

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates.)))	Case No. 12-1685-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.)))	Case No. 12-1686-GA-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of an Alternative Rate Plan for Gas Distribution Service.))))	Case No. 12-1687-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.)))	Case No. 12-1688-GA-AAM

DIRECT TESTIMONY OF

PEGGY A. LAUB

ON BEHALF OF

DUKE ENERGY OHIO, INC.

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_____	Management policies, practices, and organization
<u> X </u>	Operating income
<u> X </u>	Rate base
_____	Allocations
_____	Rate of return
_____	Rates and tariffs
_____	Other

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Peggy A. Laub, and my business address is 139 East Fourth Street,
3 Cincinnati, Ohio 45202.

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

5 A. I am employed by Duke Energy Business Services LLC (DEBS) as Manager,
6 Accounting. DEBS provides various administrative and other services to Duke
7 Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated
8 companies of Duke Energy Corporation (Duke Energy).

9 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL**
10 **BACKGROUND AND PROFESSIONAL EXPERIENCE.**

11 A. I earned a Bachelor of Business Administration degree, with a major in
12 accounting from the University of Cincinnati in 1984.

13 In 1981, I began my career with The Cincinnati Gas & Electric Company,
14 the predecessor of Duke Energy Ohio, as a co-operative education student in the
15 Accounting Department. In 1984, I was employed full-time in the Tax
16 Department. I progressed through various positions to Coordinator, State & Local
17 Taxes. In 1998, I was transferred to the Regulated Business Unit's financial
18 group. In 2000, I was transferred to Fixed Assets Accounting and I was promoted
19 to manager in 2002. In May 2006, following the merger between Cinergy Corp.
20 and Duke Energy, I transferred to the Midwest U.S. Franchised Electric & Gas
21 accounting group. In November 2008, I transferred to Midwest Wholesale
22 Accounting as Manager, Accounting. In May 2010, I transferred to the Rate

1 Department and to my current position as Manager, Accounting.

2 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS MANAGER,**
3 **ACCOUNTING.**

4 A. As Manager, Accounting, I am responsible for the preparation of financial and
5 accounting data used in retail rate filings and various other rate recovery
6 mechanisms for Duke Energy Ohio and Duke Energy Kentucky, Inc. (Duke Energy
7 Kentucky).

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
9 **UTILITIES COMMISSION OF OHIO?**

10 A. Yes. I previously testified in a number of cases before the Public Utilities
11 Commission of Ohio (Commission) and other regulatory commissions. Most
12 recently I provided testimony on behalf of Duke Energy Ohio in Case Nos. 11-
13 5809-GA-RDR and 12-1811-GE-RDR.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**
15 **PROCEEDINGS?**

16 A. I sponsor Schedules A-1, A-2, A-3, B-1, B-5, B-5.1, B-6, B-6.1, B-7, B-7.1, B-
17 7.2, B-8, C-1, C-2, C-2.1, C-3, C-3.1 through C-3.4, C-3.6 through C-3.28, C-5
18 through C-9.1, C-11.1 through C-12, and page 5 of D-5A and D-5B. In addition, I
19 address certain test year operating income and rate base adjustments. I also
20 sponsor Supplemental Filing Requirements (C)(7), (C)(8), (C)(13), (C)(16), and
21 (C)(24). Finally, I will be proposing methodologies to be used in a new rider
22 being proposed by Duke Energy Ohio, namely, the Accelerated Service
23 Replacement Program Rider (ASRP).

II. TEST YEAR AND DATE CERTAIN

1 **Q. WHAT ARE THE TEST YEAR AND DATE CERTAIN IN THESE**
2 **PROCEEDINGS?**

3 A. Pursuant to the Company's Motion to Set Test Period and Date Certain filed in
4 these proceedings on June 7, 2012, which was approved by the Commission in its
5 entry on July 2, 2012, the test year consists of the twelve months ended December
6 31, 2012, and the date certain is March 31, 2012.

III. SCHEDULES AND SUPPLEMENTAL FILING REQUIREMENTS SPONSORED BY WITNESS

7 **Q. PLEASE DESCRIBE SCHEDULE A-1.**

8 A. Schedule A-1 is the overall financial summary of Duke Energy Ohio's gas
9 distribution operations. The data presented on Schedule A-1 shows that the
10 Company will earn a 4.90 percent overall return for the test year and that an
11 increase of \$44.6 million over current gas distribution revenue is required to earn
12 a reasonable rate of return on its gas distribution rate base at the Company's
13 current cost of capital of 8.13 percent.

14 **Q. PLEASE DESCRIBE SCHEDULE A-2.**

15 A. Schedule A-2 sets forth the calculation of the gross revenue conversion factor.
16 The revenue conversion factor is used on Schedule A-1, Line 7 to compute the
17 revenue deficiency.

