

MC GINNIS & ASSOCIATES, INC.
614.431.1344 COLUMBUS, OHIO 800.498.2451

1 BEFORE
2 THE PUBLIC UTILITIES COMMISSION OF OHIO

3 - - -
4 Consolidated Duke Energy) Case Nos.
5 Ohio, Inc. Rate) 03-93-EL-ATA
6 Stabilization Plan Remand) 03-2079-EL-AAM
7 and Rider Adjustment) 03-2080-EL-ATA
8 Cases.) 03-2081-EL-AAM
9 05-724-EL-UNC
10 05-725-EL-UNC
11 06-1068-EL-UNC
12 06-1069-EL-UNC
13 06-1085-EL-UNC
14

15 Deposition of Michael P. Haugh, a
16 witness herein, called by Duke Energy Ohio, Inc.
17 for cross-examination under the statute, taken
18 before me, Valerie J. Grubaugh, Registered Merit
19 Reporter, Certified Realtime Reporter, and Notary
20 Public in and for the State of Ohio, pursuant to
21 notice and stipulations of counsel hereinafter set
22 forth, at the offices of Ohio Consumers' Counsel,
23 10 West Broad Street, Suite 1800, Columbus, Ohio,
24 on Tuesday, April 3, 2007, beginning at 10:00
25 o'clock a.m. and concluding on the same day.

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2007 APR -5 PM 1:49
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S T I P U L A T I O N S

- - -

It is stipulated by and among counsel for the respective parties herein that the deposition of Michael P. Haugh, a witness herein, called by Duke Energy Ohio, Inc. for cross-examination under the statute, may be taken at this time and reduced to writing in stenotype by the Notary, whose notes may thereafter be transcribed out of the presence of the witness; that proof of the official character and qualification of the Notary is waived; that the witness may sign the transcript of his deposition before a Notary other than the Notary taking his deposition; said deposition to have the same force and effect as though the witness had signed the transcript of his deposition before the Notary taking it.

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1 I N D E X

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3 WITNESS PAGE

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8 EXHIBITS MARKED

9 Duke Energy Ohio Exhibit No. 1 - 32

10 Supplemental Testimony of

11 L'Nard E. Tufts

12 Duke Energy Ohio Exhibit No. 2 - 48

13 Supreme Court of Ohio

14 Opinion and Order

15 Duke Energy Ohio Exhibit No. 3 - 75

16 "Argus Air Daily" articles

17 Duke Energy Ohio Exhibit No. 4 - 100

18 The Boeing Company Annual Report

19 Duke Energy Ohio Exhibit No. 5 - 104

20 Eli Lilly Annual Report

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1 MICHAEL P. HAUGH
2 of lawful age, being by me first duly placed under
3 oath, as prescribed by law, was examined and
4 testified as follows:

5 CROSS-EXAMINATION

6 BY MR. D'ASCENZO:

7 Q. Okay. Good morning, Mr. Haugh. I'm
8 Rocco D'Ascenzo. I represent Duke Energy, Ohio in
9 the consolidated case numbers 03-93, et al.
10 This portion of the proceeding involves
11 several of our Riders that make up our market
12 price, and I'm here to take your deposition about
13 prepared testimony that you filed roughly around
14 March 9th of this year.

15 I assume you've had your deposition taken
16 before?

17 A. Yes.

18 Q. So let me just remind you of sort of the
19 ground rules. If you don't understand a question
20 that I've asked, just let me know and I will
21 attempt to rephrase it the best way that I can.

22 If you can respond in a "yes" or "no",
23 that can speed things along and we can try to get
24 out of here sooner.

25 So I guess to start things off, do you

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1 have any questions?

2 A. None.

3 Q. Okay. Would you please state your name
4 for the record, please?

5 A. Michael Haugh, H-a-u-g-h.

6 Q. And your business address?

7 A. 10 West Broad Street, Suite 1800,
8 Columbus, Ohio 43215.

9 Q. Okay. I want to get into a little bit of
10 your background and your education. This
11 hopefully won't take too long.

12 What degrees do you have?

13 A. I have a Bachelor's of Science in
14 Business Administration from Ohio State, and that
15 is my only degree.

16 Q. And when did you graduate from OSU?

17 A. 1994.

18 Q. Okay. What was your concentration in?

19 A. Finance.

20 Q. What sorts of classes did you take as
21 part of that degree?

22 A. Accounting -- A variety of business
23 classes: Accounting, finance, operations
24 management, economics. That would just be a
25 sampling of the cases I took.

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1 Q. Okay. And what other training
2 postgraduate have you had?

3 A. Any of a number of conferences.
4 Different training seminars with previous
5 employers. And I attended the NERUC regulatory
6 studies class, I guess you would say, up at
7 Michigan State.

8 Q. Okay. In your prepared testimony filed
9 on March 9th, you describe being employed with
10 Enron Energy Services as a Natural Gas Trading
11 Analyst; is that correct?

12 A. That is correct, yes.

13 Q. What time period were you with Enron?

14 A. 1996 through 1998.

15 Q. Were you a Natural Gas Trading Analyst
16 for that entire period?

17 A. Would have held the same position. The
18 name may have changed at some point, but I held
19 the same position for that full time.

20 Q. What were your primary responsibilities
21 as a trading analyst?

22 A. We were a retail -- We did retail natural
23 gas marketing, and I would do price quotes for
24 the -- sales reps would go out, get customers, and
25 I would do price quotes, load forecasting, and

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1 then hedge the commodity with financial products.

2 Q. So your basic function was more along
3 analysis supporting the actual sales folks that
4 would go out there; is that a correct
5 characterization?

6 A. I guess it would be a good generalization
7 of what I did.

8 Q. Did you, yourself, do any sales?

9 A. I had limited direct contact with
10 customers.

11 Q. Okay.

12 A. Occasionally -- Let me preface that by
13 saying occasionally I did. When discussing
14 specifics, I would talk with the customers and
15 describe -- answer any questions that they had.

16 Q. Did you purchase financial hedges?

17 A. I would -- We were a small retail shop
18 underneath the larger headquarters in Houston. We
19 were here in Dublin, Ohio, and we would -- I would
20 actually do some financial hedging by calling the
21 trading desk in Houston, and essentially they had
22 a large book of business and they would hedge our
23 book using theirs, if that makes sense.

24 They had a much larger book. Our sole
25 counter party in the financial hedges was the

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1 trading desk in Houston.

2 Q. Did you do any actual trading? You,
3 personally?

4 A. I would purchase physical commodity. You
5 could call it -- I was doing financial trading,
6 but it was -- at that time it was only with the
7 office in Houston.

8 Q. What would make those trades or purchases
9 profitable?

10 A. Well, the sort of problem that I have
11 with your question is that we -- our trades
12 weren't necessarily made for profit. We were
13 hedging the sales --

14 Q. Okay.

15 A. -- that we were -- we were primarily
16 hedging the sales, and that was our goal -- that
17 was our function.

18 Q. As part of your analysis, did you review
19 publications for the price of commodities or the
20 financial hedges?

21 A. Yes.

22 Q. What were those?

23 A. That was a long time ago, and I'm trying
24 to recall the specific publications. And for that
25 particular position, I can't recall exactly what I

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1 was -- what we were viewing at that time, what the
2 names of the publications were.

3 Q. But they were published indices in the
4 industry?

5 A. Yes.

6 Q. What level of risk were you trying to
7 achieve with the hedges that you were purchasing?

8 A. At that time?

9 Q. Uh-huh.

10 A. Zero risk.

11 Q. Is there a -- In your opinion, is there a
12 common level of risk that companies would try to
13 achieve in the market?

14 THE WITNESS: Could you repeat the
15 question, please?

16 (Record read back as requested.)

17 THE WITNESS: Could you describe what you
18 mean by "common level of risk"?

19 BY MR. D'ASCENZO:

20 Q. Well, let me see if I can do this as a
21 hypothetical.

22 Assume a company is actively trading or
23 active in a market, and is purchasing hedges such
24 as what you were.

25 In your opinion, would there be a certain

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1 amount of risk that a company would be trying to
2 mitigate or avoid?

3 A. You mean each company?

4 Q. Generally speaking.

5 A. I would --

6 MR. SAUER: I'd like to object. Are you
7 asking him what level of risk Enron was trying to
8 assume while they were involved in this market,
9 or --

10 MR. D'ASCENZO: I was speaking more in
11 general, given his background and his experience
12 and his opinion, whether companies who are active
13 in a market would be trying to mitigate some form
14 of risk.

15 THE WITNESS: Well, I would say that in a
16 trading environment, or in a retail marketing
17 environment, companies would be -- would be
18 attempting to mitigate some risk.

19 BY MR. D'ASCENZO:

20 Q. And there may be some level of risk that
21 a company would be willing to accept given a
22 certain position in a market; would you agree with
23 that?

24 A. It would depend on the company.

25 Q. Would you agree that some companies such

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1 as Enron are completely risk adverse?

2 A. Did you say some companies -- companies
3 such as Enron are risk adverse?

4 Q. Yes.

5 A. Well, there's not much going on at Enron
6 right now.

7 Q. Well, Enron, during your tenure there.

8 A. I can't recall the exact risk policies
9 while I was at Enron. I know for my position, our
10 goal was to have zero risk on those specific
11 products that I was working on.

12 Q. And in your opinion, was that reasonable?

13 A. For that particular product, I felt it
14 was reasonable.

15 Q. Let's move a little forward in time here.
16 After you left Enron, according to your testimony,
17 you were with AEP Energy Services; is that
18 correct?

19 A. Yes. There were a variety of names that
20 we worked under, but that was -- I believe that's
21 what it was when I left.

22 Q. Okay. Approximately when did you start
23 with -- I'll just say AEP?

24 A. The -- I started immediately after
25 leaving Enron; 1998.

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1 Q. And what was the principle business of
2 AEP Energy Services, or the organization of AEP
3 while you were there?

4 A. We were a wholesale trading group.

5 Q. What did you specifically -- What was
6 your job title while you were there?

7 A. Might be easier for me to describe the
8 different positions I held.

9 Q. Okay.

10 A. There are actually periods of time where
11 I'm not sure what my actual title was.

12 Q. I know what that's like.

13 A. It might be easier to go through and
14 explain what I did.

15 Q. Sure.

16 A. I started off doing risk management for
17 the natural gas, electric, liquids and coal
18 trading groups. Following that, I spent a brief
19 time trading natural gas. Following that, I did
20 asset optimization on the power plants.

21 Q. While you were trading natural gas, what
22 were your job responsibilities or typical duties?

23 A. With that, we would -- there were traders
24 that held long-term positions and, essentially, I
25 would flatten those out on a daily basis, on a

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1 physical -- in a physical sense.

2 Q. How did you flatten them out?

3 A. Just trading with counter parties in the
4 market.

5 Q. Were you purchasing hedges as part of
6 that?

7 A. In that position, no.

8 Q. What level of risk was acceptable at AEP
9 while you were a natural gas trader?

10 A. Can I confer with my counsel briefly?

11 Q. Yes.

12 MR. D'ASCENZO: Go off the record.

13 (Discussion held off the record.)

14 MR. D'ASCENZO: Go back on the record.

15 THE WITNESS: I don't feel comfortable
16 discussing the risk that was acceptable while I
17 was working at AEP due to that it may be
18 considered proprietary.

19 MR. D'ASCENZO: Okay. Could we go off
20 the record?

21 (Discussion held off the record.)

22 THE WITNESS: Could you repeat the
23 question, please?

24 (Record read back as requested.)

25 MR. SAUER: I object to this question.

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1 To the extent you can answer it, Mike, in a manner
2 that you feel comfortable, without breaching any
3 prior confidences you had with your prior
4 employer, you may answer the question.

5 THE WITNESS: There were a variety of
6 risk tolerances depending on the specific trading
7 book, and the specific commodity, each one having
8 its own -- each one being slightly different based
9 on where that specific trader and where the head
10 of all traders felt was comfortable.

11 BY MR. D'ASCENZO:

12 Q. Let me see if I can just ask a very
13 high-level question to see if you feel comfortable
14 answering that.

15 Would you agree that while you were at
16 AEP, the lower the risk, given the factors that
17 you just mentioned, the better the deal, the
18 position, or the trade?

19 MR. SAUER: Continuing objection to this
20 line of questioning. To the extent you understand
21 the question, Mike, to the extent you feel
22 comfortable answering it, you may.

23 THE WITNESS: If I could just clarify
24 this. You are stating that the lower the risk,
25 the better the trade? Was that what you stated?

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1 BY MR. D'ASCENZO:

2 Q. Basically. The lower the risk, the --
3 yes, the better the trade. I guess that's the
4 best way to put it.

5 A. How would you define "better" in that
6 statement?

7 Q. More profitable, given the various risk
8 tolerances that -- as you described in a couple of
9 questions ago, of those factors?

10 A. I wouldn't agree with that.

11 Q. Okay. I think I have just one more
12 question along those lines there. Would you agree
13 that AEP had policies to limit risk?

