

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)
Energy Ohio, Inc., to Establish its Fuel and)
Economy Purchased Power Component of its) Case No. 11-974-EL-FAC
Market-Based Standard Service Offer for)
2011.)

In the Matter of the Application of Duke)
Energy Ohio, Inc. to Establish its System)
Reliability Tracker of its Market-Based) Case No. 11-975-EL-RDR
Standard Service Offer for 2011.)

SECOND SUPPLEMENTAL TESTIMONY OF
WILLIAM DON WATHEN JR. IN SUPPORT OF SETTLEMENT
ON BEHALF OF
DUKE ENERGY OHIO, INC.

October 9, 2012

TABLE OF CONTENTS

	<u>PAGES</u>
I. INTRODUCTION.....	1
II. DISCUSSION OF THE STIPULATION AND RECOMMENDATION	2
III. CONCLUSION	6

I. INTRODUCTION

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

2 A. My name is William Don Wathen Jr. and my business address is 139 East Fourth
3 Street, 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 Director of
6 Rates and Regulatory Strategy for Ohio and Kentucky.

7 **Q. ARE YOU THE SAME WILLIAM DON WATHEN JR. WHO FILED**
8 **DIRECT AND SUPPLEMENTAL TESTIMONY IN THESE**
9 **PROCEEDINGS?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN**
12 **SUPPORT OF SETTLEMENT?**

13 A. I will discuss and support the reasonableness of the Stipulation and
14 Recommendation (Stipulation) filed in the above-styled proceeding regarding the
15 recommendations contained in the Management/Performance and Financial Audit
16 of the Fuel and Purchased Power and System Reliability Tracker Riders of Duke
17 Energy Ohio, Inc., (Duke Energy Ohio or the Company) for the Public Utilities
18 Commission of Ohio (Audit Report). The Stipulation is filed with the support of
19 the Staff the Public Utilities Commission of Ohio (Commission). This testimony
20 will demonstrate that: (1) the Stipulation is the product of serious bargaining
21 among capable, knowledgeable parties; (2) the Stipulation does not violate any

**WILLIAM DON WATHEN JR. SECOND SUPPLEMENTAL TESTIMONY IN SUPPORT OF
SETTLEMENT**

1 important regulatory principle or practice and; (3) the Stipulation is just a
2 reasonable resolution of the issues that as a package will benefit ratepayers and
3 the public interest.

II. DISCUSSION OF THE STIPULATION AND RECOMMENDATION

Q. PLEASE DESCRIBE THE STIPUALTION AND RECOMMENDATION.

4 A. I have reviewed the Stipulation and was involved in the discussions reaching
5 resolution. The Stipulation addresses all issues raised and recommendations made
6 in the Audit Report. Specifically, the Stipulation resolves two of the three
7 recommendations, which address the Company's plan for meeting the alternative
8 energy requirements into the future (refer to Finding VII-1) and monitoring
9 billing situations where kWh data does not match so as to find out what is causing
10 any billing issues (refer to Finding IX-3) respectively. The Stipulation also agrees
11 to a process to resolve the third Audit Report recommendation, namely ensuring
12 that RECON rider adjustments are properly incorporated into subsequent filings
13 (refer to Recommendation IX-1).

14 It is my understanding that the purpose of this last recommendation is
15 simply to true-up the Rider RECON to close out the recovery of costs related the
16 rider PTC FPP and SRA STR as was contemplated in Case No. 11-3549-EL SSO,
17 which created the RECON Rider as part of the Company's new electric security
18 plan. As the Stipulation reflects, the parties agree that Duke Energy Ohio will
19 adjust the Rider RECON to recover approximately \$68,000 related to
20 governmental imposition claims by coal suppliers for 2011 deliveries and that
21

1 Rider RECON will remain open as a true-up mechanism so to allow for an
2 independent audit of costs allocated to Duke Energy Ohio pertaining to Ohio
3 Power's (formerly "Columbus Southern Power") operation of the joint owned¹
4 Conesville Unit 4 that occurred in 2011. Specifically these costs include
5 liquidated damages associated with certain contractual under-deliveries of coal at
6 Ohio Power's direction and for closure costs associated with the Conesville coal
7 preparation plant (collectively, Conesville Costs), both of which were incurred in
8 2011, but were not transparent to the Company. The nature of these costs and the
9 Company's position regarding such costs is more fully discussed in the Direct
10 Testimony of Salil Pradhan and in my Supplemental testimony filed September 7,
11 2012.

