

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)
Energy Ohio, Inc. to Establish its Fuel and) Case No. 09-974-EL-FAC
Economy Purchased Power Component of its)
Market-Based Standard Service Office for)
2009.)

In the Matter of the Application of Duke)
Energy Ohio, Inc. to Establish its System)
Reliability Tracker of its Market-Based) Case No. 09-975-EL-RDR
Standard Service Offer for 2009.)

DIRECT TESTIMONY OF

SALIL PRADHAN

ON BEHALF OF

DUKE ENERGY OHIO, INC

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SP-1	Summary of Rider SRA-SRT Purchases (January 1, 2009, through December 31, 2009)
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I. INTRODUCTION

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

2 A. My name is Salil Pradhan. My business address is 139 East Fourth Street, Cincinnati,
3 Ohio 45202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Duke Energy Business Services, Inc., as Vice President Portfolio Risk
6 Management for the Commercial Asset Management (CAM) Group.

7 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**
8 **BACKGROUND.**

9 A. I am a graduate of University of Chicago with a MBA in finance and strategy. I have a
10 Masters Degree in Chemical Engineering from University of Cincinnati and a Bachelor's
11 degree in Chemical Engineering from University of Mumbai. I am a Chartered Financial
12 Analyst (CFA) and also a graduate of Center for Creative Leadership Developing
13 Strategic Leadership Program. I have been in the energy industry since 2001. Prior to
14 joining Duke Energy Corp. in 2004, I was Manager of Fundamental Analysis at
15 American Electric Power (AEP) in Columbus, Ohio. I also managed the Fundamental
16 Analysis Group with the Coal Trading Inc. of Enron Corp. in Houston. I joined Cinergy
17 Corp. as a Director of Emissions Portfolio Management. Following the merger of Duke
18 Energy Corp. and Cinergy Corp., I was promoted in 2006 and became Vice President of
19 Commodity Risk Management with responsibility for all the commodities portfolio
20 management including power, capacity, natural gas, coal, emission allowances (EAs) and
21 Financial Transmission Rights (FTRs). I am currently in the same position.

1 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT,**
2 **PORTFOLIO RISK MANAGEMENT FOR THE CAM GROUP.**

3 A. I am responsible for managing the portfolio positions of coal, EAs, purchased power,
4 FTRs and renewable energy certificates (RECs), which flow through Duke Energy Ohio,
5 Inc.'s (Duke Energy Ohio or the Company) price-to-compare fuel and economy
6 purchased power tracker (Rider PTC-FPP). I am also responsible for ensuring the
7 Company maintains adequate capacity reserves through its system-resource-adequacy
8 system reliability tracker (Rider SRA-SRT).

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

10 A. No.

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

12 A. The first part of my testimony pertains to Duke Energy Ohio's Rider PTC-FPP. Therein,
13 I provide an overview of the history of Rider PTC-FPP. I will discuss, in greater detail,
14 some issues raised by the auditor during the previous audit and the stipulation entered
15 into following that audit. Additionally, I will describe the changes to Rider PTC-FPP
16 resulting from the Duke Energy Ohio's Electric Security Plan (ESP), which went into
17 effect on January 1, 2009.

18 The second part of my testimony concerns Duke Energy Ohio's Rider SRA-SRT.
19 Through this testimony, I describe the Company's Rider SRA-SRT and identify the prior
20 audits of it. Again, I discuss the stipulation reached in the prior audit of Rider SRA-SRT.
21 Finally, I sponsor Attachment SP-1, which is a summary of the Rider SRA- SRT capacity
22 transactions from January 1, 2009, through December 31, 2009.

II. RIDER PTC-FPP DISCUSSION

1 **Q. PLEASE EXPLAIN DUKE ENERGY OHIO'S RIDER PTC-FPP.**

2 A. Rider PTC-FPP is the mechanism that Duke Energy Ohio uses to recover costs of fuel,
3 EAs, purchased power, auction revenue rights (ARR)/ FTR revenues and charges, and
4 RECs necessary to meet the standard service offer (SSO) load obligations. Duke Energy
5 Ohio makes quarterly adjustments to Rider PTC-FPP, which is subject to an annual
6 management and financial review by an independent auditor.