14 MR. SAUER: Continuing objection.

15 THE WITNESS: Yes.

16 BY MR. D'ASCENZO:

17 Q. Okay. You also mentioned while you were
18 with AEP that you were involved in asset
19 optimization. Could you just briefly describe
20 what that is, and what you did?

21 A. Essentially, in -- with our power plants,
22 we would determine, based on market conditions, if
23 it was better to run the power plant, purchase
24 power in the market, things of that nature.

25 Q. And in your assessment of running a power

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1 plant, did you take into consideration certain
2 costs of running the asset?

3 A. Yes.

4 Q. Costs such as maybe fuel, emission
5 allowances, those sorts of things?

6 A. Yes. Those are a few of the things, yes.

7 Q. What about, did you consider costs that
8 would make the asset run more efficiently?

9 A. What do you mean by that?

10 Q. Say, scrubbers.

11 A. That was not something that I would
12 evaluate.

13 Q. Do you know if it was evaluated?

14 A. I do not know.

15 Q. What about reagents, did you evaluate
16 that?

17 A. I did not evaluate that.

18 Q. Do you know if it was evaluated?

19 A. I do not know.

20 Q. When did you leave -- Approximately, when
21 did you leave AEP?

22 A. At the end of 2003.

23 Q. And according to your testimony, you then
24 went to MidAmerican Energy; is that correct?

25 A. Energy Services.

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1 Q. Energy Services.

2 A. Yes. My specific area was -- I was under
3 MidAmerican Energy Services. MidAmerican Energy
4 was the parent to that company.

5 Q. Was MidAmerican Energy Services a service
6 company that would perform duties for all of the
7 companies under MidAmerican Energy?

8 A. I'm not -- I don't believe that is true.
9 I'm not positive exactly what -- what all was
10 encompassed in MidAmerican Energy Services.

11 Q. What is your understanding of what
12 MidAmerican Energy Services -- what its function
13 was?

14 A. What I did while I was there was I
15 managed the sales for the gas sales into the State
16 of Ohio.

17 Q. And according to your testimony, at that
18 time your job title was Senior Product Manager; is
19 that correct?

20 A. Yes, that's correct.

21 Q. Did MidAmerican Energy Services have
22 policies regarding risk tolerance?

23 A. Yes.

24 Q. And did those policies vary by product or
25 book?

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1 A. Yes.

2 Q. According to your testimony, you were
3 with MidAmerican Energy Services for approximately
4 one year; is that correct?

5 A. That's correct. January of '04 until I
6 joined the OCC in October, so ten months.

7 Q. Okay. When you joined the OCC in October
8 of 2004, what was your position?

9 A. The same position I hold currently;
10 Senior Regulatory Analyst.

11 Q. Are you aware that in October of 2004,
12 Duke Energy Ohio's, then The Cincinnati Gas &
13 Electric Company's, market base standard service
14 offer case was in progress and before the
15 Commission?

16 A. Yes, I was.

17 And also, it's fine, it's easier for me
18 and possibly for you, if we can refer to it as
19 Duke Energy, Duke Energy Ohio. That's easier for
20 me, if it would be easier for you also. I
21 recognize CG&E and Duke Energy are one in the
22 same.

23 Q. That was going to be my next question.
24 They sort of ingrained that in us. We are now
25 Duke Energy, Ohio.

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1 Were you at all involved, or did you
2 participate in Duke Energy Ohio's MBSSO in 2004?

3 A. I was pulled into a few meetings shortly
4 after I started here, and to be honest, I was -- I
5 understood very little because it was -- I was
6 at -- I was coming in at mile one, and everyone
7 else was at mile 26 of the marathon. So I was --
8 I had very little understanding what was going on
9 at that time.

10 Q. Okay. So your involvement was limited,
11 at best?

12 A. Yes. More of an observer.

13 Q. Okay. You didn't perform any sort of
14 analysis or anything like that?

15 A. No.

16 Q. Okay. Today, do you feel that you are
17 at, as you put it, mile 26? Are you up to speed
18 on Duke Energy Ohio's MBSSO case?

19 A. Yes, very much so.

20 Q. Okay. Are you familiar with the Public
21 Utilities Commission of Ohio's entry on rehearing
22 on November 23rd, 2004?

23 A. Yes.

24 Q. Are you familiar with and have you
25 reviewed the testimony that was presented in that

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1 initial case?

2 A. Is there any specific testimony?

3 Q. Sometime around April, middle of April
4 of 2004, Duke Energy Ohio filed its direct
5 testimony. We had several witnesses.

6 A. That's what I was asking. Any specific
7 person's testimony? Some of them.

8 Q. John P. Steffen?

9 A. I believe I reviewed his, yes.

10 Q. Judah Rose?

11 A. I don't believe I reviewed his.

12 Q. Are you generally familiar with the
13 appeal of the MBSSO that was brought before the
14 Ohio Supreme Court in 2000 -- I think it was
15 argued in 2006, sometime in April or May?

16 A. I have general knowledge of that.

17 Q. Okay. Are you familiar with the Opinion
18 and Order from the Ohio Supreme Court that --
19 involving the MBS -- Duke Energy Ohio's MBSSO case
20 that was published back in November of 2006?

21 A. Once again, generally knowledgeable on
22 that.

23 Q. Okay. Let's start going into your
24 testimony here a little further.

25 By the way, if you need a break while

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1 we're going through this, please let me know.

2 Beginning on Page 3 of your testimony,
3 around Line 16, you essentially make three
4 recommendations for the company's AAC filing, the
5 Annually Adjusted Component Rider, of its market
6 base -- of Duke Energy Ohio's market base standard
7 service offer; is that correct?

8 A. For the AAC, specifically.

9 Q. Yes. We'll deal with the AAC
10 specifically, and then the SRT later.

11 A. I believe there's only three for the AAC.

12 Q. Let me ask this: What is your
13 understanding of Duke Energy Ohio's AAC?

14 A. If I'm not mistaken, according to Duke,
15 it is for costs incurred for environmental
16 compliance, tax law changes and homeland security.

17 Q. Do you know if the AAC is avoidable?

18 A. For residentials -- residential
19 customers, I believe it is avoidable for the
20 first 25 percent that shop.

21 Q. Do you know what it is for
22 nonresidential?

23 A. I believe it's 50 percent, first 50
24 percent that shop, subject to check on both of
25 those.

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1 Q. And for the first 25 percent of
2 residential load that switches, the AAC is 100
3 percent avoidable; is that correct?

4 A. That's my understanding.

5 Q. Let's deal with the third recommendation
6 that you make with respect to the AAC in your
7 testimony. And that has to do with the placement
8 of the AAC on Duke Energy Ohio's bill.

9 Your recommendation, correct me if I
10 misstate this, is that Duke Energy Ohio should
11 place the AAC charge in the, quote, generation
12 portion of customer bills. Is that a correct
13 characterization of your recommendation?

14 A. I would say that's a correct
15 generalization of what my recommendations are.

16 Q. And again, correct me if I
17 mischaracterize this, but your recommendation is
18 based upon the AAC collecting charges related to
19 generation; is that correct?

20 A. Yes, the AAC deals with generation costs.

21 Q. Are you aware if the Commission has
22 approved Duke Energy Ohio's current billing
23 format?

24 A. I'm not aware of that.

25 Q. Do you know if Duke Energy Ohio can

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1 format its customer bills any way it chooses,
2 without Commission approval?

3 A. No, I believe there's an approval process
4 to that.

5 Q. To your knowledge, has anybody -- has any
6 customer or consumer filed a complaint that Duke
7 Energy Ohio is -- Duke Energy Ohio's bill format
8 is -- has not received Commission approval?

9 THE WITNESS: Could you repeat the
10 question, please?

11 (Record read back as requested.)

12 THE WITNESS: I don't know of any
13 complaint.

14 BY MR. D'ASCENZO:

15 Q. Are you aware if the Commission has
16 received any complaints from consumers regarding
17 the location of the AAC charge on Duke Energy
18 Ohio's bill?

19 A. I'm not aware of that.

20 Q. Since January of 2006, has OCC received
21 any complaints from residential consumers
22 regarding the location of the AAC charge on Duke
23 Energy Ohio's bill?

24 A. I'm not aware of that.

25 Q. If Duke Energy Ohio were to agree to a

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1 billing format change for the location of the AAC,
2 as you recommend, subject to Commission approval,
3 would this resolve your criticism of Duke Energy
4 Ohio's billing format with respect to the AAC
5 charge?

6 A. Well, my suggestion is that this should
7 be moved to the generation portion of the bill.
8 If it is moved to the generation portion of the
9 bill, then my -- it sounds as though Duke Energy
10 Ohio would be following my recommendation in that
11 case, so yes, that would be -- if they follow my
12 recommendation, I wouldn't have a problem with
13 that.

14 Q. Okay. Going back to Page 3, starting on
15 Line -- you know what, I have -- this was -- I'm
16 referring to your November testimony. Let me see
17 if -- they are slightly different. It is Page 3,
18 and Line 17 of your March testimony.

19 You make the recommendation that the AAC
20 should be audited in a manner similar to the
21 audits that occur with Duke Energy Ohio's System
22 Reliability Tracker and Fuel and Purchase Power
23 Rider. Is that a correct characterization of your
24 recommendation?

25 A. I believe that's a direct quote from my

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1 testimony.

2 Q. Okay. Would you please describe in your
3 own words what that audit would entail?

4 A. I would -- Similar to the SRT and FPP,
5 there would be a financial audit made to verify
6 that all -- just like any other audit, all the
7 money is going to the correct place and is
8 prudently incurred -- all the costs were prudently
9 incurred, and with this -- with the AAC, I would
10 also expect there to be a physical audit of the --
11 to verify that the costs incurred were for the
12 environmental compliance, and that it was
13 operational.

14 Q. So let me see if I can summarize that.

15 You are recommending a -- both a
16 financial audit and some form of a
17 Management/Performance audit.

18 A. Yes, that's my understanding of the -- of
19 how the SRT and FPP are being audited currently.
20 Along with the Management/Performance, I guess
21 there would be an inclusion of a physical audit
22 with a Management/Performance audit.

23 Q. Are you also suggesting that an outside
24 auditor be employed to review the AAC?

25 A. Yes.

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1 Q. Do you believe that the Commission staff
2 is capable of reviewing the AAC filing and
3 performing its own analysis?

4 A. I don't know -- I'd have to have more
5 details on that to make a judgment on that.

6 Q. Do you believe that the Commission staff
7 is capable of performing any audit?

8 A. Yes.

9 Q. Do you have a reason to believe that the
10 Commission staff would be incapable of auditing
11 Duke Energy Ohio's AAC?

12 THE WITNESS: Could you repeat the
13 question, please?

14 (Record read back as requested.)

15 MR. SAUER: Are you talking, Rocco, about
16 financial audits only, or are you talking about
17 physical audits, or are you talking about --

18 MR. D'ASCENZO: The audits that Mr. Haugh
19 here is recommending, both financial and
20 management appraisal.

21 THE WITNESS: I don't believe I know the
22 specific qualifications of all the members of the
23 PUCO staff to be able to answer that question, if
24 I feel they are capable or incapable.

25 BY MR. D'ASCENZO:

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1 Q. Do you believe that OCC would be capable
2 of reviewing the AAC filing and performing its own
3 analysis?

4 A. Did you say reviewing the AAC?

5 Q. Uh-huh.

6 A. I believe we are able to review and do an
7 analysis on the AAC.

8 Q. If an outside auditor were hired to
9 perform a comprehensive audit of the AAC filing,
10 should those -- the costs of hiring that auditor
11 be passed through, through the AAC charge?

12 A. I believe this audit should be treated in
13 the same fashion as the SRT and FPP audits.

14 Q. And do you know what that is?

15 A. I am not positive of the handling of
16 that -- of those audits.

17 Q. Would you agree that OCC has an
18 opportunity to intervene, conduct discovery, and
19 potentially litigate DE Ohio's annual AAC filing?

20 A. If there is a filing, then yes, the OCC
21 has the ability to intervene and conduct
22 discovery. That's my knowledge.

23 Q. Given that you are recommending that the
24 AAC be treated in a manner that is identical to
25 the FPP and SRT, are you also recommending that

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1 there be an annual true-up of the AAC calculation
2 for both over- or undercollections?

3 A. I don't address that in my testimony.

4 Q. What is your opinion with respect to
5 truing up the AAC?

6 A. At this time, I really don't have an
7 opinion on that.

8 Q. On Page 6, Line 2 of your testimony --

9 A. With this, we're going to be working off
10 my March 9 testimony, I assume, at all times?

11 Q. Yes. I thought I made that change, but
12 if not.

13 You state that you believe an audit of
14 the AAC is the only way the PUCO would be able to
15 determine whether the AAC charge is reasonable and
16 calculated as ordered. Is that a correct
17 characterization?

18 A. I believe that's a direct quote from my
19 testimony.

20 Q. Would such an audit include a review of
21 source documents?

22 A. Yes.

23 Q. Accounting records, for instance?

24 A. Yes.

25 Q. Fixed asset records?

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1 A. That, I'm not sure.

