

RECLINED-BOOKING DIV  
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PUCO

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke )  
Energy Ohio, Inc. for an Increase in Electric ) Case No. 08-709-EL-AIR  
Distribution Rates )  
)  
In the Matter of the Application of Duke ) Case No. 08-710-EL-ATA  
Energy Ohio, Inc. for Tariff Approval )  
)  
In the Matter of the Application of Duke ) Case No. 08-710-EL-AAM  
Energy Ohio, Inc. for Approval to )  
Change Accounting Methods )  
)  
In the Matter of the Application of Duke ) Case No. 06-718-EL-ATA  
Energy Ohio, Inc. for Approval of its Rider )  
BDP, Backup Delivery Point Rider )

Prepared Testimony  
of  
Joseph F. Buckley  
Capital Recovery and Financial Analysis Division  
Utilities Department

Staff Exhibit \_\_

March 30, 2009

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1                    PREPARED TESTIMONY OF JOSEPH F. BUCKLEY

2    1.     Q.     Please state, for the record, your name, position, and business address?

3            A.     My name is Joseph P. Buckley. I am employed as a Utility Specialist 3 in  
4                    the Capital Recovery and Financial Analysis Division of the Public Utilities  
5                    Commission of Ohio (PUCO), 180 East Broad Street, Columbus, Ohio  
6                    43215

7    2.     Q.     Please state your educational and professional backgrounds?

8            A.     I received a Bachelor of Science Degree in Economics from the Ohio State  
9                    University and a Master's Degree in Business Administration from the  
10                  University of Dayton. In 2000, I earned the Certified in Financial  
11                  Management (CFM) designation, awarded by the Institute of Management  
12                  Accountants. Also I attended, The Annual Regulatory Studies Program  
13                  sponsored by The National Association of Regulatory Utility  
14                  Commissioners (NARUC) and The Training for Utility Management  
15                  Analyst also sponsored by NARUC. I have been employed by the PUCO  
16                  since 1987. Since that time I have progressed through various positions  
17                  and was promoted to my current position of Utility Specialist 3, in 2000.  
18                  In addition, I have worked on several joint Federal Communication  
19                  Commission (FCC) and NARUC projects and audits and currently serve on  
20                  the Midwest ISO's Finance Committee as Vice-Chairman.

21   3.     Q.     What is your involvement in this proceeding?

1           A.     I will address Duke Energy Ohio, Inc. (DE-Ohio) objection nine and Ohio  
2                 Consumers Counsel (OCC) objection four, which relate to Staff's  
3                 elimination of DE-Ohio's purposed merger savings adjustment. I will also  
4                 address DE Ohio's objection seven, which relates to the adjustments of  
5                 certain test year labor expenses. These objections were filed in response to  
6                 the Staff Report of Investigation in Case No. 08-709-EL-AIR.

7     4.        Q.     In OCC objection four, OCC stated that it, "Objects to the Staff Report's  
8                 failure to specify that not only is there no evidence of actual merger  
9                 savings, there is evidence that expenses have increased since the merger  
10                between Cinergy Corp. and Duke Energy Corporation in its discussion of  
11                this issue on page 13 of the Staff Report. In this case, Duke is requesting  
12                recovery of far more test year expenses than it did in the rate case before  
13                the merger."

14               Also Duke Energy's stated in objection nine that the "Company objects to  
15               the Staff's recommendation to exclude an adjustment to test year expense  
16               related to merger savings." The impact of Staff's proposal is to unfairly  
17               provide customers with a larger share of the merger savings than what was  
18               agreed to in the Commission-approved Stipulation settling the recent  
19               merger case, Case No. 05-732-EL-MER, *et al.* How does Staff respond to  
20               these merger saving related objections?

21            A.     In response to OCC Request for Production of Documents 04-34, DE-Ohio

1 stated that the Company had not performed any study or analysis  
2 addressing the extent to which merger savings forecasted in Case No. 05-  
3 07320-EL-MER have actually been achieved<sup>1</sup> This statement coupled with  
4 Staff analysis of over all Administrative and General (A&G) Costs from  
5 Case No. 05-0059-EL-AIR to the current filing does not provide  
6 substantial evidence that projected savings were represented in this filing.  
7 As detailed below the total electric A&G expenses decreased in 2008 but  
8 the percentage allocated to the distribution company has increased,<sup>2</sup> and  
9 results in an increase in costs for the distribution company, DE-Ohio.  
10 However at this time Staff does not believe that there is currently enough  
11 evidence to relate all of the cost increases to the merger.

