

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)
Energy Ohio, Inc., for the Establishment)
of a Charge Pursuant to Revised Code) Case No. 12-2400-EL-UNC
Section 4909.18.)

In the Matter of the Application of Duke)
Energy Ohio, Inc., for Approval to) Case No. 12-2401-EL-AAM
Change Accounting Methods.)

In the Matter of the Application of Duke)
Energy Ohio, Inc., for the Approval of a) Case No. 12-2402-EL-ATA
Tariff for a New Service.)

DIRECT TESTIMONY OF

BRIAN D. SAVOY

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____ Management policies, practices, and organization
_____ Operating income
_____ Rate Base
_____ Allocations
_____ Rate of return
_____ Rates and tariffs
 X Other: Financial projections

March 1, 2013

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- BDS-1: Projected Statements of Income
- BDS-2: Projected Balance Sheets
- BDS-3: Return on Equity

I. INTRODUCTION AND PURPOSE

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

2 A. My name is Brian D. Savoy, and my business address is 550 South Tryon Street,
3 Charlotte, North Carolina 28202.

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

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

9 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

11 A. I earned a bachelor of business administration degree in accounting from Lamar
12 University in Beaumont, Texas. I have also completed the Advanced Management
13 program at the Fuqua School of Business at Duke University. I am a certified public
14 accountant in both Texas and Ohio.

15 Prior to joining Duke Energy, I was a Manager with the international accounting
16 firm, Deloitte & Touche, based in Houston, Texas. During my tenure at Deloitte &
17 Touche, I served various energy clients through audit and consulting services.

18 I joined Duke Energy in July 2001 as Manager of Technical Accounting in
19 Houston, Texas, and, in December of that year, I was named Director of Risk
20 Management Accounting. In April 2004, I was promoted to Senior Director of Risk
21 Management Accounting and Analysis at Duke Energy North America in Houston,
22 Texas. In this role, I led the derivative accounting and trading control functions for the

1 energy trading and marketing activities of Duke Energy.

2 In April 2006, I was promoted to Vice President and Controller of the
3 Commercial Power unit of Duke Energy in Cincinnati, Ohio. In this role, I was
4 responsible for the financial accounting, reporting, and internal controls of Duke
5 Energy's non-regulated generation and Duke Energy Generation Services businesses.

6 In March 2009, I was appointed to as General Manager of Corporate Financial
7 Planning & Analysis in Duke Energy's headquarters in Charlotte, North Carolina. In that
8 role, I was responsible for leading the financial forecasting and planning for the
9 corporation. In January 2011, my title was changed to Managing Director of Corporate
10 Financial Planning & Analysis, but there was no change to my responsibilities.

11 In July 2012, upon the close of the merger between Duke Energy and Progress
12 Energy Corporation, I was named Director, Financial Forecasting and Analysis. As a
13 result of this appointment, I retained my existing responsibilities and expanded them to
14 include financial forecasting and analysis for the Progress Energy operating utilities,
15 service company, and non-regulated subsidiaries.

16 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS DIRECTOR OF**
17 **FINANCIAL PLANNING & ANALYSIS.**

18 A. I lead and direct a team of approximately thirty professionals in the preparation of the
19 short- and long-term financial forecasts of earnings and cash flow for Duke Energy,
20 including each operating unit, such as Duke Energy Ohio. This role also includes
21 financial modeling of sensitivities and strategic scenarios and evaluating the projected
22 financial impact of those alternatives. The primary deliverables from this group are
23 financial presentations to senior management and the board of directors, as well as

1 financial targets for employee incentive compensation.

2 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES**
3 **COMMISSION OF OHIO?**

4 A. Yes. I have previously testified before the Public Utilities Commission of Ohio
5 (Commission) in Duke Energy Ohio's application for approval of a market rate offer, filed
6 under Case No. 10-2586-EL-SSO, *et al.*, and in Duke Energy Ohio's application for
7 approval of an electric security plan, filed under Case No. 11-3549-EL-SSO, *et al.*

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

9 A. The purpose of my testimony is to sponsor the Company's *pro forma* financial
10 projections of its legacy generation assets for the period between August 1, 2012, and
11 May 31, 2015. My testimony addresses the financial projections of the legacy generation
12 assets during this time horizon, including net income projections, return on equity
13 projections and balance sheet projections.