18 **Q. WHAT ITEMS ARE INCLUDED IN THIS REVENUE CONVERSION**
19 **FACTOR?**

20 A. The revenue conversion factor includes the Commission and the Office of the
21 Ohio Consumers' Counsel (OCC) assessments and federal income taxes. The

1 rates used represent either the latest known rates or statutory rates as of the time of
2 the filing. Also included in this factor is an uncollectible account factor.

3 **Q. PLEASE DESCRIBE SCHEDULE A-3.**

4 A. Schedule A-3 is a calculation of mirrored construction work in progress (CWIP)
5 revenue surcredit rider. As indicated on this schedule, the Company has no mirrored
6 CWIP revenue.

7 **Q. PLEASE DESCRIBE SCHEDULE B-1.**

8 A. Schedule B-1 is the jurisdictional rate base summary. The rate base components
9 listed on this summary are supported by the various Section B schedules. The
10 plant in service and reserve for accumulated depreciation were summarized from
11 Schedules B-2 and B-3, sponsored by Duke Energy Ohio witness Carl J. Council,
12 Jr. The working capital and other items of rate base were summarized from
13 Schedules B-5, which I sponsor, and B-6, which I co-sponsor with Duke Energy
14 Ohio witness Keith G. Butler. The total jurisdictional rate base, as shown on this
15 schedule, is \$891,013,614 at the date certain, March 31, 2012.

16 **Q. PLEASE DESCRIBE SCHEDULES B-5 AND B-5.1.**

17 A. Schedule B-5 is a summary of allowance for working capital, which includes cash
18 working capital, materials and supplies (M&S) and customer service deposits.
19 Additional detail for all of these items is shown on Schedule B-5.1, including the
20 average thirteen-month balance and the actual balance as of March 31, 2012, the
21 date certain in these proceedings.

22 **Q. HOW MUCH CASH WORKING CAPITAL ALLOWANCE IS BEING**
23 **REQUESTED BY DUKE ENERGY OHIO IN THESE PROCEEDINGS?**

1 A. Duke Energy Ohio is not making a request for cash working capital allowance in
2 these proceedings.

3 **Q. WHY HAS THE COMPANY INCLUDED NO CASH WORKING**
4 **CAPITAL IN RATE BASE?**

5 A. The question in determining the appropriate level of cash working capital to
6 include in rate base is essentially one of reasonableness. Many jurisdictions
7 consistently use a formula method, such as the one-eighth method to estimate cash
8 working capital. This method is accepted at the Federal Energy Regulatory
9 Commission (FERC) and by several other state regulators, including the Kentucky
10 Public Service Commission, which regulates Duke Energy Ohio's subsidiary
11 company, Duke Energy Kentucky.

12 Admittedly, a lead/lag study is a more detailed approach but it is a costly
13 and time consuming exercise, and it typically invites considerable dispute over the
14 assumptions used to develop the study. In addition to these reasonable approaches
15 of using the lead/lag study or the one-eighth method, the Company submits that its
16 proposal to include \$0 for its cash working capital allowance is well within the
17 bounds of reasonableness.

18 **Q. PLEASE DESCRIBE HOW YOU ESTIMATED THE BALANCE OF**
19 **MATERIALS AND SUPPLIES TO INCLUDE ON SCHEDULES B-5 AND**
20 **B-5.1.**

21 A. The Company does not project changes in its other M&S balance as part of the
22 budget process. Consequently, in order to reasonably estimate the monthly
23 balance during the test year, the Company has reflected the actual average balance

1 for the thirteen-months ended March 31, 2012. Using a thirteen-month average is
2 preferable to using the balance at any single point in time as an average eliminates
3 the impact of any seasonal fluctuations, favorable or unfavorable, that may exist at
4 any point in time. The process of allocating the M&S balance to gas distribution
5 is described in Supplemental Filing Requirement (C)(13), which is discussed later
6 in my testimony.

7 **Q. SHOULD THE COMPANY BE ALLOWED TO INCLUDE ITS**
8 **INVESTMENT IN MATERIALS AND SUPPLIES IN RATE BASE EVEN**
9 **IF THERE IS NO REQUEST FOR CASH WORKING CAPITAL?**

10 A. Yes. The two items are separate components of rate base. I have been advised by
11 counsel that Section 4909.15 of the Ohio Revised Code draws a distinction
12 between a utility's investment in cash working capital and its investment in
13 materials and supplies. As this provision states:

14 (1) The valuation as of the date certain of the property of the public
15 utility used and useful or, with respect to a natural gas company,
16 projected to be used and useful as of the date certain, in rendering
17 the public utility service for which rates are to be fixed and
18 determined. The valuation so determined shall be the total value as
19 set forth in division (C)(8) of section 4909.05 of the Revised Code,
20 and a reasonable allowance for materials and supplies and cash
21 working capital as determined by the commission. (Emphasis
22 added.)

23 The unambiguous language here indicates that an allowance for materials
24 and supplies is appropriate regardless of whether there is any request for cash
25 working capital. In this case, the Company is making no request for cash working
26 capital, as is its prerogative, but it is requesting an allowance for materials and
27 supplies.

