

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of )  
Duke Energy Ohio, Inc., for an ) Case No. 12-1685-GA-AIR  
Increase in Gas Rates. )

In the Matter of the Application of )  
Duke Energy Ohio, Inc., for Tariff ) Case No. 12-1686-GA-ATA  
Approval. )

In the Matter of the Application of )  
Duke Energy Ohio, Inc., for Approval ) Case No. 12-1687-GA-ALT  
of an Alternative Rate Plan for Gas )  
Distribution Service. )

In the Matter of the Application of )  
Duke Energy Ohio, Inc., for Approval ) Case No. 12-1688-GA-AAM  
to Change Accounting Methods. )

---

**SUPPLEMENTAL DIRECT TESTIMONY OF**

**PATRICIA W. MULLINS**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

---

\_\_\_\_\_ Management policies, practices, and organization  
\_\_\_\_\_ Operating income  
\_\_\_\_\_ Rate base  
\_\_\_\_\_ Allocations  
\_\_\_\_\_ Rate of return  
\_\_\_\_\_ Rates and tariffs  
  X   Other: Budgeting and Forecasting

February 25, 2013

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>I. INTRODUCTION AND PURPOSE .....</b>	<b>1</b>
<b>II. OBJECTIONS SPONSORED BY WITNESS .....</b>	<b>1</b>
<b>III. CONCLUSION .....</b>	<b>7</b>

**ATTACHMENT**

**PWM-SUPP-1 Gas Comparison of Actual Expenses**

**I. INTRODUCTION AND PURPOSE**

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

2 A. My name is Patricia W. Mullins, and my business address is 550 South Tryon Street,  
3 Charlotte, North Carolina 28202.

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,  
6 Regional Financial Forecasting. DEBS provides various administrative and other  
7 services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other  
8 affiliated companies of Duke Energy Corporation (Duke Energy).

9 **Q. ARE YOU THE SAME PATRICIA W. MULLINS 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. My Supplemental Testimony will describe and support the Company's objection  
15 to certain findings and recommendations contained in the Report by the Staff of  
16 the Public Utilities Commission of Ohio (Staff) issued in these proceedings on  
17 January 4, 2013 (Staff Report).

**II. OBJECTIONS SPONSORED BY WITNESS**

18 **Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 9**

19 A. Duke Energy Ohio objects to Staff's recommendation to adjust the Company's  
20 test year revenue requirement for actual data for a few selected operating and  
21 maintenance (O&M) expense accounts to the exclusion of all other accounts

1 where variances between forecasted and actual data occurred. Staff characterizes  
2 this adjustment as its budget adjustment. The Company's proposed test year  
3 O&M expense is representative of its ongoing normal cost of providing natural  
4 gas distribution service to its customers. The test year O&M expense reflects  
5 three months of actual data (January 1, 2012, through March 31, 2012, and nine  
6 months of budgeted data, April 1, 2012, through December 31, 2012).

7 In Schedule C-2.1 of the Company's Standard Filing Requirements, there  
8 are more than forty individual accounts, not including sub accounts, which make  
9 up the O&M expense for the test year. Of those accounts and sub accounts, Staff  
10 selected just six accounts, ten total adjustments including sub accounts, to adjust  
11 due to what Staff considered a "significant variance" between the amounts  
12 included in the test year compared with actual results for part of the test year and  
13 compared with prior years. All but one of the adjustments proposed by Staff,  
14 lowered O&M expense and, consequently, lowered the Company's revenue  
15 requirement. By neglecting to also adjust all the other O&M accounts, Staff  
16 failed to recognize that there were increases to other O&M accounts that mostly  
17 offset the lower O&M selected by Staff. It is patently unfair for Staff to only  
18 consider the actual expense for those select accounts that mostly serve to reduce  
19 the Company's forecasted budget used to determine the Company's expenses in  
20 these proceedings, and ignore all other offsetting adjustments for actual expense  
21 increases in the other accounts.

22 The Company stands by its original data for the test year O&M expense;  
23 however, if the Public Utilities Commission of Ohio (Commission) chooses to

1 update the data to reflect actual experience in 2012, then it must address all of the  
2 O&M accounts and all resource types and not just those that function to lower the  
3 revenue requirement.