2 Q. How about estimates of expenditures?

3 A. I would assume that would be part of the
4 audit.

5 Q. And an on-site inspection to verify the
6 physical existence of plant items?

7 A. That sounds reasonable.

8 Q. Should there be a review of monthly
9 financial statements and trial balances by FERC
10 account?

11 A. That also sounds reasonable.

12 Q. Have you reviewed the supplemental
13 testimony of L'Nard Tufts file on March 9, 2007 in
14 this case?

15 A. Yes, I looked at it.

16 Q. Would you agree that Mr. Tufts, on behalf
17 of the Commission staff, reviewed the company's
18 proposed AAC calculation for 2007?

19 A. Not having Mr. Tufts' testimony, I can't
20 remember the specifics.

21 Q. I am handing you a copy of L'Nard's
22 testimony that was filed in this case.

23

- - -

24 Thereupon, Duke Energy Ohio's Exhibit
25 No. 1 was marked for purposes of

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1 identification.

2 - - -

3 BY MR. D'ASCENZO:

4 Q. Beginning on page -- there isn't a page
5 number at the bottom, but it is page one of his
6 testimony, Line 1 -- actually, Line 2, Mr. Tufts
7 states that he will update his previously filed
8 testimony and discuss the staff's investigation
9 regarding the applicant's filing. Did I
10 correctly --

11 A. I think you quoted it directly.

12 Q. Okay. And in the next question he begins
13 to discuss the company's AAC. Is that correct?

14 A. He describes what costs are eligible
15 through the AAC.

16 Q. And you can take a moment, if you need
17 to, to review the testimony. It's only
18 approximately five pages in total.

19 But would you agree that in this
20 testimony, Mr. Tufts describes staff's
21 investigation of the various cost components and
22 pricing components of the AAC?

23 A. I'm sorry. You said cost components and?

24 Q. Cost pricing components.

25 Interchangeable.

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1 A. Yes, at different times Mr. Tufts does
2 describe the cost components in the AAC.

3 Q. So going back to a previous question,
4 having reviewed Mr. Tufts' testimony, would you
5 agree that Mr. Tufts, on behalf of the Commission
6 staff, reviewed the company's proposed AAC
7 calculation for 2007?

8 A. I'd have to look a little deeper. Your
9 previous question was did he look -- did he
10 describe the costs. And you're a little bit --
11 your question was a little more specific in his
12 analysis of -- you asked did he perform an
13 analysis of the cost.

14 Q. I was referring to a question that I had
15 asked prior to handing out this.

16 A. Okay.

17 Q. You stated you could not recall the
18 details of Mr. Tufts' testimony.

19 A. Okay. And the pending question is did
20 Mr. Tufts do an analysis of the costs?

21 Q. Did he review the company's proposed AAC
22 calculation?

23 A. Yes, it appears as though he did review
24 the company's AAC calculation.

25 Q. Thank you.

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1 Do you have any criticism regarding
2 Mr. Tufts' review of the company's 2007 AAC
3 calculation?

4 A. Any criticism of his analysis of the --

5 Q. Uh-huh.

6 MR. SAUER: Can you reread the question?

7 (Record read back as requested.)

8 THE WITNESS: Some of my -- I disagree
9 with some of his calculations, that there are
10 differences between my -- in my testimony and what
11 he states in his.

12 BY MR. D'ASCENZO:

13 Q. Okay. In what way?

14 A. The primary difference is that he -- he
15 includes the CWIP portion in the calculation, and
16 my testimony suggests removing the CWIP.

17 Q. Ignoring the CWIP issue for a moment,
18 we'll get to that later, do you have any other
19 criticisms of Mr. Tufts' review of the AAC
20 calculation?

21 A. There are some -- some things I don't
22 have an opinion on based on the fact that I don't
23 have the -- I do not have the information that --
24 or some of the information that Mr. Tufts had, it
25 appears, some of the detailed -- some of the

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1 detailed analysis it appears as though he did.

2 Q. Do you know if OCC conducted discovery
3 with respect to the company's 2007 AAC
4 calculation?

5 A. Yes, we did.

6 Q. On Page 4, beginning on Line -- well,
7 beginning on Line 6 of Mr. Tufts' testimony,
8 Mr. Tufts describes a staff adjustment to "O&O"
9 costs, and I believe that's a typo, I believe it
10 should be O&M costs, from roughly \$38,000
11 to \$34,000. Do you have an opinion with respect
12 to that adjustment?

13 A. No opinion.

14 Q. Similarly, in the next question,
15 beginning on Line 13, Mr. Tufts describes a
16 reduction in homeland security property tax from
17 approximately \$1,187 to \$504. Do you have any
18 opinion on that?

19 A. No opinion.

20 Q. On Page 5 of Mr. Tufts' testimony,
21 beginning with his answer on Line 3, he describes
22 another correction that he made in his prepared
23 testimony that was filed, I believe, back in
24 November of 2004.

25 This is with respect to a tax reduction

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1 amount of \$4,389,290. He makes a correction that
2 it should be \$5,477,473. Do you have an opinion
3 with respect to that adjustment?

4 A. No opinion.

5 Q. Mr. Tufts' review of the company's 2007
6 AAC proposal resulted in an increase of the total
7 revenue requirement; is that correct?

8 A. His attachments are not with this -- or
9 not on the testimony that you gave me.

10 Q. You are right, they are not.

11 A. Subject to check, I would agree that they
12 are an increase.

13 Q. Okay. Subject to check. I apologize for
14 that. I printed it off the docket this morning.
15 Apparently there was a subsequent filing that I
16 forgot.

17 Have you personally performed any sort of
18 audit of the company's proposed AAC calculation
19 for 2007?

20 A. Would you define "audit"?

21 Q. Have you reviewed any of the company's
22 financial documents, source documents, to
23 determine the accuracy of the company's proposal?

24 A. What do you mean by "financial" and
25 "source documents"?

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1 Q. The documents that we discussed earlier,
2 such as accounting records.

3 A. No specific accounting records.

4 Q. What documents did you review in making
5 your recommendation for the -- for your proposed
6 AAC charge?

7 A. A variety of documents that I reviewed,
8 including the application, the discovery, the
9 other -- the filings in the case, the testimony of
10 the Duke witnesses.

11 Q. And again, excluding the issue of CWIP,
12 do you dispute the accuracy of Mr. Tufts'
13 adjustments to the company's AAC filing?

14 A. I did not have the same information that
15 Mr. Tufts did, so I don't have any opinions to his
16 specifics.

17 Q. Do you know what information Mr. Tufts
18 had that you did not have access to?

19 A. I do not. I don't know where he obtained
20 some of the numbers that he uses in his testimony.

21 Q. Do you have any reason to believe that
22 Mr. Tufts has not performed a thorough review and
23 analysis of Duke Energy Ohio's 2007 AAC proposed
24 calculation?

25 A. I have no opinion.

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1 Q. Do you believe Mr. Tufts' proposed
2 adjustments are reasonable?

3 A. I have no opinion as to that.

4 Q. In your opinion, what would make a charge
5 reasonable? A charge similar to the AAC, let me
6 specify.

7 A. What do you mean by "reasonable"?

8 Q. In your testimony you are essentially
9 saying that Duke Energy Ohio's AAC proposal is not
10 a reasonable charge.

11 I guess what I'm getting at is, other
12 than the issue surrounding CWIP, are there any
13 other components that you are disputing?

14 A. I feel that an audit would answer if
15 there are any others.

16 Q. But you don't know at this point?

17 A. No.

18 (Discussion held off the record.)

19 BY MR. D'ASCENZO:

20 Q. Is there any information that you or OCC
21 requested from Duke Energy Ohio that we did not
22 provide with respect to the AAC?

23 A. I am not positive we received everything
24 that we requested.

25 Q. Okay.

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1 MR. D'ASCENZO: I think that's all I have
2 for right now. We can take a break and come back
3 after lunch.

4 (Luncheon recess taken.)

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1 P R O C E E D I N G S

2 - - -

3 Tuesday, April 3rd, 2007

4 Afternoon Session

5 - - -

6 BY MR. D'ASCENZO:

7 Q. Mr. Haugh, going back to Page 3 of your
8 prefiled testimony. Your -- What you have here as
9 your second recommendation is that a return on
10 CWIP should be excluded from the revenue that
11 DE-Ohio seeks to obtain through the AAC.

12 Did I correctly characterize your
13 recommendation there?

14 A. That is a direct quote from my testimony.

15 Q. What is your understanding of the
16 construction expenditures component of the
17 company's market price formula?

18 A. Well, my understanding is that they are
19 looking to obtain a return on the environmental
20 construction that is going on currently.

21 Q. What is CWIP, I guess, is a better
22 question?

23 A. It's work that is currently in progress
24 but not completed. It's an account that
25 designates that.

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1 Q. Are you familiar with the book
2 "Principles of Public Utility Rates" by James C.
3 Bondbright?

4 A. I am not.

5 Q. Okay. Are you familiar with James C.
6 Bondbright's work?

7 A. I am not.

8 Q. Just to clarify your understanding of the
9 company's AAC calculation, is it your
10 understanding that the company is seeking a return
11 on the investment in plant, or a return of the
12 investment in plant?

13 A. This CWIP portion, I believe it's a
14 return on.

15 Q. You are recommending that the company
16 exclude all of its construction-related
17 expenditures, or some fraction thereof?

18 A. I'm not saying that they -- just the
19 fraction that is -- the portion that is included
20 in CWIP should be included for this proceeding.

21 Q. Let me try to clarify.

22 In your direct testimony on Line -- on
23 Page 6, in the middle of the page there around
24 Line 14, I believe it starts, you make reference
25 to a 75 percent completion for CWIP to be included

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1 under a -- under Ohio's previously regulated
2 scheme.

3 Is that what you are advocating in your
4 testimony, or are you saying no CWIP?

5 A. I'm saying no CWIP at all. That's stated
6 in my Page 8, Line 7 -- actually, Line 9. I
7 recommend the CWIP portion be removed from the
8 return on environmental plant calculation.

9 Q. Okay. And the inclusion of CWIP is the
10 only adjustment that you are recommending to the
11 AAC price calculation?

12 A. That is the only portion that I remove
13 from the calculation of Witness Wathen.

14 Q. And just to clarify, you are not then
15 disputing any of the other cost estimates included
16 in the company's 2007 AAC calculation; is that
17 correct?

18 A. For the cost calculation, I am only
19 disputing the CWIP portion.

20 Q. Okay. On Page 6, Line 13 of your
21 testimony, you state that the company's charges
22 are not appropriate for a -- for a deregulated
23 generation environment. Is that a correct
24 characterization?

25 A. That is a direct quote.

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1 Q. What types of charges, in your opinion,
2 are appropriate?

3 A. Might be easier for me just to state that
4 of the company's charges that they applied for,
5 the CWIP portion is what I find -- is one that I
6 find inappropriate.

7 Q. So when you -- In your statement that the
8 company's charges are not appropriate, you're only
9 referring to the inclusion of CWIP; is that
10 correct?

11 A. At this time, yes.

12 Q. Do you agree with the statement that
13 DE-Ohio's market base standard service offer,
14 MBSSO, is a market price?

15 A. If you could define "market price", that
16 would be helpful.

17 Q. Are you aware that Duke Energy --
18 utilities are required to provide a market base
19 standard service offer?

20 A. Are you talking about the provisions of
21 Senate Bill 3?

22 Q. Yes.

23 A. Subject to check of the details of that,
24 yes, I agree. Differences of terminology, yes, I
25 agree that there are requirements in Senate

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1 Bill 3.

2 Q. Are you generally familiar with Senate
3 Bill 3?

4 A. Yes.

5 Q. What is your understanding of Senate
6 Bill 3?

7 A. Basically, that the generation portion
8 of -- the plan was -- without going into details
9 of it, the overall idea was that the generation
10 portion of customer's bills would be deregulated
11 and provided for by alternative suppliers -- could
12 be provided by alternative suppliers. Once again,
13 very high level.

14 Q. Do utilities provide generation service
15 that is deregulated in Ohio?

16 A. Yes.

17 Q. Do you know if they are required to
18 provide a market price for generation?

19 MR. SAUER: Objection. Calls for a legal
20 conclusion.

21 MR. D'ASCENZO: Can he answer?

22 MR. SAUER: To the extent you can
23 answer --

24 THE WITNESS: Can you repeat the
25 question, please?

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1 (Record read back as requested.)

2 MR. D'ASCENZO: And I'm just asking for
3 your understanding, not any sort of legal opinion.

4 THE WITNESS: I don't know.

5 BY MR. D'ASCENZO:

6 Q. Do you know if the Commission has
7 determined if Duke Energy Ohio is providing any
8 market price for generation?

9 MR. SAUER: Same objection. You can
10 answer if you know.

11 THE WITNESS: I'm not positive exactly
12 what the Commission ordered.

13 BY MR. D'ASCENZO:

14 Q. Do you know if OCC, in its appeal of Duke
15 Energy Ohio's market base standard service offer,
16 made any sort of challenge with respect to whether
17 or not Duke Energy Ohio was providing a market
18 price?