1 **Q. IS IT YOUR UNDERSTANDING THAT A LEAD/LAG STUDY IS**
2 **REQUIRED FOR THE COMMISSION TO APPROVE ANY**
3 **ALLOWANCE FOR CASH WORKING CAPITAL?**

4 A. Yes, that is my understanding. O.A.C. Chapter 4901-7 includes Appendix A,
5 which provides a set of instructions for rate proceedings before the Commission.
6 In Section B(E)(1) of Appendix A, the requirement for a cash working capital
7 allowance provides that “[a]n allowance for cash working capital shall be
8 supported by a recent lead/lag study.” The fact that the Company is asking for no
9 allowance for cash working capital renders this requirement moot – there is no
10 request to support.

11 Furthering the conclusion that cash working capital and other working
12 capital are separate separable rate base items, the same section of Appendix A
13 distinguishes cash working capital from “Miscellaneous Working Capital,” such
14 as materials and supplies.

15 There is no explicit provision in the Commission’s rules or in the Ohio
16 Revised Code that remotely suggests that a lead/lag study related to cash working
17 capital is a requirement necessary support an allowance for non-cash working
18 capital.

19 **Q. PLEASE DESCRIBE SCHEDULE B-6.**

20 A. Schedule B-6 is a summary of other rate base items including any adjustments to
21 these balances as contained on Schedule B-6.1. The items include: customer
22 advances for construction, post-retirement benefits, customer deposits,
23 accumulated deferred investment tax credits, accumulated deferred income taxes,

1 and other rate base adjustments for post in service carrying costs. The investment
2 tax credit balances for the 6 percent and the 10 percent credits are non-
3 jurisdictional pursuant to the normalization requirements of the Internal Revenue
4 Code.

5 **Q. PLEASE EXPLAIN WHY CUSTOMER SERVICE DEPOSITS ARE**
6 **INCLUDED AS A DEDUCTION FROM RATE BASE ON SCHEDULE B-6.**

7 A. Customer service deposits represent funds held by the Company in advance of
8 service. These funds are included on Schedule B-6 because they provide the
9 Company with a source of capital. The Commission's rules (O.A.C. 4901-7-01)
10 specifically identify this item as one to be included on Schedule B-6. It also
11 prescribes that items included on Schedule B-6 are to be included at the date
12 certain balance.

13 **Q. HOW DID YOU DERIVE THE FIGURE SHOWN ON SCHEDULES B-6**
14 **FOR CUSTOMER SERVICE DEPOSITS?**

15 A. The estimate of customer service deposits to be included in Schedule B-6 is the
16 date certain balance as of March 31, 2012, allocated to gas operations based on
17 the ratio of gas customers to total gas and electric retail customers.

18 **Q. PLEASE EXPLAIN THE ADJUSTMENT FOR POST-RETIREMENT**
19 **LIFE INSURANCE AND HEALTH INSURANCE BENEFITS INCLUDED**
20 **ON SCHEDULE B-6 AS A REDUCTION IN RATE BASE.**

21 A. In prior proceedings, the Commission has allowed the Company to internally fund
22 its post-retirement life insurance and health insurance benefits. Accordingly, the
23 amount included on Schedule B-6 represents cumulative expense recovery included

1 in rates, net of benefits paid.

2 **Q. PLEASE DESCRIBE SCHEDULE B-6.1.**

3 A. Schedule B-6.1 summarizes the adjustments to the various other rate base item
4 balances contained on Schedule B-6. Certain balances are eliminated or adjusted
5 to reflect the ratemaking treatment of these or related items in this filing.

6 **Q. PLEASE DESCRIBE SCHEDULE B-7.**

7 A. Schedule B-7 is a summary of the jurisdictional allocation factors used in the
8 development of the revenue requirement.

9 **Q. PLEASE DESCRIBE SCHEDULES B-7.1 AND B-7.2.**

10 A. Schedule B-7.1 provides statistics used to develop the jurisdictional allocation
11 factors shown on Schedule B-7. The requirement for Schedule B-7.2 is to provide
12 an explanation of changes to allocation factors since the prior case. In this case
13 and in Case No. 07-0589-GA-AIR, et al. there are no allocations.

14 **Q. PLEASE DESCRIBE SCHEDULE B-8.**

15 A. Schedule B-8 is titled "Gas Data" and details the Company's test year
16 "Unaccounted for" gas losses.

17 **Q. PLEASE DESCRIBE SCHEDULE C-1.**

18 A. Schedule C-1 sets forth the Company's jurisdictional *pro forma* income statement
19 for the twelve months ending December 31, 2012, at both the current and
20 proposed rates, and assumes that the total amount of the requested increase
21 calculated on Schedule A-1 is authorized in these proceedings. The current
22 adjusted operating results for the test year were summarized from Schedule C-2.
23 Test year revenue at the proposed rates was developed by adding the increase in

1 revenue as set forth on Schedule E-4 to the adjusted operating revenues. The *pro*
2 *forma* results (column C) were developed by calculating the operating income
3 effect of the requested increase (column B) and adding these amounts to the
4 adjusted revenue and expense (column A). If the full increase were to be
5 authorized, the resulting rate of return would be 8.13 percent which is the
6 Company's proposed rate of return.

