

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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

PREFILED TESTIMONY

OF

JEFFREY HECKER
RATES AND ANALYSIS DEPARTMENT
ACCOUNTING AND ELECTRICITY DIVISION

STAFF EXHIBIT __

October 2, 2014

1 1. Q: Please state your name and business address.

2 A: My name is Jeffrey Hecker. My address is 180 East Broad Street, Columbus,
3 Ohio 43215-3793.

4

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

6 A: I am a Utility Specialist 2 in the Accounting and Electricity Division of the
7 Rates and Analysis Department for the Public Utilities Commission of Ohio.

8

9 3. Q: Briefly state your educational background, experience and qualifications.

10 A: I graduated from Miami University with a Bachelor of Science Degree in
11 Business with an Accounting major. After graduation, I performed
12 accounting functions for the Dayton Power and Light Company and other
13 companies before joining the PUCO in December 2004. I have also
14 completed various workshops and classes on the ratemaking process and
15 provided workpapers, research, and testimony for several previous rate cases.

16

17 4. Q: Have you previously testified before the Commission?

18 A: Yes. I have previously testified in rate cases, ESP cases, and rider cases.

19

20 5. Q: What is the purpose of your testimony?

21 A: I am addressing issues related to the Company's proposal to establish a
22 Distribution Storm Rider (Rider DSR) as part of its Electric Security Plan.

1 6. Q: Please summarize the Company's proposal.

2 A: The Company is proposing to establish a regulatory asset or liability to
3 defer the amount of prudently-incurred costs of major storm repairs above
4 or below the \$4.4 million in operation and maintenance storm costs that are
5 included in base distribution rates¹. The Company proposes to recover the
6 balance of this deferral in the next distribution rate case by amortizing the
7 balance over a certain number of years² and including the yearly
8 amortization in the revenue requirement, unless the cumulative balance
9 exceeds \$5 million at the end of a calendar year. If the balance exceeds \$5
10 million, the Company proposes to adjust Rider DSR to collect (or refund)
11 the entire balance in the regulatory account, with carrying charges at the
12 latest-approved long-term cost of debt.³ If the balance is more than a
13 positive \$5 million (a debit), the amount would be recovered from
14 customers. If it is more than a negative \$5 million (a credit), the amount
15 would be refunded to customers.

¹ Case No. 12-1682-EL-AIR, *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in its Electric Distribution Rates*, Opinion and Order, May 1, 2013, at 6.

² For example, if the deferral balance is \$3 million, the Company's proposal would mean that it may choose to spread the amount (amortize) over 3 years, which means that \$1 million would be part of the revenue requirement in the next base rate case.

³ For example, assume in year one the Company sustained \$6.4 million in storm damage. Of that \$6.4 million, \$4.4 million would be accounted for in base rates, and the remaining \$2 million (\$6.4 million - \$4.4 million) would go in the deferral balance. Assume in year two the Company sustained \$7.4 million in storm damage. Of that \$7.4 million, \$4.4 million would be accounted for in base rates, and the remaining \$3 million (\$7.4 million - \$4.4 million) would go in the deferral balance. Because the deferral balance is now \$5 million (\$2 million from year one + \$3 million from year two), the Company could now file a rider case seeking to collect that \$5 million from customers. This example does not include carrying charges.

1 7. Q: Does the Company propose to include capital in this request?

2 A: No. The Company proposes that any capital additions be addressed in Rider
3 DCI or in a future distribution rate case.
4

5 8. Q: The Company proposes to collect the balance of the deferral in its next base
6 distribution rate case, unless the balance reaches \$5 million, after which the
7 Company plans to file for recovery. Do you agree that this is reasonable?

8 A: Staff believes that deferring the balance until the next base rate case can be
9 problematic. To be included in base rates, as stated above, the Company's
10 proposal is to amortize the amount of the deferral over a three-year period to
11 be included in the revenue requirement for the next base rate case. If there
12 is an extended period between base rate cases, these base rates would be
13 collected every year, which means that the amount of deferral included in the
14 base rate calculation could be collected multiple times because the allowed
15 recovery amount stays in base rates until the next rate case. For example,
16 because the deferral amount would be amortized over three years, if the same
17 base rates are in effect longer than three years, the amount of the deferral is
18 collected more than once from customers.

