

FILE

DE-OHIO Exhibit _____

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)
Energy Ohio, Inc. to Adjust and Set its Gas and)
Electric Recovery Rate for 2009 SmartGrid Costs) Case No. 10-867-GE-RDR
Under Riders AU and Rider DR-IM)

DIRECT TESTIMONY OF
DONALD H. DENTON, III
ON BEHALF OF
DUKE ENERGY OHIO, INC.

RECEIVED-DOCKETING DIV
2010 JUL 26 PM 5:21
PUCO

July 26, 2010

This is to certify that the images appearing are an
accurate and complete reproduction of a case file
document delivered in the regular course of business.
Technician TUM Date Processed 7-27-10

TABLE OF CONTENTS

| <u>DESCRIPTION OF TESTIMONY</u> | <u>TESTIMONY PAGES</u> |
|--------------------------------------------|-----------------------------------|
| I. INTRODUCTION AND PURPOSE..... | 1 |
| II. DISCUSSION OF STIMULUS FUNDING..... | 2 |
| III. CONCLUSION..... | 6 |

I. INTRODUCTION AND PURPOSE

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

2 A. My name is Donald H. Denton, III. My business address is 400 South Tryon
3 Street, Charlotte, North Carolina 28285.

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

5 A. I am employed by the Duke Energy Business Services LLC, a service company
6 affiliate of Duke Energy Ohio, Inc. (Duke Energy Ohio or the Company) as the
7 General Manager for Department of Energy (DOE) Stimulus Management.

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR JOB DUTIES AS GENERAL
9 MANAGER FOR DOE STIMULUS MANAGEMENT.**

10 A. As General Manager, my role is to oversee the development of the relationship
11 with the DOE for the SmartGrid Investment Grant and to finalize the grant
12 agreement.

13 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND
14 AND PROFESSIONAL QUALIFICATIONS.**

15 A. I received a Bachelor of Science Degree in Aerospace Engineering from the
16 Georgia Institute of Technology in 1992, and an Executive Master's Degree in
17 Business Administration from Queens University in Charlotte, North Carolina in
18 2007. I am a licensed Professional Engineer in North and South Carolina, and a
19 licensed General Contractor in North Carolina.

20 **Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.**

21 A. I began my career with Duke Energy in 1992 as an Engineer. I then progressed
22 through a variety of project management and leadership roles with various Duke

DONALD H. DENTON, III DIRECT

1 Energy subsidiaries, including management of multiple industrial energy
2 optimization projects for large Fortune 500 customers, including major chemical
3 and oil companies. I also led the business development, design, construction and
4 startup efforts of a greenfield natural gas-fired steam plant for a textile company
5 in South Carolina. I was eventually named to lead the project I was hired to
6 support, the development of an Integrated Gasification Combined Cycle facility
7 that had received a Department of Energy Clean Coal Round V grant. In 2002, I
8 managed a strategic and business planning effort that resulted in an integrated ten-
9 year strategic plan. In 2004, I moved into Duke Power's major projects group as
10 a project director managing multiple projects, including the design and
11 construction of a one-of-a-kind natural gas-fired combustion turbine facility.
12 Most recently, I served as director of deal structuring and valuation where I
13 managed a group responsible for developing financial models and deal structures
14 for large retail and wholesale opportunities. I was named to my current position
15 in September of 2009.

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

18 **A.** The purpose of my testimony is to discuss funds that Duke Energy Corp. will
19 receive from the federal government as part of the American Recovery and
20 Reinvestment Act of 2009 (the Act).

II. DISCUSSION OF STIMULUS FUNDING

21 **Q. PLEASE DISCUSS STIMULUS FUNDS AND THEIR APPLICATION TO**
22 **SMARTGRID.**

23 **A.** Congress passed the Act in 2009 in response to the economic crisis that the

1 country was facing. The Act's purposes are to stimulate the economy and to
2 create and retain jobs. The Act gives preference to activities that can be started
3 and completed expeditiously. Accordingly, special consideration is given to
4 projects that promote and enhance the objectives of the Act, especially job
5 creation, preservation and economic recovery.

6 **Q. WHAT IS THE SPECIFIC PURPOSE OF THE SMARTGRID**
7 **INVESTMENT GRANT?**

8 A. The specific purpose of the SmartGrid Investment Grant (SGIG) is to stimulate
9 the rapid deployment and integration of advanced digital technology that is
10 needed to modernize the nation's electric delivery network for enhanced
11 operational intelligence and connectivity. The electric delivery network for
12 SmartGrid modernization encompasses the electric transmission and distribution
13 infrastructure that interconnects large generation at one end and consumers'
14 electric loads at the other end, as well as all components and systems in between,
15 including distributed energy resources. The application of advanced digital
16 technology (i.e., microprocessor-based measurement and control,
17 communications, computing, and information technology) will greatly improve
18 the reliability, security, and efficiency of the electric grid, while minimizing its
19 environmental impact. The enhanced connectivity will call for different
20 applications, systems and devices to be interoperable with one another, through a
21 combined use of open system architecture, as an integration platform, and
22 commonly shared technical standards and protocols for communications and
23 information systems.