19 A. I believe there were some arguments
20 relating to that.

21 Q. Do you know if the Supreme Court of Ohio
22 made a finding with respect to those arguments?

23 MR. SAUER: Objection. Calls for a legal
24 conclusion. You can answer if you know.

25 THE WITNESS: I do not know.

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1 BY MR. D'ASCENZO:

2 Q. Do you know -- and again, understanding
3 you're not an attorney. Do you know whether
4 traditional regulatory ratemaking provisions apply
5 to generation?

6 A. Currently?

7 Q. Currently.

8 MR. SAUER: Could I have the question
9 reread, please?

10 (Record read back as requested.)

11 BY MR. D'ASCENZO:

12 Q. And let me clarify. I'm referring to
13 Ohio.

14 A. That's a difficult question, because
15 there are some aspects that are, and some aspects
16 that are not.

17 Q. What is your understanding of those that
18 are?

19 A. That do fall under -- That are regulated?

20 Well, the different EDUs around the state
21 have different aspects to their generation
22 charges, some that may be regulated, some that are
23 not.

24 Q. When you use the word "regulated", what
25 exactly do you mean by that?

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1 A. Recovery of costs that are generation
2 related.

3 Q. Are you referring specifically to
4 Commission oversight?

5 A. There's Commission oversight and cost
6 recovery for generation-related components.

7 Q. So is it your opinion that cost recovery
8 equals regulation?

9 A. No, not necessarily.

10 Q. Do you know -- and again, understanding
11 you are not an attorney -- whether the Supreme
12 Court of Ohio ruled, in its opinion regarding
13 OCC's appeal of Duke Energy Ohio's market base
14 standard service offer, do you know if the court
15 ruled that Duke Energy Ohio's standard service
16 offer was market based?

17 MR. SAUER: Objection. Calls for a legal
18 conclusion. You can answer if you know.

19 THE WITNESS: I believe I already
20 answered that question. I didn't know.

21 - - -

22 Thereupon, Duke Energy Ohio's Exhibit
23 No. 2 was marked for purposes of
24 identification.

25 - - -

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1 BY MR. D'ASCENZO:

2 Q. I'm handing you a copy of the Ohio
3 Supreme Court's opinion dated November 22nd, 2006,
4 Case No. 11 Ohio State 3d 300, and I will
5 represent to you that this is a copy of the
6 court's opinion in the OCC's appeal of Duke Energy
7 Ohio's MBSSO.

8 If you would please turn to -- it's
9 Paragraph 44 of this opinion. It looks like it's
10 on Page 6.

11 A. I'm there.

12 Q. And do you see that first sentence there?
13 It states:

14 "We hold that the commission's finding
15 that CG&E's standard service offer was market
16 based is supported by sufficient probative
17 evidence."

18 Did I read that correctly?

19 A. I believe that's a direct quote.

20 Q. Okay. So you would agree, then, that
21 based on that sentence, the Supreme Court of
22 Ohio --

23 MR. SAUER: Again, I object. This calls
24 for a legal conclusion. You quoted one sentence
25 out of a 13-page document and asked him if that's

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1 what the Supreme Court said.

2 I don't know if the four of us around
3 this table would agree that's what the Supreme
4 Court said. You read a passage out and he
5 answered it. I don't want him to make a legal
6 interpretation as to what the Supreme Court said
7 in this case.

8 MR. D'ASCENZO: Okay. I will move on.

9 BY MR. D'ASCENZO:

10 Q. Would you agree that the AAC is a
11 component of Duke Energy Ohio's MBSSO price?

12 MR. SAUER: Can you read the question
13 back, please?

14 (Record read back as requested.)

15 MR. D'ASCENZO: I'll rephrase the
16 question.

17 BY MR. D'ASCENZO:

18 Q. Do you agree that the AAC is a component
19 of Duke Energy Ohio's total market base standard
20 service offer price?

21 A. I know that Duke has described it as a
22 portion of its MBSSO.

23 Q. Do you agree that as a component of Duke
24 Energy's MBSSO, the AAC is a market price?

25 MR. SAUER: I'll object. I think this is

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1 outside the scope of his testimony. I think
2 Witness Talbot spoke to whether or not these
3 components were market based or not.

4 Mr. Haugh was strictly testifying to the
5 components of the -- the individual components
6 themselves, and what was included within those
7 components. He made no statements as to whether
8 or not they are market based.

9 MR. D'ASCENZO: Well, Mr. Haugh is
10 questioning the formulation of this particular
11 charge which Duke Energy Ohio is maintaining is a
12 component of its total price.

13 I'm only trying to ascertain whether or
14 not Mr. Haugh has an opinion as to whether or not
15 it matters what components really are ultimately
16 included if the company is charging a market
17 price. And that's the line of questioning that
18 I'm going down.

19 MR. SAUER: Okay. Can you repeat the
20 question?

21 (Record read back as requested.)

22 MR. SAUER: Again, I'll object. It's
23 outside the scope of his testimony. But if you
24 have an opinion, you can answer.

25 THE WITNESS: No, I don't.

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1 BY MR. D'ASCENZO:

2 Q. Do you believe the AAC is a regulated
3 rate?

4 A. It appears as though Duke is using
5 traditional regulatory formulas, I guess you could
6 say, to calculate the AAC.

7 Q. In formulating a market price, do you
8 believe it's reasonable to consider -- take into
9 consideration costs that a company incurs?

10 A. Did you say in developing a market price?

11 Q. Uh-huh.

12 A. I would think a company develops a market
13 price.

14 Q. Well, certainly a company has to
15 determine a price that it can sell its product or
16 service; would you agree?

17 A. Yes, I agree that a company would do
18 that.

19 Q. And that price would have to be -- would
20 have to take into consideration many factors,
21 including what consumers might be willing to pay,
22 as well as costs the company would incur in
23 producing the product or service, correct?

24 A. Those would be some of the aspects to be
25 considered.

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1 Q. So I guess I'm trying to understand your
2 statement that you do not believe a company
3 determines a market price.

4 A. In itself, the name "market price" means
5 that the price is set by the market. So I don't
6 see how a company could set a market price.

7 Q. Well, the company would have to set the
8 price that it's willing to sell into the market,
9 correct?

10 A. A company would have to determine the
11 price that it would need to sell a product.

12 Q. In determining a price that the company
13 is willing to sell into the market, a company must
14 take into consideration its costs; would you
15 agree?

16 A. I don't think it has to.

17 Q. If a company were to sell at a price that
18 is, say, below its costs, do you believe the
19 company could stay in business?

20 MR. SAUER: I'll object. This is getting
21 pretty far afield of his testimony. To the extent
22 you know, you may answer.

23 THE WITNESS: Could you repeat the
24 question?

25 MR. SAUER: I would appreciate you tying

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1 it closer to his testimony.

2 (Record read back as requested.)

3 THE WITNESS: It's possible.

4 BY MR. D'ASCENZO:

5 Q. How is it possible?

6 A. It could sell it below cost for a period
7 of time, and then -- in hopes of entry into the
8 market, then eventually slowly raise prices.

9 Q. But it couldn't sustain selling a price
10 below cost for any long period of time and still
11 be a viable company; would you agree?

12 A. It's -- You're making too general of a
13 statement for me to agree to that. There are
14 possibilities that companies could.

15 Q. If a company cannot recover its costs,
16 can it stay in business?

17 MR. SAUER: Object. Outside the scope of
18 his testimony. You're asking him to speculate as
19 to what a company can or cannot do. This is,
20 again, outside the scope of his testimony, and I
21 don't see where it's relevant.

22 MR. D'ASCENZO: Well, we are dealing with
23 Duke Energy Ohio's market price here that the AAC
24 is one component of it, and it -- the AAC is
25 designed to recover certain costs that the company

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1 does incur as it's doing business in a market.

2 Mr. Haugh has financial background. He
3 has experience in a market. He's testified to his
4 experience and his background with respect to
5 trading and analysis.

6 He's making some recommendations
7 regarding whether or not Duke Energy Ohio can
8 recover certain costs that it incurs in doing
9 business.

10 I think this is very relevant -- a very
11 relevant discussion in trying to determine how
12 he's come to his opinion that certain costs should
13 being excluded.

14 MR. SAUER: To the extent that
15 Mr. Haugh's recommending certain cost exclusions,
16 that's an appropriate line of questioning as far
17 as specific costs that he's addressed in his
18 testimony.

19 But the hypotheticals are very general in
20 nature and not following exactly the detail he's
21 got in his testimony.

22 MR. D'ASCENZO: Well, certainly Mr. Haugh
23 is an expert that OCC is providing here in terms
24 of what costs Duke Energy Ohio can recover, and I
25 am just, through hypotheticals, trying to

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1 determine what is the basis and his reasoning for
2 his analysis. That being said, I will try to
3 narrow my questions a little more.

4 BY MR. D'ASCENZO:

5 Q. Mr. Haugh, are you familiar with the term
6 "variable cost"?

7 A. Yes.

8 Q. What is a variable cost?

9 A. It's a cost that's incurred based on the
10 different number of factors, for example, based on
11 the output from a plant or the amount of -- the
12 amount of a certain product that's being produced.

13 Q. Is a variable cost short-term or
14 long-term in nature?

15 A. Could be both.

16 Q. Are you familiar with the term "fixed
17 cost"?

18 A. Yes.

19 Q. Would you consider scrubbing technologies
20 a fixed or variable cost?

21 A. Could be aspects of both in that.

22 Q. What about the construction of scrubbing
23 technologies?

24 A. I'd say just the construction of the
25 scrubbers would be a fixed cost.

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1 Q. Speaking in a hypothetical, do you
2 believe that in setting a -- in determining a
3 market price, that a company should consider both
4 fixed and variable costs?

5 A. I don't believe the companies set market
6 prices.

7 Q. In determining the price that they are
8 willing to sell in the market, do you believe it's
9 reasonable for a company to consider both its
10 fixed and variable costs?

11 A. They -- They very well, depending on the
12 company, could consider them.

13 Q. I want to go back for a minute to
14 something you said a few moments ago, and that was
15 with respect to the company's calculation of its
16 AAC.

17 You indicated that the company is using
18 some traditional ratemaking formula. You said
19 something to that effect. Do you remember that?

20 A. I recall that, yes.

21 Q. And I just -- I want to know what exactly
22 you are referring to.

23 A. It would be based on Witness Wathen's
24 testimony in his -- describing his revenue
25 requirement, and including such things as

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1 construction work in progress in there, in the
2 calculation for the amount to be recovered through
3 the AAC.

4 Q. In your opinion, and under the
5 understanding that you are not an attorney, do you
6 know if there is any prohibition for including
7 construction work in progress in -- as a cost
8 component of a market price?

9 MR. SAUER: Prohibition by who, and in
10 what circumstances?

11 BY MR. D'ASCENZO:

12 Q. In Ohio.

13 A. Meaning is there a rule, regulation,
14 prohibiting it?

15 Q. Exactly.

16 A. I know of no laws that prohibit that.

17 Q. On Page 7 of your testimony, beginning
18 around -- on Line 1 there, you make a statement
19 that in today's deregulated generation
20 environment, the future is too uncertain to
21 guarantee, I believe you state, this claimed
22 benefit would ever be realized by the consumers
23 who would pay the 2007 AAC, and then you go on to
24 state, "...because it is unknown which customers
25 will receive service from DE-Ohio's generating

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1 units in the future".

2 My question is: With respect to claimed
3 benefit, what are you referring to?

4 A. The benefits of the construction for the
5 environmental plant.

6 Q. Do you know of any pricing principle that
7 would prohibit the inclusion of CWIP in a market
8 price?

9 A. What do you mean by "pricing principle"?

10 Q. Anything other than a statute, rule,
11 anything along those lines that would prohibit a
12 company from including or considering CWIP as a
13 cost to recover in its market price.

14 A. Your definition of pricing principle is
15 very broad in that you say it's anything but.
16 Based on the broadness, I don't know.

17 Q. On Page 6 of your testimony, Line 21, you
18 state that the company might propose allowing a
19 return on CWIP that customers would pay up front
20 during plant construction. And you go on to say,
21 "...with a claim that the return on CWIP would
22 provide lower capital costs for customers at a
23 future when the plant is in service".

24 To the best of your knowledge, has Duke
25 Energy Ohio made any kind of claim like that in

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1 this proceeding?

2 A. My testimony -- in my testimony I state
3 that under traditional regulatory paradigm is
4 where this would -- is where this would occur,
5 where a company would receive a return on CWIP
6 prior to it actually going into service.

7 Q. In the initial MBSSO proceeding in 2004,
8 do you know if OCC made a similar argument
9 regarding the inclusion of CWIP as a component of
10 the revenue requirement for its POLR charge -- or
11 Duke Energy Ohio's POLR charge?

