

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.	)	

DIRECT TESTIMONY OF

STEVEN MICHAEL COVINGTON

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: Accounting Adjustments

February 25, 2013

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ATTACHMENT

SMC -1 Sample of 2012 Affiliate Service Request Forms

I. INTRODUCTION AND PURPOSE

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

2 A. My name is Steven Michael Covington, and my business address is 550 South
3 Tryon Street, 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 Managing
6 Director, Midwest Accounting. 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. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL**
10 **BACKGROUND AND PROFESSIONAL EXPERIENCE.**

11 A. I earned a Bachelor of Science degree with honors in Accounting from the
12 University of North Carolina at Charlotte in 1981 and a Masters in Ministry from
13 Southern Wesleyan University in 2006. I am a Certified Public Accountant in the
14 state of North Carolina and am a member of the American Institute of Certified
15 Public Accountants and the North Carolina Association of Certified Public
16 Accountants. My professional work experience began in 1981 when I joined Duke
17 Power Company (a predecessor company to today's Duke Energy) as an entry
18 level accountant within the Controller's Department. I have held a variety of
19 management positions beginning in 1990 primarily in Corporate Financial
20 Planning and Analysis, Catawba (Joint Owner) Accounting, various other
21 accounting areas including Corporate Accounting, as well as Business Unit and
22 Corporate Finance within the Treasurer's Department. I was named to my current

1 role as Managing Director, Midwest Accounting in August 2012 following the
2 merger with Progress Energy from my then most recent position as Managing
3 Director, Corporate Accounting.

4 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS MANAGING**
5 **DIRECTOR, MIDWEST ACCOUNTING.**

6 A. I am responsible for reporting the financial results and maintaining the books of
7 account for Duke Energy's public utility operating companies in Ohio, Indiana
8 and Kentucky, including Duke Energy Ohio. I am also responsible for the
9 oversight and analysis of the financial results of these entities and the underlying
10 accounting methods and policies.

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
12 **UTILITIES COMMISSION OF OHIO?**

13 A. No.

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

16 A. The primary purpose of my testimony is to adopt the Direct Testimony of Daniel
17 J. Reilly that was filed in these proceedings on July 20, 2012. Mr. Reilly has
18 assumed a new position with Duke Energy as Director, U.S. Franchised Electric
19 and Gas Accounting, taking over the responsibilities formerly held by Carl J.
20 Council. On August 1, 2012, I assumed my current role and responsibilities as
21 Managing Director, Midwest Accounting. My Direct Testimony will also
22 describe and support one of the Company's objections to certain findings and
23 recommendations contained in the Report by the Staff of the Public Utilities

1 Commission of Ohio (Staff) issued in these proceedings on January 4, 2013 (Staff
2 Report).

3 II. ADOPTION OF TESTIMONY

3 **Q. ARE YOU FAMILIAR WITH THE DIRECT TESTIMONY SUBMITTED**
4 **BY MR. REILLY IN THESE PROCEEDINGS AND THE SCHEDULES AND**
5 **ATTACHMENTS DESCRIBED IN HIS DIRECT TESTIMONY**
6 **SUPPORTING THE COMPANY'S ALLOCATIONS?**

7 A. Yes. I have reviewed the various schedules submitted by the Company and
8 sponsored by Mr. Reilly in his July 20, 2012, Direct Testimony, namely
9 information relating to Duke Energy Ohio's financial position and the actual results
10 of the Company's operations as of March 31, 2012, the date certain in these
11 proceedings. I have reviewed Schedules C-10.1 and C-10.2, pages 2 and 4 of both
12 Schedule D-5A and Schedule D-5B, the following Supplemental Filing
13 Requirements: (C)(1), (C)(2), (C)(4), (C)(5), and (C)(6), and the following service
14 agreements: Service Company/Utility, Operating Company, and Operating
15 Company/Non-Utility Companies. I am also familiar with certain accounting
16 adjustments to Duke Energy Ohio's financial position per the accounting books,
17 which were discussed in Mr. Reilly's Direct Testimony and as shown on work
18 paper WPD-1a.

