

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of the Application of)	
Duke Energy Ohio, Inc. for an)	Case No. 07-589-GA-AIR
Increase in Gas Rates)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 07-590-GA-ALT
of an Alternative Rate Plan for its)	
Gas Distribution Service)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 07-591-GA-AAM
to Change Accounting Methods)	

SECOND SUPPLEMENTAL TESTIMONY OF

GARY J. HEBBELER

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____	Management policies, practices, and organization
_____	Operating income
_____	Rate Base
_____	Allocations
_____	Rate of return
_____	Rates and tariffs
<u> x </u>	Other: request for re-approval of Rider AMRP and related matters

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of the Application of)	
Duke Energy Ohio, Inc. for an)	Case No. 07-589-GA-AIR
Increase in Gas Rates)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 07-590-GA-ALT
of an Alternative Rate Plan for its)	
Gas Distribution Service)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 07-591-GA-AAM
to Change Accounting Methods)	

SECOND SUPPLEMENTAL TESTIMONY OF

GARY J. HEBBELER

ON BEHALF OF

DUKE ENERGY OHIO, INC.

INDEX

Second supplemental testimony relating to Rider AMRP and riser construction schedule.

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION AND PURPOSE	- 1 -
II. AMRP PROGRAM	- 1 -
III. RIDER FOR RISER REPLACEMENT	- 7 -
IV. CONCLUSION.....	- 7 -

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Gary J. Hebbeler.

3 **Q. DID YOU FILE DIRECT AND SUPPLEMENTAL TESTIMONY IN THIS**
4 **PROCEEDING ON BEHALF OF DUKE ENERGY OHIO INC. (“DE-**
5 **OHIO”)?**

6 A. Yes.

7 **Q. WHAT IS THE PURPOSE OF YOUR SECOND SUPPLEMENTAL**
8 **TESTIMONY?**

9 A. I respond to the testimony of the Ohio Consumers’ Counsel (“OCC”) witness Mr.
10 Anthony J. Yankel regarding the Accelerated Main Replacement Program
11 (“AMRP”).

II. AMRP PROGRAM

13 **Q. MR. YANKEL TESTIFIED THAT THE AMRP PROGRAM AND RIDER**
14 **AMRP SHOULD NOT BE CONTINUED. HOW DO YOU RESPOND?**

15 A. I disagree with Mr. Yankel’s opinion. His opinion is based on factual errors. The
16 AMRP provides important safety and reliability benefits. Our previous program
17 was a reactionary program using historical data to predict future activities. This
18 program worked until the facilities began to deteriorate faster than the predicted
19 by the identified risk factors. This deterioration led to several natural gas
20 incidents. The AMRP is a new program that was developed in 2000 to address
21 this situation. Rider AMRP is an appropriate tracking mechanism for recovering
22 the costs. Both should be continued.

1 **Q. WHAT FACTUAL ERRORS DID MR. YANKEL MAKE?**

2 A. Mr. Yankel is mistaken in his statement about DE-Ohio's schedule for replacing
3 cast iron and bare steel mains prior to implementation of the AMRP. Mr. Yankel
4 is also mistaken about the cost/benefit analysis supporting the AMRP.

5 **Q. WHAT DID MR. YANKEL STATE REGARDING DE-OHIO'S**
6 **SCHEDULE FOR REPLACING CAST IRON AND BARE STEEL MAINS**
7 **PRIOR TO IMPLEMENTATION OF THE AMRP?**

8 A. Mr. Yankel stated at page 35, line 19 through page 36, line 5:

9 One of the Company's parameters for proposing the AMRP
10 program in 2001 was that it would take the Company 27
11 years to replace all of their bare steel/cast iron Mains under
12 the then existing programs. It does not appear that the
13 AMRP program has significantly accelerated this effort if
14 after seven years, less than half the pipe has been replaced
15 and the more difficult work is yet to come. The Company
16 has not substantiated that the program is an 'Acceleration'
17 and that it therefore does not justify special Rider
18 treatment.

19
20 **Q. WHAT DID THE COMPANY STATE IN CASE NO. 01-1228-GA-AIR**
21 **REGARDING DE-OHIO'S SCHEDULE FOR REPLACING CAST IRON**
22 **AND BARE STEEL MAINS PRIOR TO IMPLEMENTATION OF THE**
23 **AMRP?**

24 A. The Company discussed this issue in the direct testimony of Leonard C.
25 Randolph, Jr. and Sevkett Torpis, and in the report by Stone & Webster
26 Consultants entitled: "Independent Review of Cast Iron and Bare Steel Pipe
27 Replacement Program for CG&E." These documents are included in the record
28 of Case No. 01-1228-GA-AIR, in which the OCC was a party, and I incorporate
29 these documents into my testimony by reference.

