

FILE

OCC EXHIBIT _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

| | | |
|---|---|------------------------|
| Consolidated Duke Energy Ohio, Inc., Rate |) | Case Nos. 03-93-EL-ATA |
| Stabilization Plan Remand and Rider |) | 03-2079-EL-AAM |
| Adjustment Cases |) | 03-2081-EL-AAM |
| |) | 03-2080-EL-ATA |
| |) | 05-724-EL-UNC |
| |) | 05-725-EL-UNC |
| |) | 06-1068-EL-UNC |
| |) | 06-1069-EL-UNC |
| |) | 06-1085-EL-UNC |

PREPARED TESTIMONY
OF
MICHAEL P. HAUGH

RECEIVED-DOCKETING DIV
2007 MAR -9 PM 5: 01
PUCO

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

March 9, 2007

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ATTACHMENTS

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| MPH Attachment 1 | Revised AAC Calculation |
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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.

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;

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

10 *Columbia Gas of Ohio*, Case No. 05-221-GA-GCR.

11

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

14 **A5.** From the current cases I have reviewed the Applications filed by Duke Energy
15 Ohio, Inc. (“Company” or “DE-Ohio” in this testimony, which includes its
16 predecessor the Cincinnati Gas and Electric Company), the Company’s responses
17 to discovery by the OCC and testimony filed by DE-Ohio. I have also reviewed
18 the Commission-ordered Financial and Management Performance Audits (“Audit
19 Report”) of the System Reliability Tracker (“SRT”) of DE-Ohio conducted by
20 Energy Ventures Analysis, Inc. and Larkin & Associates PLLC (“Auditors”). I
21 also reviewed relevant documents from other DE-Ohio cases, including but not
22 limited to PUCO Case No. 03-93-EL-ATA and the cases consolidated with that
23 case (referred to collectively as “Case No. 03-93-EL-ATA”).

1 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 **A6.** The purpose of my testimony is to address the Applications made by DE-Ohio to
4 increase its Annually Adjusted Component (“AAC”) and to adjust its SRT for
5 2007. In regard to the AAC, I offer recommendations regarding the
6 Commission’s treatment of the AAC and how Construction Work in Progress
7 (“CWIP”) should be handled. I also address the Company’s Application to
8 collect from customers, via the SRT, costs for capacity from the former Duke
9 Energy North America LLC (“DENA”) generating assets that are now owned by
10 DE-Ohio. Finally, I will discuss a bill format issue that involves both the AAC
11 and SRT. My testimony does not address the issue of the appropriateness of the
12 approach taken by DE-Ohio regarding assembly of a standard service offer using
13 a variety of components such as the AAC and SRT. That issue is addressed by
14 OCC witness Talbot in his testimony.

15

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

17 **A7.** I recommend that the 2007 and 2008 AAC should be audited in a similar fashion
18 to DE-Ohio’s System Reliability Tracker (“SRT”) and Fuel and Purchased Power
19 (“FPP”) riders. I also recommend that a return on CWIP should be excluded
20 from the revenue that DE-Ohio seeks to obtain through the AAC. In addition, I
21 concur with the Auditor’s recommendation that charges related to DENA assets
22 should not be collected from customers in DE-Ohio’s SRT. Finally, because the

1 AAC and SRT charges are for generation-related costs, I recommend that those
2 riders be placed in the "Generation Charge" portion of customers' bills.

3

4 **II. PROPOSED AAC CHARGES**

5

6 ***Q8. WHAT COSTS ARE INCLUDED IN THE AAC?***

7 ***A8.*** In Attachment 1 to the Company's Application for Rehearing in Case No. 03-93-
8 EL-UNC, the AAC is defined as a component "to recover costs associated with
9 homeland security, taxes, and environmental compliance". The AAC was
10 originally set for non-residential customers at 4% of little g in 2005 and 8% of
11 little g in 2006 while residential customers were charge 6% of little g in 2006.
12 Little g is the unbundled generation rate after removing fuel and purchased power
13 and stranded costs.

