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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
David R. Hodgden
Capital Recovery and Financial Analysis Division
Utilities Department

Staff Exhibit 2

March 31, 2009

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Technician MR Date Processed 3/31/09

1 PREPARED TESTIMONY OF DAVID R. HODGDEN

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

3 A. My name is David R. Hodgden. My business address is 180 East Broad
4 Street, Columbus, Ohio 43215.

5 2. Q. By whom are you employed?

6 A. I am employed by the Public Utilities Commission of Ohio (PUCO).

7 3. Q. What is your current position with the PUCO and what are your
8 duties?

9 A. I am Chief of the Capital Recovery and Financial Analysis Division within
10 the Utilities Department. My duties include establishing policies, practices,
11 and procedures for the Division's accountants and analysts who conduct
12 audits, financial analyses, and investigations of public utility companies
13 subject to the jurisdiction of the PUCO. The determination of revenue
14 requirements in connection with rate case investigations is under my
15 purview.

16 4. Q. Would you briefly state your educational background?

17 A. I earned a B.A. Degree in Business Administration from Otterbein College
18 in June, 1972 and a B.S. Degree in Finance from Franklin University in
19 May, 2003. In addition, over the years I have attended numerous regulatory
20 seminars and training programs sponsored by this Commission,
21 professional trade associations, and the financial community.

1 5. Q. Please outline your work experience.

2 A. Upon graduation from Otterbein College, I was employed by Columbia Gas
3 of Ohio as a Budget Analyst. I joined the Public Utilities Commission in
4 September, 1974 as an auditor. I have held several technical and
5 managerial positions during my tenure with the PUCO. These positions
6 include Audit Supervisor, Division Chief of Accounts and Audits, Deputy
7 Director, Division Chief of the Financial Analysis Division, and my current
8 position. I have previously testified before this Commission.

9 6. Q. What are your responsibilities in this proceeding?

10 A. The purpose of my testimony is to support the Stipulation and
11 Recommendation (the Stipulation) that was negotiated by the parties in this
12 case.

13 7. Q. Are the results of the Stipulation and Recommendation reasonable?

14 A. Yes. The results are reasonable for three basic reasons: (1) the settlement
15 was a product of serious bargaining among capable, knowledgeable parties;
16 (2) the settlement, as a package, benefits ratepayers and is in the public
17 interest; and (3) the settlement does not violate any regulatory principle or
18 practice.

19 8. Q. Who was involved in the negotiations of the Stipulation?

20 A. The parties included representatives of all stakeholder groups in the Duke
21 Energy-Ohio service territory, including: residential customers, industrial
22 customers, and commercial customers. The participants included, among

1 others: the Ohio Consumers' Counsel, Ohio Partners for Affordable
2 Energy, People Working Cooperatively and the City of Cincinnati. The
3 Ohio Consumers' Counsel is the statutorily identified representative of
4 residential consumers. Ohio Partners for Affordable Energy and People
5 Working Cooperatively also exist to serve residential consumers. The City
6 of Cincinnati's constituents include residential customers within its
7 boundaries. Industrial customers were represented by The Ohio Energy
8 Group. Commercial account stakeholders that participated in the
9 negotiations were The Kroger Company and The Greater Cincinnati Health
10 Council, whose members include hospitals. The Ohio Cable
11 Telecommunications Association and TW Telecom of Ohio LLC
12 participated in negotiations concerning pole attachment rates, terms, and
13 conditions. Finally, the Commission's Staff participated in the negotiations
14 as well as Duke Energy-Ohio. In summary, the participants in the
15 negotiations included: the utility, its customers, and the regulator.

16 9. Q. Were the parties knowledgeable and capable parties?

17 A. Yes. All the parties mentioned above have been involved in proceedings
18 involving the rates charged by Duke Energy-Ohio, and its predecessors. In
19 addition, all the attorneys representing the parties I listed above have been
20 involved in proceedings before the Commission. The parties involved in the
21 negotiations are knowledgeable and experienced in utility cases, generally,
22 and in Duke rate setting matters, specifically.

1 10. Q. Were all the parties invited to participate in the negotiation?

2 A. Yes. Some participated in person, some participated by phone, and some
3 chose not to participate, but communicated their views by e-mail.

4 11. Q. What happened during the negotiations?

5 A. The parties put forward and discussed a variety of proposals. All parties
6 had the ability to discuss the issues and present their views. There was give
7 and take among the parties. The Stipulation resulted from that give and
8 take, and it represents an acceptable resolution of all issues in this case to
9 the signatory parties.

10 12. Q. How did the negotiation process contribute to your conclusion that
11 the results of the settlement are reasonable?

12 A. The results of the settlement reflected consensus building on the part of the
13 signatories to the settlement. The terms and conditions of the Stipulation
14 reflect significant movement from the various litigation positions presented
15 in the case by the signatory parties. The interests of the parties to the case
16 varied widely, and the Stipulation was the result of good faith negotiations
17 and serious bargaining among the signatories.

18 13. Q. Is the Stipulation in the public interest?

19 A. Yes. The revenue requirement, rate design, and all other terms and conditions
20 negotiated by the signatory parties reflect sound regulatory rate setting practices.
21 The stipulated settlement in its entirety is reasonable and is in the public interest. It
22 provides Duke with the opportunity to earn a reasonable rate of return on its

1 distribution plant without excessively increasing rates. Duke's ability to earn a
2 reasonable rate of return means it will have the economic ability to provide
3 reliable electrical service, which is in the public interest. This rate increase will
4 amount to only about a 3% increase in Duke's total retail revenue, which includes
5 both distribution and generation costs. That is a modest increase that is within the
6 revenue range recommended in the Staff Report, and it is below the mid-point of
7 the Staff's recommended range. Additionally, the Stipulation resolves a number
8 of issues. For example, it resolves how the company will pursue recovery of costs
9 resulting from the wind-storm associated with hurricane Ike. It also provides funds
10 for low-income weatherization programs. It provides funds to aid low-income
11 customers who are not involved in the PIPP program. It allows customers to pay
12 customer deposits over a three month period. The Stipulation in its totality is in the
13 public interest.

14 14. Q. Does the Stipulation violate any significant regulatory policy or practice?

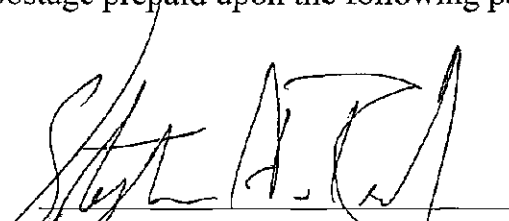
15 A. No. The Stipulation reflects sound regulatory policy and practice.

16 15. Q. Does this conclude your testimony?

17 A. Yes.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Testimony of David R. Hodgden was served via electronic mail and/or regular U.S. mail, postage prepaid upon the following parties of record this 31th day of March, 2009.



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