Driver A	Laboratory Assistant	Lineperson A	Lineperson A-Trouble	Lineperson B	Lineperson C	Maintenance Electrician A
(1)	Number of Employees (a)	1	1	1	34	19	22	31	3
(2)	Annual Straight - Time Hours (b)	2080	2080	2080	2080	2080	2080	2080	2080
(3)	Total Straight - Time Hours	2,080	2,080	2,080	70,720	39,520	45,760	64,480	6,240
(4)	Average Hourly Rate (a)	[redacted]							
(5)	Straight-time Dollars (3) x (4)	$ [redacted]							
(6)	Overtime Percentage (c)	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%
(7)	Overtime Dollars (5) x (6)	$ [redacted]							
(8)	Total Direct Labor Dollars (5) + (7)	$							
(9)	Electric Distribution O&M Labor Percentage (d)								
(10)	Electric Distribution O&M Direct Labor Expense (11) x (12)								

(a) Derived from Applicant's Response to Staff Data Request 54
(b) Straight Time Hours in One Year
(c) Derived from Applicant's Schedule C-9.1, 3 Year Union Overtime Average 2013 - 2015
(d) Derived from Applicant's Schedule C-9.1, 3 Year Union O&M Percentage Average 2013 - 2015

WPC-3.14d

	Maintenance Electrician B	Meter Repairer	Meter Testers Assistant	Premise Troubleshooter	Senior Laboratory Tester	Senior Lineperson A	Senior Meter Tester	Sr Maint Electrcn-Elctrcl	Sr Streetlight Serviceman	Street Light Serviceperson		
	9	2	3	5.9544	5	34	18	9	5	1		203.9544
	2080	2080	2080	2080	2080	2080	2080	2080	2080	2080		
	18,720	4,160	6,240	12,385	10,400	70,720	37,440	18,720	10,400	2,080		
$	[redacted]										$	14,610,266
	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%		
$	[redacted]										$	4,767,330
$											$	19,377,596
												56.34%
											$	10,917,338

Duke Energy Ohio, Inc
Case No. 17-32-EL-AIR
Duke Energy Ohio Union IUU

WPC-3.14e

Line No.	UWUA, IUU Local 600	Coord, Cust Proj	Cust Rel Representative B	Cust Rel Representative C	Distribution Technician	Engineering Specialist I	Engineering Specialist II	Meter Reader	Meter Reader - Full-time	Meter Reader I	Sr Trnsmsn & Dstrbtn Tech	Sr. T&D Design Technician	Total
(1)	Number of Employees (a)	17	1.25	1.22	1	9	9	10.73	2.47	1.22	1	1	54.8844
(2)	Annual Straight Time Hours (b)	2080	2080	2080	2080	2080	2080	2080	2080	2080	2080	2080	
(3)	Total Straight - Time Hours	35,360	2,600	2,538	2,080	18,720	18,720	22,318	5,128	2,535	2,080	2,080	
(4)	Average Hourly Rate (a)	[redacted]											
(5)	Straight-time Dollars (3) x (4)	[redacted]											
(6)	Overtime Percentage (c)	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	
(7)	Overtime Dollars (5) x (6)	[redacted]											
(8)	Total Direct Labor Dollars (5) + (7)	[redacted]											
(9)	Electric Distribution O&M Labor Percentage (d)												56.34%
(10)	Electric Distribution O&M Direct Labor Expense (11) x (12)												$ 2,604,509

(a) Derived from Applicant's Response to Staff Data Request 54
(b) Straight Time Hours in One Year
(c) Derived from Applicant's Schedule C-9.1, 3 Year Union Overtime Average 2013 - 2015
(d) Derived from Applicant's Schedule C-9.1, 3 Year Union O&M Percentage Average 2013 - 2015