19 **Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES AND**
20 **BOOKS OF ACCOUNT OF DUKE ENERGY OHIO?**

21 A. Yes.

1 **Q. AS MANAGING DIRECTOR OF MIDWEST ACCOUNTING, DO YOU**
2 **HEREBY ADOPT THE DIRECT TESTIMONY OF DANIEL J. REILLY**
3 **FILED IN THESE PROCEEDINGS ON JULY 20, 2012 AS YOUR OWN?**

4 A. Yes. As a result of my assumption of the responsibilities of Managing Director,
5 Midwest Accounting, and through my thorough review of the aforementioned
6 information submitted in these proceedings, I am very familiar with the Company's
7 operations and hereby adopt these schedules and the information and support Mr.
8 Reilly provided in his Direct Testimony as my own Direct Testimony in these
9 proceedings.

III. OBJECTIONS SPONSORED BY WITNESS

10 **Q. PLEASE DESCRIBE THE COMPANY'S OBJECTION NO. 7.**

11 A. The Company objects to the Staff's proposed adjustments to test year labor
12 expense. The Company's objection in this regard is more fully addressed in the
13 Supplemental Direct Testimony of Peggy A. Laub. My Direct Testimony
14 specifically addresses the Staff's recommended adjustment related to Labor
15 expense associated with affiliate labor provided to Duke Energy Ohio by its sister
16 utilities. These affiliate transactions occur in accordance with the Operating
17 Companies Agreement that was filed in these proceedings as Attachment DJR-2.

18 **Q. ARE YOU FAMILIAR WITH THIS OPERATING COMPANY**
19 **AGREEMENT?**

20 A. Yes, I am.

1 **Q. PLEASE BRIEFLY DESCRIBE THE OPERATING COMPANIES**
2 **AGREEMENT.**

3 A. As Mr. Reilly explained in his Direct Testimony, the Operating Companies
4 Agreement governs cost allocations between or among the operating companies.
5 The operating companies include the affiliated utilities within the Duke Energy
6 family of companies. More specifically, the operating companies include Duke
7 Energy Ohio, Duke Energy Kentucky, Inc., Duke Energy Indiana, Inc., Duke
8 Energy Carolinas, LLC and, as of the completion of the recent merger between
9 Duke Energy and Progress Energy, the newly acquired Progress Energy utilities
10 in North and South Carolina and Florida. This agreement defines the terms and
11 conditions as well as the types of services that may be provided between and
12 among Duke Energy sister utilities.

13 **Q. IS THE OPERATING COMPANIES AGREEMENT A NEW CONCEPT**
14 **FOR EITHER DUKE ENERGY OHIO OR THE PUBLIC UTILITIES**
15 **COMMISSION OF OHIO (COMMISSION)?**

16 A. No. In fact, this agreement between Duke Energy Ohio and its sister utilities has
17 been in place, in substantially the same form, for many years, even prior to the
18 Duke Energy/Cinergy Corporation merger in 2006. Duke Energy Ohio, including
19 its former identity as the Cincinnati Gas & Electric Company, has been providing
20 and receiving services, particularly from Duke Energy Kentucky, on a regular
21 basis for decades. Duke Energy Ohio is and has always been the parent company
22 of Duke Energy Kentucky. These two companies have historically shared many

1 facilities, business functions and personnel as a way to efficiently manage costs
2 for both operations.

3 **Q. WHAT TYPES OF LABOR SERVICES ARE PROVIDED BETWEEN**
4 **AND AMONG THE OPERATING COMPANIES UNDER THE**
5 **AGREEMENT YOU JUST DESCRIBED.**

6 A. The types of labor services that are included in the agreement include
7 engineering, construction, operations and maintenance, installation services,
8 equipment testing, generation technical support, environmental health and safety,
9 and procurement services. By way of a more explicit example, Duke Energy
10 Ohio and Kentucky share meter testing facilities. Meter testing personnel may be
11 employees of either utility but typically provide services for both. The labor is
12 directly assigned in accordance with the terms and conditions of the Operating
13 Companies Agreement.