12 A. I believe there was a similar argument.

13 Q. Do you know if, in approving Duke Energy
14 Ohio's market base standard service offer --
15 again, understanding you're not an attorney -- do
16 you know if the Commission excluded the
17 inclusion -- excluded CWIP from Duke Energy Ohio's
18 market base standard service offer?

19 A. I don't know.

20 Q. In your opinion, do consumers receive any
21 benefit from Duke Energy Ohio's market base
22 standard service offer price?

23 MR. SAUER: Will you reread the question,
24 please?

25 (Record read back as requested.)

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1 THE WITNESS: You're asking if they
2 receive benefits from the price. That's sort of
3 what I'm having trouble with.

4 BY MR. D'ASCENZO:

5 Q. Let me see if I can rephrase.

6 Are you aware that in its initial MBSSO
7 filing, Duke Energy Ohio first proposed a
8 competitive market option?

9 A. Yes, I'm aware that they did.

10 Q. Are you familiar with that proposal?

11 A. My familiarization is very general.

12 Q. Okay. And are you familiar with the
13 Commission, in late 2003, early 2004, asking all
14 utilities to put forth what the Commission termed
15 as a rate stabilization plan?

16 A. Yes, I'm aware of that.

17 Q. Are you aware of what the Commission
18 determined as three goals for a rate stabilization
19 plan?

20 MR. SAUER: Objection. Calls for a legal
21 conclusion. You can answer if you know.

22 THE WITNESS: I do recall three goals
23 that were -- I believe there were three goals that
24 were stated with the RSPs.

25 BY MR. D'ASCENZO:

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1 Q. And again, understanding you are not an
2 attorney, do you have any understanding what those
3 goals were?

4 A. They seem to have slipped my memory as of
5 the moment, but I -- the exact definitions, I
6 can't remember exactly.

7 Q. And I don't have the exact three goals in
8 front of me, but if I were to represent to you
9 that one of them was stable prices for consumers,
10 subject to check, would you agree that --

11 A. Subject to check, that sounds familiar.

12 Q. And would you agree that, subject to
13 check, that another one of those goals was some
14 sort of revenue certainty to a utility?

15 A. Yes, subject to check.

16 Q. And just to fill it out, the third goal,
17 subject to check, was to encourage a competitive
18 market?

19 A. Yes, subject to check on the precise
20 wording.

21 Q. Do you know -- and understanding you're
22 not an attorney -- whether the Commission made any
23 determination whether Duke Energy Ohio's market
24 base standard service offer is consistent with
25 those goals?

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1 A. The current --

2 Q. The price that the Commission approved.

3 A. The current price?

4 MR. SAUER: Again, I'll object. It calls
5 for a legal conclusion. To the extent you know,
6 you may answer.

7 THE WITNESS: I'd have to review the
8 opinion and order to answer that fully.

9 BY MR. D'ASCENZO:

10 Q. Okay. Let me try it another way.

11 Assume that Duke Energy Ohio's market
12 base standard service offer is the only rate
13 stabilized price that the company is willing to
14 offer, and that's the current price including
15 the 2007 AAC filing.

16 Now, assume that CWIP is excluded from
17 the AAC calculation, and Duke Energy Ohio is then
18 unwilling to provide that price, and instead, a
19 competitive bidding option similar to what has
20 happened in Maryland or Illinois comes into
21 effect.

22 Do you know what impact would happen --
23 what the impact would be to consumers?

24 A. No.

25 Q. Are you aware of market prices outside of

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1 Ohio, market prices for generation?

2 MR. SAUER: I object. This is outside
3 the scope of his testimony. This is precisely
4 what Mr. Talbot testified to. He's been on the
5 stand and been deposed, and it's outside the scope
6 of his testimony.

7 MR. D'ASCENZO: Mr. Haugh, in his
8 testimony, talks about benefits to consumers and
9 whether or not consumers would receive any benefit
10 with the inclusion of certain cost components in
11 Duke Energy Ohio's market price.

12 I'm just trying to determine whether or
13 not Mr. Haugh would agree that there are benefits
14 to Duke Energy Ohio's market price.

15 MR. SAUER: You're asking him to
16 speculate as to what a customer perceives is a
17 benefit or doesn't perceive is a benefit based on
18 the price they are charged. That's a question
19 that's put to him. He can answer to the extent
20 he's able to answer.

21 MR. D'ASCENZO: Well, I did ask him
22 previously whether or not consumers received any
23 benefit from Duke Energy Ohio's price, and he
24 wasn't able to answer that question. So I'm just
25 trying to rephrase it and pose hypotheticals for

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1 him.

2 MR. SAUER: Well, you're offering
3 hypotheticals and alternatives that aren't
4 comprised in his testimony. You're asking him to
5 speculate as to what a customer finds beneficial.

6 You're asking what happens if the CMO
7 comes into fruition. Well, that's not what he's
8 testifying to.

9 MR. D'ASCENZO: Go off the record.

10 (Discussion held off the record.)

11 MR. D'ASCENZO: I guess we'll go back on
12 the record.

13 (Record read back as requested.)

14 THE WITNESS: Yes.

15 BY MR. D'ASCENZO:

16 Q. And do you know, generally, are they
17 higher than market prices in Ohio?

18 A. They vary by region, so some are higher,
19 some are lower.

20 Q. Do you know whether Ohio -- where Ohio
21 falls in that range?

22 A. Now, when you say "market prices", are
23 you -- could you define what you mean by the
24 market price for generation?

25 Q. I'm talking about prices that the

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1 ultimate consumer is paying.

2 A. Meaning a retail price?

3 Q. A retail price.

4 A. Okay. Depends on what region of the
5 country. I'm going to go back to my previous
6 answer.

7 Some are higher. Some are lower. I'm
8 having trouble, being that there's 50 states,
9 ranking Ohio where it would be exactly.

10 Q. I'm only concerned with those states that
11 have some form of electric restructuring or
12 deregulation.

13 A. I'm having trouble recalling the prices
14 for each of the states. I'm going to just stick
15 with my original answer. Some are higher and some
16 are lower. I'm not positive where Ohio falls
17 exactly in that mix.

18 Q. Do you know the prices in New Jersey?

19 A. Specifically, no.

20 Q. Are you generally familiar?

21 A. Generally, yes.

22 Q. Are the prices in New Jersey generally
23 higher than in Ohio?

24 A. Now, would that be the prices offered by
25 the utilities?

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1 Q. The BGS auction.

2 A. BGS? If you can refresh, what is
3 the BGS? What does that stand for?

4 Q. It's "Basic Generation Service".

5 A. I was confusing it with another acronym,
6 and that's -- there was another acronym I got
7 confused with, which is why I'm glad that that was
8 clarified.

9 MR. COLBERT: There are many.

10 THE WITNESS: I know. Yes, I'm generally
11 aware of the auction that was -- that's conducted
12 in New Jersey.

13 BY MR. D'ASCENZO:

14 Q. And have those prices been higher,
15 typically, than Ohio?

16 A. To my knowledge, I believe they are
17 higher. It would have to be subject to check,
18 though. They have done a variety of auctions
19 there.

20 Q. What about Maryland, are the prices in
21 Maryland generally higher than in Ohio?

22 A. I didn't do a specific study on what the
23 final prices were in Maryland. I know there's a
24 variety of legislation going on currently in the
25 state, so I'm not -- I'm not even sure what the

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1 ultimate price is that the consumers are paying
2 there, and what the outcome of their legislation
3 is.

4 Q. What about Illinois?

5 A. I know they are also in the midst of
6 legislation. I don't know what their ultimate
7 rates are that their consumers are paying, pending
8 the outcome of all of this.

9 Q. Do you know if the reason -- Do you know
10 the reason why there is new legislation in
11 Illinois?

12 A. Illinois, there was some questions
13 that -- I believe regarding the -- the legality of
14 the auction, and that there was some -- I know
15 there was some questions of impropriety in that
16 auction.

17 Q. Do you know if there were any issues
18 about the prices consumers were paying?

19 MR. SAUER: Again, I'm going to object.
20 This is getting outside the scope of his
21 testimony. To the extent you know, you can
22 answer.

23 THE WITNESS: That may have been one of
24 the issues I recall.

25 BY MR. D'ASCENZO:

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1 Q. Are you familiar with the term "provider
2 of last resort" or POLR?

3 A. Yes.

4 Q. Please explain your understanding of the
5 POLR.

6 A. It would be the incumbent utility is
7 responsible for providing services to the
8 customer. That was a very high-level, general
9 definition.

10 Q. Would you agree that with -- if I were to
11 recommend to you that the POLR was a safety net
12 for customers who switch to that, that they can
13 rely on the incumbent utility to keep their lights
14 on if their competitive provider were to up and
15 leave --

16 MR. SAUER: That's your definition?

17 MR. D'ASCENZO: Yes.

18 THE WITNESS: I would say that the
19 utility would have the responsibility in that
20 case.

21 BY MR. D'ASCENZO:

22 Q. Do you believe that switched customers
23 have a -- Do you believe that consumers receive a
24 benefit by having that safety net generation?

25 MR. SAUER: Object. Answer if you know.

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1 THE WITNESS: Could you repeat the
2 question?

3 (Record read back as requested.)

4 THE WITNESS: Yes -- well, there is a
5 benefit to having a utility be providing that --
6 providing a service of that nature.

7 BY MR. D'ASCENZO:

8 Q. Given that an incumbent utility has a
9 responsibility to serve as a provider of last
10 resort, do you believe that it would be reasonable
11 for the incumbent utility to invest in its
12 generating plants to make them environmentally
13 compliant?

14 A. I suppose that would be the determination
15 of the specific utility, how they want -- the
16 investments they want to make in their plants.

17 Q. Do you think it's unreasonable for a
18 company to invest in its plants?

19 A. Really depends on the specific company,
20 and what their goals and objectives are as to what
21 they want to do with their plants.

22 Q. Do you believe consumers benefit from
23 having a cleaner or less polluted environment?

24 A. I suppose there are benefits to having
25 clean air.

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1 Q. If Duke Energy Ohio did not invest in
2 environmental compliance technologies and
3 reagents, wouldn't that have the effect of
4 maintaining, if not increasing, emission levels of
5 its generation -- generating stations?

6 A. I don't know the specifics of their
7 generation stations to be able to answer that.

8 Q. Do you know what a scrubber does?

9 A. Generally.

10 Q. What is your general understanding?

11 A. In a very high level, it helps to reduce
12 emissions out of generating facilities, is my
13 understanding.

14 Q. If Duke Energy Ohio did not have
15 scrubbers on its coal-fired generating plants, and
16 assuming the company did not compensate for the
17 lack of scrubbers by using cleaner fuel, wouldn't
18 that maintain, if not increase, the level of
19 emissions that the company would be producing?

20 MR. SAUER: Object. Assuming facts not
21 in evidence.

22 MR. D'ASCENZO: He can answer a
23 hypothetical.

24 THE WITNESS: I am not -- I don't know
25 the answer to that.

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1 BY MR. D'ASCENZO:

2 Q. Do you know how a generating station can
3 manage its emission levels?

4 A. Not exact specifics.

5 Q. Are you aware that utilities can purchase
6 emission allowances to offset the emissions that
7 they produce?

8 A. Yes.

9 Q. Are you aware that different -- there are
10 various types of coal that have higher and lower
11 sulfur contents that would produce greater or less
12 emissions depending upon the level of sulfur
13 content?

14 A. Yes, I'm aware of that.

15 Q. If a utility -- And again, this is a
16 hypothetical.

17 If a utility did not invest in scrubbers,
18 wouldn't it have to offset its emissions through
19 either emission allowances or the use of cleaner
20 coal to meet environmental compliance
21 requirements?

22 MR. SAUER: Can I have that question read
23 back, please?

24 (Record read back as requested.)

25 THE WITNESS: I don't know all the

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1 environmental compliance requirements and exact
2 workings of a power plant, if those are the only
3 two things that they can do to lower emissions.
4 So I don't know -- I don't know what exactly needs
5 to be done to -- or could be done to lower
6 emissions.

7 BY MR. D'ASCENZO:

8 Q. Would you agree that a reduction in a
9 company -- in a generating station's emission
10 levels would reduce the amount of expenditures
11 necessary for emission allowances?

12 A. You say that by reducing the emissions
13 would reduce the need for emission allowances?

14 Q. Uh-huh.

15 A. That would seem logical.

16 Q. And conversely, the greater the level of
17 emissions, the greater the number of emission
18 allowances that are needed; would you agree?

19 A. That seems logical.

20 Q. Are you at all familiar with the market
21 for emission allowances?

22 A. I'm familiar with it.

23 Q. Would you describe it as being subject to
24 price swings?

25 A. With the understanding that every market

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1 has price swings, but I don't know the specific
2 levels of the price swings within the emissions
3 market.