:e Energy Ohio, Inc
e No. 17-32-EL-AIR
:e Other Exempt

e .	Exempt	Asc Communi cations Cnslt	Associate Revenue Analyst	Bus & Tech Consultant	Business Analyst	Business Development Mgr	Business Development Mgr II	Business Ops Analyst	Business System Testing Anlyst	Change Mgmt Consultant	Commercial Associate	Contact Chanl Strtgy&Innov Mgr
)	Number of Employees (a)	1	3	2	1	3	5	1	2	1	1	1
)	Annual Straight - Time Hours (a)	71	317	297	32	118	126	30	26	25	23	129
)	Total Straight - Time Hours	71	952	594	32	355	630	30	53	25	23	129
)	Average Hourly Rate	[redacted]										
	Straight-time Dollars (3) x (4)											
	Electric Distribution O&M Labor Percentage (c)											
	Electric Distribution O&M Direct Labor Expense (11) x (12)											

Derived from Applicant's Response to Staff Data Request 54
Derived from Applicant's Schedule C-9.1 Exempt 3 Year Average 2013 - 2015.

Contact Channel ategy Anal	CSS Business Analyst	CSS Sr Business Analyst	Data Science Consultant	Data Steward	DER Strategic Outreach Coord	Digital Channel Strategy Mgr	Digital Comm Strategy Mgr	Digital Marketing Strategy Mgr	Dir CHP Microgrid& En Stor Dev	Dir DER ProdDvlpmt& ProgramMgmt	Dir Dig Chan Strat&Execution	Dir Engineering Proj Execution	Dir Field Metering & Lab Svcs	Dir Innovation Management	Dir Meter Reading
2	3	7	1	1	2	3	3	1	1	1	1	1	1	1	1
191	45	26	25	4	49	91	68	121	147	157	31	144	298	3	44
381	136	184	25	4	98	272	204	121	147	157	31	144	298	3	44
[redacted]															

Meter Svc r Support	Dir Mkt Cust Comm & Insights	Dir Retail Customer Strategy	Dir StandardPPAs &Interconnects	Economic Development Spec	Engineer III	Engineering Technologist II	Engineering Technologist III	GM DER Strgy,Policy& Strtgclnvt	GM Market Solutions Analytics	Interim Assignment - Leader	Lead CSS Business Analyst	Lead Data Steward	Lead Engineer	Lead Marketing Comm Mgr	Lead Marketing Data Analyst
1	1	1	1	1	3	1	4	1	1	3	1	1	3	2	1
225	3	42	10	13	28	1	32	44	18	57	100	8	16	72	177
225	3	42	10	13	85	1	129	44	18	172	100	8	49	144	177

[redacted]

d Product eveloper	Lead Whlsl Renewable Analyst	Manager Testing&Tool Services	Marketing Communications Mgr	Marketing Data Analyst	Mgng Dir Business Dvlpmt	Mgr DER Deal Struc Anlytcs&Res	Mgr DER Operations Support	Mgr DER Planning &Forecasting	Mgr DET Reporting Systems&Data	Mgr EE Business Intelligence	Mgr Marketing Communications	Mgr New Product Development	Mgr RP Business Development	Mgr Solar Service Center	Mgr Strategic Outreach & Comm
1	7	1	5	1	1	1	1	1	1	1	2	1	1	1	1
5	95	4	46	205	89	186	92	159	13	21	54	7	10	67	46
5	665	4	232	205	89	186	92	159	13	21	108	7	10	67	46

[redacted]

Mgr, Veg Mgmt Bus Support	MngDir DER Analyt,Svcs& BusPerf	Principal Engineer	Product & Services Manager	Product Developer	Project Manager I	Resource Planner	Retail Customer Strategy Mgr	Revenue Analyst	Senior Engineer	Sr Bus & Tech Consultant	Sr Bus System Testing Analyst	Sr Business Analyst	Sr Business Ops Analyst	Sr Business Web Analyst	Sr Change Mgmt Consultant
1	1	1	2	1	3	2	3	4	5	1	2	1	4	4	4
45	108	74	77	49	34	13	33	85	25	26	52	43	30	48	35
45	108	74	154	49	103	25	99	340	127	26	105	43	122	194	139