24 **Q. HOW DID DUKE ENERGY CORP. OBTAIN THIS GRANT?**

DONALD H. DENTON, III DIRECT

1 A. Duke Energy Corp. applied for and received a grant of \$200 million to be used
2 toward costs incurred in the deployment of SmartGrid. Our application for the
3 grant was submitted in August of 2009, and we received notice of the award in
4 May of 2010.

5 **Q. WHY DID IT TAKE SO LONG FOR DUKE ENERGY TO ACCEPT THIS**
6 **GRANT?**

7 A. There were a number of issues that all grantees needed to clarify with regard to
8 the grant process, such as how intellectual property would be treated and whether
9 the grant would be taxable. On these issues, DOE took the lead to provide
10 guidance to the awardees but had to cooperate with the other federal government
11 agencies to determine final dispositions, which took some time. Specifically with
12 regard to Duke Energy Corp.'s application and award, we had to renegotiate our
13 submittal after the settlement of an Indiana SmartGrid deployment case was
14 rejected by the Indiana Utility Regulatory Commission (IURC). Duke Energy
15 Corp. had been awarded the grant based, in part, on the assumption that this
16 settlement would be approved. Therefore, when the Indiana order was received,
17 we realized that the scope of the SmartGrid project that had been submitted to,
18 and approved by, the DOE had changed significantly. Since Duke Energy Corp.
19 had not executed the agreement with DOE, we were provided the opportunity to
20 work with DOE to revise the scope of the grant and still maintain the \$200 million
21 in funding. This negotiation took quite a while as neither DOE nor Duke Energy
22 Corp. expected a scope change of this magnitude prior to executing the grant.

23 **Q. HOW WILL THESE FUNDS BE ALLOCATED TO DUKE ENERGY**
24 **CORP.'S OPERATING COMPANIES?**

1 A. Money received from the DOE will be allocated to the various Duke Energy
2 Corp. operating companies based upon spend. Funds will not be allocated until a
3 cost recovery mechanism is approved in the respective states. For each qualified
4 capital dollar spent during the stimulus period, between August 6, 2009, and May
5 11, 2013, we will receive 50 cents back from the federal government. Initially,
6 Duke Energy Ohio will credit 36 cents of these funds to current Smart Grid
7 projects. These credits reduce the capital charges on our books. Consequently,
8 rate base is lower with these credits, which reduces the rates charged to customers
9 through an electric distribution rider that is filed each year to recover costs from
10 prior years' expenditures.

11 **Q. PLEASE EXPLAIN WHAT IS MEANT BY "QUALIFIED CAPITAL**
12 **DOLLARS" ABOVE.**

13 A. Qualified capital dollars are those dollars spent on SmartGrid deployment
14 consistent with the Company's application for the DOE grant, during the
15 appropriate time period. An example of capital program expense that would not
16 be qualified includes gas infrastructure modernization.

17 **Q. HOW WILL THE COMPANY ACCOUNT FOR THE OTHER 14 CENTS**
18 **RECEIVED FROM THE FEDERAL GOVERNMENT?**

19 A. The additional 14 cents will initially be credited to a deferred liability account to
20 be applied to later qualified capital dollars. The 36 cents initially applied to Duke
21 Energy Ohio's projects will allow it to credit its capital investment by the agreed
22 amount. The amounts in the deferred liability will be used later to reduce the
23 capital investment of Duke Energy Ohio's sister companies, thereby allowing
24 each company to receive its allocation of the stimulus funds.

1 **Q. HOW MUCH WILL DUKE ENERGY OHIO RECEIVE?**

2 A. Based on the execution of the plan provided to DOE, it is anticipated that Duke
3 Energy Ohio will see an allocation of funding close to \$100 million. This
4 allocation is dependent on timing of expenditures, deployment timing and of
5 course, approval of expenditures by the DOE.

6 **Q. WILL THESE FUNDS OFFSET ANY COSTS FROM 2009 THAT WILL**
7 **BE RECOVERED IN THIS CASE?**

8 A. Yes. The time period for the SGIG runs from August 6, 2009, until thirty-six
9 months from the date of a formal approval of the grant – in our case, May 11,
10 2013. Qualified expenses that were incurred from August 9, 2009, until the end
11 of 2009 are included in an invoice that will be submitted to the DOE this summer.
12 These funds will be credited to the projects at the time the invoice is submitted.

III. CONCLUSION

13 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

14 A. Yes.