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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

Prepared Testimony
of
Donald L. Howard
Rates and Tariffs Division of the Utilities Department

Staff Exhibit __

March 30, 2009

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Technician Ann Date Processed 3/31/09

1 PREPARED TESTIMONY OF DONALD L. HOWARD

2 1. Q. Please state your name and business address.

3 A. My name is Donald L. Howard. My business address is 180 E. Broad
4 Street, Columbus, Ohio, 43215.

5 2. Q. By whom are you employed and in what capacity?

6 A. I am employed by the Public Utilities Commission of Ohio (PUCO) as
7 Utility Specialist 3 in the Rates and Tariffs Division of the Utilities
8 Department.

9 3. Q. Please outline your educational background and work experience.

10 A. I earned my Bachelor of Science Degree in Business Administration from
11 The Ohio State University in 1988. I earned a Master of Business
12 Administration degree from the University of Dayton, Dayton, Ohio, in
13 1999. I have been with the Commission Staff for 21 years, involved in
14 many aspects of electric utility rates, rules and regulations.

15 4. Q. What is the purpose of your testimony in this proceeding?

16 A. My testimony will address many of the objections to the Rates and Tariffs
17 section of the Staff Report of Investigation. Specifically, I will address the
18 objections in regard to the Cost of Service Study/Revenue Distribution,
19 Rate Design, Customer Charges and certain tariff rider modifications.

1 5. Q. The Company objects (Objection #16) to Staff's recommendation to
2 eliminate the 250kW minimum load threshold of Economic Development
3 Rider. Please respond to this objection.

4 A. The company currently has three economic development riders that it
5 proposes to combine into one rider referred to as the Economic
6 Development Rider. Currently, there is a total of one customer served
7 under these riders. As a result, Staff finds that limiting the applicability of
8 a rider that has very limited participation, if any, is counterintuitive towards
9 the purpose of an economic development rider. Therefore, unless the
10 Company can provide additional rationale or support as to why this
11 limitation is critical, Staff recommends that the company eliminate the
12 proposed 250kW minimum load language.

13 6. Q. The Company (Objection #17) indicates that Staff, in its report, made no
14 recommendation in regard to the company's proposal to phase out
15 customer-owned street lighting. Please respond to this objection.

16 A. The language in staff report on page 19 states "Unless noted, Staff
17 recommends approval of these changes as proposed by Applicant". To the
18 degree the applicant proposed change was not addressed in the staff report,
19 the staff supports the proposed change.

1 7. Q. The Company (Objection #18) objects to Staff's recommendation to
2 support the Company's proposal to eliminate the Shopping Credit Rider.
3 Should the Shopping Credit Rider be eliminated?

4 A. No. Although the Applicant proposed to eliminate the rider in this case,
5 based on the terms of the stipulation in Case No. 08-920-EL-SSO,
6 approved by the Commission on December 17, 2008, a Shopping Credit
7 Rider has been reinstated and should not be eliminated from the Company's
8 tariff.

9 8. Q. The Greater Cincinnati Health Council (Page 4 of its objections), Ohio
10 Partners of Affordable Energy (Objection #5), and the Kroger Company
11 (Objection #1) have objected to Staff's acceptance of the Company's COSS
12 used to allocate the distribution costs to the various classes of customers.
13 Does Staff believe that utilizing the company's COSS reasonably assigns
14 costs to the customer classes?

15 A. Yes. Staff accepted the Company's COSS only after review and
16 determining that the major allocators used in assigning costs were
17 appropriate. The company assigned the major cost categories based on the
18 classes' non-coincident peak demands and average class group peak
19 demands. The distribution system is constructed and maintained to meet
20 the demands of the customers the company serves. As a result, in order to
21 design cost based rates and send the appropriate price signals, the allocation

1 of costs to the various classes should be predicated on the drivers behind
2 the costs, both on a demand and customer related basis.

3 9. Q. The Company's Objection (#12) and OCC's Objection (E.1), object to
4 Staff's proposal to reduce the class subsidies by only 75% as opposed to
5 100% as proposed by the company. Why does Staff believe that 75% is
6 appropriate in this case?