19
20 9. Q: Do you have an alternative to recommend?

21 A: Yes. Staff believes recovery should only be done through the DSR rider.
22 At the end of a year, the Company would determine the amount spent for

1 major storm repairs. If the amount spent is over the \$4.4 million already
2 included in base rates, the difference is deferred as a regulatory asset. If the
3 amount spent is less than \$4.4 million, the difference is a regulatory
4 liability, or a credit to the regulatory asset. The deferral balance would be
5 carried over from one year until the next until a year in which the net
6 balance, positive or negative, exceeds \$5 million. After a year in which the
7 balance of the asset or liability exceeds \$5 million, the Staff proposes that
8 the Company file an application for recovery with the Commission
9 including calculating a monthly rider charge, if the amount is a positive, or
10 monthly rider credit, if the amount is a negative.

11
12 10. Q: What kind of audit would Staff do and how often?

13 A: Because rates are only affected when the deferral amount is \$5 million or
14 more, there is no need to audit the deferral each year. Rather, at the end of
15 each year in which the deferred amount of storm repair dollars exceeds \$5
16 million, Staff plans to perform an audit of all of the expenses and offsetting
17 revenues that are part of the deferred amount, regardless of what year those
18 expenses and revenues occurred. This will include a review of contractor
19 invoices, labor transactions, material requisitions, etc. to confirm that they
20 were reasonable and prudently incurred. This audit would also include a
21 review of revenue received from other utilities for mutual assistance efforts,
22 if any.

1 11. Q: How long should the recovery period be?

2 A: Once the recovery amount is determined, generally, Staff recommends a one-
3 year recovery period for each year's storm costs. However, if the amount of
4 the deferral is a large amount⁴, then the Company could have the option of
5 filing for a longer recovery period to mitigate customers' monthly bill
6 impact. The Commission can ultimately determine the recovery period based
7 on all factors presented in the Company's application.

8
9 12. Q: How should carrying charges be recorded?

10 A: In responses to data requests, the Company was inconsistent in its
11 explanation of carrying charges. In one instance, it said that carrying charges
12 would begin at the end of the year when the balance is determined. In another
13 data request response, it said that the carrying charges were to be calculated
14 on the monthly balance once the deferral balance exceeds \$4.4 million. Staff
15 agrees with the approach that carrying charges would not begin until the end
16 of the year when the amount of the deferral (the amount greater than or less
17 than \$4.4 million) is determined and also believes that there should be no
18 carrying charges during any recovery period.

19
20 13. Q: How should the Company account for labor expenses in storm repairs?

⁴ For example, if an extraordinary event such as Hurricane Ike or the 2012 derecho occurs, to recover the amount of storm repair costs over one year could have a major impact on customers' bills.

1 A: Staff believes that the only labor that should be included in the deferral is
2 labor that is in addition to what would normally be incurred - the incremental
3 labor. Typically, the first forty hours of straight-time labor for those
4 Company employees working in storm restoration are built into the
5 Company's base rates and, therefore, are already being paid for by
6 customers. Staff recognizes that, due to union contracts, union employees
7 are typically compensated at overtime rates (time-and-a-half or double-time)
8 for storm restoration from the time that a major storm is declared. However,
9 customers are already paying for the first 40 hours of straight-time labor for
10 the Company employees via base rates. The Company's recovery request
11 should not include the straight-time portion of the first 40 hours of work for
12 each employee during a week of storm repairs or double-recovery would
13 occur. However, any premium time (the overtime portion of the first 40
14 hours) and the total cost of the hours above 40 is incremental and would be
15 eligible for recovery.

16

17 14. Q. How should the Company handle a situation where the employee works some
18 hours other than for storm repairs during a week?

19 A. Because the first 40 hours of straight-time labor for an employee are included
20 in base rates, any hours worked performing other work would count against
21 the 40 hours of straight-time not allowed for storm recovery.

