

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)
Duke Energy Ohio, Inc., for an) Case No. 12-1685-GA-AIR
Increase in Gas Rates.)

In the Matter of the Application of)
Duke Energy Ohio, Inc., for Tariff) Case No. 12-1686-GA-ATA
Approval.)

In the Matter of the Application of)
Duke Energy Ohio, Inc., for Approval) Case No. 12-1687-GA-ALT
of an Alternative Rate Plan for Gas)
Distribution Service.)

In the Matter of the Application of)
Duke Energy Ohio, Inc., for Approval) Case No. 12-1688-GA-AAM
to Change Accounting Methods.)

SUPPLEMENTAL DIRECT TESTIMONY OF

PATRICIA W. MULLINS

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: Budgeting and Forecasting

February 25, 2013

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ATTACHMENT

PWM-SUPP-1 Gas Comparison of Actual Expenses

I. INTRODUCTION AND PURPOSE

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

2 A. My name is Patricia W. Mullins, 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,
6 Regional Financial Forecasting. DEBS provides various administrative and other
7 services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other
8 affiliated companies of Duke Energy Corporation (Duke Energy).

9 **Q. ARE YOU THE SAME PATRICIA W. MULLINS WHO FILED DIRECT**
10 **TESTIMONY IN THESE PROCEEDINGS?**

11 A. Yes.

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

14 A. My Supplemental Testimony will describe and support the Company's objection
15 to certain findings and recommendations contained in the Report by the Staff of
16 the Public Utilities Commission of Ohio (Staff) issued in these proceedings on
17 January 4, 2013 (Staff Report).

II. OBJECTIONS SPONSORED BY WITNESS

18 **Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 9**

19 A. Duke Energy Ohio objects to Staff's recommendation to adjust the Company's
20 test year revenue requirement for actual data for a few selected operating and
21 maintenance (O&M) expense accounts to the exclusion of all other accounts

1 where variances between forecasted and actual data occurred. Staff characterizes
2 this adjustment as its budget adjustment. The Company's proposed test year
3 O&M expense is representative of its ongoing normal cost of providing natural
4 gas distribution service to its customers. The test year O&M expense reflects
5 three months of actual data (January 1, 2012, through March 31, 2012, and nine
6 months of budgeted data, April 1, 2012, through December 31, 2012).

7 In Schedule C-2.1 of the Company's Standard Filing Requirements, there
8 are more than forty individual accounts, not including sub accounts, which make
9 up the O&M expense for the test year. Of those accounts and sub accounts, Staff
10 selected just six accounts, ten total adjustments including sub accounts, to adjust
11 due to what Staff considered a "significant variance" between the amounts
12 included in the test year compared with actual results for part of the test year and
13 compared with prior years. All but one of the adjustments proposed by Staff,
14 lowered O&M expense and, consequently, lowered the Company's revenue
15 requirement. By neglecting to also adjust all the other O&M accounts, Staff
16 failed to recognize that there were increases to other O&M accounts that mostly
17 offset the lower O&M selected by Staff. It is patently unfair for Staff to only
18 consider the actual expense for those select accounts that mostly serve to reduce
19 the Company's forecasted budget used to determine the Company's expenses in
20 these proceedings, and ignore all other offsetting adjustments for actual expense
21 increases in the other accounts.

22 The Company stands by its original data for the test year O&M expense;
23 however, if the Public Utilities Commission of Ohio (Commission) chooses to

1 update the data to reflect actual experience in 2012, then it must address all of the
2 O&M accounts and all resource types and not just those that function to lower the
3 revenue requirement.

4 **Q. HOW IS THE STAFF'S PROPOSED BUDGET ADJUSTMENT FLAWED?**

5 A. The O&M expenses included in the Company's test year revenue are included on
6 Supplemental Schedule (C)(8), which was filed with the Application and has been
7 updated throughout the year with actual data as it becomes available. This
8 schedule is an account table with over 100 unique lines of data, which includes all
9 of the O&M expense categories included in the Company's test year revenue
10 requirement. Out of those unique subaccounts, the Staff chose to focus on even
11 more detailed components of those subaccounts to compare the amounts budgeted
12 for April 2012 through December 2012 to actual data recorded in those same
13 accounts for the period April 2012 through September 2012, and to actual data
14 from a prior period. The six cost items the Staff selected were:

- 15 • Account 903100, 903200 & 903300 (Subcategory: Postage & Freight)
- 16 • Account 924000 (Subcategory: Financial Services)
- 17 • Account 925000 (Subcategory: Workers Compensation)
- 18 • Account 929000 (Subcategory: Duplicate Charges)
- 19 • Account 930200 (Subcategory: Service Company Overhead)
- 20 • Account 931001 (Subcategory: Software Maintenance, Rent and
21 Construction / maintenance)

22 Even if it were appropriate to just look at the budget versus actual for just
23 one expense, Staff's proposal fails to recognize differences in the way dollars are

1 allocated for budgeting purposes and how the expense is recorded for actual
2 expense.