14

15 ***Q9. WHAT MECHANISM IS IN PLACE TO ALLOW THE COMPANY TO***
16 ***INCREASE THE AAC?***

17 ***A9.*** The Commission stated in its September 29, 2004 Opinion and Order in Case No.
18 03-93-EL-UNC that the Company may apply for Commission approval to
19 increase the rider annually.

1 **Q10. WHAT IS THE COMPANY'S PROPOSAL FOR THE 2007 AAC CHARGES?**

2 **A10.** The Company is looking to collect \$73,818,962 from the AAC. (Wathen Direct
3 testimony at page 10) This equates to a charge equal to 9.1% of little g. (Wathen
4 Direct testimony at page 11)

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. DO YOU HAVE AN OPINION REGARDING WHETHER A COMMISSION**
17 **ORDERED AUDIT WOULD BE BENEFICIAL?**

18 **A12.** Yes. Similar audits conducted most recently in the SRT and FPP cases, along
19 with Management Performance audits in the natural gas industry, are very helpful
20 in locating errors and in identifying issues related to the calculation of charges.
21 DE-Ohio has many riders and trackers that resulted from Case No. 03-93-EL-
22 ATA, 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 if these charges
2 continue in the future. I believe an audit of the charges associated with the AAC
3 rider is the only way the PUCO would be able to conclude whether the proposed
4 AAC charge is reasonable and was calculated as ordered. The audit of the AAC
5 should be included with the audit of the 2007 and 2008 SRT and FPP riders if
6 those charges continue in the future.

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

9
10 ***Q13. DO YOU HAVE CONCERNS REGARDING THE MANNER IN WHICH THE***
11 ***COMPANY HAS DEVELOPED ITS AAC RIDER IN THESE CASES?***

12 ***A13.*** Yes. 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 are not appropriate for a
14 deregulated generation environment. Even a revenue requirement determined in
15 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 (or any other percentage) 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 would 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
4 would pay the 2007 AAC because it is unknown which customers will receive
5 service from DE-Ohio's generating units in the future.

6
7 ***Q14. WHAT IS THE COMPANY'S POSITION REGARDING THE TREATMENT***
8 ***OF CWIP?***

9 ***A14.*** Company witness Wathen states in his February 28, 2007 Supplemental
10 Testimony (page 5) that "traditional ratemaking regulations, such as the limit on
11 CWIP at issue here, must be set aside because we are not dealing with traditional
12 cost based regulation."

13
14 ***Q15. DO YOU AGREE WITH THE COMPANY'S POSITION THAT THE***
15 ***COMPANY SHOULD NOT BE LIMITED TO TRADITIONAL***
16 ***REGULATORY RULES?***

17 ***A15.*** I agree with the theory, but the theory has not been properly applied by DE-Ohio
18 in this situation. DE-Ohio witness Wathen's "'new' formula to determine a
19 market price" (page 5 again) simply seeks cost-based recovery that is similar to
20 the traditional methodology for the treatment of CWIP, but without any limitation
21 regarding the percentage of completion for additions to environmental plant.
22 DE-Ohio proposes to benefit from the best of both worlds: cost recovery using
23 traditional revenue requirement methodology instead of using a market approach,

1 but not having to abide by traditional rules governing cost recovery such as those
2 that governed CWIP. In a truly competitive market, CWIP would not be earned at
3 all. A return on the plant would not occur until the plant is fully operational. In a
4 proper market approach, the entire AAC would be a generation charge that is
5 avoidable for customers who switched to another supplier.

6
7 ***Q16. WHAT IS YOUR SUGGESTION FOR THE HANDLING OF THE CWIP***
8 ***PORTION OF THE ENVIRONMENTAL COMPLIANCE COSTS?***

9 ***A16.*** 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 more reasonable AAC charge.