7 **Q. PLEASE DESCRIBE SCHEDULE C-2.**

8 A. Schedule C-2 shows the Company's jurisdictional adjusted gas operating income
9 associated with its gas operations for the test year at current rates. This schedule
10 includes unadjusted jurisdictional revenue and expense amounts from Schedule C-
11 2.1, and a summary of the adjustments per Schedule C-3.

12 **Q. PLEASE DESCRIBE SCHEDULE C-2.1.**

13 A. Schedule C-2.1 lists the unadjusted test year operating revenue and expenses, by
14 account. These amounts were derived from the Company's financial records and are
15 summarized and carried forward to Schedule C-2.

16 **Q. PLEASE DESCRIBE SCHEDULE C-3 AND THE ADJUSTMENTS**
17 **SHOWN ON SCHEDULES C-3.1 THROUGH C-3.28.**

18 A. Schedule C-3 is a summary of the jurisdictional adjustments to operating revenues
19 and expenses set forth on Schedules C-3.1 through C-3.28. The effect of each
20 adjustment on Net Operating Income is shown on Line 43. The cumulative
21 impact of the adjustments is summarized on Schedule C-3, page 1 of 5, and
22 carried forward to Schedule C-2.

23 **Q. WHY ARE ADJUSTMENTS TO TEST YEAR ACTUAL AND BUDGET**

1 **INFORMATION NECESSARY?**

2 A. These adjustments are required to reflect the representative ongoing level of
3 revenues and expenses that the Company would experience in a normal year. Some
4 adjustments are required to even out or eliminate the impacts of journal entries
5 made to the actual book accounting data that comprise the first three months in the
6 test year. Other adjustments are to reflect the level of revenue and expenses that
7 would have occurred had all known prospective changes been in effect during the
8 test year.

9 The test year adjustments ensure that prevailing revenues and expenses are
10 properly included in the determination of an ongoing level of rates. Duke Energy
11 Ohio must reflect a proper level of cost in order to give the Company a reasonable
12 opportunity to earn its authorized return. Not capturing these adjustments and
13 reflecting them in the Company's test year would impair the Company's ability to
14 earn a fair rate of return on its gas operations or could result in the Company over-
15 recovering its costs.

16 **Q. PLEASE EXPLAIN THE ADJUSTMENTS TO OPERATING INCOME.**

17 A. Schedule C-3.1 adjusts test year revenue and expense in order to: (1) annualize
18 revenue; (2) eliminate "unbilled" revenue; and (3) eliminate various rider revenue.

19 The federal income tax effects of this adjustment are shown on Schedule C-3. The
20 combined jurisdictional adjustment is a net \$1,543,823 increase in net operating
21 income.

22 **Q. PLEASE EXPLAIN WHY YOU ANNUALIZE REVENUE.**

23 A. Because the test year includes three months of actual data, it is necessary to make

1 certain adjustments to ensure that the revenue included in the test year is
2 representative of the annual level the Company can expect from its ongoing
3 operations. One example of such a revenue adjustment is weather normalization.
4 As explained by Duke Energy Ohio witness Jose Merino, actual weather during
5 the test year may differ substantially from normal weather and, as a result, actual
6 customer Mcf usage will vary from normal. Revenue must be adjusted for this
7 difference between actual and normal usage or the test year revenue would be
8 different from what would be expected in a "normal" year. Also, the methodology
9 employed by the Company to budget revenue for the nine months used in the test
10 year is based on averages to simplify the budgeting process. The revenue by Rate
11 Code as developed on Schedule E-4, applying currently approved rates to test year
12 sales, is a more precise method for determining the test year revenue and is the
13 level that should be used in these proceedings.

14 **Q. WHY DID THE COMPANY ELIMINATE UNBILLED REVENUE AND**
15 **EXPENSE?**

16 A. The Company eliminated the estimated unbilled revenue and expense from its
17 operating results to be consistent with the revenue and volume computations
18 contained on Schedule E-4. The revenue and volume amounts on Schedule E-4 are
19 based on adjusted test year billing statistics and do not reflect estimated unbilled
20 sales.

21 **Q. PLEASE DESCRIBE THE OTHER ADJUSTMENTS INCLUDED IN**
22 **DUKE ENERGY OHIO'S FILING.**

1 A. Schedule C-3.2 adjusts operating income for the recovery of manufactured gas
2 plant (MGP) costs over a three year amortization period. The jurisdictional
3 adjustment results in an increase in annual operating expense of \$21,777,806.

4 Schedule C-3.3 adjusts operating income for the estimated cost of
5 presenting this case. The Company proposes to defer this expense and amortize it
6 over a three-year period. The Company also proposes to eliminate the
7 amortization of rate case expense, approved in Case No. 07-589-GA-AIR, *et al.*,
8 that is included in the test year. The rate case expense approved in that case will
9 be fully amortized before the new rates go into effect; consequently, an additional
10 adjustment was made to eliminate existing rate case expense amortization from
11 the test year. The three-year amortization period reflects the approximate
12 expected time between rate cases. The jurisdictional adjustment results in a
13 decrease in annual operating expenses of \$15,998.

14 Schedule C-3.4 adjusts operating income to reflect the annualization of the
15 Company's payroll costs based on the twelve months ended April 30, 2012,
16 adjusted for annual salary increases. As detailed on work paper WPC-3.4b and
17 WPC-3.4c, annualized labor was determined by using the most recent twelve
18 months of labor and then applying any applicable wage increases that were not
19 already reflected in the twelve months of actual labor. This jurisdictional
20 adjustment to salaries and wages represents an increase in expenses of \$538,902.

21 Schedule C-3.6 adjusts operating income to include, as an operating
22 expense, interest computed at 3 percent per annum on the date certain balance of the
23 gas business' share of customer service deposits. This jurisdictional adjustment

1 results in an increase in operating and maintenance (O&M) expense of \$253,595.

2 Schedule C-3.7 eliminates both the Ohio Excise Tax Rider revenue
3 collected by the Company and the Ohio Excise Tax expense paid by the
4 Company. The adjustment eliminates \$16,428,536 of revenue and \$19,992,607 of
5 expense.

6 Schedule C-3.8 adjusts operating income to annualize property tax
7 expense based on the Ohio Average Property Tax Rate for 2011 (per \$1,000 of
8 valuation) and the estimated valuation percentages on date certain plant. Also
9 included in this computation is the property tax on the average gas distribution
10 Materials and Supplies (M&S) balance. This jurisdictional adjustment to property
11 tax expense results in a decrease in taxes other than income taxes of \$272,842.

12 Schedule C-3.9 is an adjustment to eliminate percentage of income
13 payment plan, or PIPP, revenue and expense. The adjustment eliminates
14 \$10,674,058 of revenue and \$10,612,499 of expense.

15 Schedule C-3.10 adjusts operating income to reflect interest expense
16 deductible for federal income tax purposes. The *pro forma* tax deduction is based
17 on the embedded weighted cost of long-term debt of 2.48 percent as shown on
18 Schedule D-1A. This adjustment reflects federal income tax at 35 percent on the
19 interest cost included in the cost of capital. The adjustment has been determined
20 by multiplying the weighted cost of long-term debt and the jurisdictional rate
21 base, as indicated on Schedule B-1. Also included as a part of this adjustment is
22 the elimination of interest-related tax Schedule M items and deferred taxes. This
23 jurisdictional adjustment results in a \$1,185,413 decrease in income tax expense.

1 Schedule C-3.11 is an adjustment to eliminate amortization of grid
2 modernization O&M included in the test year. The adjustment decreases O&M
3 expense by \$2,827,689.

4 Schedule C-3.12 adjusts operating income to eliminate the Ohio Tax Rider
5 (*i.e.*, "Mcf tax") revenues and expenses from the test year. This jurisdictional
6 adjustment results in a decrease in revenue of \$7,631,139, and a decrease in taxes
7 other than income taxes of \$7,417,119.

8 Schedule C-3.13 is marked as "Reserved for Future Use", which indicates
9 that no adjustments have been made on this schedule.

10 Schedule C-3.14 adjusts operating income to eliminate non-jurisdictional
11 expenses from the test year. Included in unadjusted test year expense are industry
12 association dues, advertising expenses and other expenses that are not recoverable
13 in gas distribution rates. The Company proposes to eliminate these charges
14 through a jurisdictional adjustment that decreases O&M expense by \$352,284.

15 Schedule C-3.15 adjusts operating income to annualize the Commission
16 and OCC annual assessments to the latest known levels. This jurisdictional
17 adjustment results in a \$151,994 decrease in O&M expense.

18 Schedule C-3.16 adjusts operating income to annualize uncollectible
19 expense based on the adjusted base revenue shown on Schedule C-2, less
20 interdepartmental revenue and rents, times the uncollectible expense factor shown
21 on Schedule A-2. This adjustment is consistent with the methodology used in
22 prior proceedings. This jurisdictional adjustment results in a \$497,562 increase in
23 O&M expense. The adjustment also eliminates revenues collected from the

1 Company's uncollectible expense rider and deferred expenses related to
2 over\under collection of uncollectible amounts. Since the rider has resulted in a
3 credit to customers, the amount of the adjustment is an increase to revenue of
4 \$1,735,948. The amount of amortization expense eliminated from the test year
5 resulted in an increase in expense of \$1,918,247.

6 Schedule C-3.17 adjusts operating income to annualize pension and
7 benefits expense based on annualized labor expense, as determined on Schedule
8 C-3.4, and the budgeted loading rate. This jurisdictional adjustment is similar to
9 the adjustment performed in prior cases and adopted by this Commission and
10 results in a decrease in O&M expenses of \$729,777.

11 Schedule C-3.18 adjusts operating income to annualize payroll taxes based
12 on annualized salaries and wages as determined on Schedule C-3.4. The
13 jurisdictional adjustment results in a decrease in taxes other than income tax
14 expense of \$280,264.

15 Schedule C-3.19 is marked as "Reserved for Future Use," which indicates
16 that no adjustments have been made on this schedule.

17 Schedule C-3.20 adjusts operating income to annualize the amortization of
18 post in service carrying costs accrued as of March 31, 2012. Amortization of post
19 in service carrying costs related to AMRP and grid modernization was calculated
20 based on balances as of March 31, 2012 and compared to the amount in the test
21 year. This jurisdictional adjustment results in a \$304,766 increase O&M expense.

22 Schedule C-3.21 is marked as "Reserved for Future Use," which indicates
23 that no adjustments have been made on this schedule.

1 Schedule C-3.22 is an adjustment to include the amortization of the
2 balance for accelerated main replacement program (AMRP) camera costs over a
3 three-year period. These costs were approved for deferral treatment in Case No.
4 09-1097-GA-AAM. This jurisdictional adjustment results in an increase in O&M
5 expense of \$1,666,667.

6 Schedule C-3.23 adjusts operating income to eliminate costs to achieve the
7 merger with Progress Energy that were included in the test year. This
8 jurisdictional adjustment results in a decrease in O&M expense of \$168,997.

9 Schedule C-3.24 is an adjustment to include the cost of additional AMRP
10 camera costs that are expected to be incurred in 2013. This jurisdictional
11 adjustment results in an increase in O&M expense of \$600,000.

12 Schedule C-3.25 is an adjustment to include the amortization of grid
13 modernization deferred O&M and depreciation as of March 31, 2012 over a three-
14 year period. This jurisdictional adjustment results in an increase in O&M expense
15 of \$1,399,532.

16 Schedule C-3.26 is an adjustment to adjust revenue to exclude the savings
17 guaranteed to be passed on to customers for the gas grid modernization through
18 Rider AU pursuant to the stipulation in Case No. 10-2326-GE-RDR, which was
19 approved by the Commission on June 13, 2012. This jurisdictional adjustment
20 results in an increase in revenue of \$838,951.

1 Schedule C-3.27 is an adjustment to reflect the cost of expected increases
2 in medical expenses. This jurisdictional adjustment results in an increase in O&M
3 expense of \$376,482.

4 Schedule C-3.28 is an adjustment to amortize costs of the Company's Gas
5 Furnace Program over a three-year period. This jurisdictional adjustment results
6 in an increase in O&M expense of \$1,030,387.

7 **Q. PLEASE DESCRIBE SCHEDULES C-5, C-6, AND C-7.**

8 A. Schedule C-5 is entitled "Social and Service Club Dues." No costs are reflected
9 in this case for employee social or service clubs membership dues. Schedule C-6
10 entitled "Charitable Contributions" indicates that there are no charitable
11 contributions charged to jurisdictional gas operating expenses. Schedule C-7
12 provides detail, by account, of test year Customer Service and Informational
13 Expense, Sales Expense, and General Advertising Expense.

14 **Q. PLEASE DESCRIBE SCHEDULE C-8.**

15 A. Schedule C-8 sets forth the estimated expense of presenting this case. The top
16 half of this schedule compares the expenses estimated to be incurred in these
17 proceedings to the expenses for the Company's prior two rate cases. The
18 Company proposes to defer this expense and amortize it over a three-year period.
19 This amount is included in test year operating expense through the adjustment
20 contained in Schedule C-3.3.

21 **Q. PLEASE DESCRIBE SCHEDULE C-9.**

22 A. Schedule C-9 contains a summary of all payroll costs and related benefits and taxes
23 included in O&M expense for the test year. The adjustments made to labor expense,

1 pension and benefits expense, FICA taxes, and unemployment taxes from Schedules
2 C-3.4, C-3.17, C-3.18 and C-3.27 were also included on this schedule to arrive at
3 the total adjusted payroll cost.

4 **Q. PLEASE DESCRIBE SCHEDULE C-9.1.**

5 A. Schedule C-9.1 is the Total Company Payroll Analysis for the most recent five
6 years. Page 1 summarizes the total Company payroll information, while pages 2
7 and 3 reflect the same information for the union and non-union employee
8 classifications.

