

**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. )

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**SUPPLEMENTAL DIRECT TESTIMONY OF**

**PEGGY A. LAUB**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

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\_\_\_\_\_ Management policies, practices, and organization

  X   Operating income

  X   Rate Base

\_\_\_\_\_ Allocations

\_\_\_\_\_ Rate of return

\_\_\_\_\_ Rates and tariffs

\_\_\_\_\_ Other

February 25, 2013

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**I. INTRODUCTION**

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

2 A. My name is Peggy A, Laub. My business address is 139 East Fourth Street,  
3 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 Manager,  
6 Accounting. DEBS provides various administrative and other services to Duke  
7 Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated  
8 companies of Duke Energy Corporation (Duke Energy).

9 **Q. ARE YOU THE SAME PEGGY A. LAUB WHO PREVIOUSLY**  
10 **SUBMITTED DIRECT TESTIMONY IN THESE PROCEEDINGS?**

11 A. Yes. I am.

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

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

18 **Q. PLEASE DESCRIBE THE SUPPLEMENTAL ATTACHMENTS TO**  
19 **YOUR SUPPLEMENTAL TESTIMONY.**

20 A. Attachment PAL-SUPP-1 is a Supplemental Schedule A-1, Overall Financial  
21 Summary, showing the revenue requirement reflecting the Company's objections to  
22 the Staff Report. Attachment PAL-SUPP-2 shows examples of four typical shared

1 employees' time for the first eight months of the test period. Attachment PAL-  
2 SUPP-3 shows the labor approved in the Company's last natural gas case, Case No.  
3 07-589-GA-AIR *et al.* Attachment PAL-SUPP-4 shows the unadjusted test year for  
4 Schedule C-2.1 compared to nine months actual and three months budget.  
5 Attachment PAL-SUPP-5 shows the unadjusted test year for Schedule C-2.1  
6 compared to twelve months actual for calendar year 2012. Attachment PAL-SUPP-  
7 6 is page 1 of the Company's response to Staff-DR-32-001 Supplemental, showing  
8 the Company's property taxes for real property tax expense.

## **II. OBJECTIONS SPONSORED BY WITNESS**

### **9 Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 1.**

10 A. The Company's first objection to the Staff Report is that the revenue decrease  
11 proposed therein understates the revenue increase to which the Company is  
12 entitled. This objection is more fully described in the Supplemental Direct  
13 Testimony of William Don Wathen Jr. PAL-SUPP-1 shows the Company's  
14 revenue requirement adjusted for the Company's objections to the Staff Report.

### **15 Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 5.**

16 A. The Company objects to the Staff's calculation of the Gross Revenue Conversion  
17 Factor (GRCF) because Staff failed to include a component for the maintenance  
18 fees associated with the annual assessments by the Public Utilities Commission of  
19 Ohio (PUCO or Commission) and the Office of the Ohio Consumers' Counsel  
20 (OCC) that recognizes that for every additional dollar of revenue the Company  
21 receives it will be required to pay more in maintenance fees.

1 **Q. DID THE STAFF REPORT PROVIDE ANY EXPLANATIONS FOR THIS**  
2 **ADJUSTMENT?**

3 A. No.

4 **Q. IS STAFF'S POSITION REASONABLE AND CONSISTENT WITH ITS**  
5 **OTHER RATEMAKING ADJUSTMENTS MADE IN THESE**  
6 **PROCEEDINGS?**

7 A. Staff applies a double standard with this adjustment. For a number of adjustments  
8 the Staff made to the Company's test year revenue requirement, Staff suggests  
9 that only actual, known data should be used for such adjustments. Unfortunately,  
10 Staff only applies this logic to certain aspects of the Company's filing and fails to  
11 apply this logic consistently for all of the "known and measurable" changes to the  
12 Company's test year revenues and expenses. Nevertheless, for the PUCO and  
13 OCC maintenance fee adjustment, the Company incorporated only the "known  
14 and measurable" element of the adjustment to the GRCF. The basis for charging  
15 utilities these maintenance fees is revenue. All else being equal, the PUCO and  
16 OCC maintenance assessments charged to Duke Energy Ohio will increase if its  
17 revenue increases. This known and measurable cost should be recoverable in  
18 base rates.

19 **Q. DO YOU HAVE A RECOMMENDATION FOR HOW THE PUCO AND**  
20 **OCC ASSESSMENTS SHOULD BE REFLECTED IN THE GRCF?**

21 A. Yes. The GRCF proposed in the Company's Application appropriately reflects a  
22 known and measurable impact of the proposed change in the Company's overall  
23 revenue. Again, in light of Staff's apparent preference to incorporate known and

1 measurable changes, the Staff's proposed adjustment to exclude this known and  
2 measurable change to the Company's operating cost should be rejected.

3 **Q. WHAT IS THE RESULT OF CORRECTING THIS ADJUSTMENT?**

4 A. The result is an increase to the Company's test year expense of \$44,658.

5 **Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 7.**

6 A. The Company objects to the Staff's proposed adjustments to test year labor  
7 expense. Staff's adjustment is based upon unreasonable assumptions, is  
8 inconsistent in its own methodology, fails to recognize and properly account for  
9 monthly variances in employee counts, and completely ignores the Company's  
10 "known and measurable labor expense" for the test year. Instead, Staff seeks to  
11 create its own estimate of test year labor expenses that: (1) are based, in part, on  
12 actual data for historical periods outside the test year (calendar year 2011) that are  
13 unrepresentative of the test year expense; (2) wholly ignores labor charges for  
14 work performed by Duke Energy Ohio's sister utilities in accordance with  
15 Commission-approved service agreements; and (3) arbitrarily uses a single (two  
16 week) pay period for Duke Energy Ohio labor costs, including employee  
17 headcount, and imputes that single pay period expense over an entire year thus  
18 wholly ignoring variances in employee counts.

19 **Q. PLEASE FURTHER EXPLAIN STAFF'S ADJUSTMENT RELATED TO**  
20 **LABOR FROM THE SERVICE COMPANY AND WHY THAT WAS**  
21 **IMPROPER.**

22 A. Staff's methodology for calculating labor expense is inconsistent between and  
23 among the various categories of labor in that Staff uses different methodologies

1 for labor costs from different sources inequitably. Staff's adjustment completely  
2 disregards the test year concept for labor expense related to DEBS labor and  
3 instead uses calendar year 2011 actual labor expense which is pre-test year labor  
4 as labor allocated to Duke Energy Ohio. This assumption regarding the service  
5 company labor is flawed principally because it assumes that service company  
6 costs did not change from 2011 to the 2012 test period used in the Application.

7 The service company labor costs included in the Company's Application  
8 is known and measurable and is consistent with the test year filing requirement.  
9 The objective for labor expenses to reflect known and measurable changes has  
10 previously been advanced by the Staff itself.<sup>1</sup> Moreover, the Company's labor  
11 costs included in its Application are consistent with the test year concept required  
12 both under the Commission's filing requirements and Ohio Revised Code (R.C.)  
13 4909.15.

14 **Q. DID THE STAFF MAKE ANY FINDING THAT THE COMPANY'S**  
15 **SERVICE COMPANY LABOR ALLOCATIONS WERE**  
16 **UNREASONABLE OR UNACCEPTABLE?**

17 A. No. Staff made no finding that the Company's data for service company labor  
18 costs, including the annualization adjustments for known wage increases, filed in  
19 these proceedings was unreasonable or inaccurate.

20 It is important to note that Staff, in its Staff Report, agreed with the  
21 various service company allocations used in these proceedings. In fact, service  
22 allocation factors, including service company allocations was one of the areas for  
23 focus identified by Staff in its June 20, 2012, letter filed in these proceedings

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<sup>1</sup> See e.g. Prefiled Testimony of Trisha J. Smith, Case No. 07-551-EL-AIR, *et al.*, page 4.