22

1 15. Q: Please give examples to clarify this point.

2 A: For example, if a lineman worked 60 hours in a week, and 30 hours were for
3 normal work and 30 hours were for storm repair, the 30 hours of non-storm
4 related work plus the straight-time portion of the first 10 hours of storm-
5 related work would account for the 40 hours that are in base rates and are not
6 considered incremental. The premium portion of the 10 storm-related work
7 hours and the full pay of the other 20 hours of storm work would be eligible
8 for deferral and recovery. Another example is if an employee worked 80
9 hours in a week, of which 40 hours were for non-storm related work, then
10 the entire 40 hours of storm repair (straight-time plus premium time) would
11 be incremental and eligible for recovery. Lastly, if an employee worked only
12 20 hours in a given week, only the premium portion of the employee's labor
13 would be considered incremental labor and eligible for deferral and recovery.

14

15 16. Q: Should management (those exempt from being paid for overtime) overtime
16 pay be included in the deferral?

17 A: No. As Staff has stated in prior storm restoration cases, management
18 personnel is paid to do a job and not necessarily to work a certain number of
19 hours. The Company may have a policy to pay these employees for their
20 roles in storm restoration and may pay them, but its customers should not be
21 expected to pay for this labor. Staff believes that the goal for the Company
22 should be to restore service as safely, efficiently, and quickly as possible. If

1 management employees can be utilized safely and efficiently to accomplish
2 certain tasks, it would be a cost-efficient course of action, but whether the
3 Company gets recovery should not be the determining factor.
4

5 17. Q. Please describe the term “mutual assistance.”

6 A. Mutual assistance refers to voluntary agreements that allow for one utility to
7 provide another utility with resources, labor (both utility employees and
8 contractors), and equipment to perform restoration services. Under mutual
9 assistance agreements, it is the responsibility of the requesting utility to
10 reimburse any assisting utilities for costs incurred and not paid for directly
11 by the host utility.
12

13 18. Q. How does the cost of mutual assistance performed by other companies affect
14 the Company’s Rider DSR?

15 A. The affect of providing mutual assistance results in the potential for double
16 recovery of revenues. According to the Company’s response to Staff’s Data
17 Request No. 13, the requesting company usually pays directly for travel costs
18 and supplies. The assisting utility will invoice the host company for its labor
19 cost incurred and other various costs if the host utility does not pay it directly.
20 Those charges that are reimbursed by the host utility are recorded by the
21 Company to the following FERC accounts: 920 (Administrative and General
22 Salaries) for labor, 921 (Office Supplies and Expenses) for non-labor costs,

1 926 (Employee Pensions and Benefits), and 408.1 (Taxes other than Income
2 Taxes) for payroll taxes. At the end of the accounting period, the costs are
3 transferred from the expense accounts to Account 143 (Other Accounts
4 Receivable), until the bill is paid by the other company. When the
5 reimbursement for the expenses is received, it is recognized as revenue and
6 matched for accounting purposes against the expenses described above.
7

8 19. Q: If the Company sends employees to assist other utility companies in their
9 service territories for storm restoration, should this have an impact on the
10 amount of recovery?

11 A: Yes. Staff believes that the amount of payment received from other utilities
12 for labor (the straight-time portion of the first 40 hours) performed by the
13 Company's employees in those companies' service territories should be an
14 offset to the Company's storm damage recovery.
15

16 20. Q: Why do you believe the receipts should be an offset to the expenses?