12
13 ***Q17. DO YOU HAVE A RESPONSE TO DE-OHIO WITNESS WATHEN'S***
14 ***SUPPLEMENTAL TESTIMONY REGARDING THE COMMISSION'S***
15 ***PREVIOUS TREATMENT FOR THE CALCULATION OF THE AAC?***

16 ***A17.*** Yes, witness Wathen's review of the subject in Section II of his Supplemental
17 Testimony is incomplete and is therefore misleading. As witness Wathen states in
18 his Supplemental Testimony, DE-Ohio proposed an AAC concept (not identical
19 to the AAC finally approved by the Commission) in the Stipulation filed on May
20 19, 2004. That Stipulation included as an attachment calculations based upon
21 DE-Ohio's approach to CWIP. The Commission's September 29, 2004 Order
22 was hardly an endorsement of DE-Ohio's approach. DE-Ohio's calculation for
23 the AAC contained in its Stipulation was \$107,514,533, and the eight percent

1 limitation contained in the Stipulation for 2005 came to \$60,172,508. The
2 amount approved by the Commission was \$53,757,267.

3
4 The Commission's Order explained its consideration of future AAC charges as
5 follows (page 32):

6
7 "[T]he Commission will, when requested by CG&E but no more often than
8 annually, determine the appropriate level of possible increases in the AAC
9 charge, and the appropriate level of avoidability by shopping customers, on
10 the basis of its consideration of CG&E's proven expense in these categories,
11 the development of the market in each consumer class, off-system sales by
12 CG&E in the marketplace, the impact of MISO Day 2 on the market, and such
13 other factors as it may deem appropriate from time to time. No increases in
14 the AAC will be allowed without Commission approval. It is the
15 Commission's goal to ensure that prices remain market-based"

16
17 The Commission's approach mentions "expenses," which does not describe the
18 CWIP calculation. Also, the Commission's overall approach did not approve "a
19 'new' formula" as stated on page 5 of DE-Ohio witness Wathen's Supplemental
20 Testimony. The overall approach is flexible, taking into account factors over
21 time.

1 **Q18. DID DE-OHIO WATHEN'S SUPPLEMENTAL TESTIMONY ADDRESS**
2 **EARLIER OCC ARGUMENTS REGARDING THE AAC?**

3 **A18.** Yes. DE-Ohio witness Wathen states in his Supplemental Testimony (page 4)
4 that the "Commission directly addressed OCC's objection to the Rider AAC
5 calculation." Counsel advises me that the cited portion of the November 23, 2004
6 Entry on Rehearing (located on pages 17-18) addressed the OCC's legal argument
7 based upon Ohio statutes.

8

9 **Q19. DO YOU FIND OTHER PORTIONS OD THE COMMISSION'S ENTRY**
10 **ON REHEARING IMPORTANT IN PREPARING YOUR TESTIMONY?**

11 **A19.** Yes. The Commission's Entry on Rehearing continued to stress that it "will
12 continue to consider the reasonableness of expenditures" (page 10) and that it
13 would seek to "ensure that CG&E's generation rates are market-based"(page 18).
14 The current proceeding is the first opportunity that the OCC has had since the
15 conclusion of Case No. 03-93-EL-ATA in 2004 to present its views in a case
16 before the Commission regarding what is a reasonable level for AAC charges.

17

18 **Q20. HAVE YOU CALCULATED THE EFFECT OF YOUR**
19 **RECOMMENDATION?**

20 **A20.** Yes, using DE-Ohio Witness Wathen's Attachment WDW-2, Schedule 2, I
21 removed the \$244,413,759 CWIP amount from the "Return on Environmental
22 Plant." MPH Attachment 1 demonstrates that this reduces the "Pre-Tax Return"

1 to \$53,938,303, and reduces the "Total Environmental Compliance Increase" to
2 \$50,429,411.

3

4 ***Q21. WHAT EFFECT DOES THIS HAVE ON THE AAC RIDER?***

5 ***A21.*** The removal of the CWIP portion of the Environmental Plant reduces the revenue
6 requirement for the 2007 AAC to \$45,246,994. Using DE-Ohio witness Wathen's
7 methodology, this reduction results in the AAC being set at 5.6% of "little g."
8 MPH Attachment 1 also shows the resulting Rate RS AAC rates.