1           whereby the Company was to provide detailed information as part of the  
2           management policies and practices audit. There is no reason to doubt that Staff  
3           thoroughly examined these allocations and, as reflected in the Staff Report, there  
4           were no concerns. It is thus inexplicable that Staff would completely ignore the  
5           allocations as it pertains to test year labor expense from the service company.  
6           The test year data submitted by the Company in these proceedings is reasonable  
7           and consistent with the test year requirement in R.C. 4909.15 and should be used  
8           for calculating the Company's service company labor expense.

9   **Q.   PLEASE FURTHER EXPLAIN STAFF'S ADJUSTMENT RELATED TO**  
10 **LABOR FROM DUKE ENERGY OHIO'S SISTER UTILITIES AND WHY**  
11 **THAT ADJUSTMENT WAS IMPROPER.**

12 A.   Staff's adjustment ignores the fact that Duke Energy Ohio and its customers  
13       benefit by having access to resources from its sister utilities that can assist in Ohio  
14       when needed, both in an emergency and when it is more expedient/efficient to do  
15       so. This is particularly true with respect to its utility affiliate, Duke Energy  
16       Kentucky, whose service territory is contiguous with Duke Energy Ohio's service  
17       territory, separated only by the Ohio River.

18                 Staff's labor adjustment fairly and appropriately recognizes a reduction in  
19       Ohio labor for services Duke Energy Ohio provides for its affiliate and that are  
20       reimbursed by the affiliate. However, Staff erroneously and unfairly ignores the  
21       corresponding expense Duke Energy Ohio incurs for like services its utility  
22       affiliate provides to Duke Energy Ohio. These services represent real and  
23       legitimate costs and are provided in accordance with Commission-approved



1 service agreements and consistent with Ohio's corporate separation rules and  
2 regulations. The Staff's failure to recognize this entire category of expense is not  
3 logical and only seeks to arbitrarily and unfairly reduce the Company's labor  
4 costs.

5 If Staff's unreasonable adjustment stands, it will send an improper  
6 message to all Ohio utilities that are part of a multi-jurisdictional holding  
7 company structure (which includes most of the major electric and gas utilities)  
8 that the only way to be adequately compensated for labor is to no longer use these  
9 affiliate services. The most compelling benefit of sharing utility resources with its  
10 affiliates is reducing overall costs and improving reliability. Creating  
11 impediments to such sharing by limiting the cost recovery associated with such  
12 sharing of resources is problematic. The consequences include higher utility costs  
13 and potential negative impacts on reliability as utilities will not be able make the  
14 most efficient use of all resources available.

15 **Q. WHAT TYPES OF SERVICES ARE PROVIDED BY DUKE ENERGY**  
16 **OHIO'S SISTER UTILITIES ON A RECURRING BASIS?**

17 A. The operating company agreement and affiliate agreements already approved by  
18 the Commission and reviewed again by the Staff in this case provide that Duke  
19 Energy Ohio may access additional personnel based on need or when such labor  
20 is more cost effective. The Operating Company Agreement was submitted as  
21 Attachment DJR-2 to the Direct Testimony of Duke Energy Ohio witness Daniel  
22 J. Reilly, now being adopted by Duke Energy Ohio witness Steven Michael  
23 Covington. The various services that can and are provided under this agreement

1 are described in Article 1 of that agreement. As for charges from Duke Energy  
2 Kentucky in particular, these services can and do include any day-to-day function  
3 that the employee is capable of doing. The services could include, but are not  
4 limited to, engineering and construction, operations and maintenance, equipment  
5 testing and other services. Duke Energy Kentucky and Duke Energy Ohio share  
6 numerous facilities and their service territories are adjacent to each other. Staff's  
7 adjustment to wholly eliminate the expense for these types of services fails to  
8 acknowledge the benefits of having such reliable and ready labor available, not to  
9 mention the potential for cost savings through a less expensive (and, thus, less  
10 costly to ratepayers on both sides of the river) affiliate labor resource, than to  
11 incur overtime or hire additional personnel.

12 **Q. PLEASE EXPLAIN STAFF'S ADJUSTMENT RELATED TO DUKE**  
13 **ENERGY OHIO'S DIRECT LABOR EXPENSE AND WHY THAT**  
14 **ADJUSTMENT WAS IMPROPER.**

15 A. Staff arbitrarily selected a single pay period in the 2012 calendar year (first pay  
16 period in August 2012) as a proxy for labor expense, and assumed employee  
17 headcount as being constant at this August 2012 snapshot level over the full  
18 twelve-month period of the test year. Staff's adjustment also included averages  
19 for both overtime rates and the amount of labor that is charged to operating and  
20 maintenance (O&M) expense versus capital. The methodology used by Staff for  
21 its adjustment is flawed in several respects and results in test year labor expenses  
22 that are substantially lower than the Company's proposed test year labor expense  
23 that was based on actual expense through April 30, 2012, with "known and

1 measurable” changes. Staff’s methodology in this regard also assumes a level of  
2 employee headcount for a period that is post merger consummation between Duke  
3 Energy and Progress Energy without any recognition of the associated level of  
4 costs to achieve that headcount through employee severance.

5 **Q. PLEASE FURTHER EXPLAIN HOW STAFF’S LABOR ADJUSTMENT**  
6 **IS FLAWED?**

7 A. First, Staff’s adjustment understates overtime expense percentages in that it  
8 erroneously assumes that the personnel in different classifications work the same  
9 amount of overtime. For example, Duke Energy Ohio has personnel such as fleet  
10 services personnel, meter testers, and customer project coordinators who perform  
11 services over the year for many business units within Duke Energy Ohio (*e.g.*, gas  
12 and electric operations) and directly assign their time depending upon the project.  
13 In other words, mechanics, meter testers, and customer project coordinators can  
14 perform work for either gas or electric operations. Taking a single pay period as a  
15 proxy for an entire year assumes the employee performs the same tasks for the  
16 same functions at the same level of expense, and fails to appropriately “smooth  
17 out” the test year overtime costs for the Company. Attachment PAL-SUPP-2  
18 shows actual examples of time sheets for four such employees and how their time  
19 allocations differ over a number of pay periods. Staff’s adjustment assumes that  
20 labor costs between and among the various business units cannot change weekly  
21 or daily. Staff fails to account for the fact that total labor costs, including overtime  
22 expense, varies throughout the year. If one were to employ Staff’s methodology  
23 correctly, which Duke Energy Ohio is not advocating, the calculation should be

1 done for each pay period for each employee in the year rather than a single period.  
2 Such a calculation would require an extensive amount of data and analysis on the  
3 part of the Staff and the Company to essentially reproduce what the Company's  
4 accounting system is designed to do. Even if the Staff took every employee's time  
5 sheet for every pay period and actually did this extensive analysis, the end result  
6 should be the same as the Company's actual recorded labor expense. The fact that  
7 Staff's estimated labor expense is significantly different from the Company's  
8 actual labor expense illustrates the weaknesses of Staff's proposal to use a  
9 snapshot of labor expense.

10 Second, and similarly, Staff oversimplifies the calculation for operation  
11 and maintenance (O&M) percentages and overtime. The O&M percentages and  
12 overtime percentages should be calculated for each specific type of employee.  
13 Staff erroneously calculates its O&M and overtime percentages based on a view  
14 of the Company that includes Duke Energy Ohio's non-regulated generation  
15 business and its gas distribution business.

16 **Q. PLEASE EXPLAIN HOW THE STAFF'S USE OF A SINGLE PAY**  
17 **PERIOD TO IMPUTE THE COMPANY'S EMPLOYEE HEADCOUNT AT**  
18 **A TIME OTHER THAN THE DATE CERTAIN IN THESE**  
19 **PROCEEDINGS RESULTS IN FLAWED ASSUMPTIONS.**

20 A. As discussed above, the obvious problem with this methodology is that it assumes  
21 a level of employees at a particular date, later than the March 31, 2012, date  
22 certain, to represent the Company's test year labor expense. In this instance, Staff  
23 selected a pay period in August 2012. In addition to the obvious problem of

1 assuming that one pay period is representative of an entire year, August 2012 also  
2 represents a period that happens to reflect lower headcount as a result of a  
3 voluntary severance offer to employees following the merger between Duke  
4 Energy and Progress Energy. Staff's estimated labor expense, therefore, includes  
5 the benefits of the reduction in headcount following employee severance.  
6 However, Staff failed to reflect any of the costs to achieve those merger-related  
7 savings. In fact, Staff explicitly included an adjustment in its Staff Report to  
8 exclude merger-related costs.

