

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 : Case No. 14-841-EL-SSO
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:
Ohio for Authority to : Case No. 14-842-EL-ATA
Amend its Certified :
Supplier Tariff, P.U.C.O. :
No. 20. :

- - -

PROCEEDINGS

before Ms. Christine M.T. Pirik and Mr. Nick Walstra,
Attorney Examiners, at the Public Utilities
Commission of Ohio, 180 East Broad Street, Room 11-A,
Columbus, Ohio, called at 9:00 a.m. on Friday,
October 31, 2014.

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VOLUME VIII

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ARMSTRONG & OKEY, INC.
222 East Town Street, Second Floor
Columbus, Ohio 43215-5201
(614) 224-9481 - (800) 223-9481
Fax - (614) 224-5724

- - -

1 APPEARANCES:

2 Duke Energy
3 By Ms. Amy B. Spiller
4 Ms. Jeanne Kingery
5 Ms. Elizabeth H. Watts
6 Mr. Rocco D'Ascenzo
7 139 East Fourth Street, 1303-Main
8 Cincinnati, Ohio 45202

9 On behalf of the Applicant.

10 Bruce J. Weston, Ohio Consumers' Counsel
11 By Mr. Edmund "Tad" Berger
12 Ms. Maureen R. Grady
13 Mr. Joseph P. Serio,
14 Assistant Consumers' Counsel
15 10 West Broad Street, Suite 1800
16 Columbus, Ohio 43215-3485

17 and

18 Bricker & Eckler
19 By Mr. Dane Stinson
20 and Mr. Dylan F. Borchers
21 100 South Third Street
22 Columbus, Ohio 43215

23 On behalf of the Residential Ratepayers
24 of Duke Energy Ohio.

25 McNees, Wallace & Nurick, LLC
By Mr. Matthew R. Pritchard
and Mr. Frank P. Darr
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215-4288

On behalf of the Industrial Energy
Users - Ohio.

Carpenter, Lipps & Leland, LLP
By Ms. Rebecca L. Hussey
280 North High Street, Suite 1300
Columbus, Ohio 43215

On behalf of The Kroger Company.

1 APPEARANCES: (Continued)

2 Carpenter, Lipps & Leland, LLP
3 By Ms. Kimberly W. Bojko
4 280 North High Street, Suite 1300
5 Columbus, Ohio 43215

6 On behalf of the Ohio Manufacturers'
7 Association.

8 Interstate Gas Supply, Inc.
9 By Mr. Joseph Olikier
10 6100 Emerald Parkway
11 Dublin, Ohio 43016

12 On behalf of IGS Energy.

13 FirstEnergy Service Corporation
14 By Mr. Jacob A. McDermott
15 Mr. Scott J. Casto
16 Mr. Mark A. Hayden
17 76 South Main Street
18 Akron, Ohio 44308

19 On behalf of FirstEnergy Solutions Corp.

20 Mike DeWine, Ohio Attorney General
21 By Mr. William Wright, Section Chief
22 Mr. Thomas Lindgren
23 Mr. Ryan O'Rourke
24 Mr. Steven Beeler
25 Assistant Attorneys General
Public Utilities
180 East Broad Street, 6th floor
Columbus, Ohio 43215

On behalf of the Staff of the Public
Utilities Commission.

Boehm, Kurtz & Lowry
By Ms. Jody Kyler Cohn
Mr. Kurt Boehm
Mr. Michael L. Kurtz
36 East Seventh Street, Suite 1520
Cincinnati, Ohio 45202

On behalf of the Ohio Energy Group.

1 APPEARANCES: (Continued)

2 Ohio Partners for Affordable Energy
3 By Ms. Colleen L. Mooney
4 231 West Lima Street
5 Findlay, Ohio 45839

6 On behalf of Ohio Partners for Affordable
7 Energy.

8 Mr. Douglas E. Hart
9 441 Vine Street, Suite 4192
10 Cincinnati, Ohio 45202

11 On behalf of the Greater Cincinnati
12 Health Council.

13 Vorys, Sater, Seymour & Pease, LLP
14 By Mr. M. Howard Petricoff
15 Mr. Michael Settineri
16 Ms. Gretchen Petrucci
17 52 East Gay Street
18 Columbus, Ohio 43216-1008

19 On behalf of the Retail Energy Supply
20 Association, Constellation NewEnergy, and
21 Exelon Generation, LLC.

22 Ohio Environmental Council
23 By Mr. Trent A. Dougherty
24 1207 Grandview Avenue, Suite 201
25 Columbus, Ohio 43212

On behalf of the Ohio Environmental
Council.