9 **Q. PLEASE DESCRIBE SCHEDULES C-11.1, C-11.2, C-11.3, AND C-11.4.**

10 A. Schedules C-11.1 through C-11.4 set out the gas sales statistics for the total
11 company and the jurisdictional revenues in these proceedings. The years 2007
12 through 2011 are based on actual data. The test year twelve months ending
13 December 31, 2012, reflects three months actual and nine months projected data.
14 Years 2013 through 2017 are projected and provide information from the
15 Company's gas sales forecast.

16 **Q. PLEASE DESCRIBE SCHEDULE C-12.**

17 A. Schedule C-12 is an analysis of the reserve for uncollectible accounts for the most
18 recent three calendar years and the test year. Beginning in February 2002, Duke
19 Energy Ohio's receivables have been sold to Cinergy Receivables Company LLC.
20 The reserve that existed at that time has been reversed over time and no additional
21 reserves are necessary; therefore, the balance is \$0.

22 **Q. PLEASE DESCRIBE PAGE 5 OF SCHEDULE D-5A AND SCHEDULE D-**
23 **5B.**

1 A. I sponsor page 5 of Schedule D-5A and Schedule D-5B, which contains
2 comparative financial data for the years 2002 through 2011 and the test year ending
3 December 31, 2012. This information was obtained from various departments
4 throughout the Company.

5 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(7).**

6 A. Supplemental Filing Requirement (C)(7) requires the filing of working papers
7 supporting the schedules provided in the Application. The electronic worksheet
8 files are supplied on compact disc as part of the Application. A list of these
9 electronic files is provided as Supplemental Filing Requirement (C)(7).

10 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(8).**

11 A. Supplemental Filing Requirement (C)(8) is a worksheet showing, by FERC
12 account, monthly test year data, which agrees with Schedule C-2.1, Column 1.
13 Taxes Other Than Income Taxes are itemized and totaled.

14 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(13).**

15 A. The information provided in response to Supplemental Filing Requirement (C)(13)
16 describes the calculation of the M&S component listed on Schedule B-5.1.
17 Supplemental Filing Requirement (C)(13)(a) asks for the computation of the M&S
18 used for construction, additions, and extensions. Supplemental Filing Requirement
19 (C)(13)(b), page 1 lists the monthly balances of M&S by function, and page 2 lists
20 the balances by account. The percentage of M&S applicable to new construction is
21 developed on Supplemental Filing Requirement (C)(13)(c). The Company does not
22 maintain its inventory in such a way that it can list the balances by function. The

1 functional balances were estimated using a percentage developed on Supplemental
2 Filing Requirement (C)(13)(c), which also lists monthly withdrawals by function.

3 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(16).**

4 A. Supplemental Filing Requirement (C)(16) requests information regarding the
5 other rate base items included in Schedule B-6.

6 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(24).**

7 A. Supplemental Filing Requirement (C)(24) requests test year and two most recent
8 calendar years' employee levels by month. The required information is provided
9 on Schedule C-9.1.

10 **Q. WHAT INFORMATION DID YOU RECEIVE FROM OTHER DUKE**
11 **ENERGY OHIO WITNESSES IN THESE PROCEEDINGS?**

12 A. I received test year budgeted revenue and O&M from Duke Energy Ohio witness
13 Patricia W. Mullins. I received Plant in Service data from Duke Energy Ohio
14 witness Council, which he presented on Schedules B-2 through B-4.2 and B-6.2. I
15 received accumulated deferred investment tax credit and accumulated deferred
16 income tax balance information from Duke Energy Ohio witness Butler, which I
17 used on Schedule B-6. I also received the federal income tax rate, Ohio property
18 tax valuation notice, and average Ohio property tax rate from Mr. Butler. I
19 received cost of capital information from Duke Energy Ohio witness Stephen G.
20 De May, which he presented on Schedule D-1. This schedule also includes the
21 recommended rate of return on common equity proposed by Duke Energy Ohio
22 witness Roger A Morin, Ph.D.

IV. CONTINUATION OF RIDER AMRP

1 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE PROCEDURAL**
2 **HISTORY OF RIDER AMRP.**

3 A. Duke Energy Ohio witness Gary J. Hebbeler details the AMRP and Rider AMRP.
4 Briefly and specific to Rider AMRP, the Commission approved a continuation of
5 that rider in the Company's last gas base rate case, Case No. 07-0589-GA-AIR, *et*
6 *al.* Rider AMRP allows the Company to recover the costs associated with its
7 accelerated program to replace cast iron and bare steel pipe. The Company seeks
8 approval in this filing to continue Rider AMRP to allow Duke Energy Ohio to
9 continue its timely recovery of AMRP costs for the duration of the construction
10 program.

11 **Q. HOW IS RIDER AMRP CURRENTLY CALCULATED?**

12 A. Rider AMRP provides for a "return on" and return of" capital expenditures for
13 cast iron and bare steel main and service replacements. The return on investment
14 is a simple rate base calculation multiplying an approved pre-tax rate of return by
15 the rate base being added through the program. The rate base calculation is based
16 on traditional Commission principles, making adjustments for such things as
17 accumulated deferred income taxes, removal costs, and retirement costs. The
18 calculation also allows the Company to include the balance of accumulated post-
19 in-service carrying costs as part of the rate base calculation.