4 **Q. HOW IS THE STAFF'S PROPOSED BUDGET ADJUSTMENT FLAWED?**

5 A. The O&M expenses included in the Company's test year revenue are included on  
6 Supplemental Schedule (C)(8), which was filed with the Application and has been  
7 updated throughout the year with actual data as it becomes available. This  
8 schedule is an account table with over 100 unique lines of data, which includes all  
9 of the O&M expense categories included in the Company's test year revenue  
10 requirement. Out of those unique subaccounts, the Staff chose to focus on even  
11 more detailed components of those subaccounts to compare the amounts budgeted  
12 for April 2012 through December 2012 to actual data recorded in those same  
13 accounts for the period April 2012 through September 2012, and to actual data  
14 from a prior period. The six cost items the Staff selected were:

- 15 • Account 903100, 903200 & 903300 (Subcategory: Postage & Freight)
- 16 • Account 924000 (Subcategory: Financial Services)
- 17 • Account 925000 (Subcategory: Workers Compensation)
- 18 • Account 929000 (Subcategory: Duplicate Charges)
- 19 • Account 930200 (Subcategory: Service Company Overhead)
- 20 • Account 931001 (Subcategory: Software Maintenance, Rent and  
21 Construction / maintenance)

22 Even if it were appropriate to just look at the budget versus actual for just  
23 one expense, Staff's proposal fails to recognize differences in the way dollars are

1 allocated for budgeting purposes and how the expense is recorded for actual  
2 expense.

3 **Q. PLEASE PROVIDE SPECIFIC EXAMPLES TO SHOW HOW STAFF'S**  
4 **ADJUSTMENTS TO THE AFOREMENTIONED ACCOUNTS WERE**  
5 **FLAWED.**

6 A. Yes. In Attachment PWM-SUPP-1, I provide a few examples of how actual  
7 charges are included in other subaccounts of the same Account. By way of  
8 example, and using one of the accounts unfairly impacted by the Staff, I provide  
9 details on how postage and freight was budgeted and how it was recorded for  
10 actual expenses. For budgeting purposes, which is what the test year was based  
11 on, the resource type "postage and freight" was budgeted to four different  
12 subaccounts, all appropriately under FERC Account 903, Customer Records and  
13 Collection Expense. For the test year, the sum of all postage and freight expense  
14 budgeted to Account 903 was \$1,265,950. If Staff, as part of its comparison to  
15 actual expense as of September 30, 2012 (the time period that Staff chose to make  
16 its adjustments), had reviewed all of the actual postage and freight expense  
17 charged to Account 903, Staff would have seen that the total charges for postage  
18 and freight were actually \$1,285,668. The actual expense was thus higher than  
19 originally included in the Application. Staff's methodology and adjustment  
20 suggest that the Company's test year expense for postage and freight was only  
21 \$329,275 (the Company's test year amount less Staff's adjustment). Clearly,  
22 Staff's adjustment does not achieve the objective it had in mind insofar as it  
23 misrepresents the actual costs for postage and freight.

1           Staff makes a similar mistake with its adjustment to Account 924.  
2           Attachment PWM-SUPP-1 reflects the adjustment that should be made by Staff  
3           for this account if its intent was to accurately reflect the updated actual data for  
4           these cost items.

5           The Company's budgeting guidelines suggest budgeting at the  
6           higher/summary account level rather than at the sub account level. Some, but not  
7           all functional responsibility centers go beyond the summary account level and  
8           budget at the sub account level. This discretion is generally left to the  
9           responsibility centers. The responsibility center is the lowest level of budget  
10          responsibility and supports reporting of costs for a departmental view. As a  
11          result, the level of accountability for managing actual versus budget variances  
12          should be considered when determining the level of budget detail. The  
13          Company's budget is more focused on the reasonableness at the account level  
14          expense versus populating all subaccounts. The Staff, through its selective  
15          adjustments, has pulled apart the budget at a subaccounts level and has selectively  
16          adjusted only a few of the accounts to reflect actual expense. Staff's selective  
17          methodology wholly ignores the fact that actual expenses may be accounted for  
18          through different subaccounts than what was initially forecasted. The Staff's  
19          adjustment in this respect is truly an example of failing to see the forest through  
20          the trees. The Company's monthly management review of Actual vs. Budget  
21          variances focuses on the account level details, not the sub accounts. It is neither  
22          accurate nor fair to focus on only the ten selected sub accounts for truing up for  
23          actual expense, completely ignoring all other corresponding actual expenses.

