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BEFORE

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THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio for an Increase in Electric Distribution Rates)	Case No. 08-709-EL-AIR
)	
In the Matter of the Application of Duke Energy Ohio for Tariff Approval)	Case No. 08-710-EL-ATA
)	
In the Matter of the Application of Duke Energy Ohio for Approval to Change Accounting Methods)	Case No. 08-711-EL-AAM
)	

DIRECT TESTIMONY OF

SANDRA P. MEYER

ON BEHALF OF

DUKE ENERGY OHIO

- Management policies, practices, and organization
- Operating income
- Rate Base
- Allocations
- Rate of return
- Rates and tariffs
- Other:

August 8, 2008

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Testimony providing case overview and management policies, practices, and organization.

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Sandra P. Meyer 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 the Duke Energy Corporation (Duke Energy) affiliated
6 companies as President of Duke Energy Ohio (DE-Ohio or Company) and its
7 subsidiary, Duke Energy Kentucky (DE-Kentucky).

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

10 A. I earned a Bachelor of Science degree in Accounting from Louisiana State
11 University. I have completed Harvard University's Advanced Management
12 Program. I am a certified public accountant in North Carolina and Texas. I am a
13 member of the North Carolina Association of Certified Public Accountants and
14 the American Institute of Certified Public Accountants. I have served as advisory
15 director of the Houston Chapter of the Texas Society of Certified Public
16 Accountants. I am also a past regional director and past president of the Charlotte
17 and Houston Chapters of Financial Executives International, a professional
18 society of chief financial officers and other financial executives.

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

20 A. I joined Texas Eastern Corporation (Texas Eastern) in 1976 as a junior
21 accountant. I held positions of increasing responsibility with Texas Eastern and
22 its successor, PanEnergy Corp. (PanEnergy). I was elected vice president and

1 controller of PanEnergy in 1994, and I was named to the additional position of
2 treasurer in 1996. Following the 1997 merger of Duke Energy and PanEnergy, I
3 held various financial leadership positions with Duke Energy until 2001, when I
4 was named senior vice president of retail services. In 2003, I became group vice
5 president of customer service, sales and marketing for Duke Power, a business
6 unit of Duke Energy. I was named to my current position in April 2006.

7 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS PRESIDENT OF DE-**
8 **OHIO.**

9 A. As President of DE-Ohio, I am responsible for ensuring that our customers continue
10 to have access to safe, reliable, and reasonably priced gas and electric service and
11 that these services are provided in accordance with applicable federal and state laws
12 and regulations.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. My testimony provides an overview of DE-Ohio's electric distribution business
16 operations. I discuss the Company's major developments since its last retail
17 electric base rate case in 2005. I explain our need for an increase in base rates for
18 electric distribution service. I discuss how the timely and constructive regulatory
19 treatment we seek from the Commission will enable us to continue to satisfy our
20 customers by providing them with the reasonably priced, reliable service they
21 have come to expect from us. I introduce our proposal for a tracking mechanism
22 to recover costs related to our Distribution Rider (Rider DR), which includes the
23 recovery of investments related to DE-Ohio's SmartGrid (formerly known as

1 Utility of the Future) metering infrastructure modernization initiative.

2 Additionally, I sponsor the following schedules: S-3, S-4.1, S-4.2, and
3 supplemental filing requirement (C)(17).

4 **II. DE-OHIO'S ELECTRIC BUSINESS**

5 **A. OVERVIEW:**

6 **Q. PLEASE GIVE AN OVERVIEW OF DE-OHIO'S ELECTRIC UTILITY**
7 **SYSTEM AND OPERATIONS.**

8 A. DE-Ohio headquarters are in downtown Cincinnati, as they have been for over
9 160 years. From these local headquarters, DE-Ohio directs the planning,
10 construction, operation and maintenance of its electric transmission and
11 distribution system. DE-Ohio's electric utility system currently provides a reliable
12 supply of electricity to approximately 690,000 residential, commercial and
13 industrial, and public authority customers in southwestern Ohio. DE-Ohio owns
14 approximately 1,550 circuit-miles of transmission and 16,743 circuit-miles of
15 distribution lines throughout its service territory. While an increasing percentage
16 of DE-Ohio's customers are served via underground facilities, the vast majority of
17 DE-Ohio's service territory continues to be served via overhead transmission and
18 distribution lines.

