

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. 12-1682-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.))	Case No. 12-1683-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.))	Case No. 12-1684-EL-AAM

SECOND SUPPLEMENTAL TESTIMONY OF

WILLIAM DON WATHEN JR. IN SUPPORT OF SETTLEMENT

ON BEHALF OF

DUKE ENERGY OHIO, INC.

April 2, 2013

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I. INTRODUCTION

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

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

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

5 A. I am employed by Duke Energy Business Services LLC (DEBS) as Director of
6 Rates and Regulatory Strategy for Ohio and Kentucky.

7 **Q. ARE YOU THE SAME WILLIAM DON WATHEN JR. WHO FILED
8 DIRECT AND SUPPLEMENTAL TESTIMONY IN THESE
9 PROCEEDINGS?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN
12 SUPPORT OF SETTLEMENT?**

13 A. The purpose of my testimony is to discuss and support the reasonableness of a
14 Stipulation and Recommendation (Stipulation) entered into among Duke Energy
15 Ohio, Inc., (Duke Energy Ohio), Staff of the Public Utilities Commission of Ohio
16 (Staff), and other parties representing all stakeholder interests who have
17 intervened in Duke Energy Ohio's application for an increase in distribution rates,
18 tariff approval, and change in accounting methods contained in the above
19 captioned proceedings. I will discuss and support the reasonableness of the
20 Stipulation filed in these proceedings. This testimony will demonstrate that: (1)
21 the Stipulation is the product of serious bargaining among capable,
22 knowledgeable parties; (2) the Stipulation does not violate any important

1 regulatory principle or practice and; (3) the Stipulation is just a reasonable
2 resolution of the issues that as a package will benefit ratepayers and the public
3 interest.

II. DISCUSSION OF THE STIPULATION AND RECOMMENDATION

4 **Q. PLEASE GENERALLY DESCRIBE THE STIPULATION AND**
5 **RECOMMENDATION.**

6 A. I have reviewed the Stipulation and was involved in the discussions reaching
7 resolution. The Stipulation represents a resolution of all issues among the Parties
8 relating to the Company's application for an increase in electric distribution rates.
9 Except where specifically noted otherwise, the Stipulation adopts the
10 recommendations contained in the Report by the Staff of the Public Utilities
11 Commission of Ohio (Staff) issued in these proceedings on January 4, 2013 (Staff
12 Report).

13 In Summary, the Parties agree that Duke Energy Ohio shall increase its
14 annual electric distribution base retail rates to achieve a \$49 million increase in
15 base revenue, with an agreed upon return on equity (ROE) of 9.84% and a capital
16 structure for the Company that is 53.3% equity and 46.7% debt. The distribution
17 of the revenue increase and the billing determinants is included as Attachment 1
18 to the Stipulation and was agreed to by all of the Parties. The Parties represented
19 diverse interests and include the Office of the Ohio Consumers' Counsel; Ohio
20 Partners for Affordable Energy; the City of Cincinnati; The Kroger Co.; the
21 University of Cincinnati; Miami University; The Greater Cincinnati Health
22 Council; Cincinnati Bell Telephone Company, LLC; Cincinnati Bell Wireless,

1 LLC; Cyrus One Inc.; Direct Energy Services, LLC; Direct Energy Business,
2 LLC; People Working Cooperatively, Inc.; Ohio Energy Group; Ohio
3 Manufacturers' Association; Ohio Environmental Council; Interstate Gas Supply;
4 and the Natural Resources Defense Council.

5 Among the various rate design and tariff language changes agreed upon by
6 the Parties, Duke Energy Ohio has agreed in these proceedings to a revenue
7 neutral redesign of its residential electric heat rate (Rate ORH) to mirror the
8 summer block rate of the Company's residential rate (Rate RS). The Parties have
9 also agreed to revised language for the Company's Right of Way tariff. As part of
10 the settlement, Duke Energy Ohio has agreed to withdraw or not implement
11 several proposals in these proceedings, namely its request for a storm cost deferral
12 and tracking mechanism and the Company's proposal to implement its Facilities
13 Relocation - Mass Transportation Rider (Rider FRT). Finally, Duke Energy Ohio
14 has agreed to provide shareholder funding for a fuel fund to be administered by
15 Ohio Partners for Affordable Energy (OPAE). The funding will be set at
16 \$350,000, annually, for OPAE and the settlement allows OPAE, at its discretion,
17 to use the funds for either natural gas or electric distribution programs in Duke
18 Energy Ohio's service territory.

19 The Stipulation resolves all issues in these proceedings and is supported
20 by a cross section of all stakeholders, including residential, non-residential, and
21 low income customers.