9 **Q. IS IT REASONABLE TO INCLUDE MERGER-RELATED SAVINGS**  
10 **WITHOUT INCLUDING THE COSTS INCURRED BY THE COMPANY**  
11 **TO ACHIEVE THOSE SAVINGS?**

12 A. No. The Commission has, in the past, appropriately allowed companies to net  
13 costs to achieve merger savings against projected savings; so, Staff's one-sided  
14 adjustment is improper, unfair, and inconsistent with prior Commission treatment  
15 of such costs. In order to achieve those employee reductions resulting from  
16 merger reflected in Staff's labor adjustment, the Company incurred significant  
17 severance costs. Total merger-related costs, including severance, allocated to  
18 Duke Energy Ohio's gas operations is estimated to be approximately \$5.7 million  
19 for 2012. Some of this expense was incurred between January and March 2012  
20 and was included in the Company's unadjusted test year expenses in schedule C-  
21 3.23. The Company made an adjustment, which Staff adopted, to exclude these  
22 merger costs from the test year. The Company made this adjustment to remove

1 merger-related costs because approval and consummation of the merger was not a  
2 known and measurable event at the time of the filing.

3 Staff's labor adjustment, which is based upon employee headcount for a  
4 single pay period that was post merger, but annualized, now includes merger-  
5 related savings but excludes all merger-related costs. It is unlikely that the  
6 Commission would allow or that Staff would recommend that the Company be  
7 allowed to include merger-related costs without including merger-related savings;  
8 so, it makes no more sense for Staff to include merger-related savings without  
9 merger related costs, including the costs excluded by the Staff and the costs  
10 incurred after March 31, 2012, that were not known at the time of the filing. If  
11 Staff wants to adjust for actual employee headcount and take advantage of  
12 reductions due to the merger completion, there must also be recognition of all the  
13 costs to achieve those reductions. The Company's base case was prepared before  
14 the merger was consummated and well before any of the headcount reductions.  
15 The Company, as required, based its labor costs on amounts that were known and  
16 measurable at the time of the filing.

17 **Q. DOES STAFF'S ADJUSTMENT TO LABOR EXPENSE SATISFY THE**  
18 **OBJECTIVE OF SMOOTHING OUT THE LABOR EXPENSE FOR THE**  
19 **TEST YEAR?**

20 A. No. Using one pay period as representative of the entire twelve months of labor  
21 expenses cannot be considered a reasonable effort to "smooth out" this expense.  
22 In its Staff Report filed in the FirstEnergy rate case, Case No. 07-551-EL-AIR, *et*  
23 *al.*, the Commission Staff witness sponsoring the labor adjustment used six

1 months of actual data to recommend a labor adjustment. To support the use of six  
2 months, Ms. Trisha J. Smith, explained that “[t]he Staff used an average employee  
3 count to smooth out any variances in employee counts. The Commission has  
4 historically relied on the known and measurable requirement when determining  
5 employee levels.” In these proceedings, however, Staff ignores what it previously  
6 declared an objective of the Commission, *i.e.*, smoothing out expenses inasmuch  
7 as it uses a single pay period rather than any average over a reasonable period of  
8 time.

9 Rather than reviewing the labor expenses included in Duke Energy Ohio’s  
10 Application, which were based on the best possible data available at the time the  
11 Application was filed, Staff chose to ignore this and, instead, proposed an  
12 adjustment that fails to meet its own objective of smoothing out expenses, fails to  
13 recognize actual labor expenses incurred during the test year, and fails to  
14 incorporate known and measurable changes for this test year expense.

15 **Q. IS THERE AN OBJECTIVE AND REASONABLE WAY TO TEST THE**  
16 **VALIDITY OF STAFF’S PROPOSED LABOR EXPENSE FOR THE TEST**  
17 **YEAR?**

18 A. Of course. All one has to do is compare the result of the Staff’s proposed labor  
19 expense to actual expenses. The table below includes a summary of the annual  
20 labor expenses based on four possible scenarios. The first line reflects Company’s  
21 initial proposed labor expense. The second and third lines reflect actual labor  
22 costs for the twelve month periods ending August 31, 2012 (the date the Staff  
23 relied upon for updating the direct labor costs), and for the twelve months ending

1 December 31, 2012 (the twelve-month period used for the test year in this case).  
2 The last line reflects Staff's proposed test year labor expense.

<b>Source</b>	<b>Amount</b>
Per Application	\$28,723,729
September 1, 2011, thru August 31, 2012, per books	\$27,698,636
January 1, 2012, thru December 31, 2012, per books	\$27,058,517
Staff Recommendation in Case No. 07-589-GA-AIR	\$26,992,180
Staff Report	\$23,812,112

3 The first three lines in the table above are based on actual labor costs  
4 charged to Duke Energy Ohio's gas business. The fourth line is the amount of  
5 labor allowed in Duke Energy Ohio's last gas case, Case No 07-589-GA-AIR, *et*  
6 *al.* PAL-SUPP-3 Attachment has the detail for this amount. The last line is Staff's  
7 imputed number based on a single pay period in August 2012. Comparing Staff's  
8 proposed labor expense to the actual labor expenses for any of the three twelve-  
9 month periods above clearly demonstrates the unfair results that Staff's  
10 methodology produces. In addition, Staff's labor is substantially less than the  
11 recommended by the Staff itself in the last case. The disparity between Staff's  
12 recommended labor expense in this case and its much higher recommended labor  
13 expense for the Company five years ago does not stand up to any measure of  
14 reasonableness. And, Staff provided no rationale in its Staff Report to explain  
15 how it believes the Company's labor expense declined almost twelve percent  
16 from Staff's own recommended labor expense in the prior case.

17 For 2012, the Company's labor costs are what they are and the Staff itself  
18 has supported the Company's cost allocation methodologies and processes upon  
19 which the actual labor costs above were determined. There is no evidence



1 submitted by the Staff that it disagreed with any of the Company's allocation  
2 processes; and consequently, there is no basis for substituting Staff's result for  
3 labor expense for the Company's actual proven labor expense. Finally, where the  
4 Company's actual per books labor expense is a "known and measurable" quantity,  
5 Staff's calculation clearly does not rise to that standard and should be rejected.

6 Consistent with R.C. 4909.15(A)(4), Duke Energy Ohio's test period labor  
7 represents its cost of rendering gas distribution service to its customers. Staff's  
8 proposed adjustment significantly undervalues this cost as evidenced by the  
9 Company's actual labor expenses experienced in calendar year 2012, the test  
10 period of these proceedings. Staff's proposed adjustment to labor expense results  
11 in the Company being unable to recover its cost of rendering utility service.

12 **Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 8.**

13 A. The Company objects to Staff's proposed adjustment to property tax expense in  
14 that Staff failed to include any provision for property taxes related to real  
15 property. The Company's property tax expense for the test year is comprised of  
16 both real and personal property taxes. Staff adjusted personal property taxes for  
17 updated property valuation information, but failed to include any provision for the  
18 Company's real property tax expense. This information was provided to Staff as  
19 part of its discovery in these proceedings in response to Staff-DR-32-01, attached  
20 hereto as PAL-SUPP-6; however, Staff failed to include any amount for property  
21 taxes for real property for the Company's operating expense. The failure to  
22 include any provision for real property taxes denies the Company the ability to  
23 recover what is otherwise a known and measurable expense. The Company

1 assumes that this was simply an oversight because Staff did not discuss any  
2 reason for excluding real property tax in its Staff Report.

3 **Q. WHAT IS THE RESULT OF CORRECTING THIS OVERSIGHT?**

4 **A.** The result is an increase for the Company's test year expense of \$217,107.