19 In February 2002, DE-Ohio, then known as The Cincinnati Gas & Electric
20 Company (CG&E), and Public Service Company of Indiana (PSI) transferred
21 functional control of the Cinergy transmission system to the Midwest Independent
22 Transmission System Operator, Inc. (MISO), which provides for maximum
23 reliability of the regional bulk power supply. The transmission system is operated

1 in accordance with standards issued by the North American Electric Reliability
2 Corporation (NERC) and ReliabilityFirst Corporation (RFC). RFC is a Regional
3 Reliability Organization that is the successor organization to the East Central Area
4 Reliability Council (ECAR).

5 **B. ECONOMIC DEVELOPMENT:**

6 **Q. PLEASE DESCRIBE DE-OHIO'S ECONOMIC DEVELOPMENT**
7 **ACTIVITIES.**

8 A. DE-Ohio's longstanding support for state and local economic development
9 efforts, combined with DE-Ohio's reasonably priced rates, have resulted in a
10 number of Ohio economic development successes in which we have played a part.

11 For the last six years, Duke Energy has been named as having one of the
12 "Top 10 Best" utility economic development programs by *Site Selection*
13 magazine. Even more important to us, our surveys of local economic
14 development officials indicate that they are highly satisfied with DE-Ohio's
15 economic development efforts and services. Our combined efforts led to Greater
16 Cincinnati's economic development results for 2007 achieving the second ranking
17 in the nation. We estimate that since 1996, cooperative efforts, along with state
18 and local economic development officials, have contributed to the creation of over
19 36,000 jobs and more than \$5.5 billion of capital investment within the DE-Ohio
20 service territory.

21 **C. CHARITABLE GIVING**

22 **Q. PLEASE DESCRIBE DE-OHIO'S CHARITABLE GIVING PHILOSOPHY.**

23 A. DE-Ohio has made good corporate citizenship a priority by giving back to the

1 communities we serve. Since 1996, DE-Ohio and the Duke Energy Foundation,
2 formerly the Cinergy Foundation, have contributed over \$41 million to Ohio
3 charitable organizations. We strongly encourage a spirit of volunteerism among
4 our employees, who contribute countless hours of volunteer time to support the
5 many communities in which they live and work. At the heart of Duke Energy's
6 volunteer efforts is the Global Service Event, a corporate-wide volunteer effort
7 that encourages employees to give back to their communities, not just during the
8 event, but year round. During the 2008 Global Service Event, DE-Ohio provided
9 grants for 126 volunteer projects performed by employees, their families, and
10 retirees. DE-Ohio also supports HeatShare, a program designed to help those in
11 need of heating bill assistance.

12 **III. SIGNIFICANT RECENT DEVELOPMENTS**

13 **Q. WHAT MAJOR DEVELOPMENTS INVOLVING DE-OHIO HAVE**
14 **AFFECTED ITS BUSINESS SINCE ITS LAST ELECTRIC RATE CASE?**

15 **A.** DE-Ohio's parent, Cinergy Corp., merged with Duke Energy in 2006. The
16 Commission approved the merger and changes in accounting procedures Case No.
17 05-732-EL-MER, *et al.* and 05-974-GA-AAM. More recently, DE-Ohio has
18 embarked on an infrastructure modernization initiative to install a state-of-the-art
19 communications network, along with smart meters, for its entire gas and electric
20 distribution system. I will discuss other changes to our distribution infrastructure
21 below.

22 **Q. PLEASE EXPLAIN DE-OHIO'S PROPOSAL TO IMPLEMENT A NEW**
23 **COST RECOVERY MECHANISM FOR INVESTMENTS IN THE**

1 **ELECTRIC DISTRIBUTION SYSTEM.**

2 A. DE-Ohio proposes to implement a new cost recovery mechanism to track and
3 recover capital investments in its distribution system, including the electric
4 infrastructure modernization costs related to DE-Ohio's SmartGrid initiative. DE-
5 Ohio plans to make a substantial investment in its distribution system over the
6 next several years to install, among other things, the advanced communications
7 equipment and Automated Meter Infrastructure (AMI) to enable the SmartGrid
8 Project. We request approval of our Distribution Rider (Rider DR) to allow DE-
9 Ohio to recover these and other costs for operating and maintaining a safe and
10 reliable distribution system on a timely basis. Rider DR will allow us to avoid
11 multiple rate cases that will create unnecessary inefficiencies and may delay
12 investments and benefits to customers. DE-Ohio witness Mr. Todd W. Arnold
13 will discuss this proposal in more detail as it pertains to the infrastructure
14 modernization investments. DE-Ohio witness Mr. Christopher D. Kiergan
15 discusses the cost/benefit analysis supporting the SmartGrid initiative. DE-Ohio
16 witness Mr. Paul G. Smith will discuss the reasonableness of the inclusion of the
17 other distribution capital investments in the Rider DR, and DE-Ohio witness Mr.
18 William Don Wathen Jr. will discuss the operation of the proposed Rider DR
19 mechanism.