1 Mr. Randolph stated at page 21, lines 15-18 of his direct testimony:

2 If CG&E were to follow the same program that has been in
3 effect until this year, which has been generally accepted
4 industry practice for main replacement, it would take over
5 70 years for the cast iron facilities to be replaced.
6

7 Mr. Torpis stated at page 10, lines 4-7 of his direct testimony:

8 CG&E has reported replacing approximately 129 miles of
9 its cast iron mains since 1990, which represents a
10 replacement rate of 1.3% per year. At this rate, it could
11 take CG&E approximately 79 years to replace all the
12 remaining cast iron mains in its system.
13

14 The Stone & Webster report states at page 2:

15 In 1987, CG&E adopted a systematic CI mains replacement
16 program. In 1989, CG&E adopted a systematic BS mains
17 replacement program. These programs resulted in a modest
18 increase in replacements, but under them it would take
19 CG&E over 79 years to replace all of their CI and BS
20 inventory.
21

22 **Q. WHAT DID YOU STATE IN YOUR DIRECT TESTIMONY REGARDING**
23 **DE-OHIO'S SCHEDULE FOR REPLACING CAST IRON AND BARE**
24 **STEEL MAINS PRIOR TO IMPLEMENTATION OF THE AMRP?**

25 A. At page 4, lines 3 through 6 of my direct testimony, I stated that the Company's
26 replacement rate was approximately 90 years, slightly longer than the schedule
27 reported in 2001, due to a discrepancy in reporting the miles of cast iron and bare
28 steel mains on our system at that time.

29 **Q. IN YOUR OPINION, IS MR. YANKEL'S ERROR REGARDING THE**
30 **LENGTH OF DE-OHIO'S PRIOR CAST IRON AND BARE STEEL MAIN**
31 **REPLACEMENT PROGRAM SIGNIFICANT?**

1 A. Yes, I believe so. He incorrectly concluded that the Company would have
2 replaced all of its cast iron and bare steel mains in 27 years under the prior
3 schedule, and that the AMRP did not justify rider treatment because the program
4 was not truly accelerated. If he would have known the correct length of the prior
5 program, he would have seen that the AMRP will result in a significantly faster
6 replacement of the cast iron and bare steel mains. Knowing these facts, a
7 reasonable person could only conclude that the AMRP is truly an accelerated
8 program and, given the significant program cost, does justify a tracking
9 mechanism for cost recovery.

10 **Q. IN DE-OHIO'S CURRENT APPLICATION, THE COMPANY PROPOSES**
11 **TO COMPLETE THE AMRP IN 2016, WHICH IS 15 YEARS AFTER THE**
12 **COMPANY STARTED THE PROGRAM IN 2001. DID THE COMPANY**
13 **ORIGINALLY PROPOSE A SHORTER TIME PERIOD FOR THE**
14 **AMRP?**

15 A. Yes. DE-Ohio originally proposed a ten-year program for the AMRP, in Case
16 No. 01-1228-GA-AIR.

17 **Q. WHAT SCHEDULE WAS ADOPTED IN THAT CASE?**

18 A. Upon information and belief, certain parties insisted upon rate caps for Rider
19 AMRP, that resulted in funding for a 15-year program.

20 **Q. DID EXTENDING THE AMRP FROM TEN TO 15 YEARS INCREASE**
21 **PROGRAM COSTS?**

22 A. Yes, I believe so. We have also been conducting an AMRP in Kentucky since
23 2001. The Kentucky Public Service Commission approved a ten-year program,

1 which we will complete in 2010. Since 2005, prices for certain types of
2 construction materials used for the AMRP have increased significantly, as I
3 discuss at page 9, lines 4-11 of my direct testimony. I believe the Kentucky
4 program will be completed at a total cost closer to our original estimate than will
5 our Ohio program. Ohio consumers would have had the benefit of lower inflation
6 if the Ohio AMRP would have been approved as a ten-year program.

7 **Q. YOU ALSO STATED THAT MR. YANKEL IS MISTAKEN ABOUT THE**
8 **COST/BENEFIT ANALYSIS SUPPORTING THE AMRP. PLEASE**
9 **EXPLAIN.**

10 A. At page 35, lines 7-11, Mr. Yankel states:

11 The Company claims to have saved a total of \$8.5 million
12 of maintenance costs over the six years since the program
13 has been in place, but it has cost the Company
14 approximately \$255 million in capital investment to
15 achieve this savings. The benefits achieved do not warrant
16 the expenditures.

17
18 I disagree with Mr. Yankel's analysis. Mr. Yankel's cost/benefit analysis
19 compares the AMRP investment to date versus the maintenance savings obtained
20 through the AMRP. This is not a reasonable approach. Across the country, there
21 is deteriorated infrastructure. The deteriorated condition of the infrastructure has
22 caused serious accidents and will continue to do so unless prudent decisions are
23 made and effective cost management is implemented. A traditional cost/benefit
24 analysis will not mitigate intangible risks and values such as the most precious
25 value of human life. Mr. Yankel contradicts himself because under his approach
26 we could never justify replacing any of the facilities. A longer, more segmented
27 approach would dictate a more costly replacement program. The AMRP

1 investment should be compared to the avoided cost that occurs by planning the
2 work with governmental agencies, and the Company's cost savings produced by
3 the economies of scale and efficiencies gained by levelizing the resources.