4 Q. Are you familiar with the levels in 2005,
5 the market prices?

6 A. Not familiar with those.

7 Q. 2006?

8 A. I'm not familiar with those, either.

9 Q. What about the current?

10 A. Not familiar with price swings for the
11 emission allowance for 2007.

12 Q. Are you aware that Duke Energy Ohio
13 receives recovery of its emission allowance
14 expenditures through its Fuel and Purchased Power
15 Rider?

16 A. Subject to check, yes.

17 Q. In your current position, do you review
18 various market indexes for energy-related
19 components such as emission allowances?

20 MR. SAUER: Objection. Outside the scope
21 of his testimony. To the extent you know, you may
22 answer.

23 THE WITNESS: Emission allowance --
24 emission allowances specifically, or --

25 BY MR. D'ASCENZO:

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1 Q. Yes.

2 A. No, I do not.

3 Q. Are you familiar with the publication
4 "Megawatt Daily"?

5 A. I'm familiar with it.

6 Q. Are you familiar with the publication
7 Argus Air Daily?

8 A. Not familiar -- It sounds familiar, but I
9 don't think I've ever read it.

10 Q. But you think you might have heard of it?

11 A. It sounds familiar.

12 - - -

13 Thereupon, Duke Energy Ohio's Exhibit
14 No. 3 was marked for purposes of
15 identification.

16 - - -

17 MR. SAUER: I'll object to the admission
18 of this as being outside the scope of his
19 testimony.

20 (Discussion held off the record.)

21 BY MR. D'ASCENZO:

22 Q. If you would look at the document
23 entitled "Argus Air Daily". It's volume 12, it
24 looks like, 146, dated August 1 of 2005. Do you
25 have that in front of you?

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1 A. Yes.

2 Q. If you look on the left-hand side there
3 are several charts there that discuss emission
4 allowances, and I'm looking in particular at the
5 third one down that says "SO2 Allowances". Do you
6 see that?

7 A. Under "Daily Market" or "Assessment
8 Averages"?

9 Q. Assessment Averages. We're just looking
10 at the averages. If you look, it shows in that
11 chart under 2005, the second line down that says
12 "July Average". Do you see that?

13 A. Yes, I do.

14 Q. And do you see, if you go over -- the
15 next column says "Bid", the next column says
16 "Ask", and the last column is "Price" -- well, I
17 shouldn't say last. The third column there is
18 "Price". Do you see that?

19 A. Yes.

20 Q. And what is the price there for the July
21 average?

22 MR. SAUER: Again, I'll object. This is
23 outside the scope of his testimony. You can
24 answer, if you know.

25 THE WITNESS: 812.13.

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1 BY MR. D'ASCENZO:

2 Q. And in the upper right-hand corner of
3 that chart it says that's a price per ton. Do you
4 see that?

5 A. It states dollar per ton.

6 Q. Yes.

7 And if you would, please, look at
8 Volume 13, which should be the next page there in
9 the set, dated January 3rd, 2006.

10 I'm looking at a similar chart in the
11 same approximate location on that page. It says
12 "December Average". Do you see that?

13 A. Yes.

14 Q. And do you see the price?

15 A. For December Average?

16 Q. Yes.

17 A. Yes.

18 Q. And what is that price?

19 A. 1,586.55.

20 Q. And so just judging from those two
21 documents, the average price there from July
22 of 2005 to December -- through December of 2005,
23 the SO2 allowance price per ton rose
24 significantly. Would you agree?

25 A. I don't have enough information as to --

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1 I don't have enough information about these price
2 indexes or how they are calculated as to why one
3 number is higher than the other. That's what I
4 can say.

5 Not giving any credence to the underlying
6 price, itself, just that I will agree that one
7 number is higher than the other.

8 Q. And if you would look, please, at the
9 third document in the packet, which is dated
10 June 1, 2006.

11 A. Yes.

12 Q. Do you see where it says "May Average SO2
13 Allowances"?

14 A. Yes.

15 Q. And what is the price there?

16 MR. SAUER: Again, object. Outside the
17 scope of his testimony. Answer.

18 THE WITNESS: Under "Assessment Average",
19 May Average is 6.6025.

20 BY MR. D'ASCENZO:

21 Q. And would you agree that that -- what's
22 listed there, according to Argus Air Daily, their
23 May average is lower than what they had listed for
24 their December 2005 average price?

25 A. That number is lower than the other

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1 number.

2 Q. So in -- at least according to this
3 index, would you characterize that change in
4 roughly a one-year period, a little over a
5 one-year period, as being volatile?

6 MR. SAUER: Object. I think he asked and
7 answered that question.

8 THE WITNESS: I have difficulty answering
9 that because I don't know the underlying
10 methodology for determining these prices. So it's
11 difficult for me to assess the volatility of this
12 particular index.

13 BY MR. D'ASCENZO:

14 Q. Assuming that Argus Air Daily, in its
15 indexes, are tracking trades of emission
16 allowances, and assuming that what they have
17 listed as the monthly average, that it is the
18 average of all those trades in that given month,
19 would you describe the market, as reported by
20 Argus Air Daily, as being volatile?

21 MR. SAUER: Object. Asked and answered.
22 Also, this line of questioning is completely
23 irrelevant.

24 Mr. Haugh's testimony is on the AAC and
25 the SRT. The emission allowances are onto the

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1 FPP, as you described earlier. This is completely
2 irrelevant and outside the scope of his testimony.

3 MR. D'ASCENZO: I disagree that it is
4 irrelevant. Mr. Haugh's testifying to the
5 inclusion of cost components in the AAC related to
6 environmental compliance construction.

7 If Duke Energy Ohio is not permitted to
8 recover costs for its environmental compliance,
9 the alternative is through emission allowances or
10 cleaner coal. I think it's very relevant to his
11 testimony.

12 MR. SAUER: Can you reread the question?

13 (Record read back as requested.)

14 MR. SAUER: Again, that question was
15 asked and answered earlier. To the extent you
16 know, you can answer.

17 THE WITNESS: It's difficult for me to
18 assess the volatility with only three points.

19 BY MR. D'ASCENZO:

20 Q. I can go through month-by-month, if you
21 would like.

22 A. If you have every publication of this,
23 I'd be able to give a better idea of volatility.
24 I'd need all pricing points for this nine,
25 ten-month period.

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1 We could go through them if you like, and
2 then I can assess the volatility. I would need
3 time to compute the volatility. I mean, this is a
4 burdensome task you're asking me to do. It's not
5 something I would finish -- I would be able to
6 complete this afternoon.

7 MR. D'ASCENZO: Could we go off the
8 record for just a moment?

9 (Discussion held off the record.)

10 MR. D'ASCENZO: Back on the record.

11 BY MR. D'ASCENZO:

12 Q. Mr. Haugh, would you agree that the price
13 for emission allowances changes on a monthly
14 basis?

15 A. Yes, it does. According to these
16 reports, the price does change monthly.

17 Q. And that's the average price?

18 A. According to your description of this,
19 what the assessment average -- the publication
20 doesn't provide a definition for assessment
21 averages.

22 Using that, that is the monthly average,
23 then yes, that is the monthly price. That was
24 your question, correct?

25 Q. Right. So the average changes per month.

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1 And do you know at all how frequent the
2 price for emission allowances changes?

3 A. It appears as though it changes daily,
4 according to this publication.

5 Q. Okay. Mr. Haugh, have you done any
6 analysis regarding what impact the exclusion of
7 CWIP would have on other pricing components of
8 Duke Energy Ohio's MBSSO?

9 A. What other components are you --

10 Q. For instance, if Duke Energy Ohio did not
11 invest in scrubbing technologies because it was
12 not able to recover costs associated with
13 construction work in progress through its AAC, do
14 you know if Duke Energy Ohio would then have to
15 purchase more emission allowances?

16 A. I do not know if the exclusion of CWIP
17 directly leads to that.

18 Q. Do you know if Duke Energy Ohio did not
19 invest in construction work in process as part of
20 its environmental compliance plan, whether the
21 company would have to purchase lower sulfur
22 content coal for its coal-fired generating
23 stations?

24 A. I don't know if there's a direct
25 relationship between those two.

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1 Q. And you've done no analysis about that?

2 A. Of the direct relationships between those
3 two aspects?

4 Q. Yes.

5 A. I have not.

6 Q. Okay. To the best your knowledge, and
7 understanding that you are not an attorney, do you
8 know if Duke Energy Ohio's POLR obligation
9 expires?

10 MR. SAUER: Objection. Calls for a legal
11 conclusion. You can answer if you know the
12 answer.

13 THE WITNESS: I don't know.

14 BY MR. D'ASCENZO:

15 Q. As a hypothetical, assuming all else
16 being equal, cost of fuel, emission allowances,
17 et cetera, would you agree that the more capacity
18 that is available in the market, the lower the
19 price for that capacity?

20 A. Simple economic principle of greater
21 supply leads to lower price.

22 Q. Are you aware of any new baseload
23 generating stations that are being built in Ohio?

24 A. Yes.

25 Q. And what is the extent of your knowledge?

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1 A. The specifics escape me right now, but
2 there is a number of wind projects, hydro
3 projects.

4 Not necessarily baseload, I guess, but
5 there is a natural gas-fired plant up in the
6 northern part of the state. I'm not sure of the
7 timing of them coming on line.

8 The exact details of this, this is
9 just -- my memory is escaping me on the details of
10 these. I know AEP has a proposed facility in
11 southeast Ohio. The specifics of the projects
12 escape me right now, but there are a few.

13 Q. What is your understanding of a baseload
14 generating unit?

15 A. That's why I -- I was going over all
16 generation, then I remembered you asked baseload.
17 So excluding the hydro and wind plants, it would
18 be a plant that would be dispatched a majority of
19 the hours of a day. Once again, just a general
20 definition of that.

21 Q. AEP has not actually begun construction,
22 has it?

23 A. No, not construction. That's just a
24 proposed plant.

25 Q. Do you know how long it takes to

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1 construct a baseload generating plan?

2 MR. SAUER: Objection. Outside the scope
3 of his testimony. Answer if you know.

4 THE WITNESS: Depending on the size,
5 anywhere from two to five years would be my
6 general understanding.

7 BY MR. D'ASCENZO:

8 Q. So it takes several years, though?

9 A. It's not going to pop up overnight.

10 Q. Okay. Given that it takes several years
11 to construct a baseload plant, and that there are
12 few baseload plants currently being built or
13 considered to be built in Ohio, do you believe it
14 would be prudent to keep existing generating
15 stations operational?

16 MR. SAUER: Objection. Outside the scope
17 of his testimony. You can answer if you know.

18 THE WITNESS: I'd have to say that's a
19 very broad statement that I can neither agree or
20 disagree with.

21 MR. SAUER: Do you need a break?

22 (Discussion held off the record.)

23 BY MR. D'ASCENZO:

24 Q. Mr. Haugh, let me pose a hypothetical to
25 you.

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1 Assuming that there is no new baseload
2 capacity being constructed and coming on line in
3 Ohio in the near future, and if existing plants
4 start to cease operation because they are no
5 longer able to recover costs related to
6 environmental compliance, would you agree that
7 available capacity in Ohio would decline?

8 A. You're saying that in Ohio nothing new is
9 being built, and what is in operation now shuts
10 down?

11 Q. Uh-huh.

12 A. That would definitely result in a decline
13 in the amount of generating capacity.

14 Q. And under that hypothetical, isn't it
15 likely that the price for available capacity, both
16 on the wholesale and spot market levels, would
17 likely rise?

18 A. You're assuming Ohio is a market into
19 itself, there are no other factors in this?

20 Q. Yes.

21 A. Assuming that there was a fence around
22 Ohio and no generation could get in, then using
23 any previous explanation that an increase in
24 supply would decrease the price, the economic
25 principle would conversely apply that a decrease

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1 in supply would increase the price. Did I state
2 that correctly?

3 THE WITNESS: Can you read back my
4 answer, please?

5 (Record read back as requested.)

6 BY MR. D'ASCENZO:

7 Q. Now, assuming the same hypothetical, but
8 this time the fence is around MISO.

9 A. With both of these hypotheticals -- Well,
10 the fence is only changing there, so the economic
11 principles don't change.

12 Q. Do you know if it's cheaper to construct
13 a scrubber versus constructing a baseload
14 generating station?

15 A. I think there are a number of factors in
16 there. There's a number of factors that I
17 wouldn't be able to answer that fully.

18 Q. Well, like what?

19 A. Size of the plant. Type of fuel being
20 burned. Any of a number of other costs.
21 Transversely, the size of the scrubber, the size
22 of the plant that the scrubber is going on to.

23 Q. Do you know if the cost of environmental
24 compliance effects the cost of capacity?

25 A. Meaning in the capacity market?

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1 Q. Yes.

2 A. That could be a factor.

3 Q. Do you know whether it is a cost driver?

4 MR. SAUER: What do you mean by "cost
5 driver"?

6 BY MR. D'ASCENZO:

7 Q. Whether there's a significant impact --
8 whether environmental compliance makes a
9 significant impact on the cost of capacity in the
10 market.