14 **Q. ARE THE SERVICES PROVIDED BETWEEN AND AMONG THE**
15 **OPERATING COMPANIES LIMITED SOLELY TO EMERGENCY**
16 **SITUATIONS OR CONSTRUCTION?**

17 A. Not at all. The agreement contemplates the provision of services irrespective as
18 to whether or not the need arises out of an emergency situation or construction
19 activity. There are numerous other services that occur on a daily basis. The
20 agreement is designed to allow for the effective and efficient utilization of
21 resources between and among jurisdictions as such resources are available.

1 **Q. DOES THE COMPANY HAVE ANY DATA TO SUPPORT THESE**
2 **SERVICES UNDER THE OPERATING COMPANIES AGREEMENT?**

3 A. Yes. The agreement contemplates service request forms to be issued and
4 accepted by the client and service companies. Attachment SMC-1 includes a
5 sample of the various service request forms depicting the various services
6 provided to Duke Energy Ohio by its sister utilities during 2012, the test year in
7 these proceedings, and in accordance with the Operating Companies Agreement.
8 As you can see, these services include, but are not limited to:

- 9 • Information Technology upgrades shared across Ohio,
10 Kentucky, Indiana and Carolina jurisdictions;
- 11 • Duke Energy Kentucky field operations employees
12 providing operations and maintenance services to gas
13 operations equipment;
- 14 • Duke Energy Kentucky employees performing operations
15 and maintenance services including, but not limited to,
16 valve maintenance, system monitoring, leak repair,
17 vegetation management, and corrosion testing;
- 18 • KO Transmission performing billing services, tracking
19 deliveries, and regulatory reporting.

20 **Q. IS THE AFORMENTIONED LIST THE EXTENT OF SERVICES**
21 **PROVIDED TO DUKE ENERGY OHIO DURING THE TEST YEAR?**

22 A. No. This is just a sample of the services provided to Duke Energy Ohio. The
23 point is simply to demonstrate the types of services that are in fact provided

1 throughout the year by Duke Energy Ohio's sister utilities and to show that these
2 services are not simply limited to emergency situations or construction activities.

3 **Q. THE SERVICE REQUEST FORMS INCLUDE A COST ESTIMATE; IS**
4 **THAT THE TOTAL COST OF THE SERVICES PROVIDED BY THE**
5 **AFFILIATE UNDER THE AGREEMENT?**

6 A. No. That is simply the estimate of costs at the time of the request. The estimate is
7 for budgeting purposes, and to ensure the person with the appropriate level of
8 authority is approving the service request and ensuring that the company
9 providing the service is capable of doing so. Actual costs will be charged to the
10 client company/service receiver, in these cases Duke Energy Ohio.

11 **Q. HAS THE OPERATING COMPANIES AGREEMENT EVER BEEN**
12 **AUDITED BY THIS COMMISSION?**

13 A. Yes it has. This Commission most recently audited the service agreements,
14 including the Operating Companies Agreement, as part of the Company's
15 corporate separation plan in Case No. 09-495-EL-UNC. The result of that case
16 was the creation of a document entitled "The Final Report Compliance Audit of
17 Duke Energy Ohio On Behalf of the Public Utilities Commission of Ohio," dated
18 March 29, 2010 (Audit Report). The Audit Report in that case contained, among
19 other things, a detailed discussion regarding the types of affiliate transactions that
20 occur under the various service agreements, including the Operating Companies
21 Agreement. The Commission's auditor ultimately found that Duke Energy's
22 method for calculating transfer prices under the agreement was reasonable.¹

¹(In the Matter of the Application for Approval of Duke Energy Ohio's Second Amended Corporate Separation Plan) Case No. 09-495-EL-UNC, (Audit Report at 54)(March 29, 2012).