American Electric Power
By Mr. Steven T. Nourse
and Mr. Matthew J. Satterwhite
One Riverside Plaza, 29th Floor
Columbus, Ohio 43215-2373

On behalf of the Ohio Power Company.

1 APPEARANCES: (Continued)

2 Roetzel & Andress, LPA
3 By Mr. Michael R. Taven
4 and Mr. Donald L. Mason
5 155 East Broad Street, 12th Floor
6 Columbus, Ohio 43215

7 and

8 Behrens Taylor Wheeler
9 By Mr. Rick D. Chamberlain
10 6 N.E. 63rd Street, Suite 400
11 Oklahoma City, Oklahoma 73105

12 On behalf of the Wal-Mart Stores East, LP
13 and Sam's East, Inc.

14 Bricker & Eckler, LLP
15 By Mr. Thomas J. O'Brien
16 100 South Third Street
17 Columbus, Ohio 43215

18 On behalf of the City of Cincinnati.

19 Carpenter, Lipps & Leland, LLP
20 By Mr. Joel E. Sechler
21 280 North High Street, Suite 1300
22 Columbus, Ohio 43215

23 On behalf of the EnerNOC, Inc.

24 Dayton Power and Light Company
25 By Ms. Judi Sobeki
1065 Woodman Drive
Dayton, Ohio 45432

On behalf of the Dayton Power and Light
Company.

Bricker & Eckler, LLP
By Mr. Dane Stinson
and Mr. Dylan F. Borchers
100 South Third Street
Columbus, Ohio 43215-4291

On behalf of the Ohio Development
Services Agency.

1 APPEARANCES: (Continued)

2 Direct Energy
3 By Mr. Joseph M. Clark
4 21 East State Street, 19th Floor
5 Columbus, Ohio 43215

6 and

7 Eckert, Seamans, Cherin & Mellott
8 By Mr. Gerit F. Hull
9 1717 Pennsylvania Avenue NW, 12th Floor
10 Washington, D.C. 20006

11 On behalf of the Direct Energy Services,
12 LLC, and Direct Energy Business, LLC.

13 Williams, Allwein & Moser, LLC
14 By Mr. Christopher J. Allwein
15 and Mr. Todd M. Williams
16 1500 West Third Avenue, Suite 330
17 Columbus, Ohio 43212

18 and

19 Sierra Club
20 By Mr. Tony G. Mendoza
21 85 Second Street, 2nd Floor
22 San Francisco, California 94105

23 On behalf of the Sierra Club.

24 Bricker & Eckler, LLP
25 By Mr. Dane Stinson
and Mr. Dylan F. Borchers
100 South Third Street
Columbus, Ohio 43215-4291

On behalf of the Ohio Development
Services Agency.

1 APPEARANCES: (Continued)

2 Vorys, Sater, Seymour & Pease, LLP
3 By Mr. M. Howard Petricoff
4 Special Assistant Attorney General
5 52 East Gay Street
6 P.O. Box 1008
7 Columbus, Ohio 43216-1008

8 On behalf of the Miami University and
9 University of Cincinnati.

10 Environmental Law & Policy Center
11 By Mr. Justin M. Vickers
12 35 East Wacker Drive, Suite 1600
13 Chicago, Illinois 60601-2110

14 On behalf of the Environmental Law &
15 Policy Center.

16 Simpson Thacher & Bartlett LLP
17 By Mr. Michael J. Castiglione
18 425 Lexington Avenue
19 New York, New York 10017-3954

20 On behalf of OVEC.

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1 Friday Morning Session,

2 October 31, 2014.

3 - - -

4 EXAMINER WALSTRA: We'll go on the record
5 then.

6 And, Duke, would you like to call your
7 witness.

8 MS. WATTS: Thank you, your Honor. Duke
9 Energy Ohio calls Marc Arnold.

10 EXAMINER WALSTRA: Thank you for being
11 patient with us.

12 THE WITNESS: Oh, no problem.

13 (Witness sworn.)

14 MS. WATTS: And, your Honor, I would like
15 to have marked as Duke Energy Ohio, what exhibit are
16 we up to? Do we know?

17 MR. SERIO: 21.

18 MS. KINGERY: 20.

19 MS. WATTS: Mr. Arnold's direct testimony
20 and 20a would be his --

21 MR. SERIO: I think it's 21, your Honor.

22 EXAMINER PIRIK: It's 21.

23 MS. WATTS: 21, sorry. Duke Energy Ohio
24 Exhibit 21 would be his public and 21a would be his
25 direct testimony confidential.

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1 EXAMINER WALSTRA: So marked.

