

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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

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

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

DIRECT TESTIMONY OF NEAL TOWNSEND

ON BEHALF OF THE KROGER CO.

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April 22, 2013

Attorneys for The Kroger Co.

DIRECT TESTIMONY OF NEAL TOWNSEND

Introduction

Q. Please state your name and business address.

A. Neal Townsend, 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Director at Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by The Kroger Co. ("Kroger"). Kroger is one of the largest grocers in the United States. Kroger generally takes gas distribution service from Duke Energy Ohio, Inc. ("Duke") on firm and interruptible transportation schedules.

Q. Please describe your educational background.

A. I received an MBA from the University of New Mexico in 1996. I also earned a B.S. degree in Mechanical Engineering from the University of Texas at Austin in 1984.

1 **Q. Please describe your professional experience and background.**

2 A. I have provided regulatory and technical support on a variety of energy projects at
3 Energy Strategies since I joined the firm in 2001. Prior to my employment at
4 Energy Strategies, I was employed by the Utah Division of Public Utilities as a
5 Rate Analyst from 1998 to 2001. I have also worked in the aerospace, oil, and
6 natural gas industries.

7
8 **Q. Have you previously filed testimony before the Public Utilities Commission**
9 **of Ohio (“Commission”)?**

10 A. Yes, I recently filed direct testimony in Duke’s electric rate case, Case No. 12-
11 1682-EL-AIR, et al.

12
13 **Q. Have you testified previously before any other state utility regulatory**
14 **commissions?**

15 A. Yes. I have testified in utility regulatory proceedings before the Arkansas Public
16 Service Commission, the Illinois Commerce Commission, the Indiana Utility
17 Regulatory Commission, the Kentucky Public Service Commission, the Michigan
18 Public Service Commission, the Public Utility Commission of Oregon, the Public
19 Utility Commission of Texas, the Utah Public Service Commission, the Virginia
20 Corporation Commission, and the Public Service Commission of West Virginia.
21 A more detailed description of my qualifications is contained in Attachment A,
22 attached to this testimony.

23

1 **Overview and Conclusions**

2 **Q. What is the purpose of your testimony in this proceeding?**

3 A. My testimony provides a recommendation to the Commission regarding the
4 appropriate recovery period for environmental investigation and remediation
5 costs incurred by Duke at two former manufactured gas plants (MGPs). I
6 recommend that any MGP costs approved for recovery by the Commission be
7 amortized over ten years, in order to mitigate rate impacts on customers who did
8 not receive the benefits of the MGPs at issue.

9

10 **Manufactured Gas Plants**

11 **Q. Please provide a brief background on MGPs and describe the MGPs at issue**
12 **in this case.**

13 A. According to the direct testimony of Duke witness Jessica L. Bednarcik,
14 manufactured gas is a man-made product primarily used for lighting, heating, and
15 cooking. The processes utilized by MGPs included coal carbonization, a
16 carbureted water gas process, and an oil gas process. Duke witness Andrew C.
17 Middleton defines the MGP Era as 150-year period from 1816 until the mid-
18 1960s, during which the industry began, matured, and ended.

19

20 According to the direct testimony of Ms. Bednarcik, Cincinnati Gas Light and
21 Coke Company, a predecessor to Duke Energy, began construction on the West
22 End plant ("West End"), located west of downtown Cincinnati, in 1841, with
23 commercial operations beginning in 1843. Construction on the East End ("East

1 End”) plant, located four miles east of downtown Cincinnati, began in 1882, with
2 operations beginning in 1884. Manufactured gas operations ended at West End in
3 1967 and at East End in 1963.

4
5 **Q. Please describe the investigation and remediation efforts for which Duke**
6 **seeks recovery.**

7 **A.** According to Ms. Bednarcik’s direct testimony, environmental investigations
8 began at East End and West End in 2006 and 2009, respectively, due to changes
9 in site conditions and the potential exposure pathways. Investigations were
10 initiated in response to a planned residential development of adjoining properties
11 at East End, and the planned construction of a new highway bridge crossing the
12 West End site.

13
14 Remediation efforts at the East End site included excavation to a depth of 40 feet,
15 in-situ solidification (“ISS”) of impacted material using a combination of
16 Portland cement and ground blast furnace slag, vibration monitoring due to
17 sensitive underground utilities, and air monitoring.

