

RECEIVED-DOCKETING DIV

BEFORE

2007 SEP -4 AM 10:38

THE PUBLIC UTILITIES COMMISSION OF OHIO

**PUCO**

In the Matter of the Application of Duke )  
Energy Ohio to Establish its 2008 System )  
Reliability Tracker Component of its )  
Market Based Standard Service Offer. )

Case No. 07-975-EL-UNC

---

DIRECT TESTIMONY OF

CHARLES R. WHITLOCK

ON BEHALF OF

DUKE ENERGY OHIO, INC.

---

August 31, 2007

This is to certify that the images appearing are an  
accurate and complete reproduction of a case file  
document delivered in the regular course of business  
Technician                      Date Processed 9.9.07

## **TABLE OF CONTENTS**

<b><u>DESCRIPTION OF TESTIMONY</u></b>	<b><u>TESTIMONY PAGES</u></b>
I. INTRODUCTION .....	1
II. PURPOSE OF TESTIMONY .....	2
III. RIDER SRT DISCUSSION.....	2
VI. CONCLUSION.....	6

### **ATTACHMENTS:**

**CRW-1 2008 Projection of Rider SRT Purchases**

## **I. INTRODUCTION**

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

2   A.   My name is Charles R. Whitlock, and my business address is 139 East Fourth  
3       Street, Cincinnati, Ohio 45202.

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

5   A.   I am employed by Duke Energy Shared Services as Senior Vice President,  
6       Commercial Asset Management ("CAM").

7   **Q.   PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
8       **BACKGROUND.**

9   A.   I am a graduate of the University of Alaska at Anchorage with a Bachelor of  
10       Business Studies Degree in Accounting. I am also a graduate of the Mahler  
11       School Advanced Management Skills Program and the Center for Creative  
12       Leadership Developing Strategic Leadership Program. I have also taken  
13       advanced course work in the area of business management at Harvard University.  
14       I joined Cinergy in May 2000 as a power trader for Cinergy Services. Prior to  
15       joining Cinergy, I was a Senior Power Trader with Statoil Energy. I also held  
16       various positions with Vitol Gas and Electric, which included responsibilities for  
17       energy trading, marketing and risk management. I was named to my current  
18       position in January 2006. Although my title has changed since 2006, my areas of  
19       responsibilities have not.

20   **Q.   PLEASE DESCRIBE YOUR RESPONSIBILITIES AS SENIOR VICE**  
21       **PRESIDENT, COMMERCIAL ASSET MANAGEMENT.**

**CHARLES R. WHITLOCK DIRECT**

1 A. I am responsible for the commercial asset management. Specifically, I have  
2 responsibility to provide the safe, reliable and economic supply of fuel, power,  
3 emission allowances and capacity to Duke Energy Ohio's (DE-Ohio) Market  
4 Based Standard Service Offer ("MBSSO") consumers. I also have responsibility  
5 for the commercial risk management of all components of DE-Ohio's non-  
6 MBSSO generation which includes risk associated with power prices, fuel prices,  
7 emission allowance ("EA") prices, congestion and weather.

8 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

9 A. Yes, I have.

10 II. PURPOSE OF TESTIMONY

11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
12 PROCEEDING?

13 The purpose of my testimony is to provide an overview of the history of DE-  
14 Ohio's System Reliability Tracker ("Rider SRT") under the MBSSO. I will  
15 describe the capacity product we purchase for Rider SRT. I will also discuss  
16 purchases made under Rider SRT and plans for meeting our obligations under  
17 Rider SRT for 2008 and beyond. Finally, I am sponsoring Attachment CRW-1,  
18 which is a projection of Rider SRT purchases for 2008.

19 III. RIDER SRT DISCUSSION

20 Q. PLEASE DESCRIBE RIDER SRT.

21 A. Rider SRT allows DE-Ohio to track and collect costs associated with meeting its  
22 MBSSO load obligation plus a fifteen percent (15%) planning reserve margin.  
23 The Company is *the* provider of last resort ("POLR") and, consequently, must

1 have the generating capacity to stand ready to serve all retail load in its service  
2 territory. Rider SRT includes costs incurred by DE-Ohio to ensure that we can  
3 provide safe and reliable service to all consumers in our service territory. The  
4 expectation for safe and reliable service should be no different than if we were  
5 still under traditional regulation.

6 **Q. PLEASE DEFINE GENERATING CAPACITY.**

7 A. Generating capacity is the physical plant or "steel in the ground." It represents  
8 the maximum amount of electric power or energy that a generating plant or unit  
9 can produce at a specified time under certain conditions. It is measured in  
10 Megawatts (MW). Costs for capacity are included in Rider SRT.

11 **Q. DOES DE-OHIO PURCHASE A SPECIFIC TYPE OF CAPACITY FOR**  
12 **RIDER SRT?**

13 A. Yes. DE-Ohio only purchases capacity that is qualified by MISO as a Designated  
14 Network Resource ("DNR"). This means that the energy from the generating  
15 resource is deliverable to all load on a firm basis in the MISO footprint or to DE-  
16 Ohio load.

17 **Q. PLEASE DEFINE THE TERM ENERGY.**

18 A. Energy is the actual output from the generating plant or unit. The amount of  
19 energy produced from a specific plant or unit is dependent upon the amount  
20 demanded by consumers, up to the maximum capacity rating of the plant or unit.  
21 It is measured in Megawatt-hours (MWh). Costs for energy are included in Rider  
22 FPP.