7 **Q. PLEASE BRIEFLY DESCRIBE THE HISTORY OF RIDER PTC-FPP.**

8 A. Duke Energy Ohio's Rider PTC-FPP (then called Rider FPP) began in 2005 as part of the
9 Company's Rate Stabilization Plan (RSP). The rider was approved to recover the
10 Company's fuel, purchased power and EA costs that were incremental to 2000 levels.
11 Duke Energy Ohio's RSP lasted from January 1, 2005 through December 31, 2008.
12 Rider PTC-FPP, in its current form, as I described above and as more fully described in
13 the Direct Testimony of Duke Energy Ohio Witness William Don Wathen Jr., was re-
14 approved as part of the Company's in Case No. 08-920-EL-SSO. Rider PTC-FPP
15 became effective on January 1, 2009, to recovery the Company's total fuel, purchased
16 power, EA and REC costs. Like the prior Rider FPP, Rider PTC-FPP is subject to an
17 annual audit and review by the Public Utilities Commission of Ohio. An audit is
18 currently being conducted of the Company's Rider PTC-FPP relative to the calendar year
19 2009.

A. DISCUSSION OF ISSUES FROM PRIOR AUDIT

20 **Q. PLEASE LIST THE COMMITMENTS FROM THE STIPULATION IN CASE**
21 **NO. 07-974-EL-UNC THAT YOU ARE ADDRESSING IN YOUR TESTIMONY.**

1 A. I am addressing commitments the Company made in Paragraphs 1 through 9, 11, 16, and
2 20.

3 **Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION**
4 **PARAGRAPH 1.**

5 A. Paragraph 1 addressed coal margin allocation and the allocation of ARRs between SSO
6 customers and non-standard service offer customers. The net result was a cost
7 adjustment to Rider PTC-FPP of \$3.9 million to be allocated to SSO customers evenly
8 over the next four quarterly Rider PTC-FPP adjustments. The Company complied with
9 this and the adjustment will be made during the four quarterly filings for 2010.

10 **Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION**
11 **PARAGRAPH NUMBER 2.**

12 A. Paragraph 2 states that Duke Energy Ohio will develop an approval process for the new
13 CAM Portfolio Policy and Procedures document by the other Duke Energy Corp.
14 departments having responsibility for corporate risk management and accounting
15 controls. The Company agreed to document the initial approval process for review in the
16 2009 audit and document ongoing approvals when the document is revised.

17 **Q. HAS DUKE ENERGY OHIO COMPLIED WITH THIS COMMITMENT?**

18 A. Yes. The CAMS Policies and Procedures document now contains a new section that
19 describes the updating and approval process. Specifically, the Vice President – Risk
20 Management (CAMS), the Vice President – Non-Regulated Accounting and the Vice
21 President – Corporate Risk Management are required to review and approve changes to
22 CAMS Policies and Procedures. Changes or updates are reviewed and approved in a red-
23 line format. Also included are approval dates and effective dates as well as descriptions

1 of the changes made to the previous version so updates to the document can be tracked
2 historically. The CAMS Policies and Procedures will be made available for review
3 during the audit.

4 **Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION**
5 **PARAGRAPH NUMBER 3.**

6 A. Paragraph 3 states that Duke Energy Ohio will ensure that the corporate Human Resource
7 Department develops a formalized system for performance management of individuals in
8 the CAM organization and will provide written document of such system.

9 **Q. HAS THE COMPANY COMPLIED WITH THIS PARAGRAPH?**

10 A. Yes. In recognition that Duke Energy Corp was going to be implementing a new
11 company-wide performance management and employee evaluation and tracking system
12 in early 2010, the CAM group worked with its Human Resource Department to
13 implement an interim performance management process for all CAM employees.
14 Specifically, all CAM employees, in conjunction with their supervisors, identified job
15 and task related goals, personal development goals as well as a safety goal or community
16 activity goal for 2010. Once the new company-wide performance management and
17 employee evaluation system is activated and employees are trained, the CAM goals will
18 be transitioned into the new system. This is expected to occur by April 2010. CAM
19 employee performance management goals are available for review during the Rider PTC-
20 FPP auditor visits.

1 **Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION**
2 **PARAGRAPH 4.**

3 A. Paragraph 4 states that Duke Energy Ohio will rigorously adhere to its board-approved
4 delegation of authority (DOA) for contract and transaction approval. The Company
5 agreed to document that detailed contract information, including justification for
6 requested approval for the transaction has been provided and DOA approval has been
7 obtained at the appropriate level before each contract is executed.

8 **Q. HAS THE COMPANY COMPLIED WITH THIS PARAGRAPH?**

9 A. Yes. Documentation for contract approval according to the DOA is being made available
10 to the current auditor upon request. The information includes, but is not limited to,
11 whitepapers that demonstrate how new coal contracts and renegotiated contracts have
12 followed the DOA guidelines.

13 **Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION**
14 **PARAGRAPH 5.**

15 A. Paragraph 5 states that Duke Energy Ohio will rigorously adhere to its contract approval
16 process for transactions that must be brought before the transaction review committee
17 (TRC) and will provide documentation in future audits that approval was obtained.

