

# **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.	)	

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### **SECOND SUPPLEMENTAL TESTIMONY OF**

**WILLIAM DON WATHEN JR. IN SUPPORT OF SETTLEMENT**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

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April 2, 2013

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## **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.   The purpose of my testimony is to discuss and support the reasonableness of a  
14       Stipulation and Recommendation (Stipulation) entered into among Duke Energy  
15       Ohio, Inc., (Duke Energy Ohio), Staff of the Public Utilities Commission of Ohio  
16       (Staff), and other parties representing all stakeholder interests who have  
17       intervened in Duke Energy Ohio's application for an increase in distribution rates,  
18       tariff approval, and change in accounting methods contained in the above  
19       captioned proceedings. I will discuss and support the reasonableness of the  
20       Stipulation filed in these proceedings. This testimony will demonstrate that: (1)  
21       the Stipulation is the product of serious bargaining among capable,  
22       knowledgeable parties; (2) the Stipulation does not violate any important

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

## **II. DISCUSSION OF THE STIPULATION AND RECOMMENDATION**

4 **Q. PLEASE GENERALLY DESCRIBE THE STIPULATION AND**  
5 **RECOMMENDATION.**

6 A. I have reviewed the Stipulation and was involved in the discussions reaching  
7 resolution. The Stipulation represents a resolution of all issues among the Parties  
8 relating to the Company's application for an increase in electric distribution rates.  
9 Except where specifically noted otherwise, the Stipulation adopts the  
10 recommendations contained in the Report by the Staff of the Public Utilities  
11 Commission of Ohio (Staff) issued in these proceedings on January 4, 2013 (Staff  
12 Report).

13 In Summary, the Parties agree that Duke Energy Ohio shall increase its  
14 annual electric distribution base retail rates to achieve a \$49 million increase in  
15 base revenue, with an agreed upon return on equity (ROE) of 9.84% and a capital  
16 structure for the Company that is 53.3% equity and 46.7% debt. The distribution  
17 of the revenue increase and the billing determinants is included as Attachment 1  
18 to the Stipulation and was agreed to by all of the Parties. The Parties represented  
19 diverse interests and include the Office of the Ohio Consumers' Counsel; Ohio  
20 Partners for Affordable Energy; the City of Cincinnati; The Kroger Co.; the  
21 University of Cincinnati; Miami University; The Greater Cincinnati Health  
22 Council; Cincinnati Bell Telephone Company, LLC; Cincinnati Bell Wireless,

1        LLC; Cyrus One Inc.; Direct Energy Services, LLC; Direct Energy Business,  
2        LLC; People Working Cooperatively, Inc.; Ohio Energy Group; Ohio  
3        Manufacturers' Association; Ohio Environmental Council; Interstate Gas Supply;  
4        and the Natural Resources Defense Council.

5            Among the various rate design and tariff language changes agreed upon by  
6        the Parties, Duke Energy Ohio has agreed in these proceedings to a revenue  
7        neutral redesign of its residential electric heat rate (Rate ORH) to mirror the  
8        summer block rate of the Company's residential rate (Rate RS). The Parties have  
9        also agreed to revised language for the Company's Right of Way tariff. As part of  
10       the settlement, Duke Energy Ohio has agreed to withdraw or not implement  
11       several proposals in these proceedings, namely its request for a storm cost deferral  
12       and tracking mechanism and the Company's proposal to implement its Facilities  
13       Relocation - Mass Transportation Rider (Rider FRT). Finally, Duke Energy Ohio  
14       has agreed to provide shareholder funding for a fuel fund to be administered by  
15       Ohio Partners for Affordable Energy (OPAE). The funding will be set at  
16       \$350,000, annually, for OPAE and the settlement allows OPAE, at its discretion,  
17       to use the funds for either natural gas or electric distribution programs in Duke  
18       Energy Ohio's service territory.

19           The Stipulation resolves all issues in these proceedings and is supported  
20       by a cross section of all stakeholders, including residential, non-residential, and  
21       low income customers.