9

10

11 **V. PROPOSED SRT**

12

13 ***Q22. WHAT IS THE SYSTEM RELIABILITY TRACKER?***

14 ***A22.*** The PUCO approved the mechanism of the SRT in the November 23, 2004 Entry
15 on Rehearing in PUCO Case No 03-93-EL-ATA. DE-Ohio's stated purpose for
16 the SRT charge was to permit the Company to collect from customers the costs
17 associated with maintaining a generation reserve margin. The SRT does not
18 include DE-Ohio's costs of the purchased power, just the capacity to prove the
19 Company has adequate resources to provide for its load. Any power purchased
20 from the capacity arrangements would be collected through the Company's fuel
21 and purchased power ("FPP") rider.

1 **VI. DUKE ENERGY NORTH AMERICA GENERATING ASSETS**

2
3 ***Q23. HOW WERE THE DENA ASSETS OBTAINED BY DE-OHIO?***

4 ***A23.*** In PUCO Case No. 05-732-EL-MER (“Merger Case”), the Cincinnati Gas &
5 Electric Company (now known as Duke Energy-Ohio, Inc., referred to herein at
6 “DE-Ohio”) submitted pre-filed testimony by Wendy L. Aumiller that described
7 the transfer of generating assets from DENA to the Cincinnati Gas & Electric
8 Company as an “equity infusion” at the book value of the generating assets.

9
10
11 ***Q24. HAS THE PUCO ADDRESSED WHETHER COSTS RELATED TO DENA***
12 ***ASSETS CAN BE COLLECTED FROM OHIO CUSTOMERS?***

13 ***A24.*** In the Finding and Order of the Merger Case, the Commission found “costs that
14 may be related to the transfer of the DENA assets will not be able to be passed on
15 to Ohio customers without approval of the Commission.” (Finding and Order at
16 page 15.) Further, in Case No. 05-724-EL-UNC, the Commission adopted a
17 Stipulation (in its entirety) in which it was stated that DE-Ohio could not use the
18 DENA assets to satisfy the SRT margin requirements without an application to
19 the Commission requesting approval of a market price associated with the DENA
20 assets. (November 22, 2005 Opinion and Order at page 5) The Company has not
21 provided any market pricing mechanism in its Application.

1 **Q25. IS DE-OHIO PROPOSING IN THIS CASE TO COLLECT FROM**
2 **CUSTOMERS ANY COSTS RELATED TO DENA ASSETS?**

3 **A25.** Yes. DE-Ohio Witness Whitlock stated in his direct testimony that DENA assets
4 should be treated the same as any other capacity in the market. (Whitlock
5 testimony filed 9/1/2006 at page 9.) Based on this statement, it seems that DE-
6 Ohio would plan to collect bids and offers in the marketplace as a way to
7 determine the cost of the DENA assets it would seek to collect from customers via
8 the current and future SRT charges.

9
10 **Q26. DO YOU AGREE WITH THE METHODOLOGY PROPOSED BY DE-OHIO**
11 **WITNESS WHITLOCK?**

12 **A26.** No, Mr. Whitlock states that DE-Ohio will provide the Commission with bids for,
13 and offers of, capacity that would justify the market price DE-Ohio would charge
14 (to customers) for capacity through the SRT. (Whitlock testimony at page 12.)
15 DE-Ohio witness Whitlock admits that the prices in the spot market for capacity
16 are "exceptionally volatile." (Whitlock testimony at page 11.) This would lead
17 one to believe that there is a wide range between the price DE-Ohio is willing to
18 pay for the capacity and the price at which other generators are willing to sell
19 their capacity. Large differences between bids and offers or -- in the case of a
20 limited market -- no offers -- leads to uncertainty of the true market price. The
21 market price is determined by the transactions that take place in the market. If
22 there are very few or no transactions, then speculation regarding the market price
23 would be the means by which it is reported. In the situation of the DENA assets,

1 this would require DE-Ohio to estimate the market price of the capacity with
2 limited or no market data because of the lack of transactions in the capacity
3 market. DE-Ohio's proposal is not an acceptable solution to determining the
4 market price of DENA assets, and does not provide a reasonable cost for capacity
5 -- meaning the proposal is not in the best interest of DE-Ohio customers.