18 **Q. DID THE COMPANY COMPLY WITH THIS COMMITMENT?**

19 A. Yes. The Company will provide documentation including TRC meeting minutes and
20 electronic affirmation to the current Riders PTC-FPP and SRA-SRT auditors.

1 Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION
2 PARAGRAPH 6.

3 A. In Paragraph 6, Duke Energy Ohio committed to make the corporate Human Resources
4 Department update its information related to the CAM organization. This update was
5 completed and the update process is continuous as the organization changes. In addition,
6 the Human Resource organizational charts serve as the official record. In fact, the CAM
7 organization was recently restructured and that information was provided to Human
8 Resources and is reflected in the current organization charts. As the CAM organization
9 continues to refine its organizational structure, Human Resources will continue to update
10 the organizational charts. The reorganization is expected to be completed in April 2010.

11 Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION
12 PARAGRAPH 7.

13 A. In Paragraph 7, the Company agreed to develop formalized procedures for the
14 administration of fuel contracts consisting of systems, job descriptions, and processes for
15 fuel contract administration.

16 Q. DID THE COMPANY COMPLY WITH THIS PARAGRAPH?

17 A. Yes. Section 7.2.2 Coal Contracting and Administration of CAM's Policies and
18 Procedures reflects the procedures for the administration of fuel contract, systems and
19 processes for fuel contract administration.

1 Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION
2 PARAGRAPH 8.

3 A. In Paragraph 8, the Company agreed that it would continue to actively manage its
4 portfolio and work with the Commission and auditors to develop a reasonable process to
5 audit the portfolio and demonstrate the economic effectiveness of active management.

6 Q. HAS THE COMPANY COMPLIED WITH THIS COMMITMENT?

7 A. This particular commitment is ongoing and Duke Energy Ohio will address this
8 commitment with the auditors who were only recently selected to review the Company's
9 2009 Rider PTC-FPP and Rider SRA-SRT.

10 Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION
11 PARAGRAPH 9.

12 A. Paragraph 9 states that Duke Energy Ohio will prepare a detailed report on controls
13 applicable to affiliate transactions that shall be examined by the auditor and report on
14 controls applicable to the CAM organization.

15 Q. HAS THE COMPANY PREPARED THIS DETAILED REPORT ON
16 CONTROLS?

17 A. Yes. A copy of the report, which details the applicable controls and policies will be
18 provided to the current auditors.

19 Q. PLEASE DESCRIBE THE COMMITMENT CONTAINED IN STIPULATION
20 PARAGRAPH 11.

21 A. In Paragraph 11, the Company agreed to document all fuel contract renegotiations. The
22 Company has done so and the information will be provided to the auditor as part of the
23 current audit.

1 **Q. PLEASE DESCRIBE STIPULATION PARAGRAPH 16.**

2 **A. Paragraph 16 resolved an outstanding issue from the 2007 audit. There is nothing to**
3 **report for this audit period related to this particular paragraph.**

4 **Q. PLEASE DESCRIBE STIPULATION PARAGRAPH 20.**

5 **A. Like Paragraph 16, Paragraph 20 involved an issue from a prior period. There is nothing**
6 **to report as part of this audit.**

B. 2009 ADMINISTRATION OF RIDER PTC-FPP

7 **Q. PLEASE DESCRIBE THE SIGNIFICANT CHANGES TO RIDER PTC-FPP**
8 **THAT WENT INTO EFFECT IN 2009.**

9 **A. There were a few changes to Rider PTC-FPP in 2009 over prior periods as more fully**
10 **explained by Duke Energy Ohio Witness William Don Wathen Jr. First, the audit period**
11 **for Rider PTC-FPP now coincides with an entire calendar year. Second, Rider PTC-FPP**
12 **includes the costs of RECs needed to satisfy the Company's Ohio REPS. Third, Rider**
13 **PTC-FPP includes annual and seasonal NOx allowances. Fourth, the Rider now also**
14 **includes reagent expenses that were formerly recovered as part of the Company's**
15 **Annually Adjusted Component Rider (nka Rider PTC-AAC). And, finally, recovery of**
16 **the "base" amount of fuel has been moved from the base generation charge (PTC-BG) to**
17 **Rider PTC-FPP.**

III. RIDER SRA-SRT DISCUSSION

18 **Q. PLEASE DESCRIBE RIDER SRA-SRT.**

19 **A. Rider SRA-SRT allows Duke Energy Ohio to collect costs associated with meeting its**
20 **SSO load obligation plus a reserve margin. The Company is the provider of last resort**
21 **(POLR) and, consequently, must have the generating capacity to serve all retail load in its**

1 service territory. Rider SRA-SRT includes costs incurred by Duke Energy Ohio to
2 ensure that it can purchase an adequate amount of capacity to provide safe and reliable
3 service to all consumers in its service territory.

