

FILE

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)
 Energy Ohio for Authority to Establish a)
 Standard Service Offer Pursuant to Section)
 4928.143, Revised Code, in the Form of) Case No. 14-841-EL-SSO
 an Electric Security Plan, Accounting)
 Modifications and Tariffs for Generation)
 Service.)

In the Matter of the Application of Duke)
 Energy Ohio for Authority to Amend its) Case No. 14-842-EL-ATA
 Certified Supplier Tariff, P.U.C.O. No. 20.)

DIRECT TESTIMONY OF

PATRICIA W. MULLINS

ON BEHALF OF

DUKE ENERGY OHIO, INC.

RECEIVED-SOCKETING DIV

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Attachments:

PWM-1: Projected Statements of Income

PWM-2: Projected Balance Sheets

PWM-3: Projected Sources and Uses of Funds

I. INTRODUCTION

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

9 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND**
10 **PROFESSIONAL EXPERIENCE.**

11 A. I graduated from Clemson University in 1987 with a Bachelor of Science degree
12 in Accounting. I am a Certified Public Accountant in the state of North Carolina.
13 I started my employment with Duke Power Company in 1987, as a staff
14 accountant. I held various positions in a number of areas, including Internal
15 Audit, Subsidiary Accounting, International Project Development, Duke Fluor
16 Daniel, and Duke Capital Partners. I was an accounting manager in the
17 Controllers area and also managed the accounting for Duke Power's Wholesale
18 and Bulk Power businesses. After the merger between Cinergy Corp. and Duke
19 Energy in 2006, I was promoted to Director of Derivative and Revenue Analysis.
20 I assumed my current role as Director, Regional Financial Forecasting, in March
21 of 2009. I currently lead forecasting for Duke Energy's Regulated Utility
22 Business of Duke Energy Ohio, Duke Energy Kentucky, Inc. (Duke Energy

1 Kentucky), and Duke Energy Indiana, Inc. (Duke Energy Indiana). I also lead
2 forecasting for the Gas Businesses of Duke Energy Ohio and Duke Energy
3 Kentucky.

4 **Q. PLEASE SUMMARIZE YOUR DUTIES AS DIRECTOR, REGIONAL**
5 **FINANCIAL FORECASTING.**

6 A. I am responsible for leading the financial planning and forecasting for Duke
7 Energy Ohio, Duke Energy Kentucky, and Duke Energy Indiana. In such
8 capacity, I review the assumptions for financial planning models used in the
9 development of financial forecasts for these three entities.

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

12 A. I have previously submitted written testimony to the Public Utilities Commission
13 of Ohio (Commission).

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

16 A. The purpose of my testimony is to sponsor pro forma financial projections in
17 respect of the implementation of the Company's proposed electric security plan
18 (ESP or Plan). Additionally, I will briefly discuss the forecast methodology and
19 major assumptions underlying the financial forecast. My testimony addresses the
20 effect of the ESP upon the Company for the duration of the Plan, as required by
21 O.A.C. 4901:1-35-03(C)(2).

II. DISCUSSION

1 **Q. WHAT ARE THE ATTACHMENTS FOR WHICH YOU ARE**
2 **RESPONSIBLE?**

3 A. I am sponsoring all or part of the following items:

- 4 • PWM-1: Projected Statements of Income
- 5 • PWM-2: Projected Balance Sheets
- 6 • PWM-3: Projected Sources and Uses of Funds

7 **Q. PLEASE IDENTIFY AND DESCRIBE ATTACHMENT PWM-1.**

8 A. Attachment PWM-1 is the Projected Statements of Income that incorporate the
9 proposed ESP structure for Duke Energy Ohio's electric business for the annual
10 periods 2015 through 2018.

11 **Q. PLEASE IDENTIFY AND DESCRIBE ATTACHMENT PWM-2**

12 A. Attachment PWM-2 contains the Projected Balance Sheets for Duke Energy Ohio
13 for years ended 2015 through 2018.

14 **Q. PLEASE IDENTIFY AND DESCRIBE ATTACHMENT PWM-3.**

15 A. Attachment PWM-3 is the Projected Sources and Uses of Funds for Duke Energy
16 Ohio for the period between 2015 and 2018.

17 **Q. HOW ARE THESE ATTACHMENTS AND SCHEDULES RELEVANT TO**
18 **THE COMPANY'S REQUEST FOR AN ESP?**

19 A. As I have been informed, Ohio law allows for an electric distribution utility such
20 as Duke Energy Ohio to extend to its customers a standard service offer in the
21 form of an ESP. In seeking approval of such an offer, the Company must satisfy

1 certain criteria. Relevant to my testimony is the requirement that the Company
2 provide pro forma financial projections.

3 Specifically, I understand that Duke Energy Ohio must provide pro forma
4 financial projections of the effect of that Plan's implementation upon the
5 Company, for the duration of the ESP. Additionally, the information provided by
6 the Company must include the assumptions made and methodologies used in
7 preparing the pro forma financial projections.

8 **Q. WHAT IS THE DURATION OF THE ESP THAT YOU USED FOR**
9 **PURPOSES OF DEVELOPING THE PRO FORMA FINANCIAL**
10 **PROJECTIONS YOU ARE SPONSORING?**

11 A. The pro forma financial projections attached to and incorporated into my
12 testimony reflect the full calendar years impacted by the three-year term of the
13 next ESP being proposed by the Company. Because the proposed term of the
14 next ESP includes partial years for 2015 and 2018, the forecast period included in
15 my testimony includes calendar years 2015 through 2018.