6

7 ***Q27. WHAT DID THE AUDITOR RECOMMEND REGARDING WHETHER DE-***
8 ***OHIO SHOULD PURCHASE CAPACITY OFF THE DENA ASSETS?***

9 ***A27.*** The Auditor first stated that he does not believe DE-Ohio witness Whitlock's
10 claims that DE-Ohio's customers are paying more for capacity in the market than
11 they would for capacity off the DENA assets. (Audit Report at page 6-5) Next
12 the Auditor states that affiliate transactions are problematic. (Audit Report at page
13 6-5) Third the Auditor asserts that these affiliate transactions would overly
14 burden the ability of future auditors to audit affiliate transactions. (Audit Report at
15 page 6-5) Finally the Auditor believes DE-Ohio could sell the capacity from
16 these units on the open market. (Audit Report at page 6-5)

17

18 ***Q28. DO YOU AGREE WITH THE AUDITOR'S RECOMMENDATIONS?***

19 ***A28.*** I agree with the Auditor that DE-Ohio has not shown that customers would be
20 better off by using DENA assets than paying for capacity in the market. The cost
21 of capacity off the DENA assets would be passed through to customers at market
22 prices, unless DE-Ohio is proposing that the capacity off the DENA assets will

1 cost less than the rest of the market. DE-Ohio has not demonstrated that use of
2 the DENA assets will provide benefits to customers.

3
4 I agree with the Auditor that affiliate transactions can be troublesome, mainly in
5 light of my previous discussion on how DE-Ohio plans to set the market price for
6 the DENA assets. I also note the significance of the Auditor stating the difficulty
7 of conducting an audit of these transactions related to DENA assets. Under these
8 circumstances, the PUCO's intended check on SRT costs will not be adequate to
9 ensure reasonably priced retail electric service for Ohio consumers. Finally,
10 given the picture painted by DE-Ohio witness Whitlock regarding the dire need
11 for capacity in the region served by the Midwest Independent System Operator
12 (which arranges transmission), DE-Ohio should not have any problem selling
13 capacity off these generating units as opposed to charging DE-Ohio customers by
14 means of the SRT mechanism.

15

16 ***Q29. ARE THERE ANY SITUATIONS IN WHICH DE-OHIO SHOULD BE***
17 ***ALLOWED TO PURCHASE CAPACITY OFF THE DENA ASSETS?***

18 ***A29.*** If a circumstance arises where DE-Ohio is in an emergency situation and unable
19 to meet its capacity needs, then use of the DENA assets could be appropriate.
20 DE-Ohio should only be allowed to purchase capacity off the DENA assets in the
21 future if DE-Ohio demonstrates that the DENA assets clearly offer a better price
22 or a better product for customers than that offered in the open market. Otherwise,
23 the DENA capacity should be used only as a last resort and if there is a pre-

1 determined, reasonable method to determine the price for the capacity off the
2 DENA assets.

3

4 **VII. PLACEMENT OF AAC AND SRT ON CUSTOMER BILLS**

5

6 ***Q30. WHAT IS YOUR UNDERSTANDING REGARDING THE TREATMENT OF***
7 ***THE AAC AND SRT ON DE-OHIO'S RESIDENTIAL CUSTOMER BILLS?***

8 ***A30.*** As shown on MPH Attachment 2, the "Rider AAC" is in the "Delivery Charge"
9 portion of the bill. The SRT is included in the "Delivery Riders" also in the
10 "Delivery Charge" portion of the bill.

