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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio to Adjust and Set Its Gas and Electric Recovery Rate for SmartGrid Deployment Under Rider AU and Rider DR-IM	)	Case No. 09-543-GE-UNC
In the Matter of the Application of Duke Energy Ohio for Tariff Approval	)	Case No. 09-544-GE-ATA
In the Matter of the Application of Duke Energy Ohio to Change its Accounting Methods	)	Case No. 09-545-GE-AAM

PREFILED TESTIMONY  
OF  
L'NARD E. TUFTS  
PUBLIC UTILITIES COMMISSION OF OHIO  
ACCOUNTING AND ELECTRICITY DIVISION

November 2, 2009

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1 Q. Please state your name and business address.

2 A. My name is L'Nard E. Tufts. My business address is 180 East Broad Street,  
3 Columbus, Ohio 43215.

4

5 Q. What is your current position with the Public Utilities Commission of Ohio and  
6 that are your duties?

7 A. I am a Public Utility Administrator in the Accounting and Electricity Division of  
8 the Utilities Department.

9

10 Q. Please outline your educational background and work experience?

11 A. I received a Bachelor of Science Degree in Business Administration with a major  
12 in Accounting from The Ohio State University in 1982. During the summers  
13 prior to graduation, I worked as an Accounting Intern at TRW, Inc. I began my  
14 employment with the Commission in 1982 in the Accounts and Valuation  
15 Division of the Utilities Department. I have been involved in various rate case  
16 audits, continuing regulation, special audits, and rule reviews.

17

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

19 A. Duke Energy Ohio (Applicant or DE-Ohio) request recovery of costs related to  
20 its SmartGrid deployment. My testimony addresses the revenue requirements  
21 regarding DE-Ohio's 2008 SmartGrid deployment costs proposed for recovery  
22 through its electric rider, Distribution Reliability - Infrastructure Maintenance

(Rider DR-IM), and its gas rider, Advanced Utility (Rider AU). Generally, my testimony addresses all components of Rider DR-IM and Rider AU except gas plant additions. I will state whether issues are specific to either gas or electric, otherwise this testimony addresses both.

Q. What types of costs does the Applicant seek to recover through Rider DR-IM?

A. The Applicant seeks a return on rate base related costs for SmartGrid electric plant additions less accumulated depreciation, and deferred taxes associated with post in service carrying costs (PISCC), deferred depreciation plus carrying costs, deferred O&M plus carrying costs, and deferred taxes on liberalized depreciation. DE-Ohio also seeks recovery of SmartGrid related incremental operating expenses.

Q. What types of costs does the Applicant seek to recover through Rider AU?

A. DE-Ohio seeks recovery of similar costs discussed in the preceding Q and A relative to its gas operations.

Q. Where in its filing does the Applicant present plant additions information?

A. Beginning with electric plant additions in Rider DR-IM, the Applicant listed costs incurred during 2008 to purchase and install SmartGrid plant assets. The Applicant presented SmartGrid electric plant additions on Attachment WDW-1 (Revised), Schedule 2, of Applicant witness Donald Wathen's testimony

(Schedule 2). The Applicant asserted that electric plant additions included as part of the revenue requirement in this proceeding were not included in base rates established in Case No. 08-709-EL-AIR.

The Applicant listed SmartGrid gas plant additions on Applicant witness Donald Wathen's testimony, Attachment WDW-2 (Revised). Staff witness Baker provides further discussion regarding gas plant additions.

Q. Please describe the Applicant's electric plant additions.

A. DE-Ohio purchased and capitalized the cost of 50,000 SmartGrid meters during 2008. DE-Ohio installed approximately 43,600 meters during 2008. DE-Ohio also capitalized the cost of leasehold improvements associated with the Envision Center, its SmartGrid demonstration project. The Applicant included SmartGrid related Electronic Data Processing Equipment costs as part of the plant additions. Communications Equipment - Electric includes the costs of electric communications boxes and Echelon Electric Data Collectors. The communications boxes house the data collectors. The filing reflects costs for approximately 13,000 boxes and collectors. Communications Equipment - Common includes the costs of 800 communications boxes, Echelon Electric Data Collectors, and Badger Gas Data Collectors.

Q. What is the Staff position regarding the cost of meters?

67 A. The Applicant reported that a portion of meter costs reported on Schedule 2 for  
68 January, February, and March, 2008 were also included in the rate base of the  
69 Applicant's most recent distribution rate case, Case No. 08-709-EL-AIR. The  
70 Applicant discovered the error subsequent to filing its application. Schedule 2  
71 reported amounts of \$12,706, \$31,288, and \$13,444 in Account 37002, Meters, for  
72 January, February, and March, 2008, respectively. The corrected amounts are  
73 \$2,819, \$6,898, and \$5,143 for a three month total difference of \$42,578. Staff  
74 recommends reducing the meters additions in Account 37002 by \$42,578.

75  
76 Q. What is the Staff position on including the Envision Center leasehold  
77 improvement costs for rider recovery?