7 A. Staff believes that moving the customer classes to 100% levelized rates of
8 return would result in a substantial increase to certain customer classes.
9 Although the goal would be to eventually achieve leveled rates of return,
10 Staff must consider the possible rate impacts to all classes of customers.
11 To reduce the impacts, Staff recommended that the classes be moved 75%
12 of the way towards equal rates of return.

13 10. Q. Kroger (Objection #2) objects to Staff's distribution of revenue and
14 proposes that the costs should be spread evenly across all classes. Does
15 Staff agree with this proposal?

16 A. No. Providing an across the board increase to all classes would not move
17 the classes closer to the cost of serving the classes. As can be seen in Table
18 1, page 28, of the SRI, many classes' rates of return are significantly above
19 and below the average rate of return for the company. An across the board
20 increase would not improve this situation, but only maintain status quo.

1 11. Q. The Greater Cincinnati Health Council objects to increases to the DS and
2 DP classes, as well as the resulting demand charges for these classes of
3 customers. Does Staff agree with these objections?

4 A. No. While the increase to these classes are higher than average, these
5 increases are necessary to gradually eliminate the subsidies that exist
6 between all of the classes. Currently, as seen on Table 1 (Page 28) of the
7 SRI, Classes DS and DP are significantly under recovering the cost of
8 serving these classes. As a result, it is necessary to provide these classes
9 with an above average increase. In regard to the demand charges, if the
10 demand charges were reduced as suggested, the customer charge would
11 have to be increased. In this case, the customer charges are already being
12 significantly increased, so to avoid violating the principles of gradualism
13 for certain customers, such charges should not be further increased.

14 12. Q. The Kroger Company objects (#3) to Staff's recommended customer charge
15 for Schedule DS. Kroger recommends a higher customer charge and a
16 lower demand charge lower. Does Staff agree?

17 A. No. The customer charge would increase 60% under Staff's proposal,
18 which is twice as high as the increase to the demand charge for this class.
19 Staff recognizes that more costs could be considered customer-related and
20 placed into the customer charge, however, to do so at this time would

1 violate the principles of gradualism and result in significant impacts to
2 lower usage customers served under this schedule.

3 13. Q. The Company (Objection #13), Ohio Partners for Affordable Energy
4 (Objection #6), OCC (Objection E.2), People Working Cooperatively
5 (Objection #2) object to Staff's proposed residential Customer Charge.
6 The Company believes the customer charge proposed by the Staff is too
7 low and the other parties believe that the customer charge is too high. Do
8 you agree?

9 A. No. Staff's customer charge calculation is a methodology that was adopted
10 and has been utilized and accepted by this Commission for a number of
11 years. It is a minimally compensatory methodology that includes those
12 plant items, such as meters and service drops that are required to serve a
13 particular customer. In addition, the Staff supports the company's proposal
14 to include minimum size transformers in the customer charge and has
15 updated its calculation to include such costs.

16 OCC points out that Staff should have made adjustments to its calculation
17 which if adopted would lower the customer charge to \$5.53. The company
18 indicates that Staff should have included additional items in its calculation
19 of the customer charge, thus increasing the charge to its proposed
20 \$10/month charge. As previously stated, the Staff's customer charge
21 calculation is minimally compensatory, and while parties argue that certain

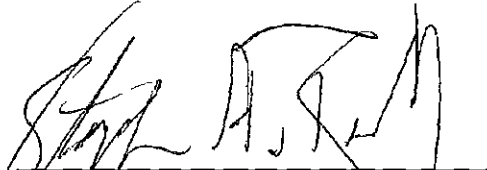
1 items should be added to or removed from the customer charge calculation,
2 the Staff believes its methodology is appropriate. In addition, if it were
3 determined that it is reasonable to include more items in the customer
4 charge, Staff would still recommend maintaining its proposed \$5.71
5 customer charge based on the impacts a higher customer charge would have
6 on low usage customers in this particular case.

7 14. Q. Does this conclude your testimony?

8 A. Yes, it does.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Testimony of Donald L. Howard was served via electronic mail and/or regular U.S. mail, postage prepaid upon the following parties of record this 30th day of March, 2009.


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