II. DISCUSSION

14 **Q. PLEASE EXPLAIN WHY YOU SELECTED THE PERIOD BETWEEN AUGUST**
15 **1, 2012, AND MAY 31, 2015, FOR PURPOSES OF PREPARING THE**
16 **FINANCIAL PROJECTIONS.**

17 A. The period between August 1, 2012, and May 31, 2015, reflects the relevant period for
18 purposes of the cost-based capacity charge that Duke Energy Ohio is requesting in these
19 proceedings. As explained in greater detail in the Direct Testimony of William Don
20 Wathen Jr., the Company is seeking the establishment of a charge for its noncompetitive,
21 wholesale capacity obligations as a Fixed Resource Requirement (FRR) entity and is
22 further seeking associated deferral authority. Although, as I understand, Duke Energy

1 Ohio's FRR obligations were first effective on January 1, 2012, the Company is seeking
2 deferral authority as of August 1, 2012. And May 31, 2015, is the other relevant date for
3 purposes of my calculations, as that is the date on which I have been told the Company's
4 FRR obligations will terminate.

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

6 A. I am sponsoring the following items:

- 7 • BDS-1: Projected Statements of Income
- 8 • BDS-2: Projected Balance Sheets
- 9 • BDS-3: Return on Equity

10 **Q. PLEASE IDENTIFY AND DESCRIBE ATTACHMENT BDS-1.**

11 A. Attachment BDS-1 is the projected Statement of Income for the period at issue in these
12 proceedings. These projections are derived from Duke Energy Ohio's proprietary models
13 that project gross margin based on the expected sale of economic generation volumes
14 priced using executed wholesale contracts or forward market prices. Operating expenses,
15 depreciation, property taxes, interest expense, and income taxes are projected estimates
16 based on Duke Energy Ohio's operating assumptions in the next three years. The
17 financial projections in this and all attachments are limited to the generation business as
18 that is the segment of the Company providing the noncompetitive FRR capacity service
19 at issue in this case.

20 **Q. PLEASE IDENTIFY AND DESCRIBE ATTACHMENT BDS-2.**

21 A. Attachment BDS-2 presents the Projected Balance Sheets for the legacy generation assets
22 of Duke Energy Ohio as of December 31, 2012; December 31, 2013; December 31, 2014;
23 and December 31, 2015.

1 **Q. PLEASE IDENTIFY AND DESCRIBE ATTACHMENT BDS-3.**

2 A. Attachment BDS-3 is the projected Return on Equity for the legacy generation of Duke
3 Energy Ohio for the years ended December 31, 2012; December 31, 2013; December 31,
4 2014; and December 31, 2015.

5 **Q. WHY DID YOU INCLUDE ON ATTACHMENTS BDS-2 AND BDS-3**
6 **INFORMATION FOR THE TWELVE MONTHS OF 2012 AND 2015?**

7 A. Balance sheets reflect an end-of-period view. And the end of period that Duke Energy
8 uses in its reporting systems is the end of the year. Thus, the content of Attachments
9 BDS-2 and BDS-3 reflects end-of-year balances so as to ensure that the information is
10 accurate.

11 **Q. HOW ARE THESE ATTACHMENTS RELEVANT TO DUKE ENERGY OHIO'S**
12 **REQUEST AS REFLECTED IN ITS APPLICATION FILED IN THESE**
13 **PROCEEDINGS?**

14 A. These attachments identify the significant financial harm to which Duke Energy Ohio has
15 been and will continue to be exposed in the event its proposals, as described in these
16 proceedings, are denied. As these attachments confirm, Duke Energy Ohio's projected
17 returns on shareholders' investment range from a loss of 3.6 percent to an even more
18 significant loss of 13.5 percent. These attachments also establish that Duke Energy Ohio
19 requires approximately \$134 million on an annualized basis through May 31, 2015, to
20 earn even zero percent on its equity investment.

21 **Q. WHY DO YOUR CALCULATIONS DIFFER FROM THE STATEMENTS IN**
22 **THE APPLICATION AS TO PROJECTED RETURNS ON SHAREHOLDERS'**
23 **INVESTMENT AND THE MINIMUM AMOUNT NEEDED ON AN**

1 **ANNUALIZED BASIS FOR DUKE ENERGY OHIO TO EARN EVEN ZERO**
2 **PERCENT ON ITS EQUITY INVESTMENT?**

3 A. The data in the Application is based in part on information from financial statements
4 presented in the FERC Form 1 as of and per December 31, 2011, while the data in the *pro*
5 *forma* financial projections are based on more recent financial forecasts.