18
19 Activities related to the excavation were finalized on the western portion of the
20 East End site in 2011, and excavation and solidification on the eastern portion of
21 the site occurred between 2011 and 2012. Additional groundwater and soil
22 investigations are planned for 2012, and excavation and ISS activities are planned

1 for 2013 along Pittsburgh Street, an abandoned road between the eastern portion
2 and the middle portion of East End.

3
4 Remedial action at the West End, which started in 2011, included excavation to a
5 depth of 20 feet, ISS using an auger and a mixture of Portland cement and
6 bentonite, and air monitoring. Remediation of West End is continuing in 2012,
7 and is expected to be substantially completed in 2013, although an additional
8 investigation under the easternmost substation and transmission tower may
9 prompt further remediation.

10
11 **Q. Please explain the MGP costs for which Duke is seeking recovery.**

12 A. Duke was authorized to defer MGP costs, and accrue carrying charges based on
13 the embedded cost of debt in the Commission's Finding and Order in Case No.
14 09-712-GA-AAM.¹ The Commission noted that the appropriate MGP cost
15 recovery, if any, would be determined in a subsequent base rate case, should
16 Duke seek recovery.

17
18 Duke requests recovery of \$65.3 million in total, comprised of \$45.3 million for
19 expenses incurred during the January 1, 2008 to March 31, 2012 period, \$15
20 million in estimated expenses for the April 1 to December 31, 2012 period, and
21 \$5.0 million in carrying costs.² Carrying costs are based on the cost of debt,

¹ Finding and Order (November 12, 2009).

² Duke WP C-3.2a

1 which ranges from 6.39 to 6.45 percent, applied to the monthly deferral balance
2 from January 2008 to December 2012.³

3
4 Included in the \$65.3 million request are costs related to Duke's purchase of
5 property adjacent to the East End site in 2011, due to likely MGP contamination
6 of the property. According to the Staff report filed in this case on January 4, 2013
7 ("Staff Report"), Duke purchased the land for \$4.5 million, and the \$2.3 million
8 included for recovery represents the amount over and above the fair market value
9 of the land that Duke had to pay in order to acquire the property.⁴

10
11 Duke proposes to amortize the \$65.3 million balance over three years, for an
12 annual expense of \$21.8 million.

13
14 **Q. Was the recovery of MGP costs resolved in the Stipulation and**
15 **Recommendation filed on April 2, 2013 ("Stipulation")?**

16 **A.** No. The parties to the Stipulation, including Kroger, agreed that Duke may
17 establish a rider for recovery of MGP costs approved by the Commission, if any,
18 and indicated the percentage allocation of any approved MGP costs to rate
19 classes. The parties agreed to litigate their positions regarding other elements of
20 MGP cost recovery.⁵

21

³ Attachment to Duke's response to Staff DR 70-002.

⁴ A report by the Staff of the Public Utilities Commission of Ohio (January 4, 2013), p. 34, based on a Staff interview of Duke personnel (October 18, 2012).

⁵ Stipulation, paragraph 6.

1 **Q. Do you recommend adoption of the three year amortization period proposed**
2 **by Duke?**

3 **A.** No. The costs for which Duke seeks recovery are related to plants that have not
4 operated in 45 years or more. Duke's present customers are unlikely to have
5 reaped any benefits from these plants. To the extent that current-day customers
6 are required to pay for any of these legacy costs, the impact on today's customers
7 becomes increasingly arbitrary the shorter the time allowed for recovery.
8 Extending the amortization period would mitigate rate impacts on today's
9 ratepayers, and is appropriate due to the magnitude and vintage of the
10 environmental liability asserted by Duke.

11
12 Theoretically, the time allowed for recovery could reasonably be established to
13 match the length of time over which these costs were incurred, e.g., over 50 years.
14 At the same time, it is reasonable to give some weight to the administrative
15 expediency of removing these costs from the Company's books and extinguishing
16 any customer obligation to pay for them. Balancing these factors, I recommend
17 an amortization period of ten years for the MGP costs, if any, approved in this
18 case. This time period will significantly mitigate the rate impact on today's
19 customers of absorbing any of these legacy costs, while providing Duke a
20 reasonable period of time for obtaining full recovery of any approved costs.