[redacted]

;r Data teward	Sr Emissions Trader	Sr Engineering Technologist	Sr Product Developer	Sr Proj Controls Spec	Sr Prototype Manager	Sr Revenue Analyst	Sr Technical Analyst	Sr Technical Voice Analyst	Sr Whlsl Renewable Analyst	Sr. Data Analyst - PD	Sr. Data Science Consultant	Sr. Product & Services Manager	Strategic Business Consultant	Supervisor Tool Repair	Supv Meter Reading
1	1	3	4	1	1	3	1	4	1	1	4	3	1	1	1
1	558	1	55	1	58	196	42	34	84	38	98	121	3	100	17
1	558	4	219	1	58	588	42	135	84	38	392	364	3	100	17

[redacted]

CONFIDENTIAL PROPRIETARY TRADE SECRET

WPC=3.14f

Supv RS Business Operations	Supv Rubber Goods Testing&Svcs	Supv Transmission C&M	Supv Work Mgmt Support	SVP Economic Development	SVP, Customer Solutions	System Forester	Technical Voice Analyst	Transmission Work Mgmt Planner	VP DER Business&Product Dvlmpt	VP Economic Development	VP Retail Programs	VP, Cust Comms & Channel Strat	
1	1	1	1	1	1	1	2	1	1	1	1	1	188
74	109	16	119	12	21	31	98	7	141	81	43	175	
74	109	16	119	12	21	31	197	7	141	81	43	175	
[redacted]													$642,730
													11.77%
													$ 75,649

Duke Energy Ohio, Inc
Case No. 17-32-EL-AIR
Duke Other Non-Exempt

Line No.	Non Exempt - Other Labor	Automated Metering Syss Spc	College Co-op - 4 Year	Cust Care Specialist II	Cust Care Specialist III	Cust Care Team Lead-Bilingual	Developmental Assignment	Dist Line & Serv Tech III	Executive Assistant I
(1)	Number of Employees (a)	2	1	1	1	1	2	1	2
(2)	Annual Straight - Time Hours (a)	788	149	11	15	0	49	1	58
(3)	Average Hourly Rate	[redacted]							
(4)	Straight-time Dollars (3) x (4)								
(5)	Overtime Percentage (b)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
(6)	Overtime Dollars (5) x (6)	[redacted]							
(7)	Total Direct Labor Dollars (5) + (7)								
(8)	Electric Distribution O&M Labor Percentage (c)								
(9)	Electric Distribution O&M Direct Labor Expense (11) x (12)								

(a) Derived from Applicant's Response to Staff Data Request 54
(b) Derived from Applicant's Schedule C-9.1, 3 Year Non-Exempt Overtime Average 2013 - 2015
(c) Derived from Applicant's Schedule C-9.1 Non - Exempt 3 Year Average 2013 - 2015 O&M Percentage.

WPC3.14g

Executive Assistant II	Glove Lab Tech I	Glove Lab Tech II	Payment Specialist	Revenue Services Specialist I	Revenue Services Specialist II	Senior Cust Care Specialist	Smart Energy Specialist	Sr Revenue Services Spec	Team Lead Revenue Svc	Tool Repair Tech II PD	Work Mgmt Spec II	Total
1	3	4	5	7	20	3	12	9	4	8	2	89
1	222	167	129	55	170	11	27	275	84	268	1	
[redacted]												$61,441
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	
[redacted]												$614
												$62,056
												33.92%
												$21,049