3 **Q. PLEASE PROVIDE SPECIFIC EXAMPLES TO SHOW HOW STAFF'S**
4 **ADJUSTMENTS TO THE AFOREMENTIONED ACCOUNTS WERE**
5 **FLAWED.**

6 A. Yes. In Attachment PWM-SUPP-1, I provide a few examples of how actual
7 charges are included in other subaccounts of the same Account. By way of
8 example, and using one of the accounts unfairly impacted by the Staff, I provide
9 details on how postage and freight was budgeted and how it was recorded for
10 actual expenses. For budgeting purposes, which is what the test year was based
11 on, the resource type "postage and freight" was budgeted to four different
12 subaccounts, all appropriately under FERC Account 903, Customer Records and
13 Collection Expense. For the test year, the sum of all postage and freight expense
14 budgeted to Account 903 was \$1,265,950. If Staff, as part of its comparison to
15 actual expense as of September 30, 2012 (the time period that Staff chose to make
16 its adjustments), had reviewed all of the actual postage and freight expense
17 charged to Account 903, Staff would have seen that the total charges for postage
18 and freight were actually \$1,285,668. The actual expense was thus higher than
19 originally included in the Application. Staff's methodology and adjustment
20 suggest that the Company's test year expense for postage and freight was only
21 \$329,275 (the Company's test year amount less Staff's adjustment). Clearly,
22 Staff's adjustment does not achieve the objective it had in mind insofar as it
23 misrepresents the actual costs for postage and freight.

1 Staff makes a similar mistake with its adjustment to Account 924.
2 Attachment PWM-SUPP-1 reflects the adjustment that should be made by Staff
3 for this account if its intent was to accurately reflect the updated actual data for
4 these cost items.

5 The Company's budgeting guidelines suggest budgeting at the
6 higher/summary account level rather than at the sub account level. Some, but not
7 all functional responsibility centers go beyond the summary account level and
8 budget at the sub account level. This discretion is generally left to the
9 responsibility centers. The responsibility center is the lowest level of budget
10 responsibility and supports reporting of costs for a departmental view. As a
11 result, the level of accountability for managing actual versus budget variances
12 should be considered when determining the level of budget detail. The
13 Company's budget is more focused on the reasonableness at the account level
14 expense versus populating all subaccounts. The Staff, through its selective
15 adjustments, has pulled apart the budget at a subaccounts level and has selectively
16 adjusted only a few of the accounts to reflect actual expense. Staff's selective
17 methodology wholly ignores the fact that actual expenses may be accounted for
18 through different subaccounts than what was initially forecasted. The Staff's
19 adjustment in this respect is truly an example of failing to see the forest through
20 the trees. The Company's monthly management review of Actual vs. Budget
21 variances focuses on the account level details, not the sub accounts. It is neither
22 accurate nor fair to focus on only the ten selected sub accounts for truing up for
23 actual expense, completely ignoring all other corresponding actual expenses.

1 **Q. DO YOU BELIEVE THE COMMISSION SHOULD ACCEPT STAFF'S**
2 **PROPOSED BUDGET ADJUSTMENTS AS SET FORTH IN THE STAFF**
3 **REPORT?**

4 A. No. The Commission should not accept Staff's recommendation to adjust these
5 expenses as the Staff's proposal would unreasonably deny the Company recovery
6 of a real and legitimate expense incurred in carrying out its obligations as natural
7 gas utility. The Commission should follow the test year concept and approve the
8 forecasted budget expenses as submitted by the Company. However, if the
9 Commission believes that there should be recognition of variances to the
10 forecasted budget to actual expenses incurred through the test year, then all
11 accounts and subaccounts must be adjusted to fairly and accurately reflect the
12 Company's true expenses. Selecting just ten subaccounts that, in total, happen to
13 serve to reduce the Company's level of expenses to a level arbitrarily determined
14 by Staff is patently unfair and, in this case serves to undervalue the Company's
15 costs to provide service to customers.

16

III. CONCLUSION

1 **Q. WAS ATTACHMENT PWM-SUPP-1 PREPARED BY YOU AND UNDER**
2 **YOUR DIRECTION AND CONTROL?**

3 **A. Yes.**

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

6 **A. Yes.**

Duke Energy Ohio
Gas Budgeted Test Year vs 9x3 Variance
Account by Resource Type

Acct	Res Type	Res Type Descr	Test Period	9 x 3	Variance	Staff Budget Adj
903100	33001	Postage & Freight	\$ 346,572.00	\$ 115,524.00	\$ (231,048.00)	\$ (346,572.00) (1)
903200	33001	Postage & Freight	\$ 327,834.00	\$ 109,278.00	\$ (218,556.00)	\$ (327,834.00) (1)
903300	33001	Postage & Freight	\$ 262,269.00	\$ 87,423.00	\$ (174,846.00)	\$ (262,269.00) (1)
903000	33001	Postage & Freight	\$ 329,275.30	\$ 973,443.39	\$ 644,168.09	\$ - (1) (2)
		<u>903 Postage & Freight</u>	\$ 1,265,950.30	\$ 1,285,668.39	\$ 19,718.09	\$ (936,675.00)
924000	71001	Financial Services	\$ 934,792.20	\$ 316,647.90	\$ (618,144.30)	\$ (927,533.00) (2);(3)
924050	71005	Insurance - Other	\$ 28,008.00	\$ 84,024.00	\$ 56,016.00	(3)
925000	71004	Workers Compensation	\$ 308,883.91	\$ 391,001.41	\$ 82,117.50	\$ 121,241.00 (2);(3)
925051	71002	Liability Insurance	\$ 151,728.00	\$ 455,184.00	\$ 303,456.00	(3)
		<u>924 / 925 Insurance</u>	\$ 1,423,412.11	\$ 1,246,857.31	\$ (176,554.80)	\$ (806,292.00)

- 1) Budget in accounts 0903100, 0903200 and 0903300. The actuals came through account 0903000.
- 2) Items not adjusted by staff, but need to be included as budget / actual offset.
- 3) Budget is in account 0924000 and actual is in various 924 and 0925 accounts.