1 **Q. Do you support any other testimony filed in this case?**

2 A. Yes, in part. My recommendation is largely in concurrence with the direct
3 testimony of OCC witness David J. Effron regarding the applicable amortization
4 period for recovery of these types of costs if approved.

5

6 **Q. Does this conclude your direct testimony?**

7 A. Yes, it does.

ATTACHMENT A

Resume

Neal Townsend
Energy Strategies, LLC
215 S. State Street, Suite 200
Salt Lake City, Utah 84111

Work Experience:

Director, Energy Strategies, LLC (2001 – Present)

Rate Analyst, State of Utah, Division of Public Utilities (1997 – 2001)

Other

Systems Engineer, Morton Thiokol, Inc.

Assistant Engineer, Schafer Engineering

Graduate/Research Assistant, University of New Mexico

Education:

University of New Mexico, Masters of Business Administration, 1996

University of Texas, Austin, B.S., Mechanical Engineering, 1984

Publications:

Kevin C. Higgins, Neal Townsend, and Susannah Vale, "Utility-Related Statutory and Regulatory Barriers," Chapter 6 in Coastal Wind: Energy for North Carolina's Future. University of North Carolina, Chapel Hill: 2009.

ATTACHMENT A

Regulatory Testimony:

State of Arkansas

<u>Docket #</u>	<u>Title</u>	<u>Activity</u>
10-010-U & 10-010-R	In the Matter of a Notice of Inquiry into Energy Efficiency	DSM Self Direction Opt-Out Rules
	In the Matter of the Institution of a Rulemaking to Adopt Amendments to the Commission's Rules on Conservation & Energy Efficiency to Allow Self-Directed Programs for Large Consumers	

State of Illinois

<u>Docket #</u>	<u>Title</u>	<u>Activity</u>
10-0467	Commonwealth Edison Company Proposed General Increase in Electric Rates	Rate Spread, Rate Design

State of Indiana

<u>Cause #</u>	<u>Title</u>	<u>Activity</u>
44075	Petition of Indiana Michigan Power Company, an Indiana Corporation, for Authority to Increase its Rates and Charges for Electric Utility Service, for Approval of: Revised Depreciation Rates; Accounting Relief; Inclusion in Basic Rates and Charges of the Costs of Qualified Pollution Control Property; Modifications to Rate Adjustment Mechanisms; and Major Storm Reserve; and for Approval of New Schedules of Rates, Rules and Regulations	Rate Design, Class Cost of Service

ATTACHMENT A

State of Kentucky

<u>Case #</u>	<u>Title</u>	<u>Activity</u>
2009-00548	Application of Kentucky Utilities Company for an Adjustment of Base Rates	Rate Spread, Rate Design
2009-00549	Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Base Rates	Rate Spread, Rate Design

State of Michigan

<u>Case #</u>	<u>Title</u>	<u>Activity</u>
U-16794	In the Matter of the Application of Consumers Energy Company for Authority to Increase its Rate for the Generation and Distribution of Electricity and for Other Relief	Rate Spread, Revenue Decoupling, Rate Design, Load Aggregation,
U-16472 & U-16489	In the Matter of the Application of the Detroit Edison Company for Authority to Increase its Rates, Amend its Rate Schedules and Rules Governing the Distribution and Supply of Electric Energy, and for Miscellaneous Accounting Authority	Rate Increase Mitigation Proposals, Bonus Tax, Depreciation, Rate Spread, Decoupling, Load Aggregation, Surcharge Proposal, Environmental Cost Recovery, Revenue Tracker
	In the Matter of the Application of the Detroit Edison Company for Approval to Defer Certain Pension and Post-Employment Benefits for Future Amortization and Recovery	
U-16191	In the Matter of the Application of Consumers Energy Company for Authority to Increase its Rate for the Generation and Distribution of Electricity and for Other Relief	Pension Tracker, Class Cost of Service, Decoupling, Rate Spread, Tariff Language

ATTACHMENT A

U-15645	In the Matter of the Application of Consumers Energy Company for Authority to Increase its Rate for the Generation and Distribution of Electricity and Other Relief	Class Cost of Service, Rate Spread
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State of Oregon