1 In fact, in these proceedings, the Staff selected Finance and Accounting
2 with a specific emphasis on the development and use of its cost allocation
3 methodology and factors as one of the areas for its focus during its audit. Again,
4 the Staff Report did not identify any concerns with the Company's allocations.

5 **Q. IN YOUR OPINION, IS STAFF'S ADJUSTMENT TO ELIMINATE THIS**
6 **CATEGORY OF LABOR EXPENSE REASONABLE?**

7 A. No. The affiliate labor is a real and knowable expense. Duke Energy Ohio
8 incurred real labor expense for these services and customers benefitted by having
9 this additional shared resource available. These transactions have been occurring
10 for many years and have been audited recently by the Commission. It is thus
11 unreasonable for the Staff to completely eliminate labor expense related to
12 affiliate services provided to Duke Energy Ohio, especially without any
13 justification whatsoever.

IV. CONCLUSION

14 **Q. WAS ATTACHMENT SMC -1 PREPARED BY YOU AND UNDER YOUR**
15 **DIRECTION AND CONTROL?**

16 A. Yes. The Attachment SMC-1 reflects a true and accurate sample of the types of
17 the service request forms generated in accordance with the Operating Companies
18 Agreement.

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes.

Form # efr148v1-001843

Form Status: Approved

Form Submitter Information:Name: Brown, James M
Phone: (513) 2873405**Service Provider:****Service Provider Approver Information:**Name: DUKE ENERGY CAROLINAS
Litaker, David M
Phone: (704) 3824951

The approver should be appropriate according to the Expenditures Divestitures & Terminations Category of the Delegation of Authority (DOA) matrix

**Description of Proposed Service
Please Provide Basis for Estimated Costs:**

Duke Energy Carolinas employee (Michael Johnson) working on EGIS upgrade project. Charges to the EGIS project split across all jurisdictions (DEO, DEK, DEI, and DEC). Therefore, accompanying Service Requests will be written for each jurisdiction. The estimated cost includes labor and associated expenses.

Confirmation of Service Provider Utility
Responsibilities by Service Provider
Approver:

Yes

Client Company:

DUKE ENERGY OHIO REGULATED

Client Company Approver Information:Name: Elliott, Karen O
Phone: (704) 3826062

The approver should be appropriate according to the Expenditures Divestitures & Terminations Category of the Delegation of Authority (DOA) matrix

Estimated Costs: \$ 48,000
Scheduled Start Date: 1/1/2012
Scheduled Completion Date: 12/31/2012**Legal Approval Representative:**

Franklin Brian L.

PeopleSoft Accounting codes for the Services Provided:Client Co. Operating Unit: A302
Service Provider Resp. Center: 4315
Process: TDIT
Project: EGISUPGSO
Activity: Various
G/L Account:
Comments:

Form # efr148v1-001908

Form Status: Approved

Form Submitter Information:

Name: Brown, James M
Phone: (513) 2873405

Service Provider:

Service Provider Approver Information:

Name: TOEBBE, Ken C
Phone: (859) 5344361

The approver should be appropriate according to the Expenditures, Divestitures & Terminations Category of the Delegation of Authority (DOA) matrix

**Description of Proposed Service
Please Provide Basis for Estimated Costs:**

Duke Energy Kentucky Field Ops Employees providing operations and maintenance services to Gas operations equipment. The cost includes Labor and associated Expenses for 2012 (cost based on 6 month actual and 6 month estimated). Additional Accounting Process: METERCG, PRCRMAT, PREMWOR

Confirmation of Service Provider Utility Responsibilities by Service Provider Approver:

Yes

Client Company:

DUKE ENERGY OHIO REGULATED

Client Company Approver Information:

Name: Onsey, Tony
Phone: (513) 2872825

The approver should be appropriate according to the Expenditures, Divestitures & Terminations Category of the Delegation of Authority (DOA) matrix