78 A. Staff does not recommend recovery related to any Envision Center costs as the  
79 Envision Center is not part of the SmartGrid deployment. Costs incurred as part  
80 of the deployment benefit customers directly. DE-Ohio did not demonstrate how  
81 customers benefitted from 2008 dollars related to the Envision Center. Benefits  
82 claimed by DE-Ohio come in the form of personnel training and customer  
83 education.

84  
85 DE-Ohio seeks to amortize the leasehold improvement costs over 30 months, the  
86 term of the lease. Should the Commission decide to allow costs for the Envision  
87 center as part of the revenue requirement; the Staff recommends a ten year

amortization period. This will spread cost recognition over the SmartGrid deployment period and during periods of expected SmartGrid savings.

Q. What was the Staff's findings regarding depreciation.

A. Duke calculated depreciation expense by applying account specific electric and gas accrual rates to their respective plant account balances. Staff recommends that Duke use the appropriate account accrual rates prescribed by the Commission and in effect during 2008. The Commission prescribed electric accrual rates are:

Meters	37002	2.29%
Electronic Data Processing Equip	39101	20.00%
Communication Equipment Electric	39700	6.67%
Communication Equipment Common	19700	6.67%

While Commission prescribed gas accrual rates are:

Meters	28102	2.22%
Communication Equipment Gas	29700	6.67%
Communication Equipment Common	19700	6.67%

The Commission did not prescribe the depreciation rate proposed in Rider DR-IM by the Applicant in this proceeding for the Envision Center Leasehold Improvements of 40.00%. Nor did the Commission prescribe the rate proposed in Rider AU for Electronic Data Processing of 20.00%.

109 The Applicant also discovered an error in its depreciation calculation related to  
110 the plant in service error discussed above. The Applicant overstates the electric  
111 provision for depreciation for April through December 2008 by approximately  
112 \$81. The Staff recommends correcting the provision for depreciation for April  
113 through December by \$81 per month for a total of reduction of \$729.

114  
115 Staff discovered that the Applicant did not include depreciation expense in Rider  
116 AU for its investment in Electronic Data Processing Equipment - Gas. Staff  
117 recommends an adjustment to reflect the 20% accrual rate applied to the July  
118 investment of \$16,854 to calculate depreciation expense for August through  
119 December. The monthly amount is \$281 for a total of \$1405.

120  
121 Q. Would you discuss the DE-Ohio's post in service carrying charge (PISCC)  
122 calculation?

123 A. The Applicant calculated PISCC for Rider AU and Rider DR-IM using the half-  
124 month convention and the cost of long-term debt. Rider DR-IM, Schedule 4,  
125 shows the debt rate as 6.48% while Schedule 7 shows the debt rate of  
126 6.45% approved as part of the rate of return in DE-Ohio's Distribution Rate Case,  
127 Case No. 07-809-EL-AIR.

128  
129 Q. What does the Staff recommend?

130 A. Staff recommends the most recent Commission approved debt rate component of  
131 the rate of return calculation for determining PISCC which is 6.45% approved in  
132 Case No. 07-809-EL-AIR.

133

134 Q. In its comments, Staff recommended not offsetting deferred balances by their  
135 associated deferred taxes. Do you still recommend this treatment?

136 A. No. Upon closer review, Staff realized that the Commission's order in the  
137 FirstEnergy case, Case No. 07-551-EL-AIR was specific to the stipulation in that  
138 case. Staff believes DE-Ohio's calculation is appropriate as it recognizes deferred  
139 taxes in determining the net cost of deferrals then applies a full, grossed up rate  
140 of return to calculate this portion of the revenue requirement.

141

142 Q. What is the Staff position relative to DE-Ohio's proposed calculation of deferred  
143 taxes on liberalized depreciation?

144 A. Rider AU and Rider DR-IM include calculations for deferred income taxes  
145 associated with the difference between depreciation expense recognized for book  
146 purposes and depreciation recognized for tax purposes. Staff recommends  
147 adjusting the deferred taxes on liberalized depreciation calculation to reflect  
148 *corrections and recommendations for plant additions and depreciation expense*  
149 *discussed elsewhere in this testimony.*

150

151 Q. Do you have any additional recommendations regarding this Application?



152 A. To the extent of recommendations or corrections made earlier in this testimony  
153 or in the testimony of Staff Witness Baker relative to gas plant additions,  
154 annualized depreciation, annualized amortization of PISCC, deferred O&M,  
155 carrying costs and amortization, and property taxes, should be recalculated to  
156 reflect Staff recommendations made elsewhere.

157

158 Q. Did the Applicant reflect the effect of the Commercial Activity Tax (CAT) in its  
159 revenue requirement calculation?

160 A. Yes, but only for the rate base portion of the revenue requirement on Rider DR-  
161 IM, Schedule 7. The operating expense portion of the revenue requirement  
162 should also reflect a gross-up for the CAT as the tax will apply to all revenues  
163 generated by the rider.


164

165 Q. Does this conclude your testimony?

166 A. Yes it does.

## CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Testimony of L'Nard E. Tufts**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following parties of record, this 2<sup>nd</sup> day of November, 2009.

  
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