<u>Docket #</u>	<u>Title</u>	<u>Activity</u>
UE-217	In the Matter of PacifiCorp's Filing of Revised Tariff Schedules for Electric Service in Oregon	Support of Stipulation
UE-246	In the Matter of PacifiCorp's Filing of Revised Tariff Schedules for Electric Service in Oregon	Rate Design, Energy Cost Adjustment Mechanism, Support of Stipulation

State of Texas

<u>Docket #</u>	<u>Title</u>	<u>Activity</u>
38951	Application of Entergy Texas, Inc. for Approval of Competitive Generation Service Tariff (Issues Severed from Docket No. 37744)	Recovery of Stranded Costs

State of Utah

<u>Docket #</u>	<u>Title</u>	<u>Activity</u>
11-035-200	In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations	Class Cost of Service, Rate Spread, Rate Design

ATTACHMENT A

09-035-23	In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations	Rate Design, Revenue Decoupling
09-035-T08	In the Matter of Rocky Mountain Power Advice No. 09-08, seeking an Adjustment to the DSM Tariff Rider, Schedule 193	Support of Stipulation
04-035-42	In the Matter of the Application of PacifiCorp For Approval of its Proposed Electric Rate Schedules and Electric Service Regulations	Derivation of Prudence Disallowance
03-035-14	In the Matter of the Application of PacifiCorp For Approval of an IRP Based Avoided Cost Methodology For QF Projects Larger than 1 MW	Derivation of Methodology for Establishing QF Avoided Cost Pricing
02-035-04	In the Matter of the Application of PacifiCorp for an Investigation of Inter-Jurisdictional Issues	Support of Settlement Agreement
99-057-20	In the Matter of the Application of Questar Gas Company for an Increase in Rates and Charges	Revenue Requirement and Class Cost of Service Modeling, Proposed CO ₂ Plant Disallowance Mechanism
99-035-10	In the Matter of the Application of PacifiCorp For Approval of its Proposed Electric Rate Schedules and Electric Service Regulations	Interjurisdictional Cost Allocation and Class Cost of Service Modeling

ATTACHMENT A

98-057-12	In the Matter of the Application of Questar Gas Company for Approval of a Natural Gas Processing Agreement	Assessment of Application, Revenue Requirement Modeling
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State of Virginia

<u>Case #</u>	<u>Title</u>	<u>Activity</u>
PUE-2012-00072	Application of Virginia Electric and Power Company for Revision of Rate Adjustment Clause: Rider B, Biomass Conversions of the Altavista, Hopewell, and Southampton Power Stations, for the Rate Year Commencing April 1,2013	Rate Design
PUE-2012-00071	Application of Virginia Electric and Power Company for Revision of Rate Adjustment Clause: Rider S, Virginia City Hybrid Energy Center, for the Rate Year Commencing April 1,2013 and April 1, 2014	Rate Design
PUE-2012-00067	Application of Virginia Electric and Power Company for Revision of Rate Adjustment Clause: Rider W, Warren County Power Station, for the Rate Year Commencing April 1,2013	Rate Design

ATTACHMENT A

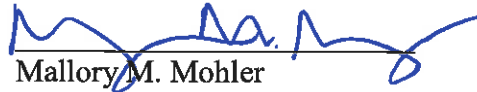
PUE-2011-00042	In the Matter of the Application of Virginia Electric and Power Company for Approval and Certification of the Proposed Warren County Power Station, Electric Generation and Related Transmission Facilities under §§ 56-580 D, 56-265.2 and 56-46.1 of the Code of Virginia and for Approval of a Rate Adjustment Clause, Designated Rider W, under § 56-585.1 A 6 of the Code of Virginia	Rate Design
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State of West Virginia

<u>Case #</u>	<u>Title</u>	<u>Activity</u>
09-1352-E-42T	Monongahela Power Company and the Potomac Edison Company, both d/b/a Allegheny Power Rule 42T Tariff Filing to Increase Rates and Charges	Rate Spread, Rate Design

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing document was served this 22nd day of April, 2013 by electronic mail if available or by regular U.S. mail, postage prepaid, upon the persons listed below.


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

Summary: Testimony Direct Testimony of Neal Townsend on Behalf of The Kroger Co.
electronically filed by Mrs. Kimberly W. Bojko on behalf of The Kroger Co.