1 **Q. DO YOU BELIEVE THE COMMISSION SHOULD ACCEPT STAFF'S**  
2 **PROPOSED BUDGET ADJUSTMENTS AS SET FORTH IN THE STAFF**  
3 **REPORT?**

4 A. No. The Commission should not accept Staff's recommendation to adjust these  
5 expenses as the Staff's proposal would unreasonably deny the Company recovery  
6 of a real and legitimate expense incurred in carrying out its obligations as natural  
7 gas utility. The Commission should follow the test year concept and approve the  
8 forecasted budget expenses as submitted by the Company. However, if the  
9 Commission believes that there should be recognition of variances to the  
10 forecasted budget to actual expenses incurred through the test year, then all  
11 accounts and subaccounts must be adjusted to fairly and accurately reflect the  
12 Company's true expenses. Selecting just ten subaccounts that, in total, happen to  
13 serve to reduce the Company's level of expenses to a level arbitrarily determined  
14 by Staff is patently unfair and, in this case serves to undervalue the Company's  
15 costs to provide service to customers.

16



**III. CONCLUSION**

1 **Q. WAS ATTACHMENT PWM-SUPP-1 PREPARED BY YOU AND UNDER**  
2 **YOUR DIRECTION AND CONTROL?**

3 **A. Yes.**

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

6 **A. Yes.**

**Duke Energy Ohio**  
**Gas Budgeted Test Year vs 9x3 Variance**  
**Account by Resource Type**

Acct	Res Type	Res Type Descr	Test Period	9 x 3	Variance	Staff Budget Adj
903100	33001	Postage & Freight	\$ 346,572.00	\$ 115,524.00	\$ (231,048.00)	\$ (346,572.00) (1)
903200	33001	Postage & Freight	\$ 327,834.00	\$ 109,278.00	\$ (218,556.00)	\$ (327,834.00) (1)
903300	33001	Postage & Freight	\$ 262,269.00	\$ 87,423.00	\$ (174,846.00)	\$ (262,269.00) (1)
903000	33001	Postage & Freight	\$ 329,275.30	\$ 973,443.39	\$ 644,168.09	\$ - (1) (2)
		<u>903 Postage &amp; Freight</u>	\$ 1,265,950.30	\$ 1,285,668.39	\$ 19,718.09	\$ (936,675.00)
924000	71001	Financial Services	\$ 934,792.20	\$ 316,647.90	\$ (618,144.30)	\$ (927,533.00) (2);(3)
924050	71005	Insurance - Other	\$ 28,008.00	\$ 84,024.00	\$ 56,016.00	(3)
925000	71004	Workers Compensation	\$ 308,883.91	\$ 391,001.41	\$ 82,117.50	\$ 121,241.00 (2);(3)
925051	71002	Liability Insurance	\$ 151,728.00	\$ 455,184.00	\$ 303,456.00	(3)
		<u>924 / 925 Insurance</u>	\$ 1,423,412.11	\$ 1,246,857.31	\$ (176,554.80)	\$ (806,292.00)

- 1) Budget in accounts 0903100, 0903200 and 0903300. The actuals came through account 0903000.
- 2) Items not adjusted by staff, but need to be included as budget / actual offset.
- 3) Budget is in account 0924000 and actual is in various 924 and 0925 accounts.

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**2/25/2013 3:19:53 PM**

**in**

**Case No(s). 12-1685-GA-AIR, 12-1686-GA-ATA, 12-1687-GA-ALT, 12-1688-GA-AAM**

Summary: Testimony Supplemental Direct Testimony of Patty Mullins on Behalf of Duke Energy Ohio, Inc. electronically filed by Carys Cochern on behalf of Duke Energy