12 **Q. DOES THE STIPULATION REPRESENT THE PRODUCT OF SERIOUS**
13 **BARGAINING AMONG CAPABLE, KNOWLEDGABLE PARTIES?**

14 A. Yes. The knowledge and capability of the parties to the Stipulation, and their
15 attorneys are readily apparent. The parties regularly participate in rate
16 proceedings before the Commission, are knowledgeable in regulatory matters, and
17 are represented by experienced, competent counsel.

18 The Commission retained an independent auditor, Schumaker and
19 Associates to review Duke Energy Ohio's adjustments to its Fuel and Purchased
20 Power and to its System Reliability Tracker Riders for calendar year 2011. The

¹ Duke Energy Ohio, Ohio Power, and Dayton Power & Light all own a share of Conesville Unit 4 that Ohio Power operates.

1 auditor filed its Audit Report on May 10, 2012. During the audit, Duke Energy
2 Ohio responded to numerous data and discovery requests received from the
3 Commission's auditor.

4 Settlement negotiations occurred via e-mail and all of the issues raised by
5 the auditors in this proceeding were addressed during these negotiations. All
6 parties had an opportunity to express their opinions in the negotiating process.
7 For all of these reasons, I believe that the Stipulation is a compromise resulting
8 from serious bargaining among capable, knowledgeable parties.

9 **Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT**
10 **REGULATORY PRINCIPLE OR PRACTICE?**

11 A. No. Based on the advice of counsel, my understanding is that the Stipulation
12 complies with all relevant and important principles and practices. Based upon my
13 examination of the Stipulation as Director Rates and Regulatory Strategy, Ohio
14 and Kentucky, I have also concluded that the Stipulation it is consistent with prior
15 Commission's Orders involving the Company's Rider PTC-FPP and SRA-SRT of
16 the Company's Electric Security Plan (ESP). The Stipulation results in a
17 reasonable rate for customers, and allows the Company to recover its eligible
18 costs under the Fuel and Purchased Power Rider and System Reliability Tracker
19 in a manner consistent with the terms of the Company's Commission-approved
20 ESP. The Stipulation also allows an opportunity for a separate audit of specific
21 fuel costs that are related to the Conesville Unit 4 generating station that the
22 Company maintains were eligible for recovery via Rider PTC-FPP but that were

1 not transparent at the time of the 2011 Rider PTC-FPP audit. The Stipulation
2 resolves recommendations set forth in the Audit Report and is fully supported by
3 the evidence presented to the Commission and other Parties in this case.

4 **Q. DOES THE STIPULATION BENEFIT RATEPAYERS AND THE PUBLIC**
5 **INTEREST?**

6 A. Yes. As I already mentioned, the Stipulation addresses the recommendations
7 contained in the Audit Report and provides for a process to close out Duke
8 Energy Ohio's Rider RECON through the separate audit of the Conesville Costs.

9 **Q. IS THE STIPULATION A JUST AND REASONABLE RESOLUTION OF**
10 **THE ISSUES?**

11 A. Yes. As described above, the Stipulation affords benefits to consumers and the
12 public and is consistent with established regulatory principles and practices. The
13 Stipulation also represents a timely and efficient resolution of the issues raised in
14 this proceeding, after thoughtful deliberation and discussion by the Stipulating
15 Parties.

16 **Q. DO YOU BELIEVE THE STIPULATION MEETS THE THREE-PART**
17 **TEST REGARDING CONSIDERATION OF STIPULATIONS AND**
18 **THEREFORE SHOULD BE ADOPTED BY THE COMMISSION?**

19 A. Yes, I do.

20 **Q. DOES THE STIPULATION RESOLVE ALL OF THE ISSUES IN THIS**
21 **PROCEEDING?**

22 A. Yes, it does.

III. CONCLUSION

1 **Q. DOES THIS CONCLUDE YOUR SECOND SUPPLEMENTAL**
2 **TESTIMONY?**

3 **A. Yes.**

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

10/9/2012 9:10:05 AM

in

Case No(s). 11-0974-EL-FAC, 11-0975-EL-RDR

Summary: Testimony Second Supplemental, of William Don Wathen Jr. in Support of Settlement electronically filed by Dianne Kuhnell on behalf of Duke Energy Ohio, Inc. and Spiller, Amy B. and Rocco D'Ascenzo