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BEFORE

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THE PUBLIC UTILITIES COMMISSION OF OHIO

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

DIRECT TESTIMONY OF
PAUL G. SMITH
ON BEHALF OF
DUKE ENERGY OHIO, INC.

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April 6, 2007

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Paul G. Smith and my business address is 139 East Fourth Street,
3 Cincinnati, Ohio 45202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Duke Energy Shared Services, Inc., (DESS) as Vice President,
6 Rates.

7 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL
8 QUALIFICATIONS.**

9 A. I received a Bachelor of Science in Industrial Management Degree from Purdue
10 University and a Master of Business Administration Degree, with Honors, from
11 the University of Chicago Graduate School of Business. I am a Certified Public
12 Accountant (CPA) in the State of Ohio and a member of the American Institute of
13 Certified Public Accountants. I am also a member of the Edison Electric
14 Institute's Economic Regulation and Competition Committee, and Budgeting and
15 Financial Forecasting Committee.

16 **Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.**

17 A. Upon graduation from Purdue University in 1982, I was employed by the CPA
18 firm of Touche, Ross & Co. as a member of the audit staff in their Chicago office.
19 From 1984 to 1987 I was employed by the CPA firm of Crowe, Chizek & Co. as a
20 member of the commercial audit and tax staff in their Indianapolis office. Since
21 1987 I have held various positions with PSI Energy, Inc., Cinergy Services, Inc.,
22 and DESS including responsibilities in the Rates and Regulation, Budgets and

1 Forecasts, Investor Relations, and Corporate Development departments as well as
2 the International Business Unit. From March 1998 to July 1999, I was assigned to
3 and worked full-time at Midlands Electricity, the regional electric company in the
4 United Kingdom of which Cinergy previously held a 50% equity ownership.
5 From March 2005 to March 2006, I was assigned to evaluating and analyzing the
6 strategic merger between Cinergy Corp. and Duke Energy, including serving as
7 Project Manager for the merger integration process. I was appointed to my
8 current position as Vice President, Rates in April 2006.

9 **Q. PLEASE DESCRIBE YOUR DUTIES AS VICE PRESIDENT, RATES.**

10 A. As Vice President, Rates, I am responsible for the regulatory accounting and
11 filings, cost of service and rate design for Duke Energy Ohio, Inc., (DE-Ohio) and
12 Duke Energy Kentucky, Inc. (DE-Kentucky).

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

14 A. Yes.

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. The purpose of my testimony is to discuss and support the reasonableness of a
18 Stipulation entered into between DE-Ohio, the Staff of the Commission, and
19 several other Parties who have intervened in DE-Ohio's Fuel and Purchased
20 Power (Rider FPP), System Reliability Tracker (Rider SRT) and Annually
21 Adjusted Component Rider (Rider AAC) Adjustment Cases, which have been
22 consolidated in the above captioned proceedings. Coincident with this support, I
23 also explain the Company's position with respect to several of the issues and the
24 resolution contained in the Stipulation.

PAUL G. SMITH DIRECT

1 **II. DISCUSSION**

2 **Q. PLEASE BRIEFLY EXPLAIN THE COMPANY'S RIDER FPP.**

3 A. The Company's Rider FPP mechanism, as the name implies, recovers costs
4 associated with the Company's purchases of fuel for its generating stations,
5 emission allowances and purchased power to meet its load. Rider FPP is 100%
6 avoidable to consumers who switch to a competitive retail electric service (CRES)
7 provider. Rider FPP is adjusted on a quarterly basis and is subject to an annual
8 audit and review with a true-up. In the above captioned consolidated proceedings,
9 Case Number 05-725-EL-UNC is the annual review of the Company's Rider FPP.
10 Case No. 06-1068-EL-UNC is DE-Ohio's application for its 2007 FPP and annual
11 audit.

12 **Q. PLEASE BRIEFLY EXPLAIN THE COMPANY'S RIDER SRT.**

13 A. The Company's Rider SRT mechanism recovers costs DE-Ohio incurs in
14 maintaining a fifteen percent (15%) planning reserve margin for switched and
15 non-switched load. Rider SRT is avoidable by non-residential consumers who
16 agree to stay off DE-Ohio's system through 2008. Rider SRT is similar to Rider
17 FPP in its construct in that it is also subject to quarterly adjustments with an
18 annual audit and true-up. In the above captioned consolidated proceedings, Case
19 No. 05-724-EL-UNC is the Company's annual review of its 2006 SRT and Case
20 No. 06-1069-EL-UNC is the Company's Application to establish and set its 2007
21 Rider SRT levels.

22 **Q. PLEASE BRIEFLY EXPLAIN THE COMPANY'S RIDER AAC.**

1 A. The Company's Rider AAC recovers DE-Ohio's costs related to homeland
2 security, environmental compliance, and tax adjustments. The charges for Rider
3 AAC were established for calendar years 2005 and 2006 per the Commission's
4 Entry on Rehearing in Case No. 03-93-EL-ATA. Specifically, for non-residential
5 consumers Rider AAC was set at an agreed upon market price of 4% of "little g"
6 for 2005 and 8% of "little g" for 2006. For residential consumers, Rider AAC
7 was not applicable in 2005 since these consumers continued to be in the Market
8 Development Period. After the Market Development Period effective January 1,
9 2006, residential consumers' Rider AAC price was set at the market price of 6%
10 of "little g." As approved in Case No. 03-93-EL-ATA, DE-Ohio is required to
11 make an annual application to set its AAC price after 2006. The Commission has
12 authority to review DE-Ohio's pricing proposal to determine the reasonableness
13 of its Rider AAC. In the above captioned consolidated proceedings, Case No. 06-
14 1085-EL-UNC is DE-Ohio's 2007 proposed price for Rider AAC.