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

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

1     A.     Yes. The knowledge and capability of the Parties to the Stipulation, and their  
2           attorneys are readily apparent. The Parties regularly participate in rate  
3           proceedings before the Commission, are knowledgeable in regulatory matters, and  
4           are represented by experienced, competent counsel. The Staff thoroughly  
5           reviewed the Company's application and the Company responded to hundreds of  
6           discovery requests. Many of the Parties to these proceedings were also involved  
7           in the Company's last electric distribution rate case, Case No 09-709-EL-AIR, *et*  
8           *al.* Settlement negotiations occurred via meetings at the Commission's offices,  
9           through telephone conference calls and via electronic mail exchanges. All Parties  
10          were invited to attend these meetings and all of the issues raised by the Parties in  
11          these proceedings were addressed during these negotiations. The final settlement  
12          conference occurred on March 25, 2013, the day of the publicly noticed  
13          evidentiary hearing in these proceedings. All Parties had an opportunity to express  
14          their opinions in the negotiating process. For all of these reasons, I believe that  
15          the Stipulation is a compromise resulting from serious bargaining among capable,  
16          knowledgeable parties.

17                 As a result of the Stipulation, Duke Energy Ohio has agreed, among other  
18          things, to:

- 19                 • Recover substantially less revenue than it requested and supported in  
20                 these proceedings;
- 21                 • Implement a lower monthly customer charge than what was proposed for  
22                 residential customers taking service under Rates RS, ORH, and CUR, and  
23                 maintain the discounted monthly customer charge for Rate RSLI.

- Provide for shareholder-funded fuel fund for low income customers.

Many of the Parties, as demonstrated in their objections to the Staff Report, sought a result in which Duke Energy Ohio would have received substantially less revenue than what Duke Energy Ohio will receive under the Stipulation. In addition, the Stipulation contains many provisions that provide benefits to customers. Many of these provisions such as the shareholder low-income weatherization dollars were not included in the Company's Application. Therefore, this Stipulation does indeed represent a reasonable compromise among the Parties.

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

A. No. Based on the advice of counsel, my understanding is that the Stipulation complies with all relevant and important principles and practices. Based upon my examination of the Stipulation as Director of Rates and Regulatory Strategy, Ohio and Kentucky, I have also concluded that the Stipulation is consistent with prior Commission Orders. The Stipulation results in a reasonable rate for customers, and allows the Company an opportunity to earn a reasonable rate of return on its shareholders' investment in facilities to provide electric distribution service. The Stipulation is consistent with and strikes a reasonable balance between regulatory principles such as gradualism, allowing the Company an opportunity to earn a reasonable rate of return, and designing rates which move toward full alignment of costs with customer class causation.

1    **Q.     DOES THE STIPULATION BENEFIT RATEPAYERS AND THE PUBLIC**  
2           **INTEREST?**

3    A.    Yes.  As I already mentioned, the Stipulation addresses the recommendations  
4           contained in the Staff Report and provides numerous benefits across all customer  
5           classes.  Customers will experience a substantially lower base rate increase than  
6           that which Duke Energy Ohio supported in its Application.  The Stipulation  
7           provides for many benefits through the agreed upon rate design that reasonably  
8           apportions the increase among and within the various customer classes.  Finally,  
9           the Stipulation provides a direct benefit for low-income customers through  
10          shareholder funded contributions to support weatherization initiatives and other  
11          programs.

12   **Q.     IS THE STIPULATION A JUST AND REASONABLE RESOLUTION OF**  
13          **THE ISSUES?**

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

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

22   A.    Yes, I do.



1    **Q.    DOES THE STIPULATION RESOLVE ALL OF THE ISSUES IN THIS**  
2           **PROCEEDING?**

3    **A.    Yes, it does.**

**III.   CONCLUSION**

4    **Q.    DOES THIS CONCLUDE YOUR SECOND SUPPLEMENTAL**  
5           **TESTIMONY?**

6    **A.    Yes.**

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Summary: Testimony SECOND SUPPLEMENTAL TESTIMONY OF WILLIAM DON WATHEN JR. IN SUPPORT OF SETTLEMENT ON BEHALF OF DUKE ENERGY OHIO, INC.  
electronically filed by Carys Cochern on behalf of Watts, Elizabeth H. Ms.