11 A. I don't know about significant. I would
12 say there is an impact.

13 Q. Do you know what are cost drivers for the
14 market clearing price for capacity?

15 A. Specifically, no.

16 Q. Would you assume price of fuel would be?

17 A. I would assume that would be one.

18 Q. Do you know if fuel would be considered a
19 variable cost?

20 A. For the cost of general -- for the cost
21 of megawatts coming out of a plant?

22 Q. Uh-huh.

23 A. That would be a variable cost.

24 Q. What about emission allowances?

25 A. That would also be a variable cost.

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1 Q. On a general level, are you aware of
2 prices for coal in the market?

3 A. Generally, yes.

4 Q. Do you know whether lower content coal is
5 more or less than expensive than higher content
6 coal?

7 MR. SAUER: I'll object. Again, this is
8 outside the scope of his testimony. You can
9 answer if you know.

10 THE WITNESS: Content? What do you mean
11 by "content"?

12 BY MR. D'ASCENZO:

13 Q. For instance, are you familiar with the
14 term "NYNEX coal"?

15 A. Yes.

16 Q. What is your understanding of NYNEX coal?

17 A. It's been a while since I've worked with
18 the contracts. The specifics of the contract are
19 escaping me right now. But it's -- NYNEX coal
20 would be a specific quality of coal.

21 Q. And do you know -- Strike that.

22 Are you aware that one way to control the
23 level of emissions for a coal-fired generating
24 station is by using coal as fuel that has a lesser
25 content of sulfur?

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1 MR. SAUER: Again, objection. Outside
2 the scope. Answer if you can.

3 THE WITNESS: Your question was using
4 lower-sulfur coal can reduce the amount of what
5 type of emission?

6 BY MR. D'ASCENZO:

7 Q. SO2.

8 A. Logic would dictate that if there's less
9 sulfur in the coal, it would lead to less sulfur
10 being emitted from the plant.

11 Q. And you are aware that there are various
12 types of coal that have varying degrees of sulfur
13 in them?

14 A. Yes, there are a variety of qualities of
15 coal.

16 Q. And those qualities have different
17 prices, correct?

18 MR. SAUER: Continuing objection. You
19 can answer.

20 THE WITNESS: The price is determined by
21 the quality.

22 BY MR. D'ASCENZO:

23 Q. And do you know if the lower the content
24 of the sulfur has an effect on the price of that
25 coal?

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1 A. Yes.

2 Q. And what is that?

3 A. As the sulfur content decreases, price
4 increases as a general way to -- obviously there
5 could be instances where that's not true, but as a
6 general principle, for the pricing of coal, that
7 would be my understanding.

8 Q. Okay. Would you agree that to the extent
9 a utility is able to use scrubbing technologies on
10 its generating -- coal-fired generating stations,
11 that a utility would gain more flexibility in
12 terms of fuel purchases -- Strike that. Let me
13 rephrase.

14 Would you agree that to the extent a
15 utility is able to use scrubbing technologies on
16 its coal-fired generating assets, that the utility
17 would then gain more flexibility in its purchase
18 of coal and the purchase of emission allowances
19 necessary to offset SO2 emissions?

20 MR. SAUER: Object. Outside the scope of
21 his testimony. If you understand the question,
22 you can answer it.

23 THE WITNESS: You're stating that -- Your
24 hypothetical is that if there is equipment on the
25 plant to reduce emissions, then there are a wider

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1 variety of coal qualities that can be purchased?

2 BY MR. D'ASCENZO:

3 Q. Yes.

4 A. I think a company could purchase whatever
5 type of coal it desires based on its plants and
6 what they can -- what the plants can burn, I
7 believe.

8 Q. Let me try rephrasing.

9 Absent scrubbing technologies on a
10 coal-fired plant, doesn't a utility have to rely
11 more upon the purchase of emission allowances and
12 varying qualities of coal to offset its emissions?

13 MR. SAUER: Again, objection. Outside
14 the scope of his testimony. You can answer if you
15 know.

16 THE WITNESS: From a general sense,
17 assuming a plant is burning coal, the only way to
18 offset the sulfur emissions is through emission
19 allowances? Is that what you're stating?

20 BY MR. D'ASCENZO:

21 Q. Or the use of cleaner fuels.

22 A. So to offset the emissions allowance
23 expense, they would purchase lower sulfur coal?
24 That would be one way they could reduce their
25 emissions, yes.

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1 Q. If a utility has a scrubber on its
2 coal-fired plant, wouldn't it be able to rely less
3 on purchasing emission allowances or more
4 expensive, lower-sulfur content coal?

5 A. I suppose that would be one way that they
6 could lower the emission allowances.

7 Q. Going back to your testimony on Page 8,
8 Line 2. You make a statement that in a truly
9 competitive market, CWIP would not be earned at
10 all. Is that a correct characterization of your
11 testimony?

12 A. I believe that's a direct quote.

13 Q. What is the basis of your opinion?

14 A. I would say my experience in the
15 competitive markets.

16 Q. And in terms of your experience in
17 competitive markets, what are you referring to,
18 exactly? As a gas trader?

19 A. Gas, electricity, the wholesale markets
20 that I've been involved in.

21 Q. And the markets that you've been involved
22 in, have the companies considered their actual
23 costs in determining a price that they are willing
24 to sell their product or service?

25 A. Have they determined their costs?

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1 MR. D'ASCENZO: Could you please reread
2 the question?

3 (Record read back as requested.)

4 THE WITNESS: That would be one of the --
5 could be one of the aspects that are used.

6 BY MR. D'ASCENZO:

7 Q. Don't all market prices have some
8 consideration of actual cost?

9 A. I would say there would be some
10 consideration.

11 Q. Have you been involved in developing a
12 market price for a competitive product?

13 A. Yes.

14 Q. And what was the basic pricing formula
15 that you used to develop that price?

16 A. Well, market price is determined by
17 offers in the market compared with bids in the
18 market. Market price is determined by those two
19 factors.

20 Q. In terms of a price that -- of a product
21 that you were involved in selling, what factors
22 were considered in determining the actual price
23 that you were willing to sell it at?

24 A. In the markets that I operated in, the
25 majority of it was were people willing to buy,

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1 that would often set my price that I was willing
2 to offer into the market at.

3 Q. Did you ever have a situation where you
4 weren't willing to sell at the price that people
5 were willing to buy?

6 A. Sure.

7 Q. And what drove that determination that
8 you weren't willing to sell?

9 A. There's a variety of factors that would
10 lead to that, depending on the situation.

11 Q. Such as?

12 A. Depending on the specific commodity or
13 product that I had, as to where, it was -- if I
14 was able to move it to another market, it was more
15 valuable in another market, how much it cost to
16 move it over to that market. If I was able to
17 store the product until later at a greater price.
18 Things of that nature.

19 Q. So one of the factors was cost?

20 A. It was one of many, yes.

21 Q. And was recovering costs important to
22 determining that price that you were willing to
23 sell?

24 A. Well, I already stated it was a factor in
25 determining the selling price.

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1 Q. Do you know how many competitive retail
2 electric service providers are currently certified
3 in Ohio?

4 A. How many are certified? There's quite a
5 few that are certified. I'm not sure of the exact
6 number.

7 Q. Would you agree that there are more than
8 five?

9 A. More than five certified in all of Ohio?
10 Yes, I would agree to that.

11 Q. More than ten?

12 A. My problem is I know that there's
13 different levels of certification as to what a
14 certified -- what a certified supplier can -- who
15 they can serve and everything, and the
16 all-encompassing list of everything, I think, is
17 above -- is greater than ten, yes.

18 Q. Okay.

19 A. That's subject to check.

20 Q. Sure. Of those competitive retail
21 electric service providers that are currently
22 offering generation to consumers in Ohio, have you
23 reviewed any of their pricing structures?

24 A. That are currently offering? Now, if we
25 could go back to preface my previous answer.

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1 Those were just people that are certified. I
2 don't know how many of those are actually serving
3 customers.

4 And I am not sure of any offers that are
5 currently out there, at least for the residential
6 class, if there are any offers currently out there
7 now. So given that, there's no analysis for me to
8 do in that aspect for residential.

9 Q. Have you ever performed an analysis of a
10 price that a competitive retail electric service
11 provider offered to residential customers?

12 A. No, I don't believe I ever have. Not to
13 my knowledge.

14 Q. So you don't know if competitive retail
15 electric service providers, in formulating their
16 price, you don't know if they included expenses
17 such as CWIP?

18 A. I have no idea.

19 Q. Have you reviewed pricing formulas for
20 competitive retail electric service providers for
21 customers other than residential?

22 A. Other than residential? No.

23 Q. Do you know if CRES providers can
24 consider CWIP in formulating their -- the price
25 that they are willing to offer to customers?

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1 A. I don't know.

2 Q. Are you familiar with the term "research
3 and development"?

4 A. Yes.

5 Q. What is your understanding of the term
6 research and development?

7 A. The term, in itself, is self-explanatory.
8 It's research and development of -- I guess I
9 think it's self-explanatory, the term in itself.

10 Q. Would you agree that it's an expense?

11 A. It could be, yes.

12 Q. Would you agree that it's an expense
13 incurred by a company for some future product or
14 service that it's going to offer?

15 A. I suppose that's possible.

16 Q. Earlier we talked about CWIP and its
17 definition. And we stated -- I believe we agreed
18 that CWIP is some sort of investment in plant
19 construction for some future technology such as a
20 scrubber. Is that a fair characterization of the
21 discussion we had on CWIP?

22 A. You said current investment in a product
23 that would be completed at a later date?

24 Q. Yes.

25 A. That's a general description, yes.

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1 Q. Isn't CWIP, then, similar to research and
2 development in that both are investing in a future
3 service or product?

4 MR. SAUER: Object. Outside the scope of
5 his testimony. Research and development assumes
6 facts not in evidence, and to the extent you
7 understand the question, you may answer.

8 THE WITNESS: Could you read the
9 question, please?

10 (Record read back as requested.)

11 THE WITNESS: I guess they are somewhat
12 similar.

13 BY MR. D'ASCENZO:

14 Q. And would you agree that many industries,
15 such as the pharmaceutical industry, or the
16 airline and manufacturers, take into consideration
17 ongoing research and development costs in their
18 current prices?

19 A. I don't know that.

20 Q. Are you generally familiar with annual
21 reports that are filed by corporations?

22 A. Yes.

23 Q. Are you aware that publicly owned
24 corporations do file annual reports?

25 A. Yes.

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1 Q. And are you generally familiar with
2 income statements?

3 A. Yes.

4 Q. And income statements show a
5 corporation's income as well as expenses; is that
6 correct?

7 A. Revenues and expenses.

8 Q. And are you aware that annual reports
9 typically have income statements?

10 A. Yes.

11 - - -

12 Thereupon, Duke Energy Ohio's Exhibit
13 No. 4 was marked for purposes of
14 identification.

15 - - -

16 MR. SAUER: I object. This is way, way
17 outside the scope of his testimony.

18 BY MR. D'ASCENZO:

19 Q. I am looking at what I've just handed you
20 as the Annual Report for 2006 for Boeing, and this
21 won't take long, but I'm looking at Page 4.

22 On the right-hand corner there's a bold
23 text there that says "Facing Reality", and below
24 that there's a paragraph followed by, it looks
25 like, four bullets there.

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1 And I'm looking, in particular, at the
2 third bullet down which states, "We increased our
3 research and development spending for 2006 and '07
4 by almost a billion dollars", and it goes on, "to
5 reduce risk in our commercial airplane programs".
6 Do you see that?

7 A. Yes.

8 Q. Would you please turn to Page 22?

9 A. Okay. I'm there.

10 Q. And the top of the page says "Five-Year
11 Summary (Unaudited)"?

12 A. Yes.

13 Q. And do you recognize this as the general
14 form of an income statement?

15 MR. SAUER: Again, I object. There's
16 absolutely no relevance to Mr. Haugh's testimony
17 as to whether or not Boeing has written off
18 research and development expenses in any years on
19 this schedule.

20 Airline industries are under a different
21 set of regulations, and what costs they are
22 allowed and attempt to recover through their
23 pricing is irrelevant to whether or not Duke is
24 attempting to recover a return on their CWIP.

25 MR. D'ASCENZO: Can he answer?

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1 MR. SAUER: To the extent he knows, he
2 may answer.

3 THE WITNESS: Would you reread the
4 question, please?

5 (Record read back as requested.)

6 THE WITNESS: There appears to be a lot
7 missing. Very high-level summary of this is all
8 it appears to be.

9 BY MR. D'ASCENZO:

10 Q. Well, it does show the company's annual
11 revenues, correct?

12 A. There's an area that is designated
13 revenues. I haven't looked at this entire
14 document. I don't know if this is just a specific
15 portion or if this -- I don't have all the
16 details. I will state that I see an area that is
17 designated as revenues.