11

12 ***Q31. WHAT IS MPH ATTACHMENT 2?***

13 ***A31.*** Attachment 2 is a sample bill faxed to the OCC by a DE-Ohio representative on
14 February 1, 2006. The customer name, account number and address have been
15 redacted to protect the identity of the customer.

16

17 ***Q32. WHERE SHOULD THE AAC AND SRT BE LOCATED ON A CUSTOMER'S***
18 ***BILL?***

19 ***A32.*** Both riders were created in Case No. 03-93-EL-ATA regarding DE-Ohio's
20 "market based standard service offer," not the recently concluded distribution rate
21 case (PUCO Case No. 05-59-EL-AIR). The November 23, 2004 Entry on
22 Rehearing in Case No. 03-93-EL-UNC states (page 17) that the AAC charge is
23 "not . . . placed upon distribution or transmission, and is not an ancillary service."

1 The AAC rider deals with generation costs. As stated by DE-Ohio witness
2 Wathen on page 2 of his testimony in Case No 06-1085-EL-UNC, the AAC is a
3 component of the Company's standard service offer, the generation rate approved
4 by the PUCO in Case No. 03-93-EL-ATA. The calculations for the proposed
5 AAC deals with environmental compliance on DE-Ohio's generating units, as
6 discussed on pages 4-6 of DE-Ohio witness Wathen's testimony. The decrease in
7 the AAC component for changes in the tax rate, explained on page 7 of DE-Ohio
8 witness Wathen's testimony, is also entirely related to the generation of
9 electricity.

10
11 According to DE-Ohio witness Wathen, the SRT is based on the total dollars
12 spent to maintain a 15% generation reserve margin.(Wathen direct testimony in
13 Case No. 06-1069-EL-UNC at page 15) The purchase of capacity is in essence
14 purchasing the rights to a predetermined amount of generation off a designated
15 resource. The SRT purchases are to provide the Company an adequate reserve of
16 generation. It is inaccurate and misleading to identify the SRT as a charge for a
17 distribution function. Therefore the SRT should not be identified as a distribution
18 rider, and should instead be placed in the "Generation Charges" section of the
19 customers' bill.

1 **Q33. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING CHARGES**
2 **ON A CUSTOMER'S BILL?**

3 **A33.** Yes. DE-Ohio currently has six riders listed on its residential customer's bill
4 along with a line item titled "Delivery Riders," which I have determined contains
5 the SRT and Infrastructure Maintenance Fund ("IMF"). The Company should be
6 required to place the riders in the appropriate section of the customer's bill to
7 provide the proper information to customers about the service for which they are
8 paying. Hence, the AAC, SRT and IMF should be placed in the generation
9 portion of a customer's bill. .

10

11 **Q34. WHAT SHOULD THE COMPANY DO TO RECTIFY THE CUSTOMER**
12 **BILL ISSUES YOU ADDRESS?**

13 **A34.** DE-Ohio should be required to correct the faults in its current billing statements
14 and file a corrected bill format for approval by the Commission if these
15 generation-related riders continued to be charged as the result of these
16 proceedings.

17

18 **VIII. CONCLUSION**

19

20 **Q35. WHAT ARE YOUR OVERALL CONCLUSIONS?**

21 **A35.** The AAC Application filed by the Company should not be approved by the
22 Commission because it is incomplete and proposes an unreasonable AAC rate for
23 2007. The Application is incomplete because it does not allow for an independent

1 audit. An independent audit would promote accountability that would help the
2 Commission assure that proposed AAC charges are reasonable in the same
3 manner that audits ordered by the Commission regarding DE-Ohio's other
4 generation-related riders have served this function. The Company's calculations
5 for the 2007 AAC results in an unreasonable charge because the Company seeks
6 to pick and choose between elements of traditional rate making methodology (i.e.
7 regarding the treatment of CWIP) in the context of market-based rates.

8
9 I agree with the SRT Auditor's recommendation that DE-Ohio should not be
10 permitted to pass through to consumers costs associated with the DENA assets to
11 satisfy the capacity requirements of the SRT because of the inability to determine
12 a true market price for the capacity of these assets.