CONFIDENTIAL PROPRIETARY TRADE SECRET

Duke Energy Ohio, Inc
Case No. 17-32-EL-AIR
Duke Other Union

WPC-3.14h

Line No.	Union - Other Labor	Lineperson A	Lineperson A-Trouble	Lineperson B	Lineperson C	Meter Reader	Meter Repairer	Meter Tester	Premise Troubleshooter	Senior Lineperson A	Substa Maint Mech A	Total
(1)	Number of Employees (a)	2	2	4	2	1	1	1	4	2	2	21
(2)	Annual Straight - Time Hours (b)	34	58	110	77	126	145	40	11	90	90	784
(3)	Total Straight Time Hours	69	117	442	155	126	145	40	43	181	181	
(4)	Average Hourly Rate (a)	[redacted]										
(5)	Straight-time Dollars (3) x (4)											$48,195
(6)	Overtime Percentage (c)	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	32.63%	
(7)	Overtime Dollars (5) x (6)	[redacted]										$15,726
(8)	Total Direct Labor Dollars (5) + (7)											$63,921
(9)	Electric Distribution O&M Labor Percentage											56.34%
(10)	Electric Distribution O&M Direct Labor Expense (11) x (12)											$36,013

(a) Derived from Applicant's Response to Staff Data Request 54
(b) Straight Time Hours in One Year
(c) Derived from Applicant's Schedule C-9.1, 3 Year Union Overtime Average 2013 - 2015
(d) Derived from Applicant's Schedule C-9.1 Exempt Test Year O&M Percentage.

Duke Energy Ohio, Inc
Case No. 17-32-EL-AIR

AS PROVIDED BY STAFF

Adjust Bonus Pay Expense
Workpaper Reference No(s).: See below

Schedule C-3.14c
Page 1 of 1

Line No.	Description	Workpaper Reference		Amount
(1)	Bonus Pay Expense	Staff's WPC-3.14a3	$ 3,522,526	
(2)	Energy Efficiency Bonus Pay Expense	Staff's WPC-3.14a3	133,800	
(3)	Total Bonus Pay Expense (1) + (2)			3,656,326
(4)	Test Year Bonus Pay	Staff's WPC-3.14a3	7,785,610	
(5)	Test Year Energy Efficiency Bonus Pay	Staff's WPC-3.14a3	**294,844**	
(6)	Total Test Year Bonus Pay (4) + (5)			8,080,454
(7)	Bonus Pay Adjustment (1) - (4)	Staff's WPC-3.14a3	(4,263,084)	
(8)	Energy Efficiency Bonus Pay Adjustment (2) - (5)	Staff's WPC-3.14a3	(161,044)	
(9)	Total Bonus Pay Adjustment (2) + (7)			$ (4,129,284)

Duke Energy Ohio, Inc
Case No. 17-32-EL-AIR
Correcting Staff's Adjustment for Incentive (Bonus) Pay

WPC-3.14a3

Line No.	Resource Type	Resource Description	Staff Data Request 11	Earnings Percentage Used by Staff	Bonus Pay Expense (a)	Test Year Expense (b)	Staff Adjustment	
(1)	100	Exec Short Term Incent	Short Term Incentives-Executive	50.00%	$ 426,977	$ 853,953	$ (426,977)	PER STAFF
(2)	15001	Incentive Pay	Short Term Incentives-Executive	50.00%	$ 70,885	$ 141,770	$ (70,885)	
(3)	18401	Incentives Allocated-Union	Short Term Incentives-Union	70.00%	$ 456,082	$ 651,545	$ (195,464)	
(4)	18400	Incentives Allocated	Short Term Incentives-Executive	50.00%	$ 2,410,924	$ 4,821,849	$ (2,410,924)	
(5)	15002	Labor Other		0.00%	$ 202,385	$ 202,385	$ -	
(6)	15003	Labor Other-Union		0.00%	$ 40,860	$ 40,860	$ -	
(7)	1.00E+200	Restricted Stock Units	Executive Long Term Incentive	100.00%	$ -	$ 866,097	$ (866,097)	
(8)	1.00E+202	Performance Award	Executive Long Term Incentive	17.50%	$ 111,386	$ 636,494	$ (525,108)	
(9)	1B620	Other Executive Benefits		100.00%	$ (4,969)	$ (4,969)	$ -	
(10)	Total Bonus Pay				$ 3,714,530	$ 8,209,984	$ (4,495,454)	
(11)	Percentage to Distribution		94.831%		$ 3,522,526	$ 7,785,610	$ (4,263,084)	