17 A: When base rates are calculated, the first 40 hours of each employee's weekly
18 labor are determined to be part of the revenue requirement used to calculate
19 the rates. Therefore customers are paying for these employees' labor through
20 base rates. However, when that employee is working on mutual assistance
21 for another utility, the ratepayer is not receiving the benefit of the labor for
22 which has been paid. While the Company is being reimbursed by the

1 requesting company for mutual-assistance labor, which is considered
2 revenue for accounting purposes, the Company is also receiving revenue
3 from customers for this labor from base rates, which results in double-
4 recovery. In my comparison of the response to Staff data request No. 15A,
5 which shows a list of employees who were sent to work in Super Storm
6 Sandy recovery efforts, and the employee labor data used as part of the
7 calculation of base rates in the Company's last base rate case (Case No. 12-
8 1682-EL-AIR), Staff discovered that of the 38 Company employees sent to
9 assist for repairs from Super Storm Sandy in 2012, all of them were also
10 included in the labor calculation for the revenue requirement for the
11 Company's base rates. Since these employees are part of the base rate
12 calculation and the revenue from mutual assistance, double-recovery
13 occurred.

14
15 21. Q: How would the offset occur through the storm rider?

16 A: Staff recommends that the amount up to the first 40 hours of labor at straight-
17 time rates for each employee performing mutual assistance should be
18 deducted from the deferral and recovery request. The premium portion of
19 these first 40 hours plus the entire amount of any additional hours would not
20 be included in this deduction.⁵

⁵ For example, if the Company incurred \$10 million in major storm repair expenses in a year, and during the same year sends a crew of four linemen to repair for hurricane damage along the Atlantic coast for one week, the straight time rate of the first 40 hours of each person (160 hours total) times their base rate (and loadings) would be

1 The amount of the deferral should be the net amount of the Company's
2 expenses (over the \$4.4 million threshold) and the amounts received from
3 the other companies for its mutual assistance labor. The \$5 million
4 mentioned above as the threshold for recovery or carry-over would apply to
5 the net of the expenses and revenue. The Company would seek recovery
6 after the end of the year when the difference (positive or negative) between
7 Ohio major storm expenses (over the \$4.4 million threshold) and the mutual
8 assistance revenues exceeds \$5 million.

9
10 22. Q: Would there be associated carrying charges on the mutual assistance
11 revenues?

12 A: Carrying charges would be calculated beginning at the end of the year on the
13 net amount of expenses and the amount of revenue. In other words, if
14 expenses exceed revenues, it would incur positive carrying charges; if, in the
15 unlikely event that the mutual assistance revenues exceed the Company's
16 own major storm repair costs, negative carrying charges would occur. If
17 carrying charges were to be calculated on the monthly balance starting at the
18 beginning of the year, then they should be calculated based on a \$4.4 million
19 liability at the beginning of the year.⁶ Since the Company is not proposing

subtracted from the \$10 million. The 160 hours of pay was part of the base rate calculation. Otherwise, double-recovery would occur when the Company is reimbursed by the other utility.

⁶ In other words, if the threshold is the \$4.4 million in base rates, and if no dollars were spent to repair for major storms during the year, the Company would incur a \$4.4 million liability. If carrying charges are calculated based on expenses at the end of the month they were incurred throughout the year, if no expenses are incurred, then

1 this, it is best to begin to calculate carrying charges at the end of the year
2 when the balance of the deferred amount is known.

3
4 23. Q: How does the Company state that the amount should be billed?

5 A: In a response to a Staff data request, the Company stated that the total
6 recovery amount would be divided by rate classes (Residential, Secondary
7 Distribution, etc.) and then divided by the number of customer bills within
8 the class for a monthly charge per customer.

9
10 24. Q: Does Staff agree with this process?

11 A: Yes.

12
13 25. Q: Does this conclude your testimony?

14 A: Yes, it does. However, I reserve the right to submit supplemental testimony
15 as described herein, as new information subsequently becomes available or
16 in response to positions taken by other parties.

a carrying charge should be calculated on the \$4.4 million liability. Therefore, Staff believes it is more appropriate to calculate the carrying charges at the end of the year when the balance is known.

CERTIFICATE OF SERVICE

This is to certify that the foregoing Testimony of Jeffrey Hecker has been served upon all of the parties of record in Case No. 14-841-EL-SSO by electronic and/or U.S. mail, postage pre-paid mail this 2nd day of October, 2014.

/s/Steven L. Beeler

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Assistant Attorney General

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Summary: Testimony Testimony of Jeffrey Hecker electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO