

FILE

17

OCC EXHIBIT _____

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application)
of Duke Energy Ohio, Inc.,)
to Adjust and Set the Annually)
Adjusted Component of its Market)
Based Standard Service Offer.)

Case No. 06-1085-EL-UNC

PREPARED TESTIMONY

OF

MICHAEL P. HAUGH

**ON BEHALF OF
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL
10 West Broad St., Suite 1800
Columbus, OH 43215**

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EXHIBITS AND ATTACHMENTS

MPH Exhibit 1

MPH Attachment 1

1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.***

4 ***A1.*** My name is Michael Haugh. My business address is 10 West Broad Street, Suite
5 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio
6 Consumers' Counsel ("OCC" or "Consumers' Counsel") as a Senior Regulatory
7 Analyst.

8

9 ***Q2. WHAT IS YOUR EDUCATIONAL BACKGROUND?***

10 ***A2.*** I received a Bachelor of Science Degree in Business Administration with a
11 specialization in Finance from The Ohio State University. I have also attended
12 the Institute of Public Utilities Advanced Regulatory Studies Program at
13 Michigan State University.

14

15 ***Q3. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.***

16 ***A3.*** I have over 10 years of experience in the energy industry. This experience
17 includes three years with Enron Energy Services as a Natural Gas Trading
18 Analyst; five years with AEP Energy Services working in natural gas risk
19 management, generation optimization and energy trading and one year with
20 MidAmerican Energy as a Senior Product Manager. I joined the OCC in October
21 of 2004. Currently, my primary area of responsibility is regulatory policy –
22 focusing on retail and wholesale energy market development.

23

1 **Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN UTILITY CASES**
2 **BEFORE REGULATORY COMMISSIONS?**

3 **A4.** I filed testimony in *Monongahela Power Company*, Case No. 04-1047-EL-ATA
4 before the Public Utilities Commission of Ohio (“PUCO” or “Commission”). I
5 pre-filed testimony and testified in the following cases before the PUCO:

6 *American Electric Power Company*, Case No. 05-376-EL-UNC;

7 *Dayton Power & Light Company*, Case No. 05-276-EL-AIR;

8 *Dominion East Ohio Company*, Case No. 05-474-GA-ATA; and

9 *Dominion East Ohio Company*, Case No. 05-219-GA-GCR.
10

11 **Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF**
12 **YOUR TESTIMONY?**

13 **A5.** From the current case I have reviewed the Application filed by Duke Energy
14 Ohio, Inc. (“Company” or “DE-Ohio” in this testimony), the Company’s
15 responses to discovery by the OCC and testimony filed by DE-Ohio. I have also
16 reviewed relevant documents from other DE-Ohio cases, including but not limited
17 to PUCO Case No. 03-93-EL-ATA and the cases consolidated with that case
18 (referred to collectively as “Case No. 03-93-EL-ATA”).
19

20 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
21 **PROCEEDING?**

22 **A6.** The purpose of my testimony is to address the Application made by DE-Ohio to
23 increase its Annually Adjusted Component (“AAC”) and to offer

1 recommendations regarding an adjustment to how the AAC is placed on customer
2 bills, how AAC calculations should be reviewed, and how Construction Work in
3 Progress (“CWIP”) should be treated. My testimony does not address the
4 initiation of the AAC charges themselves, which was the subject of Case No. 03-
5 93-EL-ATA. Likewise, my testimony does not address the issues raised by the
6 Ohio Supreme Court’s recent decision in the appeal of Case No. 03-93-EL-ATA
7 that remanded the case for further PUCO consideration.

8

9 ***Q7. WHAT ARE YOUR RECOMMENDATIONS IN THIS PROCEEDING?***

10 ***A7.*** The AAC is currently classified as a “Distribution Charge” on residential
11 customers’ bills. However, since the AAC charge is for generation related costs I
12 recommend it should be placed in the “Generation Charge” portion of customers’
13 bills. I also recommend that the 2007 and 2008 AAC should be audited in a
14 similar fashion to DE-Ohio’s System Reliability Tracker (“SRT”) and Fuel and
15 Purchased Power (“FPP”) riders. Finally, I recommend that a return on CWIP
16 should be excluded from the revenue requirement determined for recovery
17 through the AAC.

18

1 **II. PLACEMENT OF THE AAC ON CUSTOMER BILLS**

2
3 ***Q8. WHERE IS THE AAC CURRENTLY LOCATED ON DE-OHIO'S***
4 ***RESIDENTIAL CUSTOMER BILLS?***

5 ***A8.*** As shown on MPH Attachment 1, the Rider AAC is in the "Delivery Charge"
6 portion of the bill.
7

8 ***Q9. WHAT IS MPH ATTACHMENT 1?***

9 ***A9.*** This is a sample bill faxed to the OCC by a DE-Ohio representative on February
10 1, 2006. The customer name, account number and address have been redacted to
11 protect the identity of the customer.
12

13 ***Q10. WHERE SHOULD THE AAC BE LOCATED ON A CUSTOMER'S BILL?***

14 ***A10.*** The AAC was created in the Commission's 03-93-EL-ATA case regarding
15 Duke's "market based standard service offer," not the recently concluded
16 distribution rate case (PUCO Case No. 05-59-EL-AIR). The AAC rider deals
17 with generation costs, not distribution costs. As stated by DE-Ohio Witness
18 Wathen on page 2 of his testimony, the AAC is a component of the Company's
19 Market Based Standard Service Offer, the generation rate approved by the PUCO
20 under the 03-93-EL-ATA case. The calculations for the proposed AAC deals
21 with environmental compliance on DE-Ohio's generating units, as discussed on
22 pages 4-6 of Duke Witness Wathen's testimony. The decrease in the AAC
23 component for changes in the tax rate, explained on page 7 of Duke Witness

1 Wathen's testimony, is also entirely related to the generation of electricity.
2 Hence, the AAC should be in the generation portion of a customer's bill. DE-
3 Ohio should be required to accurately state the nature of its charges on customers'
4 bills.

5
6 **III. AUDITS OF CURRENT AND FUTURE AAC CALCULATIONS**

7
8 ***Q11. ARE THE CURRENT AAC CHARGES SUBJECT TO A REVIEW***
9 ***THROUGH A COMMISSION ORDERED AUDIT?***

10 ***A11.*** To my knowledge, there has not been any Commission order or entry requiring
11 audits of current or any future AAC filings. However, the November 23, 2004
12 Entry on Rehearing in PUCO Case No. 03-93-EL-ATA (page 10) stated that, "in
13 the context of its audits," the Commission "will continue to consider the
14 reasonableness of expenditures" in areas concerning the Company's riders.

15
16 ***Q12. WHY ARE YOU OF THE OPINION THAT A COMMISSION ORDERED***
17 ***AUDIT WOULD BE BENEFICIAL TO THIS PROCEEDING?***

18 ***A12.*** Similar audits conducted most recently in the SRT and FPP cases, along with
19 Management Performance audits in the natural gas industry, are very helpful in
20 locating errors and in identifying issues related to the calculation of charges. DE-
21 Ohio has many riders and trackers that resulted from Case No. 03-93-EL-ATA,
22 and the Commission should have audit information available to provide
23 accountability and assurance that charges are reasonable and have been

1 determined in a manner consistent with the Commission's Order. I believe an
2 audit of the charges associated with the AAC rider is the only way the PUCO
3 would be able to conclude whether the proposed AAC charge is reasonable and
4 was calculated as ordered. The audit of the AAC should be included with the
5 audit of the 2007 and 2008 SRT and FPP riders.

6

7 **IV. RETURN ON CONSTRUCTION WORK IN PROGRESS CALCULATION**

8

9 ***Q13. WHAT ARE YOUR CONCERNS WITH THE CONSTRUCTION WORK IN***
10 ***PROGRESS IN THE CALCULATION OF THE REVENUE REQUIREMENT***
11 ***FOR THE AAC?***

12 ***A13.*** I do not agree that the Company's inclusion of a return on CWIP results in a
13 reasonable AAC charge. The Company's charges should be appropriate for a
14 deregulated generation environment, but even a revenue requirement determined
15 in Ohio through a traditional regulatory cost calculation would require that any
16 CWIP be at least 75% complete before the PUCO would consider allowing a
17 return on CWIP. The Company testimony does not demonstrate that the CWIP
18 portion of the "environmental compliance net plant" is or will be at least 75%
19 complete during the time the AAC is being collected.

20

21 In addition, under a traditional regulatory paradigm the Company might propose
22 allowing a return on CWIP that customers would pay up front during plant
23 construction, with a claim that the return on CWIP will provide lower capital

1 costs for customers at a future date when the plant is in service. However, in
2 today's deregulated generation environment, the future is too uncertain to
3 guarantee this claimed benefit would ever be realized by the consumers who will
4 pay the 2007 AAC because it is unknown which customers will receive service
5 from DE-Ohio's generating units in the future.

6
7 ***Q14. WHAT IS YOUR SUGGESTION FOR THE HANDLING OF THE RETURN***
8 ***ON CWIP PORTION OF THE ENVIRONMENTAL COMPLIANCE COSTS?***

9 ***A14.*** I recommend the CWIP portion be removed from the "Return on Environmental
10 Plant" calculation in DE-Ohio Witness Wathen's Attachment WDW-2, Schedule
11 2, for purposes of setting a reasonable AAC charge.

12
13 ***Q15. HAVE YOU CALCULATED THE EFFECT OF YOUR***
14 ***RECOMMENDATION?***

15 ***A15.*** Yes, using DE-Ohio Witness Wathen's Attachment WDW-2, Schedule 2, I
16 removed the \$244,413,759 CWIP amount from the "Return on Environmental
17 Plant." This reduces the "Pre-Tax Return" to \$53,938,303, and reduces the "Total
18 Environmental Compliance Increase" to \$50,429,411.

19
20 ***Q16. WHAT EFFECT DOES THIS HAVE ON THE AAC RIDER?***

21 ***A16.*** The removal of the CWIP portion of the Environmental Plant reduces the revenue
22 requirement for the 2007 AAC to \$45,246,994. Using DE-Ohio Witness

1 Wathen's methodology, this reduction results in the AAC being set at 5.6% of
2 "little g." MPH Exhibit 1 also shows the resulting Rate RS AAC rates.

3
4 **V. CONCLUSION**

5
6 ***Q17. PLEASE DISCUSS YOUR OVERALL CONCLUSIONS.***

7 ***A17.*** The Application filed by the Company should not be approved by the
8 Commission because it is incomplete and proposes an unreasonable AAC rate for
9 2007. The Application is incomplete because it does not allow for an independent
10 audit. An independent audit would promote accountability that would help the
11 Commission assure that proposed AAC charges are reasonable in the same
12 manner that audits ordered by the Commission regarding DE-Ohio's other
13 generation-related riders have served this function. The Application fails to
14 address the fact that AAC charges, that are clearly generation related, are
15 currently placed on the distribution portion of a customer's bill when AAC
16 charges should be on the generation portion of the customer's bill. Finally, the
17 Company's calculations for the 2007 AAC results in an unreasonable charge
18 because the calculations are based upon a return on CWIP assets that should not
19 be included in rates.

20
21 As part of any order regarding an AAC charge for 2007, the Commission should
22 (1) require that an independent audit be conducted on all costs requested and
23 recovered through the AAC Rider such as has been ordered regarding DE-Ohio's

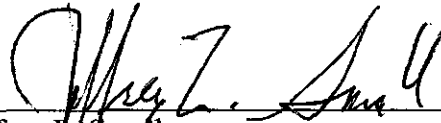
1 FPP and SRT charges, (2) order the Company to place the AAC Rider on the
2 generation portion of customers' bills, and (3) remove the return on CWIP portion
3 of the Environmental Compliance revenue requirement.
4

5 ***Q18. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

6 ***A18.*** Yes, it does. However, I reserve the right to incorporate new information that
7 may subsequently become available.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Prepared Testimony of Michael P. Haugh on behalf of the Office of the Ohio Consumers' Counsel has been served upon those persons listed below via first class U.S. Mail, postage prepaid, this 28th day of November, 2006.


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Duke 2007 AAC
PUCO Case No. 06-1085-EL-UNC
MPH Exhibit 1

MPH Exhibit 1

		@ 5/31/06	Less: CWIP (a)	
Total Environmental Plant	(a)	\$ 705,819,256	\$ (244,413,759)	\$ 461,405,497
Pre-Tax Return at	(a)	11.69%	11.69%	11.69%
Pre-Tax Return		\$ 82,510,271	\$ (28,571,968)	\$ 53,938,303
Environmental O&M Exp	(a)	\$ 41,419,290		\$ 41,419,290
Total Revenue Req.		\$ 123,929,561	\$ (28,571,968)	\$ 95,357,593
Rev Req As of 12/31/00	(a)	\$ 44,928,182		\$ 44,928,182
Environmental Compliance Increase		\$ 79,001,379	\$ (28,571,968)	\$ 50,429,411
Homeland Security		\$ 132,732		\$ 132,732
Tax Changes		\$ (5,315,149)		\$ (5,315,149)
Total Revenue Requirement		\$ 73,818,962	\$ (28,571,968)	\$ 45,246,994