6 **Q. WHAT ASSUMPTIONS DID YOU MAKE FOR PURPOSES OF DEVELOPING**
7 **THE *PRO FORMA* FINANCIAL PROJECTIONS THAT ARE ATTACHED TO**
8 **AND A PART OF YOUR TESTIMONY?**

9 A. The margins in the *pro forma* financial projections are based on the 2012 6&6 forecast
10 for the legacy generation assets, which align with the revenue requirement calculations
11 presented in Attachment B to the Application in these proceedings. Items below margins
12 and Balance Sheet values were sourced from the 2012 2&10 financial guidance
13 projections, which were the most recent long-term projections for those items prior to
14 August 2012. In addition, an estimated effective tax rate of 38 percent was employed in
15 the analysis.

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

18 A. The *pro forma* financial projections were developed consistent with the methodology
19 utilized by the Company for preparing its normal operating forecast. This process
20 involves input from various groups within the Company, with the key inputs from these
21 groups related to generation dispatch, fuel costs, operating and maintenance activities,
22 capital expenditures, and financing.

III. CONCLUSION

1 **Q. WERE ATTACHMENTS BDS-1 THROUGH BDS-3 PREPARED BY YOU OR**
2 **UNDER YOUR SUPERVISION?**

3 A. Yes.

4 **Q. IS THE INFORMATION CONTAINED IN ATTACHMENTS BDS-1 THROUGH**
5 **BDS-3 TRUE AND ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND**
6 **BELIEF?**

7 A. Yes.

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

9 A. Yes.

Duke Energy Ohio
Legacy Generation Assets
Projected Income Statement

Attachment BDS -1
Page 1 of 1

Line	Description	Aug - Dec 2012	2013	2014	Jan - May 2015
1	Operating Revenues				
2	Capacity Revenue				
3	Energy Sales				
4	Ancillary Services				
5	Total Electric Operating Revenues				
6	Cost of Generation and Purchased Capacity				
7	Fuel Cost				
8	Emission Cost				
9	Capacity Purchase Cost				
10	Total Cost of Generation and Purchased Power				
11	Gross Margin				
12	Operating Expenses				
13	Operation and Maintenance				
14	Depreciation and Amortization				
15	Taxes Other Than Income Taxes				
16	Total Operating Expenses				
17	Operating Income				
18	Interest Expense				
19	Earnings Before Income Tax	(110,143,719)	(160,441,503)	(86,313,792)	(22,079,940)
20	Current and Deferred Income Taxes				
21	Adjusted Net Income				

Duke Energy Ohio
Legacy Generation Assets
Projected Balance Sheet

Attachment BDS - 2
Page 1 of 1

Line	Description	2012	2013	2014	2015
1	ASSETS				
2	Gross Plant in Service				
3	CWIP				
4	TOTAL UTILITY PLANT				
5	Accumulated Depreciation				
6	NET UTILITY PLANT				
7	CURRENT ASSETS				
8	Cash and Cash Equivalents				
9	Receivables				
10	Inventory				
11	Other				
12	TOTAL CURRENT ASSETS				
13	Intangible Assets, Net				
14	Other Non-current Assets				
15	Regulatory Assets				
16	TOTAL ASSETS				
17	EQUITY AND LIABILITIES				
18	Common Stock				
19	Additional Paid-in Capital				
20	Retained Earnings				
21	Accumulated Other Comprehensive income (loss)				
22	TOTAL EQUITY				
23	LONG TERM DEBT				
24	TOTAL CAPITAL				
25	CURRENT LIABILITIES				
26	Accounts Payable				
27	Notes Payable and Commercial Paper				
28	Taxes Accrued				
29	Interest Accrued				
30	Current Maturities of Long Term Debt				
31	Other				
31	TOTAL CURRENT LIABILITIES				
32	DEFERRED CREDITS AND OTHER LIABILITIES				
33	Deferred Income Taxes				
34	Asset Retirement Obligations				
35	Accrued Pension and Other Post-Retirement Benefits				
36	Regulatory Liabilities				
37	Other				
38	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES				
39	TOTAL EQUITY AND LIABILITIES				

Duke Energy Ohio
Legacy Generation Assets
Return on Equity

Attachment BDS -3
Page 1 of 1

Line	Description	2012	2013	2014	2015
1	Adjusted Earnings Available for Common				
2	Average Net Equity (excluding Goodwill)				
3	Return on Equity	-13.5%	-9.0%	-5.2%	-3.6%