5 **Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 9.**

6 **A.** Duke Energy Ohio objects to Staff's recommendation to adjust the Company's  
7 test year revenue requirement for actual data for a few selected O&M expense  
8 accounts to the exclusion of all other accounts where variances between  
9 forecasted and actual data occurred. Staff characterizes this adjustment as its  
10 budget adjustment.

11 **Q. DESCRIBE THE BUDGET ADJUSTMENT BEING PROPOSED BY**  
12 **STAFF.**

13 **A.** Per the Staff Report, page 12:

14 a. Staff adjusted the budgeted portion of specific expense accounts  
15 included in the Applicant's test year. The Staff's investigation  
16 determined the adjustment was necessary due to the significant  
17 variance with the account actual in both the test year and in prior  
18 years. The Staff adjusted the accounts for actual for the first three  
19 quarters of the test year and used a thirteen month average for each  
20 month of the remaining quarter.

21 In simple terms, Staff reviewed the budgeted portion of the test year expenses and  
22 selected ten individual subaccount cost items in six accounts, out of over forty  
23 accounts (not including sub-accounts), that contained what Staff perceived as a  
24 significant variance between budget and actual expense, and determined that  
25 because the actual expense charged to that same account differed, and in most

1 instances were less than the budgeted amount of the expense, there should be a  
2 negative adjustment.

3 **Q. IS THERE ANY VALIDITY IN STAFF'S PROPOSED BUDGET**  
4 **ADJUSTMENT?**

5 A. No. Staff's proposal is flawed in a number of ways. First, the Staff's adjustment is  
6 unreasonably biased in that it only addresses ten individual cost items where it  
7 found that the budgeted amount exceeded the actual amount. The most significant  
8 problem with Staff's adjustment is that by only focusing on subsets of ten single  
9 subaccounts, (six total accounts), Staff completely ignored other variances in the  
10 other sub accounts which, when reflected for actual amounts, offset Staff's  
11 adjustments.

12 Second, the concept of updating test period data for actual calendar year  
13 expense, let alone doing so on a selective and incomplete basis, undermines the  
14 statutory basis for the test period itself. R.C. 4909.15 requires utilities to file  
15 based upon a test period. The idea of updating the test year revenue requirement  
16 for the "latest" known actuals places an impossible standard on the Company  
17 insofar as it cannot possibly file a rate case with a test year populated exclusively  
18 with actual data and still comply with R.C. 49019.15.

19 Third, the Staff uses different and inconsistent methodologies to make its  
20 adjustments to the ten O&M sub-accounts. Although the Staff Report suggests  
21 that the "Staff adjusted the accounts for actual for the first three quarters of the  
22 test year and used a thirteen month average for each month of the remaining  
23 quarter," it actually uses two different methodologies for its adjustments. Even if

1 Staff's proposal to adjust budgeted test year expenses for actual results is  
2 accepted, the validity of the adjustment is undermined by the failure to use a  
3 consistent methodology for such adjustment not to mention the selectivity of  
4 making the adjustments to some but not all such accounts.

5 **Q. HOW IS STAFF'S PROPOSED BUDGET ADJUSTMENT BIASED?**

6 A. The detail of the O&M expenses included in the Company's test year revenue are  
7 included on Supplemental Schedule (C)(8), which was filed with the Application  
8 and has been updated throughout the year with actual data as it becomes available.  
9 This schedule is an account table with over one hundred unique lines of data  
10 representing all of the O&M expense categories included in the Company's test  
11 year revenue requirement. Out of all those unique subaccounts, the Staff chose to  
12 focus on even more detailed components of those subaccounts to compare the  
13 amounts budgeted for April 2012 through December 2012 to actual data recorded  
14 in those same accounts for the period April 2012 through September 2012, and to  
15 actual data from a prior period. Duke Energy Ohio witness Patricia W. Mullins  
16 explains this in greater detail in her Supplemental Direct Testimony.

17 The Commission should not accept Staff's recommendation to adjust these  
18 expenses as Staff's proposal would unreasonably deny the Company recovery of a  
19 real and legitimate expense incurred in carrying out its obligations as a gas  
20 distribution utility.

1 **Q. PLEASE FURTHER EXPLAIN THE INCONSISTENT**  
2 **METHODOLOGIES USED BY STAFF IN ITS BUDGET ADJUSTMENTS.**

3 A. Although the Staff suggests in its Staff Report that it uses consistent  
4 methodologies for its ten budget adjustments, it actually used two different  
5 methods to makes its adjustments. For Accounts No. 924000, the Staff simply  
6 assumes the September 2012 actual expense will persist for October, November,  
7 and December of the test year. For the other accounts, the Staff's adjustment is  
8 consistent with its description of the adjustment. The point of this discussion is  
9 that the Staff's adjustment, however illogical and inaccurate for all of the reasons  
10 described herein, is also not even consistently done. The lack of consistency adds  
11 further evidence to the arbitrary nature of the Staff's adjustment.

12 **Q. IS THERE A REMEDY FOR THE STAFF'S ERRONEOUS EFFORT TO**  
13 **UPDATE THE TEST YEAR O&M EXPENSE?**

14 A. Preferably, the Staff would review the reasonableness of the Company's overall  
15 test year O&M expense in total rather than parsing through hundreds of  
16 subaccounts and resource types looking for only those accounts where the  
17 Company's detailed budget data does not synch up with actual data. An expense  
18 does not necessarily disappear just because the actual expense is accounted for  
19 differently than how it was budgeted. Company witness Mullins provides  
20 additional testimony explaining the differences between budgeted and actual data  
21 that would lead to the errors Staff is making by all but ten subaccounts for this  
22 adjustment. If Staff had fairly reviewed the totality of the Company's actual  
23 O&M expense against the amount included in the application, it would show that

1 the Company's test year O&M expense was reasonable and in line with total  
2 actual expense. Furthermore, just because one element of the Company's overall  
3 expenses may end up being lower than was originally forecast, it is unfair to not  
4 review all other accounts to see if there were increases that may offset the  
5 decreases noted by Staff. Staff's adjustment unfairly reduces the Company's test  
6 year O&M expense by \$4,092,313.

7 **Q. DID YOU ATTEMPT TO DUPLICATE STAFF'S ANALYSIS FOR THE**  
8 **UPDATED DATA THROUGH SEPTEMBER 30, 2012?**

9 A. Yes; however, I used only one methodology for all adjustments whereas Staff  
10 used two different methods to update selected portions of the test period. The  
11 methodology I employed for this comparison was to update the January through  
12 September 2012 for actual data, and forecasted data for October 2012 through  
13 December 2012. Again, using data available to Staff at the time of its audit, I took  
14 actual data, per books, for all O&M accounts through September 2012 and  
15 assumed budget for the remaining three months of the test year and created  
16 Attachment PAL-SUPP-4. This attachment is essentially a reproduction of the  
17 Company's Schedule C-2.1 showing unadjusted O&M as filed in the test year and  
18 adding a column to show the same information with updated actual data through  
19 September 30, 2012. The total O&M expenses calculated in this reasonable and  
20 fair manner actually shows that the updated test year O&M expenses are much  
21 higher than the amount included in the Application.

22 To further demonstrate the unreasonableness of Staff's adjustment, I  
23 created Attachment PAL-SUPP-5, which is the same as Supplement Attachment

1 PAL-4 except that actual data for all of 2012 is included for comparison to the  
2 original test year amounts. There is no better way to validate or invalidate the  
3 amount the Company included in its Application for overall test year expenses  
4 that to compare it with the actual data for total O&M expenses for the same  
5 period. Attachment PAL-SUPP-5 validates that the Company's test year was  
6 reasonable. At the same, it invalidates the Staff's proposed adjustment insofar as  
7 Staff's adjustment produces a test year O&M expense significantly below what  
8 the Company has demonstrated is a reasonable amount based on known and  
9 measurable data.

10 While it is appealing to attempt to update expenses included in the test  
11 year each month with actual data to replace projected data, it is clearly unfair to  
12 opportunistically update only the very few costs that favor one party over another.  
13 Put simply, if the Commission updates any of the test year O&M expenses for  
14 more contemporary actual data, it must update all of the test year O&M expenses  
15 on the same basis.