20 **Q. PLEASE BRIEFLY DESCRIBE WHY DE-OHO REQUIRES AN**
21 **INCREASE IN ITS ELECTRIC DISTRIBUTION RELATED RATES AT**
22 **THIS TIME.**

23 A. DE-Ohio last increased its electric base rates in 2005, pursuant to Commission

1 Order in Case No. 05-059-EL-AIR. DE-Ohio continues to invest in its electric
2 distribution facilities. As further explained by DE-Ohio witness Mr. James E.
3 Mehring, DE-Ohio has invested approximately \$275 million in additions to plant
4 in service just for distribution facilities since the time of the last retail electric rate
5 case. (See Schedule B-2.3.) As explained by Mr. Smith, DE-Ohio is under-
6 recovering in its electric distribution business and has initiated this proceeding in
7 order to increase its electric distribution rates to recover a just and reasonable
8 return on its electric distribution business.

9 **Q. PLEASE GIVE A BRIEF OVERVIEW OF DE-OHIO'S PROPOSED**
10 **RETAIL ELECTRIC RATE INCREASE.**

11 **A.** DE-Ohio is proposing to increase its retail electric distribution rates in order to
12 increase its annual revenues attributable to retail electric distribution service by
13 approximately \$86 million. This represents an average aggregate rate increase of
14 approximately 4.8% on a total bill basis over the average retail electric rates in
15 effect at the time we filed our pre-filing notice (June 25, 2008). This rate increase
16 is necessary in order to allow DE-Ohio the opportunity to recover its annual
17 expenses associated with providing reliable electric distribution service, plus a fair
18 return on its investment in distribution facilities.

19 **Q. PLEASE DESCRIBE THE ELECTRIC DISTRIBUTION CAPITAL**
20 **INVESTMENTS MADE BY DE-OHIO OVER RECENT YEARS.**

21 **A.** As I mentioned above, since the time of its last rate case, DE-Ohio has made
22 significant capital investments to its electric distribution systems. Mr. Mehring
23 discusses in his testimony that, on September 30, 2004, DE-Ohio's original cost

1 of electric distribution system plant in service was \$1.4 billion. By March 31,
2 2008, DE-Ohio's original cost of electric delivery system plant in service had
3 increased by 14% to \$1.6 billion, as demonstrated on Schedule B-2.3, sponsored
4 by DE-Ohio witness Mr. Carl J. Council Jr. These investments represent the
5 routine ongoing capital requirements necessary to serve new customers and to
6 continue to provide reliable service to existing customers. Some of the
7 investments made to DE-Ohio's electric distribution system were:

- 8 • Constructed over 188 circuit-miles of new distribution lines throughout the
9 DE-Ohio service territory.
- 10 • Installed approximately 458,717 KVA of net distribution transformer capacity
11 at existing substations throughout the DE-Ohio service territory.
- 12 • Placed six new substations into service.

13 The testimony of Mr. Mehring discusses these investments in our distribution
14 system in more detail.

15 **Q. HOW DO DE-OHIO'S COSTS OF PROVIDING UTILITY SERVICE, AS**
16 **PRESENTED IN THIS CASE, COMPARE TO THE COSTS OF**
17 **PROVIDING SERVICE APPROVED BY THE COMMISSION IN DE-**
18 **OHIO'S LAST RATE CASE?**

19 **A.** DE-Ohio has made substantial capital investments in plant and equipment over
20 the past two years, driven by the investment in distribution facilities as discussed
21 above. Additionally, DE-Ohio has invested in operational and maintenance
22 activities, continually striving to provide reliable service. As a result, DE-Ohio's
23 rate base has increased substantially since its last rate case, as have its non-fuel

1 operating and maintenance (O&M) expenses for distribution system.