4 **Q. ARE THERE ANY ADDITIONAL CHANGES TO RIDER SRA-SRT UNDER**
5 **THE ESP?**

6 A. Yes. MISO has made some changes to the "Capacity" product. Duke Energy Ohio
7 previously satisfied its obligation with an Installed Capacity Product (ICAP). The
8 Company is now satisfying its obligation with an Unforced Capacity Product (UCAP).
9 Before MISO made this change, Duke Energy Ohio's obligation was to meet its load
10 demand plus a 15% reserve margin with ICAP MWs. Beginning with the 2009-2010
11 Planning Year, the reserve margin requirement was set to 5.35% above the load demand
12 with this requirement being met using UCAP MWs (UCAP is ICAP adjusted for 3-year
13 average historic Forced Outage Rate). For example, assume that Duke Energy Ohio's
14 SSO load demand is 1,000 MW. In 2009, Duke Energy Ohio would have satisfied its
15 obligation with 1,150 MWs of ICAP. In 2010, Duke Energy Ohio will satisfy its
16 obligation with 1054 MWs of UCAP.

17 **Q. PLEASE DEFINE "GENERATING CAPACITY."**

18 A. Generating capacity is the physical unit or "steel in the ground." It represents the
19 potential amount of maximum energy that a generating unit is rated to produce. It is
20 measured in megawatts.

1 **Q. DOES DUKE ENERGY OHIO PURCHASE A SPECIFIC TYPE OF CAPACITY**
2 **FOR RIDER SRT?**

3 A. Yes. Duke Energy Ohio purchases capacity that is qualified by MISO as a Planning
4 Reserve Credit (PRC). This means that energy from the generating resource is
5 deliverable on a firm basis to serve load in the MISO footprint, including Duke Energy
6 Ohio load.

7 **Q. PLEASE DEFINE THE TERM "ENERGY."**

8 A. Energy is the actual output from the generating unit measured over a period of time and
9 expressed in megawatt-hours (MWh). Costs for energy are included in Rider PTC-FPP.

10 **Q. PLEASE BRIEFLY DESCRIBE THE RESULTS OF PRIOR AUDITS OF RIDER**
11 **SRA-SRT.**

12 A. These audits were conducted contemporaneous with some of the Rider PTC-FPP audits,
13 although the time periods at issue differed. The initial review of Duke Energy Ohio's
14 Rider SRA-SRT occurred in 2005 pursuant to Case No. 05-724-EL-UNC. This review
15 concerned the accuracy of SRT calculations for the period of January 1, 2005, through
16 May 31, 2006, and a prudence review for the period of January 1, 2005, through June 30,
17 2006.

18 Case No. 07-723-EL-UNC reflects the second audit of Duke Energy Ohio's Rider
19 SRA-SRT. This audit concerns the time period of July 1, 2006, through June 30, 2007.

20 Case No. 07-975-EL-UNC was the final audit of Duke Energy Ohio's Rider SRT
21 under the term of the RSP. The RSP price ended on December 31, 2008, and the
22 Company's ESP commenced on January 1, 2009. The audit in Case No. 07-975-EL-
23 UNC included the 18-month period beginning July 1, 2007, through December 31, 2008.

1 That audit included a single recommendation regarding Rider SRA-SRT, namely, that the
2 rate for several rate classes be combined into a single rate applicable these rate classes.
3 This recommendation was resolved in the stipulation approved by the Commission on
4 September 30, 2009, when the parties to the agreement declined to adopt this
5 recommendation.

6 **Q. DID DUKE ENERGY OHIO MAKE QUARTERLY FILINGS FOR RIDER SRA-**
7 **SRT IN 2009?**

8 **A. Yes.**

9 **Q. DID DUKE ENERGY OHIO MAKE ANY CAPACITY TRANSACTIONS FOR**
10 **RIDER SRA-SRT DURING THE CURRENT AUDIT PERIOD (JANUARY 1,**
11 **2009, THROUGH DECEMBER 31, 2009)?**

12 **A. Yes.** Attachment SP-1 is a summary of the transactions Duke Energy Ohio made during
13 the current audit period. The Company did not make any transactions with its gas-fired
14 generating assets more commonly referred to as Duke Energy North America (DENA)
15 assets.

16 **IV. CONCLUSION**

17 **Q. WAS ATTACHMENTS SP-1 PREPARED BY YOU OR UNDER YOUR**
18 **SUPERVISION?**

19 **A. Yes.**

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 **A. Yes.**

CONFIDENTIAL PROPRIETARY TRADE SECRET

DUKE ENERGY OHIO

**Summary of Rider SRA-SRT Transactions January 1, 2009 through December 31, 2009
Incurred to Serve SRT Customers**

[illegible]

2009

[illegible]