16 **Q. WHY IS IT UNREASONABLE TO ADJUST THE TEST PERIOD FOR**  
17 **THE MOST CONTEMPORARY ACTUAL DATA?**

18 A. The Ohio Revised Code explicitly defines the test period to be used by a utility  
19 for setting rates, Chapter 4909.15(C) states as follows:

- 20 (1) Except as provided in division (D) of this section, the revenues and  
21 expenses of the utility shall be determined during a test period. The  
22 utility may propose a test period for this determination that is any  
23 twelve-month period beginning not more than six months prior to  
24 the date the application is filed and ending not more than nine  
25 months subsequent to that date. The test period for determining  
26 revenues and expenses of the utility shall be the test period  
27 proposed by the utility, unless otherwise ordered by the

1                    commission. (2) The date certain shall be not later than the date of  
2                    filing, except that it shall be, for a natural gas company, not later  
3                    than the end of the test period.

4                    In order to comply with this rule, Duke Energy Ohio could not have proposed a  
5                    test year that included any more than six months of actual data. The Company's  
6                    Application was filed in early July 2012. Excluding any other requirement for  
7                    filing rate cases, the latest actual data that could possibly have been included in  
8                    this Application would have been through June 30, 2012. However, that does not  
9                    account for the fact that the Company is required to provide legal notice of the  
10                    increase thirty days before the Application is filed, including the amount of the  
11                    rate increase to be sought. In reality, it takes some time to close the Company's  
12                    accounting books and it takes additional time to analyze the data, develop a cost  
13                    of service study, and design rates for filing the application. Consequently, the  
14                    latest actual data that can practically be included in the test year is through March  
15                    31, 2012. In this case, the Company filed for rates based on test year made up of  
16                    three months of actual data and nine months of budgeted data, which includes  
17                    actual data as contemporary as it could possibly be while still complying with the  
18                    law.

19                    The notion of subjecting the utility to updates for actual expenses as the  
20                    actual data becomes available creates an unreasonable standard for conducting the  
21                    rate case review for the Company and all intervenors. This is a particular problem  
22                    when the parties to a case only use the new actual data to make only adjustments  
23                    that favor their position.



1 **Q. ARE YOU AWARE OF ANY SPECIAL PROVISIONS FOR UPDATING**  
2 **TEST YEAR DATA FOR ACTUAL DATA FOR NATURAL GAS**  
3 **COMPANIES?**

4 A. Yes. Company witness Mr. Wathen describes the exceptions more fully but I will  
5 note that the exception provided for in R.C. 4909.191 addresses updates using the  
6 full calendar year of actual data and, even in that case, upon advice of counsel, only  
7 allows adjustments to test year expenses for adjustments proposed by the Company  
8 in its application.

9 **Q. IS THERE ANY HISTORY OF THE STAFF MAKING AN ADJUSTMENT**  
10 **TO THE BUDGETED PORTION OF A COMPANY'S TEST YEAR FOR**  
11 **ACTUAL DATA?**

12 A. Regarding the issue of adjustments to budgeted data, I reviewed the Staff Reports  
13 submitted in several major electric and gas rate case from 2001 to current, and only  
14 found one example of the Staff recommending such an adjustment. Importantly, in  
15 the single instance where the Staff made such a proposal, it updated all O&M  
16 accounts for actual expenses rather than opportunistically picking out just a few to  
17 adjust. The case I am referring to is the most recent rate cases for AEP Ohio's  
18 operating companies (Columbus Southern Power and Ohio Power), Case No. 11-  
19 351-EL-AIR, *et al.*

20 **Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 11.**

21 A. The Company objects to the Staff's recommended adjustment to the test year  
22 expense for PUCO and OCC maintenance fees. There was a clerical error when  
23 comparing the test period to the actual expense.

1 **Q. PLEASE EXPLAIN THE CLERICAL ERROR AND THE IMPACT OF**  
2 **THIS ADJUSTMENT.**

3 A. On Staff's Schedule C-3.15 the regulatory fees adjustment excludes the  
4 assessment for the Division of Forecasting Fee. The result of this correction is an  
5 increase to the Company's test year expense of \$53,337.

6 **Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 12.**

7 A. The Company hereby withdraws this objection.

8 **Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 13.**

9 A. Duke Energy Ohio objects to Staff's recommended revenue requirement where  
10 the adjustments made to rate base and O&M impact other expenses that are  
11 directly related to these items. Staff did not challenge the loading rates used for  
12 pensions and benefits expenses, payroll taxes, or future medical costs. The  
13 magnitude of all these expenses in the test year revenue requirement is based on  
14 the magnitude of the Company's labor expense. Because Staff made inappropriate  
15 adjustments to the Company's test year labor expense (see Objection No. 7), there  
16 was a cascading impact on the test year amounts for pensions and benefits  
17 expense, payroll taxes, and future medical costs (as reflected in the Staff Report  
18 and the Company's filing in Schedules C-3.17, C-3.18, and C-3.27). This  
19 objection also includes the income and other taxes related to the Company's  
20 objections in this case.

**III. CONCLUSION**

1 **Q. WERE ATTACHMENTS PAL-SUPP-1 THROUGH PAL-SUPP-6**  
2 **PREPARED BY YOU AND UNDER YOUR DIRECTION AND**  
3 **CONTROL?**

4 **A. Yes.**

5 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT**  
6 **TESTIMONY?**

7 | **A. Yes.**

OPERATING REVENUE AND EXPENSES BY ACCOUNT - Unadjusted Total  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

DATA: 9 Months Actual and 3 Months Budget  
TYPE OF FILING: ORIGINAL "X" UPDATED REVISED  
WORK PAPER REFERENCE NO(S): SUPPLEMENTAL (C)(8)