2 **IV. SCHEDULES SPONSORED BY WITNESS**

3 **Q. PLEASE DESCRIBE SCHEDULE S-3.**

4 A. Schedule S-3 is DE-Ohio's proposed newspaper notice, which informs the public
5 about this case. DE-Ohio requests that the Commission approve the form and
6 content of the newspaper notice. DE-Ohio will publish the newspaper notice
7 following Commission approval as to form and content.

8 **Q. PLEASE DESCRIBE SCHEDULE S-4.1.**

9 A. Schedule S-4.1 is an executive summary of the corporate processes followed by
10 the Company's board of directors and executive management team. This
11 executive summary generally describes our processes for: establishing and
12 achieving our policy objectives; communicating these objectives to our
13 stakeholders; organizing our management structure; and decision-making
14 processes and how we implement corporate controls.

15 **Q. PLEASE DESCRIBE SCHEDULE S-4.2.**

16 A. Schedule S-4.2 is an executive summary of the Company's management policies,
17 practices and organization to attain corporate goals and discusses our management
18 process in various functional areas.

19 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(17).**

20 A. Supplemental Filing Requirement (C)(17) is a copy of the advertisements for
21 which costs were charged to advertising expense during the actual months of the
22 test year financial data. I also sponsor the Company's estimated cost of the
23 advertisements that will be included in the budgeted portion of the test year.

1 **V. INTRODUCTION OF WITNESSES**

2 **Q. PLEASE IDENTIFY THE WITNESSES WHOM DE-OHIO WILL**
3 **PRESENT TESTIMONY IN THIS CASE.**

4 **A. DE-Ohio will present testimony from the following witnesses.**

5 **Todd W. Arnold** - Senior Vice President, Smart Grid and Customer Systems,
6 will discuss the SmartGrid infrastructure modernization initiative and explain DE-
7 Ohio’s proposal for a Rider to track and timely recover the costs associated with
8 this initiative.

9 **Keith G. Butler** - Senior Vice President Tax, discusses DE-Ohio’s tax expense
10 for the test year period.

11 **Carl J. Council Jr.** – Director, Asset Accounting, will discuss net plant in service
12 and construction work in progress contained in rate base and other plant-related
13 items.

14 **Stephen G. De May** - Vice President and Treasurer, discusses DE-Ohio’s credit
15 ratings, financial objectives, cash requirements, and capital structure.

16 **Christopher D. Kiernan** - Executive Consultant with KEMA, Inc. will discuss
17 the cost/ benefit analysis of the SmartGrid metering infrastructure modernization
18 initiative.

19 **Peggy A. Laub** – Manager, Fixed Assets Accounting, will discuss DE-Ohio’s
20 accounting processes and sponsor certain accounting information used for test
21 year financial data.

22 **Stephen R. Lee** – Director, Financial Forecasting, will discuss DE-Ohio’s
23 budgeting and forecasting processes.

1 **James E. Mehring** - Vice President of Field Operations will discuss the DE-Ohio
2 electric distribution system and safety and reliability programs.

3 **Dr. Roger A. Morin** - an independent consultant, provides testimony on DE-
4 Ohio's requested rate of return.

5 **Paul G. Smith** - Vice President, Ohio/Kentucky Rates, discusses the drivers of
6 the Company's proposed rate increase and various regulatory proposals including
7 the request for a new tracking mechanism to recover the direct investment in the
8 Company's electric distribution system, including the implementation of DE-
9 Ohio's SmartGrid project.

10 **John J. Spanos** - of Gannett Fleming, Inc., will sponsor DE-Ohio's latest
11 depreciation study.

12 **Richard G. Stevie** - Managing Director of Customer Market Analytics for Duke
13 Energy Business Services LLC (DEBS), provides background on the method used
14 to measure economic benefits of DE-Ohio's SmartGrid investments.

15 **Donald L. Storck** - Director, Rate Services, sponsors DE-Ohio's cost of service
16 study and pole attachment tariff.

17 **William Don Wathen, Jr.** - Director, Revenue Requirements, sponsors DE-
18 Ohio's revenue requirements and certain adjustments to the test period financial
19 data.

20 **James E. Ziolkowski** - Manager, Ohio/Kentucky Rates, will discuss rate design,
21 tariff language and line extension policy.

VI. CONCLUSION

22 **Q. IS THE INFORMATION YOU SPONSORED IN SCHEDULES S-3, S-4.1,**

1 **S-4.2, AND SUPPLEMENTAL FILING REQUIREMENTS (C)(17)**

2 **ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?**

3 A. Yes.

4 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

5 A. Yes.