16 **Q. WHAT IS THE METHODOLOGY THAT YOU EMPLOYED IN**
17 **PREPARING THE PRO FORMA FINANCIAL PROJECTIONS?**

18 A. The pro forma financial statements were developed consistent with the
19 methodology utilized by the Company for preparing its normal operating forecast.
20 This process involves input from various groups within the Company. The key
21 forecasting inputs from these groups relate to the forecasting of load, operating
22 and maintenance expenses (O&M), capital expenditures, and financing.

1 **Q. DESCRIBE THE ESP-RELATED ASSUMPTIONS MADE FOR**
2 **PURPOSES OF DEVELOPING THESE PRO FORMA FINANCIAL**
3 **PROJECTIONS.**

4 A. The forecasted data used in these proceedings is based on the most recent five-
5 year plan and has been modified based upon the following material assumptions:

6 • The projected Income Statement, shown in Attachment PWM-1, includes
7 the following major assumptions:

- 8 ○ No new base rate increases
- 9 ○ Approval of the Distribution Capital Investment Rider
- 10 ○ Full recovery of the cost of procuring SSO service
- 11 ○ Continuation of certain existing riders, including but not limited to
12 Riders DR-IM, BTR, and UE-GEN.
- 13 • Capital spending reflected in the forecasted balance sheet and cash flow
14 statement is based on the Company's capital budget, including provisions
15 for the distribution reliability programs addressed in the Direct Testimony
16 of Company witness Marc W. Arnold.

III. CONCLUSION

17 **Q. WERE ATTACHMENTS PWM-1 THROUGH PWM-3 PREPARED BY**
18 **YOU OR UNDER YOUR SUPERVISION?**

19 A. Yes.

1 **Q. IS THE INFORMATION CONTAINED IN ATTACHMENTS PWM-1**
2 **THROUGH PWM-3 TRUE AND ACCURATE TO THE BEST OF YOUR**
3 **KNOWLEDGE AND BELIEF?**

4 A. Yes.

5 **Q. DOES THE INFORMATION PRESENTED IN ATTACHMENTS PWM-1**
6 **THROUGH PWM-3 REPRESENT A REASONABLE PROJECTION OF**
7 **DUKE ENERGY OHIO'S ELECTRIC BUSINESS PRO FORMA**
8 **FINANCIALS FOR THE AFFECTED PERIOD?**

9 A. Yes.

10 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

11 A. Yes.

Duke Energy Ohio - Regulated Electric
ESP Filing - pro-forma
Projected Statements of Income
\$\$ in Millions

	2015	2016	2017	2018
Revenue				
Regulated Electric	1,018	1,082	1,109	1,138
Other Electric Revenue	1	1	1	1
Total Revenue	1,019	1,083	1,110	1,138
Expense				
Fuel used in Electric Generation and Purchased Power	320	323	324	325
Operations & Maintenance	239	240	246	253
Depreciation & Amortization	119	129	132	135
Property and Other Taxes	188	194	200	206
Total Operating Expenses	865	885	902	919
Other Income and Expenses	4	6	8	10
EBIT	158	203	217	230
Interest Expense	45	50	54	55
Income Taxes	41	56	59	63
Net Income	71	97	103	112

Duke Energy Ohio - Regulated Electric & Gas
ESP Filing - pro-forma
Projected Balance Sheets
\$\$ in Millions

	2015	2016	2017	2018
Assets				
Current Assets	331	293	353	296
Investments and Other Assets (1)	730	700	684	669
Plant, Property, and Equipment	5,699	5,971	6,293	6,608
Less Accumulated Depreciation & Amortization	(1,617)	(1,727)	(1,841)	(1,961)
Net Plant	4,082	4,244	4,452	4,647
Regulatory Assets and Deferred Debits	345	324	303	285
Total Assets	5,488	5,561	5,792	5,897
Liabilities and Equity				
Short Term Debt	(0)	39	0	45
Current Maturities of Long Term Debt	4	2	2	451
Other Current Liabilities	265	284	299	318
Long Term Debt	1,499	1,499	1,599	1,149
Deferred Credits & Other Liabilities	1,296	1,323	1,351	1,380
Total Liabilities	3,065	3,146	3,251	3,343
Common Stock	374	374	374	374
Additional Paid in Capital	378	378	378	378
Retained Earnings	1,671	1,663	1,790	1,802
Total Equity	2,423	2,414	2,541	2,554
Total Liabilities and Equity	5,488	5,561	5,792	5,897

(1) Includes goodwill

Duke Energy Ohio - Regulated Electric & Gas
ESP Filing - pro-forma
Projected Sources and Uses of Funds
\$\$ in Millions

	2015	2016	2017	2018
Operating Activities				
Earnings Available for Common	134	166	177	187
Adjustments to Net Income				
Depreciation & Amortization	188	201	205	209
Deferred Income Tax	13	17	17	19
Changes in Regulatory Assets	(30)	(33)	(31)	(33)
Changes in Working Capital	9	5	9	9
Other Adjustments to Net Income	20	14	10	12
Cash from Operations	334	369	386	403
Investing Activities				
Capital Expenditures	(290)	(304)	(353)	(344)
AFUDC Debt / Capitalized Interest	(1)	(1)	(2)	(2)
Cash Provided by (Used in) Investing Activities	2	2	2	2
Cash Provided by (Used in) Investing Activities	(288)	(303)	(352)	(344)
Financing Activities				
Issuance of Long-Term Debt	225	-	100	-
Redemption of Long-Term Debt	(155)	(4)	(2)	(2)
Other Financing	(20)	38	(78)	83
Capital Contributions From/(To) Parent	(50)	(145)	(35)	(160)
Cash from Financing Activities	(0)	(111)	(15)	(79)
Total Change in Cash	45	(45)	19	(20)
Beginning Cash and Cash Equivalents	9	54	10	29
Ending Cash and Cash Equivalents	54	10	29	10