SCHEDULE C-2.1  
PAGE 1 OF 1  
WITNESS RESPONSIBL  
W. D. WATHEN

LINE NO.	ACCT. NO.	ACCOUNT TITLE	UNADJUSTED TOTAL		VARIANCE
			(Test Year) (\$)	(ACTUAL 9x3) (\$)	
1		<b>Operation and Maintenance Expenses</b>			
2	711	Gas Boiler Labor	5,893	7,717	1,824
3	712	Gas Production-Other Power Ex	389,614	132,889	(256,725)
4	717	Liq Petro Gas Exp-Vapor Proc	324,245	185,589	(138,656)
5	728	Liquid Petroleum Gas	61,954	61,954	0
6	735	Gas Misc Production Exp	86,221	72,584	(13,637)
7	736	Gas Prod I/C Rent Exp - Erlan	228,519	485,565	257,046
8	742	Maint Gas Production Equipmen	179,822	299,519	119,697
9	801	Natural Gas Field Line Purchases	141,020,880	130,007,705	(11,013,175)
10	805.0	Unrecovered Purchase Gas Cost Adj.	9,791,982	(3,410,079)	(13,202,061)
11	805.2	Purchased Gas Costs - Unbilled Rev	(969,737)	1,558,688	2,528,425
12	806	Other Gas Supply - Exchange Gas	(5,883,779)	596,717	6,480,496
13	807	Gas Purchased Expense	1,814,319	1,537,930	(276,389)
14	870	Supervision and Engineering	112,044	65,372	(46,672)
15	871	Load Dispatching	578,736	601,906	23,170
16	874	Mains and Services	8,041,008	7,539,314	(501,694)
17	875	Measuring and Reg. Stations - General	45,960	56,590	10,630
18	876	Measuring and Reg. Stations - Industrial	296,829	175,459	(121,370)
19	878	Meters and House Regulators	(124,459)	862,937	987,396
20	879	Customer Installations	5,861,177	5,965,693	104,516
21	880	Other Expenses	2,564,297	2,766,620	202,323
22	885	Supervision and Engineering	200,460	195,737	(4,723)
23	887	Mains	4,232,771	3,873,901	(358,870)
24	889	Measuring and Regulating Stations - General	76,080	128,089	52,009
25	890	Measuring and Regulating Stations - Industrial	10,731	9,858	(873)
26	892	Services	242,029	235,917	(6,112)
27	893	Meters and House Regulators	820,198	922,316	102,118
28	894	Other Total Sales Expense	156,581	261,704	105,123
29	901	Supervision and Engineering	449	870	421
30	902	Meter Reading Expense	3,213,299	2,743,675	(469,624)
31	903	Customer Records and Collections	14,760,666	12,860,485	(1,900,181)
32	904001	Bad Debt Expense	10,686,747	10,124,700	(562,047)
33	904003, 904891	Cust Acctg-Loss On Sale-A/R	1,656,338	2,505,380	849,042
34	905	Misc Customer Accounts Expenses	0	147	147
35	908	Customer Assistance	684,119	611,721	(72,398)
36	909,650	Information and Instructional Advertising	6,954	17,516	10,562
37	910	Miscellaneous Customer Service and Information Exper	7,362,559	7,669,557	306,998
38	911	Supervision	0	(5,459)	(5,459)
39	912	Demonstrating and Selling Expense	31	7,241	7,210
40	913	Advertising Expense	178,452	154,430	(24,022)
41	426891	Sale of Accounts Receivable Fees	159,274	238,449	79,175
42	920	Administrative & General Salaries	8,097,127	8,864,595	767,468
43	921	Office Supplies & Expenses	5,269,868	5,706,704	436,836
44	922	Administrative Expenses Transferred - Credit	42	57	15
45	923	Outside Services Employed	3,412,840	3,876,473	463,633
46	924	Property Insurance	1,172,844	583,983	(588,861)
47	925	Injuries & Damages	577,432	957,477	380,045
48	926	Employee Pension & Benefits	9,512,268	9,369,591	(142,677)
49	928	State Reg. Commission Expense	1,029,678	982,934	(46,744)
50	929	Duplicate Charges-Credit	63,769	(168,227)	(231,996)
51	930.1	General Advertising Expenses	13,566	15,063	1,497
52	930.2	Miscellaneous General Expenses	2,879,480	2,526,892	(352,588)
53	931	Rents	4,342,824	3,695,885	(646,939)
54	932	Maintenance of General Equipment	87,365	87,365	0
55	935	Maintenance of Equipment	455,869	275,769	(180,100)
56					
57		Total Operating Expense	245,788,235	228,901,464	(16,886,771)
		Less Fuel Costs	143,959,346	128,753,031	(15,206,315)
		Total O&M excluding fuel	101,828,889	100,148,433	(1,680,456)

E:



The Public Utilities  
Commission of Ohio

A report by the Staff of the  
Public Utilities Commission of Ohio

Duke Energy Ohio, Inc.

Case No. 07-589-GA-AIR



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DUKE ENERGY OHIO  
CASE NO. 07-589-GA-AIR  
ANNUALIZED WAGE ADJUSTMENT  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007

STAFF REPORT  
SCHEDULE C-3.4  
PAGE 1 OF 1

PURPOSE and DESCRIPTION	AMOUNT
<p>PURPOSE and DESCRIPTION: To reflect base payroll costs for full-time, part-time and temporary employees as of April 23, 2007 using wage rates in effect at April 23, 2007.</p>	
Total	\$ (6,062,046)
Jurisdictional allocation percentage	<u>100%</u>
Jurisdictional amount	To Sch C-3 Summary <--- <u>\$ (6,062,046)</u>

DUKE ENERGY OHIO  
GAS DEPARTMENT  
CASE NO. 07-589-GA-AIR  
ANNUALIZED WAGE ADJUSTMENT  
TOTAL LABOR EXPENSE  
12 MONTHS ENDING DECEMBER 31, 2007

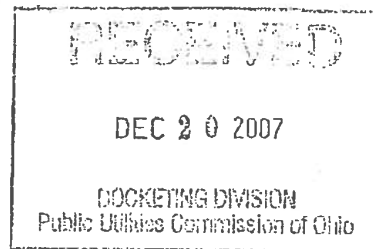
WPC-3.4a  
WITNESS RESPONSIBLE:  
W. D. WATHEN  
01/25/13

Line No.	Description	Amount
1	O&M Labor Expense - Direct DE-Ohio (a)	\$ 16,501,366
2	O&M Labor Expense - Direct DE-Ohio - Part Time / Temporary (b)	\$ 713,863
3	O&M Labor Expense - Allocated from Duke Energy Services, Inc. (c)	\$ 5,564,295
4	O&M Labor Expense - Allocated from Duke Energy Services, Inc. - Part Time / Temporary (d)	\$ 491,891
5	O&M Labor Expense - Allocated from Shared Services / HR / Governance Cost Pools (e)	\$ 3,720,765
6	Annualized Test Year Gas O&M Labor Expense	\$ 26,992,180 **
7	Test Year Gas O&M Labor Expense (f)	\$ 33,057,138
8	Non-Jurisdictional Labor (g)	\$ 2,912
9	Adjusted Test Year Gas O&M Labor Expense	\$ 33,054,226
10	Adjustment ( Line 6 - Line 9)	\$ (6,062,046)

- (a) Source: WPC-3.4b
- (b) Source: WPC-3.4c
- (c) Source: WPC-3.4d
- (d) Source: WPC-3.4e
- (e) Represents actual data for 12 months ended March 31, 2007.
- (f) Source: WPC-3.4i
- (g) Source: WPC-3.14a



154



**Report of Conclusions and Recommendations  
on the Financial Audit of Duke Energy Ohio, Inc.  
In Regard to Case No. 07-0589-GA-AIR**

Submitted December 17, 2007

Prepared by  
Blue Ridge Consulting Services, Inc.  
2131 Woodruff Road  
Suite 2100, PMB 309  
Greenville, SC 29607  
(864) 331-0700  
info@blueridgecs.com

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DUKE ENERGY OHIO, INC.  
Case No. 07-589-GA-AIR

### **Rate Case Expense**

The Staff's recommended rate case expense is detailed on Schedule C-3.3. It includes the Applicant's estimate of rate case expense plus Staff's estimate of Blue Ridge consultant's costs amortized over five years.

### **Labor Expense**

The Applicant adjusted test year labor expenses to annualize wage increases expected to occur throughout the test year. The annualization includes an allocation of the labor-related expenses of employees of the service Company and other affiliated companies.

\* The Staff reviewed the Applicant's adjustment and recommends it for this proceeding. This recommendation does reflect the Error/Corrections recommended by Blue Ridge. The Staff's labor expense is presented on Schedule C-3.4.

### **Depreciation Expense**

Depreciation expense was adjusted to reflect the Staff's recommended depreciable plant in service as of the date certain, depreciation accrual rates, and amortization of limited term plant investments. The Staff's adjustment to depreciation is presented on Schedule C-3.5, with supporting calculations provided on Schedule B-3.2. Further discussion on depreciation can be found in the Rate Base Section of this Report.

### **Reclassification of Interest on Customers' Deposits**

Consistent with the treatment of customers' deposits as an offset to the Applicant's rate base, the Staff reclassified the associated interest expense to operating expenses.

The Staff's adjustment is shown on Schedule C-3.6.

### **Ohio Excise Tax Liability Rider**

The Staff and the Applicant adjusted test year revenues and expenses to synchronize the Ohio excise tax liability rider (ETR) and the Ohio excise tax expense.