4 The CIMOS and BSMOS programs were reactionary programs which
5 would base the replacement segments on risk. These replacement segments
6 would be identified once a year after the historical data was analyzed from the
7 previous year. When the facilities began to deteriorate more rapidly, these
8 programs were not effective in mitigating the risk of natural gas incidents.
9 Municipalities also complained that these reactive programs led to the
10 replacement of gas facilities in areas that had recently been repaved by the
11 municipalities. Mr. Yankel's approach does not consider how our proactive
12 program avoids multiple costly re-surfacing and allows municipalities to
13 coordinate their infrastructure upgrades with our main replacement work. Mr.
14 Yankel has not attempted to quantify any amount for the safety and reliability
15 benefits in his cost/benefit analysis. This should be the foremost attribute
16 considered as part of a regulating body responsible for customers.

17 **Q. PLEASE STATE YOUR OPINION REGARDING CONTINUATION OF**
18 **THE AMRP AND RIDER AMRP.**

19 A. As I explained in my direct testimony, the AMRP provides significant safety and
20 reliability benefits. DE-Ohio has implemented the AMRP as efficiently as
21 possible, through competitive bidding. Upon information and belief, several other
22 utilities have adopted or are in the process of adopting similar programs. The
23 costs of the program are significant and, in my opinion, are appropriate for

1 recovery through a tracking mechanism. I therefore recommend that the
2 Commission approve continuation of the AMRP and Rider AMRP.

3 **III. RIDER FOR RISER REPLACEMENT**

4 **Q. MR. YANKEL ALSO ARGUES THAT A TRACKER MECHANISM IS**
5 **NOT APPROPRIATE FOR COSTS OF THE RISER REPLACEMENT**
6 **PROGRAM BECAUSE THE COSTS OF THE PROGRAM ARE**
7 **RELATIVELY LOW. HOW DO YOU RESPOND?**

8 A. I disagree. We manage the AMRP and the riser replacement program together
9 because this allows us to optimize our internal and external resources, and to
10 minimize inconvenience to customers and municipalities. This is why we
11 proposed to do both programs over the same construction schedule and to recover
12 costs through the same rider. The costs of the riser program are fixed, known and
13 measurable; the costs are significant; and will be incurred over a relatively short
14 time period; therefore, tracker recovery is appropriate.

15 **IV. CONCLUSION**

16 **Q. DOES THIS CONCLUDE YOUR SECOND SUPPLEMENTAL**
17 **TESTIMONY?**

18 A. Yes.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Second Supplemental Testimony of Gary J. Hebbeler was served on the following parties of record by electronic filing and e-mail 22nd day of February 2008.

_____/s/ John J. Finnigan, Jr.
John J. Finnigan, Jr.

Larry S. Sauer, Esq. Ohio Consumers' Counsel 10 West Broad Street, Suite 1800 Columbus, OH 43215-3420	John W. Bentine, Esq. Counsel for Interstate Gas Supply, Inc. Chester, Wilcox & Saxbe, LLP 65 East State Street, Suite 1000 Columbus, Ohio 43215-4213
David C. Rinebolt, Esq. Counsel for Ohio Partners for Affordable Energy 231 West Lima Street Findlay, OH 45840-3033	Colleen L. Mooney, Esq. Counsel for Ohio Partners for Affordable Energy 1431 Mulford Road Columbus, OH 43212-3404
Michael L. Kurtz, Esq. Counsel for The Kroger Co. Boehm, Kurtz & Lowry 36 East Seventh Street, Suite 1510 Cincinnati, Ohio 45202	William L. Wright, Esq. Assistant Attorney General Public Utilities Commission of Ohio 180 East Broad Street, 9th Floor Columbus, Ohio 43215
Thomas Lindgren, Esq. Assistant Attorney General Public Utilities Commission of Ohio 180 East Broad Street, 9th Floor Columbus, Ohio 43215	Thomas J. O'Brien Counsel for City of Cincinnati Bricker & Eckler LLP 100 South Third Street Columbus, Ohio 43215-4236
David F. Boehm, Esq. Counsel for Ohio Energy Group Boehm, Kurtz & Lowry 36 East Seventh Street, Suite 1510 Cincinnati, Ohio 45202	John M. Dosker, Esq. Stand Energy Corporation 1077 Celestial Street, Suite 110 Cincinnati, Ohio 45202-1629
M. Howard Petricoff, Esq. Steven M. Howard, Esq. Counsel for Itegrys Energy Services, Inc. and Direct Energy Services LLC Vorys, Sater, Seymour and Pease LLP 52 East Gay Street P.O. Box 1008 Columbus, Ohio 43216-1008	Bobby Singh, Esq. Senior Attorney Integrays Energy Services, Inc. 300 Wert Wilson Bridge Road, Suite 350 Worthington, Ohio 43085
Mary W. Christensen, Esq. Counsel for People Working Cooperatively, Inc. Christensen Christensen Donchatz Kettlewell & Owens, LLC 100 East Campus View Blvd., Suite 360 Columbus, Ohio 43235	

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

2/22/2008 3:03:28 PM

in

Case No(s). 07-0589-GA-AIR

Summary: Testimony Second Supplemental of Gary Hebbeler electronically filed by ANITA M SCHAFER on behalf of Finnigan, John J. Mr.