(a) Staff Data Requests 11, 112, 115, 129
(b) Staff Data Request 120

Bonus Pay

	Resource Type	Resource Description	Staff Data Request 11	Actual Percentage Tied to Financial	Corrected Staff Bonus Pay Expense	Test Year Expense (b)	Staff Adjustment	
(1)	100	Exec Short Term Incent	Short Term Incentives-Executive	50.00%	$ 426,977	$ 853,953	$ (426,977)	CORRECTED
(2)	15001	Incentive Pay	*Short Term Incentives - all other*	**30.00%**	$ **99,239**	$ 141,770	$ (42,531)	
(3)	18401	Incentives Allocated-Union	Short Term Incentives-Union	**0.00%**	$ **651,545**	$ 651,545	$ -	
(4)	18400	Incentives Allocated	Short Term Incentives-*all other*	**30.00%**	$ **3,375,294**	$ 4,821,849	$ (1,446,555)	
(5)	15002	Labor Other		0.00%	$ 202,385	$ 202,385	$ -	
(6)	15003	Labor Other-Union		0.00%	$ 40,860	$ 40,860	$ -	
(7)	1.00E+200	Restricted Stock Units	Executive Long Term Incentive	**0.00%**	$ **866,097**	$ 866,097	$ -	
(8)	1.00E+202	Performance Award	Executive Long Term Incentive	**75.00%**	$ **159,124**	$ 636,494	$ (477,371)	
(9)	1B620	Other Executive Benefits		100.00%	$ (4,969)	$ (4,969)	$ -	
(10)	Total Bonus Pay				$ 5,816,551	$ 8,209,984	$ (2,393,433)	
(11)	Percentage to Distribution		94.831%		$ 5,515,893	$ 7,785,610	$ (2,269,717)	

Duke Energy Ohio, Inc
Case No. 17-32-EL-AIR

AS PROVIDED BY STAFF

Corrected Adjustment to Bonus Pay Expense Assuming Only Financial Goals Excluded
Workpaper Reference No(s).: See below

Schedule C-3.14c
Page 1 of 1

Line No.	Description	Workpaper Reference			Amount
(1)	Corrected Bonus Pay Expense	Supp WDW-2, pg 2	$	5,515,893	
(2)	Energy Efficiency Bonus Pay Expense	n/a		-	
(3)	Total Bonus Pay Expense (1) + (2)				5,515,893
(4)	Test Year Bonus Pay	Staff's WPC-3.14a3		7,785,610	
(5)	Test Year Energy Efficiency Bonus Pay	n/a		-	
(6)	Total Test Year Bonus Pay (4) + (5)				7,785,610
(7)	Bonus Pay Adjustment (1) - (4)	calculated		(2,269,717)	
(8)	Energy Efficiency Bonus Pay Adjustment (2) - (5)	n/a		-	
(9)	**Corrected Total Bonus Pay Adjustment (3) - (8)**				$ (2,269,717)
	Correction to Staff's Adjustment				

Duke Energy Ohio
Case No. 17-0032-EL-AIR
Staff Seventy-Eighth Set Data Requests
Date Received: May 8, 2017

STAFF-DR-78-001

REQUEST:

In reference to the attached spreadsheet, please provide Staff with the following:

Written explanation stating why the test year amounts for Accounts 583, 595, 903, 904, and 921 (Computer Rent – Go Only) are significantly higher than prior years. Also, please explain the significant variance year to year for Accounts 583 & 595, and explain what Computer Rent (Go Only) is.