The Staff's adjustment is presented on Schedule 3.7

Financial Audit of Duke Energy Ohio, Inc.  
Case No. 07-0589-GA-AIR

---

**Exceptions List – Errors/Corrections to the Revenue Requirement Model**

- \* 1. Due to errors in formulae underlying labor expense, the Company allocates 0% of Regular Part Time - UWUA employee labor expense to DE-Ohio, which has the effect of calculating \$18,645 less in Total DE-Ohio Gas O&M Labor expense than would otherwise be calculated if the error were corrected.
- \* 2. The Company reports an incorrect amount for Non-Jurisdictional Labor, resulting in Non-Jurisdictional labor being \$180,901 higher than the correct amount.
3. The values from the Ohio Department of Taxation (ODT) used by the Company in the model are incorrect. For Ohio Fuel Stock and Gas Stored Underground, the Company uses values in the model that are 1% of the values in the ODT's valuation notice. There is also an error in the calculation of the Ohio Materials and Supplies, which when combined with the errors for fuel stock and gas stored underground, results in an overestimation of the valuation percentage of about 0.35%.
4. The Company's filing includes an estimated property tax for West Virginia that is slightly lower than the number in the source document provided by the Company. This error results in an increase of \$302 in the West Virginia property tax that is include in the total property tax for gas operations.<sup>15</sup>
5. The state unemployment tax allocated from Duke Energy Services, Inc. calculated in Schedule WPC-3.19d was found to be inaccurate and the Company provided a revised schedule in order for the mathematical calculations and numbers to be verified.<sup>16</sup> Blue Ridge received that revised file from the Company and was able to tie out the revised WPC-3.19d to the cited sources with two exceptions – the state unemployment tax rates for Oklahoma and Tennessee. Correcting these errors with the revised Schedule WPC-3.19d increases the Company's "as filed" Pro Forma State Unemployment Tax Expense by \$34,379. The Company also calculates DE-Ohio Direct Labor Expense at a 0.2% state unemployment tax rate for Ohio instead of the correct 0.4% amount,<sup>17</sup> which has the impact of doubling the Ohio state unemployment tax amounts. The changes described under Exception No. 5 combine to increase the Pro Forma Unemployment Tax Expense by 28.4% and increase the Pro Forma State Unemployment Tax Expense by 105.3%. This, in turn, changes the proposed adjustment to annualize unemployment taxes by \$7,595, which increases the jurisdictional adjusted payroll costs by 0.0934%.

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<sup>15</sup> Company Schedule WPC-3.8a, lines 13 and 14.

<sup>16</sup> Data Request BRCS-WF-09-001.

<sup>17</sup> Revised Company Schedule WPC-3.19d, line 11 showing Ohio's state unemployment tax rate as 0.4%.

Worker ID	B.U.	Business Unit description	Res. Type	Resource Description	Job Title	Hours
<b>Jan-12</b>						
18305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	15
	75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	16
				Prepaid Sick Time - Paid	Office Coordinator	40
				Vacation Pay	Office Coordinator	28
75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	101	
<b>Feb-12</b>						
18305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	19.93
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	140.07
<b>Mar-12</b>						
018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	22
	75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	16
				Vacation Pay	Office Coordinator	28
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	94
<b>Apr-12</b>						
018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	20
	75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	10
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	130
<b>May-12</b>						
018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	30
	75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	3
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	127
<b>Jun-12</b>						
018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	26
	75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	32
				Vacation Pay	Office Coordinator	44
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	138
<b>Jul-12</b>						
018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	18
	75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	8
				Vacation Pay	Office Coordinator	5
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	129
<b>Aug-12</b>						
018305	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	17
	75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	18
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	125

Worker ID	B.U.	Business Unit description	Res. Type	Resource Description	Job Title	Hours
<b>Jan-12</b>						
25937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	24
	75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	24
				Prepaid Sick Time - Paid	Service Mechanic A	40
				Vacation Pay	Service Mechanic A	56
75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	56	
<b>Feb-12</b>						
25937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	36
	75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	16
				SafeMtg/UnionBusi-ST	Service Mechanic A	3
75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	105	
<b>Mar-12</b>						
025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	31
	75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	8
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	121
<b>Apr-12</b>						
025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	86.5
	75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	8
				SafeMtg/UnionBusi-ST	Service Mechanic A	8.5
75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	57	
<b>May-12</b>						
025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	61
	75025	DE Ohio Other Elec	14002	SafeMtg/UnionBusi-ST	Service Mechanic A	2
				Vacation Pay	Service Mechanic A	8
75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	89	
<b>Jun-12</b>						
025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	81
	75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	8
				SafeMtg/UnionBusi-ST	Service Mechanic A	2
				Vacation Pay	Service Mechanic A	24
75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	125	
<b>Jul-12</b>						
025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	49
	75025	DE Ohio Other Elec	14002	Holiday Pay	Service Mechanic A	8
				SafeMtg/UnionBusi-ST	Service Mechanic A	2
				Vacation Pay	Service Mechanic A	32
75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	69	
<b>Aug-12</b>						
025937	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Service Mechanic A	35.5
	75025	DE Ohio Other Elec	14002	Callout Minimum OT	Service Mechanic A	1
				SafeMtg/UnionBusi-ST	Service Mechanic A	1.5
75026	DE Ohio Gas Delivery	11002	Regular Pay	Service Mechanic A	123	

Worker ID	B.U.	Business Unit description	Res. Type	Resource Description	Job Title	Hours
<b>Jan-12</b>						
26451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	32
	75025	DE Ohio Other Elec	14002	Holiday Pay	Meter Tester	16
				Prepaid Sick Time - Paid	Meter Tester	40
75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	112	
<b>Feb-12</b>						
26451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	93.5
	75025	DE Ohio Other Elec	14002	SafeMtg/UnionBusi-ST	Meter Tester	10
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	56.5
<b>Mar-12</b>						
026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	134
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	26
<b>Apr-12</b>						
026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	136.5
	75025	DE Ohio Other Elec	14002	Holiday Pay	Meter Tester	8
				SafeMtg/UnionBusi-ST	Meter Tester	2.5
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	13
<b>May-12</b>						
026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	154
	75025	DE Ohio Other Elec	14002	SafeMtg/UnionBusi-ST	Meter Tester	2
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	4
<b>Jun-12</b>						
026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	181
	75025	DE Ohio Other Elec	14002	Holiday Pay	Meter Tester	24
				SafeMtg/UnionBusi-ST	Meter Tester	3
				Vacation Pay	Meter Tester	32
<b>Jul-12</b>						
026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	141.5
	75025	DE Ohio Other Elec	14002	Holiday Pay	Meter Tester	8
				SafeMtg/UnionBusi-ST	Meter Tester	1.5
				Vacation Pay	Meter Tester	8
	75026	DE Ohio Gas Delivery	11002	Regular Pay	Meter Tester	1
<b>Aug-12</b>						
026451	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Meter Tester	121
	75025	DE Ohio Other Elec	14002	SafeMtg/UnionBusi-ST	Meter Tester	7
				Vacation Pay	Meter Tester	32

	Worker I B.U.	Business Unit description	Res. Type	Resource Description	Job Title	Hours				
<b>Jan-12</b>	89434	75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	8			
					Prepaid Sick Time - Paid	Office Coordinator	40			
					Short-Term Disability	Office Coordinator	104			
					Vacation Pay	Office Coordinator	48			
<b>Feb-12</b>	89434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	6			
		75025	DE Ohio Other Elec	14002	Short-Term Disability	Office Coordinator	136			
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	18			
<b>Mar-12</b>	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	38			
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	110			
<b>Apr-12</b>	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	36			
					75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	8
								Vacation Pay	Office Coordinator	8
					75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	108
<b>May-12</b>	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	42			
		75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	16			
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	102			
<b>Jun-12</b>	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	48			
					75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	24
								Vacation Pay	Office Coordinator	28
					75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	140
<b>Jul-12</b>	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	38			
					75025	DE Ohio Other Elec	14002	Holiday Pay	Office Coordinator	8
								Vacation Pay	Office Coordinator	8
					75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	106
<b>Aug-12</b>	089434	75023	DE Ohio Power Deliv - Elec	11002	Regular Pay	Office Coordinator	36			
		75025	DE Ohio Other Elec	14002	Vacation Pay	Office Coordinator	16			
		75026	DE Ohio Gas Delivery	11002	Regular Pay	Office Coordinator	108			

DUKE ENERGY OHIO, INC.  
CASE NO. 12-1685-GA-AIR  
OVERALL FINANCIAL SUMMARY  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

DATA: 3 MONTHS ACTUAL & 9 MONTHS ESTIMATED  
TYPE OF FILING: "X" ORIGINAL UPDATED REVISED  
WORK PAPER REFERENCE NO(S): SEE BELOW