13
14 Both the AAC and SRT Applications fail to address that these charges are clearly
15 generation related, but are included on the distribution portion of the customer's
16 bill. These charges, if they continue to be applied as the result of these
17 proceedings, should be placed on the generation portion of the customer's bill.

18
19 ***Q36. WHAT ACTIONS DO YOU RECOMMEND?***

20 ***A36.*** As part of any order regarding the AAC and SRT charges for 2007, the
21 Commission should (1) require that an independent audit be conducted on all
22 costs requested and recovered through the AAC Rider such as has been ordered
23 regarding DE-Ohio's FPP and SRT charges, (2) remove the return on CWIP

1 portion of the Environmental Compliance revenue requirement or at least make it
2 avoidable to all customers being served by a CRES provider, (3) refuse to allow
3 DE-Ohio to pass through any costs associated with the DENA assets in the SRT
4 and (4) order the Company to file a new bill format which places the AAC and
5 SRT Riders on the generation portion of customers' bills.

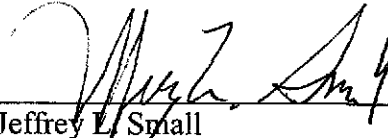
6

7 ***Q37. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

8 ***A37.*** Yes, it does. However, I reserve the right to incorporate new information that
9 may subsequently become available.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Testimony of Mike Haugh was served electronically on the persons listed on the electronic service list shown below (as supplemented), provided by the Attorney Examiner, this 9th day of March 2007.


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**Duke 2007 AAC
PUCO Case No. 06-1085-EL-UNC
Revised AAC Calculation**

MPH Attachment 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



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.

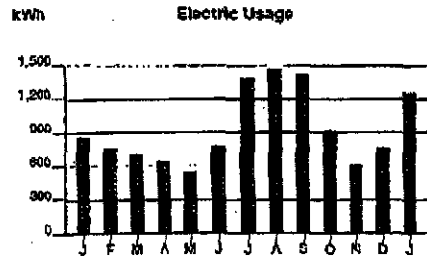
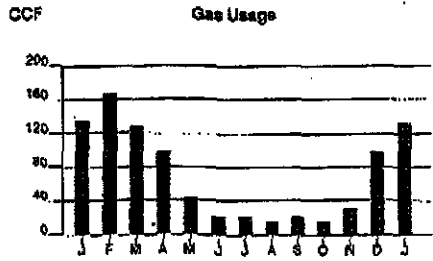
Under state law, the amount you are being billed includes: (1) kilowatt-hour taxes that have been in effect since 2001 and are currently at \$.00465 for the first 2,000 kWh, \$.00419 for the next 18,000 kWh and \$.00363 for all additional kWh and, (2) Assessments to assist in the support of the PUCO 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 8.43 cents per kWh. Your Price to Compare may be different based on your usage. Visit www.cinergyge.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 Rate RS - Residential Service | |
| CCF Usage - | 132 | Customer Charge | \$ 6.00 |
| Dec 06 - Jan 09 | | Gas Delivery Charge | |
| 34 Days | | 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 |
| | | | \$ 200.21 |

| Electric | | Cinergy/CG&E | | |
|-----------------|-----------|-------------------------------------|----------|-----------------|
| Meter - | 094887121 | 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 | \$ 28.81 | |
| | | 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 |
| | | 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 @ \$ 0.01994900 | 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 | |
| | | 49 kWh @ \$ 0.01416900 | 0.68 | |
| | | Rider FPP | 2.66 | |
| | | Rider RSS | 0.30cr | |
| | | Total Generation Charges | \$ 9.65 | 21.21 |
| | | | | \$ 97.37 |

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



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

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 | 98 | 98 | 132 |
| Electric | 857 | 763 | 718 | 654 | 562 | 780 | 1,394 | 1,482 | 1,423 | 917 | 627 | 759 | 1,273 |