(Millions \$)					<u>Distribution % TTL Electric</u>	
(A)	(B) TTL	(C) TTL Electric A&G  Less: 920 & 926	(D) Distribution A&G	(E) Distribution A&G  Less: 920 & 926	(F) (D) /(B) TTL A&G	(G) (E) / (C) Less: 920 & 926
<u>Year</u>	<u>A&amp;G</u>		<u>A&amp;G</u>			
2005	\$207.685	\$ 84.197	\$ 64.082	\$28.845	30.86%	33.83%
2006	\$258.179	\$129.811	\$83.559	\$39.879	32.36%	30.72%
2007	\$243.356	\$120.377	\$85.443	\$43.186	35.11%	35.88%
2008	\$212.360	\$105.303	\$88.144	\$42.796	41.51%	40.64%

<sup>1</sup> This statement was re-iterated in the direct testimony of OCC witness David J. Effron, beginning on page 21 line 21.

<sup>2</sup> Information gathered from FERC form 1

1 6. Q. In Company objection seven, DE-Ohio objects to the Staff's proposed  
2 adjustment to test year labor expense. The Objection states that the "Staff  
3 made a number of errors in developing its labor expense adjustment that  
4 negatively impact the Company. The errors include:

5 7(a) Excluding all costs for Human Resources,  
6 Governance, and Shared Services in the test year labor  
7 amount. This adjustment excludes costs incurred for Legal  
8 services, Information Technology, Company executives  
9 including, but not limited to the utility President, Corporate  
10 Chief Executive Officer, Chief Financial Officer, Controller,  
11 Chief Legal Officer and other business functions shared  
12 throughout the Duke Energy Corporate structure and which  
13 are properly allocable to DE-Ohio. Staff's recommendation to  
14 exclude *all* of this cost is not only arbitrary but is patently  
15 unfair.

16 (b) Including expenses for incentive compensation,  
17 bonuses, and severance in its calculation of test year labor  
18 expense.

19 7. Q. How does Staff respond to this Objection?

20 A. As detailed above, the Staff reviewed the overall A&G expenses being  
21 charged to distribution customers since the last rate agreement (05-0059-  
22 EL-AIR), which was a stipulated agreement between multiple parties. Staff  
23 believes that these agreed upon values are a reasonable starting place for  
24 the evaluation of overall A&G expenses. Staff believes the overall  
25 increase to those values is excessive but does not believe that there is  
26 currently enough evidence to relate all of the increases to the merger.

27 8. Q. To summarize The Staff Report recommends \$48.4 million for O&M labor  
28 expense. Has the Staff changed its labor expense recommendation?

1 A. No. The Staff believes that this is a reasonable allowance based on the  
2 level of labor expense adopted in the Applicant's most recent electric rate  
3 filing and in view of the overall level of distribution operating expenses  
4 sought by Applicant in this proceeding.

5 9. Q. The Applicant objected to the Staff's test year and benefits expense. Has  
6 the Staff changed its recommendation?

7 A. No. Both the Applicant and Staff applied the same pension and benefits  
8 loading rate to test year labor expense to compute the pension and benefits  
9 expense. Since the Staff hasn't changed its recommended labor expense,  
10 the recommended pension and benefits expense has not changed either.

11 10. Q. Has there been any changes in how shared services companies are position  
12 with in the Duke Corporate/Cinergy Corporate structure?

13 A. According to the Company's response to Staff DR. 41, "The legacy  
14 Cinergy Service Company referred to as Duke Energy Shared Services was  
15 merged into the legacy Duke Service Company, Duke Energy Business  
16 Services (DEBS) effective 7/08. A large portion of the costs are 900  
17 accounts. However, other accounts and direct charges to business unit  
18 accounts do occur that are different from the 900 series accounts."

19 11. Q. Does Staff believe that this issue needs to be examined in more detail?

20 A. Yes. In the Staff Report the Staff recommended that an audit document,  
21 examine and test all the allocation methods and factors that are used to  
22 assign costs to PUCO regulated operations. The Staff believes that due to

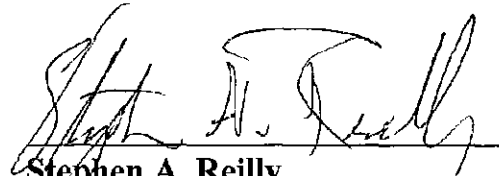
1           the increase in cost from the last stipulated rate agreement that these costs  
2           need to be examined in greater detail, especially after the DEBS cross over  
3           has been completed for a significant amount of time, which will allow for  
4           meaningful data collection.

5    12.   Q.   Does this conclude your testimony?

6           A.   Yes, it does.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Testimony of Joseph F. Buckley was served via electronic mail and/or regular U.S. mail, postage prepaid upon the following parties of record this 30<sup>th</sup> day of March, 2009.

  
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