SCHEDULE A-1  
PAGE 1 OF 1  
WITNESS RESPONSIBLE:  
P. A. LAUB

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	JURISDICTIONAL PROPOSED TEST YEAR
1	Rate Base	B-1	889,496,489
2	Current Operating Income	C-1	46,523,371
3	Earned Rate of Return (Line 2 / Line 1)		5.23%
4	Requested Rate of Return	D-1A	8.13%
5	Required Operating Income (Line 1 x Line 4)		72,316,065
6	Operating Income Deficiency (Line 5 - Line 2)		25,792,694
7	Gross Revenue Conversion Factor	A-2	1.5485846
8	Revenue Deficiency (Line 6 x Line 7)		39,942,169
9	Revenue Increase Requested	E-4	39,942,169
10	Adjusted Operating Revenues	C-1	246,539,382
11	Revenue Requirements (Line 9 + Line 10)		286,481,551



**Duke Energy Ohio  
Case No. 12-1685-GA-AIR  
Staff Thirty-Second Set Data Requests  
Date Received: August 7, 2012**

**STAFF-DR-32-001 Supplemental**

**REQUEST:**

Please provide the Staff with the latest Ohio Department of Taxation Property Tax Preliminary Assessments and the latest Real Property average tax rate calculations for all taxing districts.

**RESPONSE:**

See Attachment STAFF-DR-25-001 (a) Supplemental for the "Payment and Average Rate" worksheet for all 2011 pay, 2012 real property.

Please note: only the information on first tab of Excel Supplemental Attachment detailed above is being supplemented.

**PERSON RESPONSIBLE:** David W. Wright

DEO Real Property Allocation by Function  
2011 pay 2012

Total Real Property Value 96,227,530  
Total Real Property Tax 5,429,956

	Real Prop Cost per Return		Real Prop Value	Real Prop Tax
<b>Electric</b>				
Production	488,238,873	72.43%	69,697,600	3,932,917
Transmission	14,354,505	2.13%	2,049,646	115,658
Distribution	17,423,769	2.59%	2,492,293	140,636
General	129,746,143	19.25%	18,523,800	1,045,267
	<u>649,763,290</u>		<u>92,763,339</u>	<u>5,234,478</u>
<b>Gas</b>				
Production	3,888,646	0.58%	558,120	31,494
Transmission	0	0.00%	0	0
Distribution	1,697,743	0.25%	240,569	13,575
General	18,661,166	2.77%	2,665,503	150,410
	<u>24,247,555</u>		<u>3,464,192</u>	<u>195,479</u>
<b>Total</b>	<u>674,010,845</u>		<u>96,227,531</u>	<u>5,429,957</u>

Note: Includes Land & Real Prop Structures  
Common Real Prop is allocated to general plant in the amount of 85.87% for electric & 14.13% for gas.  
This is consistent with the return and valuation.

OPERATING REVENUE AND EXPENSES BY ACCOUNT - Unadjusted Total  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012DATA: 12 Months Actual and 0 Months Budget  
TYPE OF FILING: ORIGINAL "X" UPDATED REVISED  
WORK PAPER REFERENCE NO(S): SUPPLEMENTAL (C)(8)SCHEDULE C-2.1  
PAGE 1 OF 1  
WITNESS RESPONSIBLE:  
W. D. WATHEN

LINE NO.	ACCT. NO.	ACCOUNT TITLE	UNADJUSTED TOTAL		VARIANCE
			(Test Year) (\$)	(ACTUAL 12x0) (\$)	
1		<b>Operation and Maintenance Expenses</b>			
2	711	Gas Boiler Labor	5,893	9,131	3,238
3	712	Gas Production-Other Power Ex	389,614	7,954	(381,660)
4	717	Liq Petro Gas Exp-Vapor Proc	324,245	123,970	(200,275)
5	728	Liquid Petroleum Gas	61,954	28,277	(33,677)
6	735	Gas Misc Production Exp	86,221	83,765	(2,456)
7	736	Gas Prod I/C Rent Exp - Erlan	228,519	614,088	385,569
8	742	Maint Gas Production Equipmen	179,822	412,957	233,135
9	801	Natural Gas Field Line Purchases	141,020,880	121,875,376	(19,145,504)
10	805.0	Unrecovered Purchase Gas Cost Adj.	9,791,982	(15,411,138)	(25,203,120)
11	805.2	Purchased Gas Costs - Unbilled Rev	(969,737)	(1,850,947)	(881,210)
12	806	Other Gas Supply - Exchange Gas	(5,883,779)	864,162	6,747,941
13	807	Gas Purchased Expense	1,814,319	1,363,394	(450,925)
14	870	Supervision and Engineering	112,044	43,730	(68,314)
15	871	Load Dispatching	578,736	606,059	27,323
16	874	Mains and Services	8,041,008	7,453,220	(587,788)
17	875	Measuring and Reg. Stations - General	45,960	72,254	26,294
18	876	Measuring and Reg. Stations - Industrial	296,829	117,009	(179,820)
19	878	Meters and House Regulators	(124,459)	1,395,959	1,520,418
20	879	Customer Installations	5,861,177	6,085,899	224,722
21	880	Other Expenses	2,564,297	2,918,366	354,069
22	885	Supervision and Engineering	200,460	196,508	(3,952)
23	887	Mains	4,232,771	4,005,998	(226,773)
24	889	Measuring and Regulating Stations - General	76,080	137,427	61,347
25	890	Measuring and Regulating Stations - Industrial	10,731	10,645	(86)
26	892	Services	242,029	205,525	(36,504)
27	893	Meters and House Regulators	820,198	884,216	64,018
28	894	Other Total Sales Expense	156,581	294,669	138,088
29	901	Supervision and Engineering	449	1	(448)
30	902	Meter Reading Expense	3,213,299	2,410,526	(802,773)
31	903	Customer Records and Collections	14,760,666	12,239,297	(2,521,369)
32	904001	Bad Debt Expense	10,686,747	10,016,730	(670,017)
33	904003, 904891	Cust Acctg-Loss On Sale-A/R	1,656,338	2,122,020	465,682
34	905	Misc Customer Accounts Expenses	0	575	575
35	908	Customer Assistance	684,119	590,613	(93,506)
36	909	Information and Instructional Advertising	6,954	38,170	31,216
37	910	Miscellaneous Customer Service and Information Expen:	7,362,559	8,166,134	803,575
38	911	Supervision	0	(6,027)	(6,027)
39	912	Demonstrating and Selling Expense	31	13,278	13,247
40	913	Advertising Expense	178,452	136,914	(41,538)
41	426891	Sale of Accounts Receivable Fees	159,274	248,477	89,203
42	920	Administrative & General Salaries	8,097,127	10,284,792	2,187,665
43	921	Office Supplies & Expenses	5,269,868	6,057,798	787,930
44	922	Administrative Expenses Transferred - Credit	42	194	152
45	923	Outside Services Employed	3,412,840	4,974,494	1,561,654
46	924	Property Insurance	1,172,844	282,151	(890,693)
47	925	Injuries & Damages	577,432	1,142,079	564,647
48	926	Employee Pension & Benefits	9,512,268	9,600,886	88,618
49	928	State Reg. Commission Expense	1,029,678	780,316	(249,362)
50	929	Duplicate Charges-Credit	63,769	(399,506)	(463,275)
51	930.1	General Advertising Expenses	13,566	18,541	4,975
52	930.2	Miscellaneous General Expenses	2,879,480	2,313,516	(565,964)
53	931	Rents	4,342,824	3,166,975	(1,175,849)
54	932	Maintenance of General Equipment	87,365	87,365	0
55	935	Maintenance of Equipment	455,869	203,792	(252,077)
56					
57		Total Operating Expense	245,788,235	207,038,574	(38,749,661)
		Less Fuel Costs	143,959,346	105,477,453	(38,481,893)
		Total O&M excluding fuel	101,828,889	101,561,121	(267,768)