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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application)
Of Duke Energy Ohio, Inc.)
To Adjust and Set its 2008) Case No. 07-975-EL-UNC
System Reliability Tracker.)

TESTIMONY
OF
RICHARD C. CAHAAN

PUBLIC UTILITIES COMMISSION OF OHIO
CAPITAL RECOVERY AND FINANCIAL ANALYSIS DIVISION

STAFF EX. _____

Submitted December 13, 2007

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1 1. Q. Would you please state your name, position, and
2 background?

3

4 A. My name is Richard C. Cahaan, and I am employed by the Public Utilities
5 Commission of Ohio, 180 E. Broad Street, Columbus, Ohio 43215 as the
6 Chief Economist in the Capital Recovery and Financial Analysis Division
7 of the Utilities Department. I have been employed by the Staff of the
8 Commission since 1983 and have testified in numerous rate cases and other
9 proceedings before this Commission. A large proportion of my testimony
10 before this Commission has been regarding the cost of capital and the rate of
11 return to be granted to regulated utilities, although I have also presented
12 economic analysis regarding other issues, including the rate stabilization
13 plans of First Energy, CG&E (now Duke-Ohio), and AEP.

14

15 I have received a B.A. degree from Hamilton College and an M.A. degree in
16 Economics from the University of Hawaii, and I have completed all course
17 work and passed the written and oral general and field examinations at the
18 Ph.D. level at Cornell University. I have been a faculty member, either
19 fulltime or part time, at the State University of New York -- Cortland,
20 Eisenhower College, Ithaca College, Cornell University, the Ohio State
21 University, and the Graduate School of Business Administration of Capital
22 University. Prior to joining the Staff, I taught economics at the Ohio State
23 University.

1

2 2. Q. What is the purpose of your testimony?

3

4 A. My testimony addresses the establishment of the SRT rider for the period
5 going forward.

6

7 3. Q. Please explain.

8

9 A. Duke-Ohio's rate stabilization plan contains a provision for the recovery of
10 costs relating to generating reserves through a System Reliability Tracker
11 (SRT). With the Ohio Supreme Court remand of the rate stabilization plan,
12 the SRT rider was suspended, pending the resolution of the issues raised in
13 the remand. Since these issues have now been resolved, it is appropriate to
14 continue collection of these costs through an SRT rider. To delay collection
15 would merely create future problems by squeezing cost recovery into a
16 shorter time period.

17

18 4. Q. Does the Staff agree with the Company's application concerning this rider?

19

20 A. Yes. On November 1, 2007, the Liberty Consulting Group filed its Final
21 Report on the Management/Performance Audit and Financial Audit of Duke
22 Energy Ohio. Section VII of this report addressed the issue of the SRT, and

1 the report stated that Liberty found no exceptions or concerns from either a
2 management or a financial perspective.

3
4 5. Q. Is the Staff sponsoring these conclusions from the Liberty Consulting Group
5 report?

6
7 A. No, the Staff cannot do that. However, the bulk of the report dealt with
8 matters other than the SRT. If a hearing is held later on those matters the
9 authors of the report will be available to answer any questions regarding
10 their findings on the SRT as well.

11
12 6. Q. Does not your recommendation to implement the SRT thus put the
13 customers at risk? Would it not be better to wait?

14
15 A. No, it would not. This is not the same as setting base rates. The SRT is a
16 dollar-for-dollar recovery mechanism with a true-up. If the Commission
17 were to find some problem with the statements contained in the report (that
18 the expenditures and processes were reasonable) then an adjustment could
19 easily be made to correct for any over-collection. So I see no problems in
20 provisionally accepting the auditor's findings. However, as I indicated
21 earlier, I do see problems which would occur by delaying.

1 7. Q. Does this conclude your testimony?

2

3 A. Yes, it does.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing **Direct Testimony** was served upon the parties of record indicated on the attached service list this 11th day of December, 2007 via electronic service, and by hand delivery on the 12th day of December, 2007.



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