20 Return of includes the approved depreciation rate for these types of assets
21 applied to the appropriate depreciable base additions less retirements. The
22 calculation also allows for recovery of certain expenses in addition to depreciation

1 expense. The Company is allowed to recover the annualized amortization of post-
2 in-service carrying costs, actual meter relocation expenses, and annualized
3 property taxes. There is also a provision in Rider AMRP to reflect savings
4 achieved by the AMRP affecting certain maintenance expenses and reduce to the
5 revenue requirement accordingly.

V. ACCELERATED SERVICE REPLACEMENT PROGRAM RIDER

**6 Q. PROVIDE BRIEF DESCRIPTION OF THE NEW GAS SERVICE RIDER
7 BEING PROPOSED BY THE COMPANY IN THIS PROCEEDING.**

8 A. As Duke Energy Ohio witness Hebbeler discusses in his Direct Testimony, Rider
9 AMRP has been an extremely effective program, providing substantial
10 improvements to the quality of service the Company is able to provide to its
11 customers. However, when the AMRP ends in 2015, it is estimated that
12 approximately 58,000 unprotected metallic service lines, or 14 percent of the
13 system, will remain to be replaced. Mr. Hebbeler details the new gas service – the
14 Accelerate Service Replacement Program (ASRP) – the Company is proposing in
15 respect of these remaining unprotected services.

16 Rider ASRP is being proposed to enable Duke Energy Ohio to recover
17 costs associated with the ASRP and, like Rider AMRP, is intended to allow the
18 Company to earn a “return on” and “return of” capital expenditures made for pre-
19 1971 coated steel main-to-curb and curb-to-meter service line replacements. The
20 “return on” investment is a simple rate base calculation multiplying an approved
21 pre-tax rate of return by the rate base being added through the program. The rate
22 base calculation is based on traditional Commission principles, making

1 adjustments for such things as accumulated deferred income taxes, removal costs,
2 and retirement costs. The "return of" includes the approved depreciation rate for
3 these types of assets applied to the appropriate depreciable base additions less
4 retirements. The calculation also allows for recovery of certain expenses in
5 addition to depreciation expense.

6 **Q. WHAT TYPES OF COSTS WOULD BE INCLUDED IN RIDER ASRP?**

7 A. Rider ASRP will include costs to replace the unprotected services and costs to
8 relocate natural gas meters located inside a customer's premises to a suitable
9 exterior location.

VI. CONTINUATION OF RIDER AU

10 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE PROCEDURAL**
11 **HISTORY OF RIDER AU.**

12 A. The Commission approved the Advanced Utility Rider (Rider AU) in the
13 Company's last gas base rate case filed under Case No. 07-0589-GA-AIR, *et al.*
14 The Company seeks approval in this filing to extend the term of Rider AU to
15 allow Duke Energy Ohio to continue its timely recovery of AU costs for the
16 duration of the construction program.

17 **Q. ARE THERE ANY SPECIAL CIRCUMSTANCES RELATED TO RIDER**
18 **AU THAT NEED TO BE ADDRESSED FOR DEVELOPING RATES?**

19 A. In these proceedings, the Company is proposing to include the gas grid
20 modernization investment as of March 31, 2012. The Company is also proposing
21 to include deferred costs for 2011 and the first quarter of 2012 in these
22 proceedings and amortize them over a three-year period. If the Commission

1 accepts this proposal, the Rider AU filing in Case No. 12-1811-GE-RDR will be
2 withdrawn. In addition, the Company is proposing to discontinue the gas furnace
3 program after calendar year 2012.

VII. CONCLUSION

4 **Q. WERE ALL OF THE SCHEDULES AND SUPPLEMENTAL FILING**
5 **REQUIREMENTS YOU SPONSOR PREPARED BY YOU OR UNDER**
6 **YOUR DIRECT SUPERVISION?**

7 A. Yes.

8 **Q. IS THE INFORMATION THAT YOU SPONSOR IN SCHEDULES A-1, A-2,**
9 **A-3, B-1, B-5, B-5.1, B-6, B-6.1, B-7, B-7.1, B-7.2, B-8, C-1, C-2, C-2.1, C-3, C-**
10 **3.1 THROUGH C-3.28, C-5 THROUGH C-9.1, C-11.1 THROUGH C-13, AND**
11 **PAGE 5 OF D-5 AND SUPPLEMENTAL FILING REQUIREMENTS (C)(7),**
12 **(C)(8), (C)(13), (C)(16), AND (C)(24) ACCURATE TO THE BEST OF YOUR**
13 **KNOWLEDGE AND BELIEF?**

14 A. Yes.

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

16 A. Yes.