Estimated Costs:

\$ 600,000

Scheduled Start Date:

1/1/2012

Scheduled Completion Date:

12/31/2012

Legal Approval Representative:

D'Ascenzo, Rocco Ormano

PeopleSoft Accounting codes for the Services Provided:

Client Co. Operating Unit:

GD10

Service Provider Resp. Center:

S518

Process:

INSPECT

Project:

Various

Activity:

Various

G/L Account:

Comments:

Form # efr148v1-001657

Form Status: Approved

Form Submitter Information:

Name: Pickens, Phyllis L
Phone: (513) 2872139

Service Provider:

Service Provider Approver Information:

Name: DUKE ENERGY KENTUCKY, INC.
Name: Mehring, Jim
Phone: (513) 2872535

The approver should be appropriate according to the Expenditures Divestitures & Terminations Category of the Delegation of Authority (DOA) matrix

Description of Proposed Service
Please Provide Basis for Estimated Costs:

Perform all operating and maintenance services These include but are not limited to: T/L Patrol - System Ops/Doug Vaught Valve Maintenance - System Ops/Doug Vaught Leak Survey - C&M/Doug Vaught & Steve Farley Cathodic Protection - Corrosion Control/Sam Vessel and Gas Production/Doug Vaught System Monitoring - Gas Control/Mike Hoffer ROW Clearing - Vegetation Management/Eric Sampson Leak Repair - C&M/Doug Vaught & Steve Farley

Confirmation of Service Provider Utility Responsibilities by Service Provider Approver:

Yes

Client Company:

DUKE ENERGY OHIO REGULATED

Client Company Approver Information:

Name: Janson, Julie
Phone: (513) 4195757

The approver should be appropriate according to the Expenditures Divestitures & Terminations Category of the Delegation of Authority (DOA) matrix

Estimated Costs:

\$ 2,500,000

Scheduled Start Date:

1/1/2012

Scheduled Completion Date:

12/31/2012

Legal Approval Representative:

D'Ascenzo, Rocco Ormano

PeopleSoft Accounting codes for the Services Provided:

Client Co. Operating Unit:

GD10

Service Provider Resp. Center:

various

Process:

various

Project:

various

Activity:

various

G/L Account:

Comments:

Jan 12 2012 8:37:47:000AM - D'Ascenzo, Rocco Ormano Karen's DOA is only 1MM. She cannot approve this. Jan 13 2012 1:41:37:000PM - Pickens, Phyllis L. Changed approver to Julie Janson

Form # efr148v1-001654

Form Status: Approved

Form Submitter Information:

Name: Pickens, Phyllis L
Phone: (513) 2872139

Service Provider:

**Service Provider Approver
Information:**

KO TRANSMISSION
Name: Oney, Tony
Phone: (513) 2872825

The approver should be appropriate according to the Expenditures
Divestitures & Terminations Category of the Delegation of Authority
(DOA) matrix

Description of Proposed Service
Please Provide Basis for Estimated Costs:

Billing Services Tracking Deliveries Regulatory Reporting

Confirmation of Service Provider Utility
Responsibilities by Service Provider
Approver:

No

Client Company:

DUKE ENERGY OHIO REGULATED

**Client Company Approver
Information:**

Name: Monday, Karen Rae
Phone: (513) 4195438

The approver should be appropriate according to the Expenditures,
Divestitures & Terminations Category of the Delegation of Authority
(DOA) matrix

Estimated Costs:

\$ 750,000

Scheduled Start Date:

1/1/2012

Scheduled Completion Date:

12/31/2012

Legal Approval Representative:

Spiller, Amy B

PeopleSoft Accounting codes for the Services Provided:

Client Co. Operating Unit:

GD10

Service Provider Resp. Center:

various

Process:

various

Project:

various

Activity:

various

G/L Account:

Comments:

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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 Michael Covington on Behalf of Duke Energy Ohio, Inc. electronically filed by Carys Cochern on behalf of Duke Energy