

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
Duke Energy Ohio, Inc., for an)	Case No. 12-1682-EL-AIR
Increase in Electric Distribution Rates.)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc., for Tariff)	Case No. 12-1683-EL-ATA
Approval.)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc., for Approval)	Case No. 12-1684-EL-AAM
to Change Accounting Methods.)	

SUPPLEMENTAL DIRECT TESTIMONY OF

JAMES E. ZIOLKOWSKI

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____	Management policies, practices, and organization
_____	Operating income
_____	Rate Base
_____	Allocations
_____	Rate of return
_____	Rates and tariffs
<u> X </u>	Other: Cost of Service Study

February 19, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION AND PURPOSE	1
II. OBJECTIONS SUPPORTED BY WITNESS.....	1
III. CONCLUSION	4

I. INTRODUCTION AND PURPOSE

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

2 A. My name is James E. Ziolkowski, 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 Rates
6 Manager. 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. ARE YOU THE SAME JAMES E. ZIOLKOWSKI WHO FILED DIRECT**
10 **TESTIMONY IN THESE PROCEEDINGS?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**
13 **TESTIMONY?**

14 A. The purpose of my Supplemental Direct Testimony is to support the Company's
15 objections to the January 4, 2013, Report by the Staff of the Public Utilities
16 Commission of Ohio (Staff Report) in these proceedings as they relate to the
17 Company's Cost of Service Study.

II. OBJECTIONS SPONSORED BY WITNESS

18 **Q. PLEASE DESCRIBE COMPANY OBJECTION NO. 17.**

19 A. Duke Energy Ohio objects to the Staff's recommendation to move customers two-
20 thirds of the way to full cost of service rates while at the same time proposing
21 revenues that are similar to the Company's proposed revenues developed using a

1 fifteen percent movement toward full cost of service. Duke Energy Ohio does not
2 agree with the methodology employed by the Staff to calculate the two thirds
3 subsidy/excess elimination.

4 Duke Energy Ohio believes that, under generally accepted utility rate design
5 principles, the rates for each customer class should fully reflect the costs of serving
6 that class, and that all inter-class subsidies should be eliminated. Duke Energy Ohio
7 proposed a fifteen percent movement towards a cost of service in these proceedings
8 in an attempt to balance the various competing principles of rate making, including
9 gradualism.

10 The Staff Report states: “With the exception of Rate EH class in Table 1,
11 Staff’s proposal is not significantly different than the applicant.” By moving from
12 fifteen percent to sixty-seven percent toward cost of service it is logical to expect
13 that the variance in proposed revenues would be much larger. Staff’s methodology
14 as proposed in the Staff Report is not at all a sixty-seven percent movement toward
15 a full cost of service rate, but in fact is something much less. The Company has thus
16 far been unable to replicate Staff’s methodology using conventional cost of service
17 calculations for elimination of subsidy excess, to reproduce Staff’s result. The
18 following table shows a comparison of Duke Energy Ohio’s proposed revenues
19 versus the Staff Report’s proposed revenues, followed by the proposed revenues
20 using an actual two thirds movement toward cost of service:

	Applicant	Staff	Variance	Applicant	Variance
	Proposed	Proposed	Between Staff	Proposed	Between Applicant
Rate Class	Revenue @ 15%	Revenue	and Applicant	Revenue @ 67%	Proposed Revenue
			Proposed Revenue		at 15% and 67%
Rate RS	245,319,480	245,173,970	(145,510)	250,232,193	4,912,713
Rate DS	126,735,145	127,014,932	279,787	119,479,862	(7,255,283)
Rate EH	1,383,281	1,496,935	113,654	1,897,354	514,073
Rate DM	22,241,651	22,041,096	(200,555)	19,594,351	(2,647,300)
Rate GSFL	713,343	714,146	803	678,919	(34,424)
Rate DP	29,647,723	29,612,093	(35,630)	32,683,600	3,035,877
Rate TS	123,544	123,499	(45)	81,529	(42,015)
Lighting	11,770,312	11,757,807	(12,505)	13,286,671	1,516,359
Total	437,934,479	437,934,478	(1)	437,934,479	0

1 As the chart shows, a movement to towards two-thirds cost of service rates
2 produces dramatically different results than what is indicated in the Staff Report.
3 Because the Company is thus far unable to replicate Staff's calculation to reproduce
4 the Staff Report's results, Staff's methodology should be discarded.

5 **Q. MR. ZIOLKOWSKI, WHAT IS YOUR RECOMMENDATION IN THIS**
6 **REGARD?**

7 A. As I stated previously, the Company supports the concept of moving toward full
8 cost of service rates for each rate class, but that move must be balanced by the
9 principle of gradualism. Duke Energy Ohio disagrees with Staff's calculations
10 insofar as it is not accurately described as sixty-seven percent elimination, nor can it
11 be reproduced using conventional cost of service study subsidy excess elimination
12 calculations. The Company believes that, based on its own calculations, elimination
13 of two-thirds of the subsidy/excess will result in larger-than-desired rate increases
14 for some classes. As such, the Company recommends that the Commission adopt
15 the fifteen percent elimination of subsidy excess submitted by the Company in this

1 proceeding. The Company's methodology is supportable, reproducible and by
2 Staff's own concession in the Staff Report is not that different from what ever
3 calculation Staff used to achieve its desired result.

III. CONCLUSION

4 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL DIRECT**
5 **TESTIMONY?**

6 **A. Yes.**

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Case No(s). 12-1682-EL-AIR, 12-1683-EL-ATA, 12-1684-EL-AAM

Summary: Testimony Supplemental Direct Testimony of James E. Ziolkowski electronically filed by Ms. Elizabeth H Watts on behalf of Duke Energy Ohio, Inc.