18 Q. And do you see that there is a -- Strike
19 that.

20 Do you see that below where it says
21 "Total Revenues", that there are some discussions
22 of expenses?

23 MR. SAUER: Continuing objection.

24 THE WITNESS: I see two line items with
25 expense at the end of them.

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1 BY MR. D'ASCENZO:

2 Q. And in particular, the second line item,
3 does that state "Research and Development
4 Expense"?

5 A. There is a line item that is -- that's
6 stated as Research and Development Expense.

7 Q. And going across the row there to the
8 first column in bold under 2006, the company,
9 Boeing, is reporting approximately \$3 billion in
10 research and development; is that correct? If you
11 look at the very top of the --

12 A. That's what I was looking at. Dollars in
13 millions --

14 MR. SAUER: Continuing objection.

15 THE WITNESS: I see that there is --
16 appears the information on this states that
17 under 2006 there is 3.3 billion in -- what this
18 states is research and development expense.

19 BY MR. D'ASCENZO:

20 Q. Given that Boeing is including its
21 research and development expense on this summary,
22 would you agree that Boeing takes research and
23 development expenditures into consideration as
24 part of its ongoing costs?

25 MR. SAUER: Object. Outside the scope of

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1 his testimony. Assumes facts not in evidence. He
2 has no way of knowing what Boeing does in terms of
3 pricing their product or trying to recover costs.

4 THE WITNESS: It's listed here as an
5 expense. Unless they are -- this is unaudited, so
6 I don't know if the audited version also had
7 research and development expense.

8 But according to this unaudited version,
9 it states they have an expense titled "Research
10 and Development".

11

- - -

12 Thereupon, Duke Energy Ohio's Exhibit
13 No. 5 was marked for purposes of
14 identification.

15

- - -

16 MR. D'ASCENZO: I'm handing out a copy of
17 the 2006 Annual Report for Eli Lilly.

18 MR. SAUER: Continuing objection.

19 BY MR. D'ASCENZO:

20 Q. And if you would please turn to -- it
21 doesn't appear to have a page number on it, but
22 it's the third page in the packet, "2006 Financial
23 Highlights".

24 A. I'm there, yes.

25 Q. On the first line Eli Lilly is reporting

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1 its net sales; is that correct?

2 A. There's a line that states "Net Sales".

3 Q. And below that --

4 MR. SAUER: Objection.

5 BY MR. D'ASCENZO:

6 Q. -- Eli Lilly is reporting roughly \$3
7 billion in research and development, is that
8 correct?

9 A. It's just a line item that says "Research
10 and Development", with \$3.1 billion.

11 Q. And below that, there is a line there
12 that is entitled "Research and Development As a
13 Percent of Net Sales". Do you see that?

14 A. It's right below that, yes.

15 MR. SAUER: Objection.

16 BY MR. D'ASCENZO:

17 Q. And Eli Lilly has calculated that it's
18 approximately 19.9 percent; is that correct?

19 A. That is what that document shows, yes.

20 Q. Would you agree that research and
21 development is considered a cost factor as an
22 ongoing cost of doing business by both Boeing and
23 Eli Lilly, given the significant investment that
24 they reported?

25 MR. SAUER: Can I have that question

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1 reread?

2 (Record read back as requested.)

3 MR. SAUER: Object. Outside the scope of
4 his testimony. To the extent you know, you may
5 answer.

6 THE WITNESS: Based on the information
7 provided by these, I can deduce that they both
8 have expenses listed as research and development.

9 BY MR. D'ASCENZO:

10 Q. Let's go back to your testimony,
11 Mr. Haugh. On Page -- Let me make sure I have the
12 correct citation here. I believe it's Page 3,
13 Line 20.

14 A. Page 3, Line 20?

15 Q. Yes.

16 A. Yes, I'm there.

17 Q. This is in reference to the company's
18 System Reliability Tracker, SRT?

19 A. Yes.

20 Q. You state you concur with the auditor's
21 recommendation that the DENA assets should not be
22 collected from customers through the SRT. Is that
23 a correct characterization?

24 A. I believe that was a direct quote from my
25 testimony.

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1 Q. Is it your opinion that Duke Energy Ohio
2 should not purchase capacity from the DENA assets,
3 even if that capacity is less expensive than other
4 available capacity?

5 MR. SAUER: Can you read that question,
6 please?

7 (Record read back as requested.)

8 MR. SAUER: Again, when you're asking
9 that question, Rocco, are you again tying it to
10 the SRT, purchasing capacity in terms of the
11 planning process and the use of the capacity for
12 planning purposes under the SRT?

13 MR. D'ASCENZO: Yes, I'm referring to the
14 SRT.

15 THE WITNESS: On Page 15 of my testimony
16 I state that:

17 "DE-Ohio should only be allowed to
18 purchase capacity of DENA assets in the future
19 if DE-Ohio demonstrates that the DENA assets
20 clearly offer a better price or better product
21 for customers than offered in the open
22 market."

23 BY MR. D'ASCENZO:

24 Q. So you would not oppose the inclusion of
25 the DENA assets in the SRT providing the price is

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1 more beneficial to customers, or the product,
2 itself, is more beneficial to customers?

3 A. That is what my testimony states, that a
4 better price or better product.

5 Q. With respect to Duke Energy Ohio's
6 day-ahead operational needs, would you also oppose
7 the use of the DENA assets?

8 A. The same question and answer. It would
9 be Line 18 on Page 15.

10 "If the circumstances arises where
11 DE-Ohio is in an emergency situation and
12 unable to meet its capacity needs, then use of
13 DENA assets could be appropriate."

14 Q. Have you compared the price of the DENA
15 capacity to other capacity available in the
16 competitive retail electric service market?

17 A. No.

18 Q. If Duke Energy Ohio is not permitted to
19 purchase capacity from its DENA assets, and then
20 sells that -- those -- that capacity to nonMBSSO
21 customers and earns a profit, do you agree that
22 Duke Energy Ohio then has no obligation to pass
23 such profits through to MBSSO customers?

24 THE WITNESS: Could you repeat the
25 question?

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1 (Record read back as requested.)

2 THE WITNESS: I agree with that.

3 BY MR. D'ASCENZO:

4 Q. On Page 4 of your testimony, Line 1, you
5 make a recommendation regarding the SRT charge in
6 terms of its location on Duke Energy Ohio's bill.
7 And you made the same recommendation with respect
8 to the AAC charge, correct?

9 A. I paired those two together in my
10 testimony.

11 Q. And that recommendation is that the SRT,
12 along with the AAC, should be relocated to the
13 generation portion of DE-Ohio's bill; is that
14 correct?

15 A. Yes, I believe they both should be to the
16 generation charge portion.

17 Q. To the best of your knowledge, has the
18 Commission received any complaints about the
19 location of the SRT charge on customer bills?

20 A. Has the Commission? I don't know.

21 Q. To the best of your knowledge, has OCC
22 received any complaints from consumers regarding
23 the S- -- the location of the SRT charge on
24 customer bills?

25 A. I do not know that.

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1 Q. If Duke Energy Ohio were to agree to the
2 billing format change that you're recommending for
3 the SRT, does that end your criticism of Duke
4 Energy Ohio's bill with respect to the SRT?

5 A. Yeah, basically my only -- it's somewhat
6 confusing, separating the two, the two charges,
7 but I would -- my recommendation is to move both
8 the AAC and SRT from the -- I believe it's called
9 the delivery -- from the delivery charges into the
10 generation charges portion of the bill.

11 That's the gist of my recommendation for
12 this. If both of those were to move, then I guess
13 you're asking if -- if Duke agreed to my
14 recommendation, I would be satisfied, yes.

15 Q. I think I just have a few more questions
16 for you.

17 Going back to your knowledge of Duke
18 Energy Ohio's initial MBSSO proceeding, are you
19 familiar with the pricing structure that the
20 company filed as its initial rate stabilized
21 market base standard service offer?

22 A. As part of the -- I believe there was a
23 stipulation filed in September, maybe, of 2004.
24 The price as a result of that?

25 Q. I'm asking more about the application

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1 that the company filed, which would have been in
2 January of 2004; late January.

3 A. I apologize, because I think I may be --
4 I have a general understanding, let's say. I
5 think I have a better understanding of the
6 stipulation that was filed, but I have a general
7 understanding of the 2004 application, the
8 January 2004 application.

9 Q. Okay. Are you aware that the January
10 application was made up of two basic components, a
11 price to compare and a POLR charge?

12 A. I believe that was the overriding theme
13 of the application.

14 Q. And do you know what components were in
15 that POLR charge?

16 A. As of the application, I am not positive.

17 Q. Did the company have a component of that
18 POLR charge that was similar to the AAC that the
19 company currently has?

20 A. I believe that -- My problem is the exact
21 terminology that was used in the original
22 application. If it wasn't the AAC, it was
23 something that is currently represented by the
24 AAC.

25 Q. And that's correct.

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1 A. I believe. I'm not -- Subject to check
2 on that.

3 Q. And are you aware of what cost components
4 were -- Strike that.

5 Are you aware of what pricing components
6 were included in that, we'll call it an annually
7 adjusted component of the POLR charge from that
8 January application?

9 A. Generally, I'm familiar with what was
10 included with that.

11 Q. And what were those components, to the
12 best of your knowledge?

13 A. I believe, once again, subject to check,
14 and based on my -- trying to remember exactly what
15 was filed in the original application, the
16 stipulation and then on the application for
17 rehearing.

18 I believe at the time of the original
19 application, the AAC included the homeland
20 security, environmental tax law changes, and also
21 what is now known as the SRT. Subject to check on
22 that, I believe that's what was included in the
23 AAC at that time.

24 Q. The AAC component of that POLR charge, do
25 you know if it included emission allowances?

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1 A. I believe at the time it included
2 emission allowances, and then during the first FPP
3 audit those emission allowances were moved --
4 Strike that.

5 The original did include emission
6 allowances, and then the initial FPP audit moved
7 the emission allowances to the generation -- or to
8 the FPP. Once again, subject to check as to the
9 history behind the emission allowances.

10 MR. D'ASCENZO: I'm sorry, would you
11 please read that back?

12 (Record read back as requested.)

13 BY MR. D'ASCENZO:

14 Q. The annually adjusted component that was
15 initially proposed, do you know if it included a
16 reserve margin component?

17 A. Honest, it would be very much easier for
18 me if I had the application to be able to cite to
19 these specific points.

20 As I stated before, there were a variety
21 of changes that happened throughout the
22 proceeding, as to where everything was moved
23 around, and I'm not positive as to where the
24 reserve margin -- what I call the current SRT,
25 where that was during the original application.

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1 Q. That's fine.

2 Do you know what -- Strike that.

3 I will represent to you that it did
4 include a reserve margin component, subject to
5 check.

6 Do you know what percentage of load the
7 company initially sought for recovery through that
8 reserve margin?

9 A. I believe -- Subject to check, I believe
10 the original was they were looking for 18 percent
11 reserve margin.

12 Q. And do you know if that was 18 percent of
13 total load?

14 A. I believe it was of the peak load.

15 Q. Do you know if it included a capacity
16 commitment other than reserve margin?

17 A. That, I'm not aware of.

18 Q. And not having the whole history in front
19 of me, you agree that -- you would agree that at
20 some point emission allowances were removed from
21 that annually adjusted component and were placed
22 into the Fuel and Purchased Power Rider, correct?

23 A. Yeah, as I stated before, I believe it
24 was in the first FPP audit that was done, an
25 auditor recommendation was to move -- was to

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1 include the emission allowances in with the FPP.

2 Q. The Commission didn't order that in
3 the 03-93 case, to the best of your knowledge?

4 A. I'm not positive on that.

5 MR. D'ASCENZO: Could we go off the
6 record for just a moment?

7 (Discussion held off the record.)

8 MR. D'ASCENZO: Back on the record.

9 Mr. Haugh, I have no more questions for you.

10 (Signature not waived.)

11 - - -

12 (Thereupon, the deposition was concluded
13 at 3:32 o'clock p.m. on Tuesday, April
14 3rd, 2007.)

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STATE OF _____,)
) SS:
COUNTY OF _____,)

Michael P. Haugh, having been duly placed
under oath, deposes and says that:

I have read the transcript of my
deposition taken on Tuesday, April 3rd, 2007, and
made all necessary changes and/or corrections as
noted on the attached correction sheet, if any.

Michael P. Haugh

Placed under oath before me and
subscribed in my presence this _____ day of
_____, _____.

Notary Public

My Commission Expires: _____.


C E R T I F I C A T E

State of Ohio,)
) SS:
County of Fairfield,)

I, Valerie J. Grubaugh, Registered Merit Reporter, Certified Realtime Reporter and Notary Public in and for the State of Ohio, hereby certify that the foregoing is a true and accurate transcript of the deposition testimony, taken under oath on the date hereinbefore set forth, of

MICHAEL P HAUGH

I further certify that I am neither attorney or counsel for, nor related to or employed by any of the parties to the action in which the deposition was taken, and further that I am not a relative or employee of any attorney or counsel employed in this case, nor am I financially interested in the action.


Valerie J. Grubaugh,
Registered Merit
Reporter, Certified
Realtime Reporter and
Notary Public in and for
the State of Ohio

My Commission Expires:
August 10, 2011

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