22 **Q. DOES THE STIPULATION REPRESENT THE PRODUCT OF SERIOUS**
23 **BARGAINING AMONG CAPABLE, KNOWLEDGABLE PARTIES?**

WILLIAM DON WATHEN JR. SECOND SUPPLEMENTAL TESTIMONY
 IN SUPPORT OF SETTLEMENT

1 A. Yes. The knowledge and capability of the Parties to the Stipulation, and their
2 attorneys are readily apparent. The Parties regularly participate in rate
3 proceedings before the Commission, are knowledgeable in regulatory matters, and
4 are represented by experienced, competent counsel. The Staff thoroughly
5 reviewed the Company's application and the Company responded to hundreds of
6 discovery requests. Many of the Parties to these proceedings were also involved
7 in the Company's last electric distribution rate case, Case No 09-709-EL-AIR, *et*
8 *al.* Settlement negotiations occurred via meetings at the Commission's offices,
9 through telephone conference calls and via electronic mail exchanges. All Parties
10 were invited to attend these meetings and all of the issues raised by the Parties in
11 these proceedings were addressed during these negotiations. The final settlement
12 conference occurred on March 25, 2013, the day of the publicly noticed
13 evidentiary hearing in these proceedings. All Parties had an opportunity to express
14 their opinions in the negotiating process. For all of these reasons, I believe that
15 the Stipulation is a compromise resulting from serious bargaining among capable,
16 knowledgeable parties.

17 As a result of the Stipulation, Duke Energy Ohio has agreed, among other
18 things, to:

- 19 • Recover substantially less revenue than it requested and supported in
20 these proceedings;
- 21 • Implement a lower monthly customer charge than what was proposed for
22 residential customers taking service under Rates RS, ORH, and CUR, and
23 maintain the discounted monthly customer charge for Rate RSLI.

- Provide for shareholder-funded fuel fund for low income customers.

Many of the Parties, as demonstrated in their objections to the Staff Report, sought a result in which Duke Energy Ohio would have received substantially less revenue than what Duke Energy Ohio will receive under the Stipulation. In addition, the Stipulation contains many provisions that provide benefits to customers. Many of these provisions such as the shareholder low-income weatherization dollars were not included in the Company's Application. Therefore, this Stipulation does indeed represent a reasonable compromise among the Parties.

Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE OR PRACTICE?

A. No. Based on the advice of counsel, my understanding is that the Stipulation complies with all relevant and important principles and practices. Based upon my examination of the Stipulation as Director of Rates and Regulatory Strategy, Ohio and Kentucky, I have also concluded that the Stipulation is consistent with prior Commission Orders. The Stipulation results in a reasonable rate for customers, and allows the Company an opportunity to earn a reasonable rate of return on its shareholders' investment in facilities to provide electric distribution service. The Stipulation is consistent with and strikes a reasonable balance between regulatory principles such as gradualism, allowing the Company an opportunity to earn a reasonable rate of return, and designing rates which move toward full alignment of costs with customer class causation.

1 **Q. DOES THE STIPULATION BENEFIT RATEPAYERS AND THE PUBLIC**
2 **INTEREST?**

3 A. Yes. As I already mentioned, the Stipulation addresses the recommendations
4 contained in the Staff Report and provides numerous benefits across all customer
5 classes. Customers will experience a substantially lower base rate increase than
6 that which Duke Energy Ohio supported in its Application. The Stipulation
7 provides for many benefits through the agreed upon rate design that reasonably
8 apportions the increase among and within the various customer classes. Finally,
9 the Stipulation provides a direct benefit for low-income customers through
10 shareholder funded contributions to support weatherization initiatives and other
11 programs.

12 **Q. IS THE STIPULATION A JUST AND REASONABLE RESOLUTION OF**
13 **THE ISSUES?**

14 A. Yes. As described above, the Stipulation affords benefits to consumers and the
15 public and is consistent with established regulatory principles and practices. The
16 Stipulation also represents a timely and efficient resolution of the issues raised in
17 this proceeding, after thoughtful deliberation and discussion by the Stipulating
18 Parties.

19 **Q. DO YOU BELIEVE THE STIPULATION MEETS THE THREE-PART**
20 **TEST REGARDING CONSIDERATION OF STIPULATIONS AND**
21 **THEREFORE SHOULD BE ADOPTED BY THE COMMISSION?**

22 A. Yes, I do.

1 Q. DOES THE STIPULATION RESOLVE ALL OF THE ISSUES IN THIS
2 PROCEEDING?

3 A. Yes, it does.

III. CONCLUSION

4 Q. DOES THIS CONCLUDE YOUR SECOND SUPPLEMENTAL
5 TESTIMONY?

6 A. Yes.