RESPONSE:

The reason the test year amounts are higher than previous years are as follows:

- Account 58310 - Increased significantly in the test year due to increased spending on maintenance activities, primarily performed by Osmose Utilities Services, Inc. These activities included pole inspection, pole excavation and treatment of the poles. In years 2013, 2014 and 2015, O&M was credited as part of a correction to capitalize previously expensed transformer and labor costs.
- Account 59510 - This increase was driven by using Environmental Management Specialists as an outside contractor to clean up various transformer and other oil spills. In 2015 this account was in a credit position due to transformers being placed in inventory that had previously been expensed. This is also true in 2013.
- Account 903200 – The increase is due to the change of the general ledger account postage for customer bills was being charged. Starting in October 2015, 903200 was charged. Prior to October 2015, 903000 was the account charged with the costs.
- Account 904001 – Uncollectible expense included in the revenue requirement is calculated in the model on C-3.12 based on the applicable revenues and the uncollectible expense factor. The amounts in accounts 904001, 904003, and 904890 included on the C(6) are eliminated on C-3.12. See Attachment Staff-DR-78-001a for an explanation of the increase from prior years.
- Account 921540 - This account is utilized across the enterprise and is mainly comprised of allocated workstation and telephone expenses. Beginning in January 2016, Duke Energy began amortizing the SmartGrid Distribution Communications System maintenance agreements, at a cost of $88K per month, resulting in an increase in the test year expenses. The Smart Grid costs were previously recovered in Rider DR-IM and deferred on the books.

PERSON RESPONSIBLE: Peggy A. Laub

Duke Energy Ohio
Case No. 17-0032-EL-AIR
Staff Seventy-Eighth Set Data Requests
Date Received: May 8, 2017

STAFF-DR-78-002

REQUEST:

In reference to the attached spreadsheet, please provide Staff with the following:

Written explanation stating why there is a significant increase in the test year amount for Account 921 (Office Expenses) & Account 931. The trend appears to have been decreasing through 2015 and then a significant spike upwards during the test year. Why?

RESPONSE:

The reason the test year amounts are higher than previous years are as follows:

- Account 921200 - In 2013 costs included employee parking expenses ($229K) and CTA ($359K) that are not included in 2014. Service company allocations declined in 2014 and 2015 when compared to the previous years; 2015 primarily due to a credit pushed to the jurisdiction related to public relations. Year 2016 costs are higher due to increased postage and freight.

- Account 931008 - This account is primarily used for service company charges for the use of service company assets and return on pre-paid assets. The 2014 and 2016 charges in this account are similar. The lower amount in 2015 was caused by a significant pension payment which reduced the return related to the pension prepayment account.

PERSON RESPONSIBLE: David Doss\Peggy A. Laub

Duke Energy Ohio
Case No. 17-0032-EL-AIR
Staff One Hundredth & Sixth Set Data Requests
Date Received: May 31, 2017

STAFF-DR-106-001

REQUEST:

As a follow up to the response for DR #78, please provide Staff with the following:

- Explanation regarding Account #58310. How often is pole inspection, excavation, and treatment done? Is it done in regular intervals every certain number of years?
- Explanation regarding Account #59510. How often is the type of cleanup described in DR #78 performed? Is it performed regularly? Has an outside contractor always been used to perform the cleanup described? What is the process for selecting an outside contractor?

RESPONSE:

a) Distribution Pole inspections (ground-line treatment) in Ohio are performed every 10 years.

b) In Ohio, there are approximately 400 spills per year so cleanup occurs on a regular basis. Historically, Duke Energy Ohio self-performed most spill cleanups prior to 2016. Contractors are selected based on safety, cost effectiveness and capabilities to meet environmental requirements in a timely manner.

PERSON RESPONSIBLE: a) Cicely Hart
b) Glenn Hauser

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for an Increase in Gas Distribution Rates	)))	Case No. 17-1139-GA-AIR
In the Matter of the Application of Ohio Gas Company for Tariff Approval	))	Case No. 17-1140-GA-ATA
In the Matter of the Application of Ohio Gas Company for Approval of Certain Accounting Authority	)))	Case No. 17-1141-GA-AAM

Asim Z. Haque, Chairman
M. Beth Trombold, Commissioner
Thomas W. Johnson, Commissioner
Lawrence K. Friedeman, Commissioner
Daniel R. Conway, Commissioner

To the Honorable Commission:

In accordance with the provisions of the Ohio Revised Code Section 4909.19, the Staff of the Public Utilities Commission of Ohio (Staff) has conducted its investigation in the above matter and hereby submits its findings to the Commissioners of the Public Utilities Commission of Ohio (Commission or PUCO) in this Staff Report.