23 **Q. PLEASE EXPLAIN THE 2008 RIDER SRT PLAN.**

CHARLES R. WHITLOCK DIRECT

1 A. DE-Ohio proposes to maintain its current planning reserve margin of 15 percent  
2 for 2008. Again, this is equivalent to a 4% operating reserve on a projected basis.  
3 DE-Ohio agrees to make purchases to achieve that reserve, keeping records  
4 sufficient for Commission staff audit, and will recover the associated costs..

5 As in previous years, the estimate of 2008 purchases required to meet our  
6 reserve margins begins with our capacity position, which is shown on Attachment  
7 CRW-1. This calculation compares the load in our service territory, switched and  
8 non-switched, plus 15% for reserves, to our dedicated generation capacity. To the  
9 extent that the load plus reserves exceeds our dedicated generating capacity, this  
10 excess is the amount of capacity we need to purchase in order to meet our reserve  
11 margin requirements for 2008. In addition, to the extent our dedicated generation  
12 becomes unavailable due to outages during the 2008 SRT plan, we must purchase  
13 additional capacity to meet our daily operating reserve margin requirements.

14 **Q. YOUR ESTIMATED COST FOR RESERVE PURCHASES IN 2008 HAS**  
15 **INCREASED SINCE THE COMPANY MADE ITS 2007 RIDER SRT**  
16 **FILING. WILL YOU EXPLAIN WHAT CHANGED?**

17 A. Market prices for capacity have increased and are a function of the current supply  
18 and demand balance, which is influenced by many factors within the MISO  
19 footprint. In addition, forward prices for capacity in neighboring markets have  
20 more than doubled and excess supply in MISO may seek out higher priced  
21 alternatives. The increase in capacity prices is further evidence that DE-Ohio  
22 should begin to acquire capacity for periods longer than one year to reduce  
23 exposure to higher and volatile prices and ensure reliability.

**CHARLES R. WHITLOCK DIRECT**

1   **Q.   DO YOU BELIEVE THAT THE COMMISSION SHOULD ENCOURAGE**  
2       **THE COMPANY TO MAKE PURCHASES FOR MORE THAN ONE**  
3       **YEAR?**

4   **A.   Yes, for two reasons, reliability and economics. DE-Ohio believes that it is**  
5       **beneficial to purchase capacity for periods longer than a year. Market**  
6       **participants, especially load-serving entities, frequently purchase capacity and/or**  
7       **energy for longer than one year and for future periods to ensure reliability. For**  
8       **example, load-serving entities in regulated markets that employ integrated**  
9       **resource planning typically use a 10-year planning horizon to plan and construct**  
10      **the required capacity or "steel in the ground". In the deregulated markets, where**  
11      **capacity markets exist, a common characteristic is a three-year forward**  
12      **procurement element. This ensures that the requisite capacity has sufficient lead-**  
13      **time to be constructed. In fact, in May 2007, DE-Ohio became a participant of**  
14      **the Midwest Planning Reserve Sharing Agreement that establishes compliance**  
15      **guidelines for maintaining adequate planning reserves for the upcoming planning**  
16      **year. For example, by March 2008, DE-Ohio must demonstrate that it has**  
17      **achieved the planning reserve target as established for the June 1, 2008, through**  
18      **May 31, 2009, planning year. Therefore, DE-Ohio must secure any necessary**  
19      **capacity purchases prior to the 2009 calendar year to satisfy its obligation by**  
20      **March 2008.**

21           Furthermore, purchasing capacity for more than one year would enable  
22   DE-Ohio to take advantage of pricing opportunities in the market that would  
23   accrue to the benefit of MBSSO consumers. Purchasing products over various

1 periods of time creates a hedge for MBSSO consumers. It permits MBSSO  
2 consumers to benefit from low prices in the market that may not be available at a  
3 later date. This is especially true in periods of declining region-wide reserve  
4 margins which is evident today in the MISO footprint. There is no economic  
5 reason to restrict capacity purchases to a single calendar year. What is missing  
6 however, is an ability for DE-Ohio to recover the costs of the purchases beyond  
7 the current MBSSO and Rider SRT period. DE-Ohio is asking the Commission to  
8 approve such recovery of capacity purchases.

9 **V. CONCLUSION**

10 **Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING RIDER FPP OR**  
11 **RIDER SRT BEING ADDRESSED IN THIS FILING?**

12 **A.** I believe that DE-Ohio is prudently obtaining and utilizing its resources to meet  
13 its MBSSO obligations for Rider SRT. We have complied with all of the  
14 applicable directives included in the Order approving the Stipulation reached in  
15 Case No. 05-724-EL-UNC. We use reasonable methods for allocating costs and  
16 have mechanisms in place to ensure that consumers are paying only for the  
17 Company's actual costs.

18 **Q. WAS ATTACHMENTS PREPARED BY YOU OR UNDER YOUR**  
19 **SUPERVISION?**

20 **A.** Yes.

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

22 **A.** Yes.

**CHARLES R. WHITLOCK DIRECT**



**Schedule B**  
**Page 1 of 2**

Case No. 07-975-EL-UNC  
Attachment CRW-1  
Page 1 of 2

**Native**

[illegible]

**DUKE ENERGY OHIO**  
**Summary of Projected 2008 Capacity and Purchased Power Costs**  
**Incurred to Serve SRT Customers**

**Total Estimated Capacity Costs and Jurisdictional Allocation**

Line No.	Description	January	February	March	April	May	June	July	August	September	October	November	December	Total	Line No.
----------	-------------	---------	----------	-------	-------	-----	------	------	--------	-----------	---------	----------	----------	-------	----------

Regulatory Capacity Purchase  
Total Applicable to Retail Customers