AAC Recovery % Calculation:

Revised AAC Rev Req	(c)	\$ 73,818,962	\$ 45,246,994
Little g Revenue 12 ME 5/31/06	(c)	\$ 812,324,838	\$ 812,324,838
Revised Rider AAC %		9.1%	5.6%

Calculation of Rate RS Residential Service AAC at:				9.1% 1000 kWh
(\$ per kWh)	Current AAC	New%/Old% ratio		Monthly Annual
Summer, First 1000 kWh (c)	\$ 0.002651	1.5167	\$ 0.004021	\$ 4.02 \$ 48.24
Summer, Additional kWh (c)	\$ 0.003359	1.5167	\$ 0.005095	
Winter, First 1000 kWh (c)	\$ 0.002651	1.5167	\$ 0.004021	
Winter, Additional kWh (c)	\$ 0.000100	1.5167	\$ 0.000152	

Calculation of Rate RS Residential Service AAC at:				5.6% 1000 kWh
(\$ per kWh)	Current AAC	New%/Old% ratio		Monthly Annual
Summer, First 1000 kWh (c)	\$ 0.002651	0.9333	\$ 0.002474	\$ 2.47 \$ 29.64
Summer, Additional kWh (c)	\$ 0.003359	0.9333	\$ 0.003135	
Winter, First 1000 kWh (c)	\$ 0.002651	0.9333	\$ 0.002474	
Winter, Additional kWh (c)	\$ 0.000100	0.9333	\$ 0.000093	

Difference:
\$ (1.55) \$ (18.60)

- (a) Case No. 06-1085-EL-UNC, Wathen Attachment WDW-2, Schedule 2
(b) Case No. 06-1085-EL-UNC, Wathen Attachment WDW-2, Schedule 1
(c) Case No. 06-1085-EL-UNC, Application Attachment WDW-4, page 1 of 2

Account Number [REDACTED] 10 05

For less detailed billing information on
your monthly bill, check box on right ☐

Due Date	Amount Due
Feb 1, 2006	\$ 186.81

\$ _____ \$ _____
HeatShare Contribution Amount Enclosed
(for Customer Assistance)

[REDACTED]

PO Box 740124
Cincinnati OH 45274-0124

400 00000186813 03000073228 020120061 00000189618

Page 1 of 4

Name: [REDACTED] Address: [REDACTED] Phone: [REDACTED] Account Number: [REDACTED]

Cinergy/CG&E 513-421-9600 [REDACTED]

Main Payments To: [REDACTED] Account Information: [REDACTED]

PO Box 740124 Cincinnati OH 45274-0124 Payments after Jan 10 not included Bill prepared on Jan 10, 2006
Last payment received Jan 03 Next meter reading Feb 07, 2006

Meter Number	Reading Date	Days	Previous	Current	Change
Gas 000605267	Dec 06 Jan 09	34	25	157	132
Elec 094887121	Dec 06 Jan 09	34	17744	19017	1,273

Gas - Residential		
Usage -	132 CCF	
Cinergy/CG&E - Rate RS		\$ 200.21
Current Gas Charges		\$ 200.21
Gas Cost Recovery	\$1.21810000/CCF	

Current Billing	
Amt Due - Previous Bill	\$ 186.81
Payment(s) Received	187.00cr
Balance Forward	0.19cr
Budget Billing Amt Due	187.00
Current Amount Due	\$ 186.81

Electric - Residential		
Usage -	1,049 kWh	
Cinergy/CG&E - Rate RS		\$ 76.16
Usage -	224 kWh	
Cinergy/CG&E - Rate RS		21.21
Current Electric Charges		\$ 97.37
Old Rate Effective	Dec 06 To Jan 03	
New Rate Effective	Jan 03 To Jan 09	

Account Balance	
Current Billing	\$ 186.81
Budget Billing Balance	23.73
Total Account Balance	\$ 210.54

Due Date	Amount Due	Amount Due
Feb 1, 2006	\$ 186.81	\$ 189.61

Name	Service Address	Account Number
[REDACTED]	[REDACTED]	[REDACTED]

Don't wait for the weather to cause your energy bill to jump; enroll in Budget Billing today. Go to www.CinergyComfort.com to sign up and learn about ways to reduce your energy bills

Pursuant to state law, the Universal Service Fund rider rate has been adjusted effective with this bill.