The Staff Report has been jointly prepared by the Staff's Rates and Analysis Department and Service Monitoring and Enforcement Department.

Copies of the Staff Report have been filed with the Docketing Division of the PUCO and served by certified mail upon the mayors of all affected municipalities and other public officials deemed representative of the service area affected by the application. A copy of this report has also been served upon the utility or its authorized representative. Interested parties are advised that written objections to any portion of the Staff Report must be filed within 30 days of the date of the filing of this report, after which time the

Commission will promptly set this matter for public hearing. Written notice of the time, place, and date of such hearing will be served upon all parties to the proceeding.

The Staff Report is intended to present for the Commission's consideration the results of the Staff's investigation. It does not purport to reflect the views of the Commission nor should any party to the proceeding consider the Commission as bound in any manner by the representations or recommendations. The Staff Report, however, is legally cognizable evidence upon which the Commission may rely in reaching its decision in this matter. (See *Lindsey v. Pub. Util. Comm.*, 111 Ohio St. 6 (1924)).

Respectfully submitted,

PUCO Rates and Analysis Department

Patrick Donlon
Director

PUCO Service Monitoring and Enforcement Department

John Williams
Director

OHIO GAS COMPANY
CASE NO. 17-1139-GA-AIR
JURISDICTIONAL RATE BASE SUMMARY
AS OF DECEMBER 31, 2016

Schedule B-1
Page 1 of 1

LINE NO.	RATE BASE COMPONENT	SUPPORTING STAFF SCHEDULE REFERENCE	APPLICANT	STAFF
1	PLANT IN SERVICE	B-2	$ 87,960,627	$ 87,764,343
2				
3	RESERVE FOR ACCUMULATED DEPRECIATION	B-3	(55,918,091)	(55,901,277)
4				
5	NET PLANT IN SERVICE (1 + 3)		32,042,536	31,863,066
6				
7	CONSTRUCTION WORK IN PROGRESS 75% COMPLETE	B-4	-	-
8				
9	WORKING CAPITAL ALLOWANCE	B-5	979,015	905,626
10				
11	CONTRIBUTIONS IN AID OF CONSTRUCTION	B-6	-	
12				
13	OTHER RATE BASE ITEMS	B-6	(5,646,023)	(5,646,024)
14				
15	JURISDICTIONAL RATE BASE (5) THRU (13)		$ 27,375,528	$ 27,122,668

OHIO GAS COMPANY
CASE NO. 17-1139-GA-AIR
ALLOWANCE FOR WORKING CAPITAL
AS OF DECEMBER 31, 2016

Reference No(s): See Below

Schedule B-5
Page 1 of 1

LINE NO.	ACCT NO. (A)	WORKING CAPITAL COMPONENT (B)	SCHEDULE REFERENCE NO. (C)	ADJUSTED JURISDICTIONAL (D)	ADJUSTED JURISDICTIONAL (E)
1		CASH COMPONENT			
2		TOTAL OPERATING AND MAINTENANCE EXPENSES	C2	$ 7,721,083	
3					
4		CASH COMPONENT (2)/8			$ 965,135
5					
6		1/4 OF OPERATING TAXES			
7		TAXES OTHER THAN INCOME TAXES	C2	1,962,882	
8		INCOME TAXES	C2	378,675	
9		TOTAL		$ 2,341,557	
10					
11		1/4 OF OPERATING TAXES			(585,389)
12					
13		M&S - PIPE AND FITTINGS	Applicant B5.1		487,005
14		PIP CUST A/R 12 MO OLD	Applicant B5.1		(3,176)
15		DEFERRED BAD DEBT EXPENSE	Applicant B5.1		42,051
16		TOTAL ALLOWANCE FOR WORKING CAPITAL			$ 905,626