15 **Q. DOES THE STIPULATION REPRESENT A PRODUCT OF SERIOUS**
16 **BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES?**

17 A. Yes. The parties to the Stipulation include the Commission Staff, DE-Ohio and
18 several organizations representing consumers in DE-Ohio's service territory. The
19 Commission Staff has thoroughly reviewed DE-Ohio's applications filed in the
20 Rider Adjustment Cases. With respect to the Company's annual FPP and SRT
21 audits, an outside consultant was retained to audit the Company's financial
22 records and management practices. This auditor made numerous
23 recommendations in its audit reports.

PAUL G. SMITH DIRECT

1 The Parties participating in the Rider Adjustment Cases and who have
2 signed the Stipulation were also involved in the initial MBSSO case in 2004. All
3 parties were invited to attend settlement discussions regarding the Rider
4 Adjustment Cases, immediately following the conclusion of the first phase of the
5 hearing in the consolidated cases involving the Remand issues.

6 DE-Ohio held its first settlement conference in November 2006, prior to
7 the Supreme Court of Ohio's release of its Opinion regarding DE-Ohio's MBSSO
8 and before the Commission suspended the Rider Adjustment Cases. The second
9 of these Settlement discussions occurred at the office of the Commission on
10 March 27, 2007, following the hearings in the remand phase of the consolidated
11 cases. A third Settlement discussion occurred on March 30, 2007. During those
12 conferences, all Parties present were invited to participate and many issues were
13 addressed, including the recommendations contained in the audit reports filed in
14 the FPP and SRT Cases. The Stipulation is a result of those discussions.

15 **Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT**
16 **REGULATORY PRINCIPLE OR PRACTICE?**

17 **A.** No. The Stipulation complies with all relevant and important principles and
18 practices. DE-Ohio's MBSSO pricing structure, including the adjustment and
19 setting of its Riders, constitutes a market price in Ohio's deregulated environment
20 for competitive retail electric service. In Ohio, generation is deregulated.
21 Accordingly, many regulatory principles and practices, which historically existed
22 under a fully regulated construct do not apply with respect to generation service.

1 The Stipulation is a compromise of the issues surrounding the Company's
2 management and price setting of certain components of DE-Ohio's MBSSO in a
3 manner that is agreeable to DE-Ohio, the Staff of the Commission and the other
4 signing Parties. The Stipulation provides reasonable market prices to consumers
5 and permits the Company to maintain reliable firm generation service to all
6 consumers while balancing various market risks. .

7 **Q. HOW IS THE STIPULATION CONSISTENT WITH IMPORTANT**
8 **REGULATORY PRINCIPLES AND PRACTICES?**

9 A. The Stipulation maintains the integrity of DE-Ohio's pricing structure in a manner
10 that is consistent with the Commission's goals for rate stabilization plans of
11 providing (1) rate certainty for consumers; (2) financial stability for the utility;
12 and (3) the further development of competitive markets. The Stipulation allows
13 DE-Ohio to continue to manage its generation fuel, purchased power, and
14 emission allowance positions in a manner that is beneficial both to consumers and
15 to the Company while maintaining its competitive market price. The adjustment
16 of its Riders provides more predictable revenues for DE-Ohio and more
17 predictable prices for consumers.

18 The Stipulation is also consistent with the State of Ohio's policies
19 regarding the start of competitive retail electric service. For example, the
20 Stipulation ensures that consumers continue to have access to adequate, reliable,
21 safe, efficient, nondiscriminatory, and reasonably priced retail electric service
22 through DE-Ohio. The Stipulation also does not provide for any anti-competitive

1 subsidies between competitive retail electric service and noncompetitive retail
2 electric services.

3 **Q. HOW DOES THE STIPULATION BENEFIT CONSUMERS AND THE**
4 **PUBLIC INTEREST?**

5 A. As previously mentioned, the Stipulation is consistent with the Commission's
6 three goals for rate stabilized MBSSO market prices. The true up of the Riders to
7 January 1, 2007, affords appropriate recovery and financial stability to DE-Ohio
8 allowing it to be in a similar position had the Rider Adjustment Cases not been
9 suspended. Consumers, in turn, benefit by having a reliable firm generation
10 service at their disposal for a reasonable market price. Additionally, the
11 Stipulation requires DE-Ohio to credit, in the next quarterly Rider FPP filing, the
12 applicable portion of a financial settlement related to a dispute with a coal
13 supplier resulting from its default on delivery of coal from 2002 through 2005.
14 This provision of the Stipulation will help mitigate the impact consumers may
15 experience from any price changes that result from this overall Settlement.

16 **III. CONCLUSION**

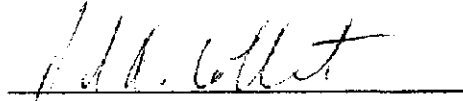
17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes.

19

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing was served electronically on the following parties this 9th day of April 2007.



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