Under state law, the amount you are being billed includes: (1) kilowatt-hour taxes that have been in effect since 2001 and are currently at \$.00465 for the first 2,000 kWh, \$.00419 for the next 13,000 kWh and \$.00363 for all additional kWh and, (2) Assessments to assist in the support of the PUCO and the Office of the Consumers Counsel that have been in effect since 1912 and 1977 respectively.

PRICE TO COMPARE: In order for an average residential customer to save money, an electric supplier must offer a price lower than 6.43 cents per kWh. Your Price to Compare may be different based on your usage. Visit www.cinergycge.com to calculate your individual Price to Compare or contact Cinergy/CG&E for a written explanation.

Explanation of Current Charges			
Gas Meter -	000605267	Cinergy/CG&E	
CCF Usage -	132	Rate RS - Residential Service	
Dec 06 - Jan 09		Customer Charge	\$ 5.00
34 Days		Gas Delivery Charge	
		132 CCF @ \$ 0.18591000	24.54
		Rider MSR-G	1.15cr
		Gas Delivery Riders	10.03
		Gas Cost Recovery	
		132 CCF @ \$ 1.21810000	160.79
			\$ 200.21
		Total Current Gas Charges	\$ 200.21

Name		Service Address		Account Number	
[REDACTED]		[REDACTED]		[REDACTED]	
Electric Meter -	094887121	Cinergy/CG&E Rate RS - Residential Svc-Winter			
kWh Usage -	1,273	Old Rate Effective Dec 06 To Jan 09			
Dec 06 - Jan 09		Distribution-Customer Chg		\$ 3.30	
34 Days		Delivery Charges			
		Distribution-Energy Chg			
		1,049 kWh @ \$ 0.01471000		15.43	
		Rider TCR		7.90	
		Delivery Riders		5.48	
		Total Delivery Charges		\$ 28.61	
		Generation Charges			
		Residential Generation Credit			
		824 kWh @ \$ 0.00253320cr		2.09cr	
		225 kWh @ \$ 0.00102730cr		0.23cr	
		Generation Energy Chg			
		824 kWh @ \$ 0.05066400		41.75	
		225 kWh @ \$ 0.02054600		4.62	
		Total Generation Charges		\$ 44.05	76.16
<hr/>					
		Cinergy/CG&E Rate RS - Residential Svc-Winter			
		New Rate Effective Jan 03 To Jan 09			
		Distribution-Customer Chg		\$ 0.79	
		Delivery Charges			
		Distribution-Energy Chg			
		224 kWh @ \$ 0.01894900		4.47	✓
		Rider TCR		1.69	✓
		Rider RSC		1.29	
		Rider AAC		0.52	
		Rider MSR-E		0.32cr	✓
		Delivery Riders		3.12	
		Total Delivery Charges		\$ 10.77	
		Generation Charges			
		Generation Energy Chg			
		176 kWh @ \$ 0.03755300		6.61	
		48 kWh @ \$ 0.01416900		0.68	
		Rider FPP		2.66	✓
		Rider RSS		0.30cr	✓
		Total Generation Charges		\$ 9.65	21.21
Total Current Electric Charges					\$ 97.37

Budget Billing Plan (BBP) Information			
Summary			
BBP Option :	Quarterly Plan	Previous Budget Billing Balance	\$ 86.85cr
BBP installment Amount:	\$ 187.00	Current Gas Charges	200.21
		Current Electric Charges	97.37
		Budget Billing Amt Due	187.00cr
		Budget Billing Balance	\$ 23.73

Name	Service Address	Account Number

CCF

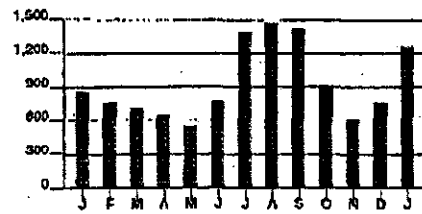
Gas Usage



Calculations based on most recent 12 month history
 Total Usage 784
 Average Usage 65

kWh

Electric Usage



Calculations based on most recent 12 month history
 Total Usage 11,352
 Average Usage 946

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN
Gas	134	166	128	98	42	21	20	14	20	14	31	98	132
Electric	857	762	718	654	562	780	1,364	1,482	1,423	917	627	759	1,273