2 (EXHIBITS MARKED FOR IDENTIFICATION.)

3 MS. WATTS: And, your Honor, on August 21
4 Duke Energy Ohio filed a further unredacted version
5 of Mr. Arnold's Attachment 7. I'm wondering how you
6 would prefer that that be marked.

7 EXAMINER WALSTRA: Is that part of what
8 was submitted with his testimony on -- that part of
9 his testimony that was --

10 MS. WATTS: It is.

11 EXAMINER WALSTRA: -- submitted? I think
12 we can just keep it as 21.

13 MS. WATTS: Okay. Ultimately, when we
14 get the redactions all straight, it will all be
15 sorted and incorporated into one document.

16 EXAMINER WALSTRA: Yes. Thank you.

17 MS. SPILLER: One moment, please, your
18 Honor.

19 - - -

20 MARC W. ARNOLD

21 being first duly sworn, as prescribed by law, was
22 examined and testified as follows:

23 DIRECT EXAMINATION

24 By Ms. Watts:

25 Q. Mr. Arnold, would you state your name and

1 place of employment, please.

2 A. Yes. My name is Marc W. Arnold. My
3 place of employment is Duke Energy. The address is
4 139 East Fourth Street, Cincinnati, Ohio 45202.

5 Q. And do you have what's been marked as
6 Duke Energy Exhibit 21 and Duke Energy Exhibit 21a
7 before you?

8 A. I do.

9 Q. And are those open and confidential
10 versions of the testimony that you caused to be filed
11 in this proceeding?

12 A. Yes, they are.

13 Q. And do you have any additions or
14 corrections to that testimony?

15 A. I do have two corrections. On the second
16 page of the first exhibit, on MWA-2 and MWA-3, those
17 are both attachments, it should read "Excerpt from
18 the Duke Energy Summation of the 2014 J.D. Power
19 Study." As well as on MWA-3, "Excerpt from the Duke
20 Energy Summation of J.D. Power 2013."

21 Q. Thank you. Do you have any other --

22 MR. SERIO: Excuse me, Counsel. Where on
23 page 2 is that modification?

24 THE WITNESS: I'm sorry. It's actually
25 the second page, but it's page I that shows the table

1 of contents. This is part of my testimony.

2 MR. SERIO: This is MWA-2?

3 THE WITNESS: 2 and 3.

4 MR. HART: Title page, Joe.

5 MR. SERIO: Okay.

6 MS. WATTS: Are you with us, Mr. Serio?

7 MR. SERIO: Yes. I was actually going to
8 exhibit page 2.

9 MS. WATTS: I just want to make sure
10 everybody was.

11 MR. SERIO: If you could repeat that
12 please.

13 THE WITNESS: Sure. On both of those
14 attachments it would be "Excerpt from the Duke Energy
15 Summation of the 2014 J.D. Power" and the same for
16 MWA-3.

17 Q. (By Ms. Watts) And, Mr. Arnold, do you
18 have any other additions or corrections?

19 A. I do not.

20 Q. And if I were to ask you the questions
21 contained in your testimony again today, would your
22 answers be the same?

23 A. Yes, they would.

24 Q. And are they true and correct to the best
25 of your knowledge?

1 A. Yes, they are.

2 MS. WATTS: Mr. Arnold is available for
3 cross-examination.

4 EXAMINER WALSTRA: Thank you.

5 I think at this point we'll take
6 arguments on confidentialities.

7 MS. WATTS: Okay. Your Honor, would you
8 like to do it generally or page by page or how would
9 you like to proceed with that?

10 EXAMINER WALSTRA: There's nothing in the
11 actual testimony, right?

12 MS. WATTS: Correct. Testimony is
13 completely open.

14 EXAMINER WALSTRA: Okay. You can just
15 give a general argument about each attachment and
16 then if there's specifics in the response, we can
17 address those specifically.

18 MS. WATTS: Okay. Thank you, your Honor.

19 The information attached to Mr. Arnold's
20 testimony largely contains data related to customer
21 surveys that are performed in several different ways
22 for the companies and by the company. The
23 information that's provided from J.D. Power and
24 Associates is produced to the company pursuant to a
25 contract. The contract includes a clause that the

1 company maintain that information confidentially and
2 keep it proprietary and trade secret, and the company
3 does, in fact, do that.

4 The information that J.D. Power often
5 puts out into the public, if you Google, J.D. Power,
6 you will find there is quite a bit of information
7 from J.D. Power, specifically with respect to
8 utilities, but all of that information is aggregated.
9 You won't see specific information related to Duke
10 Energy as a company and isolated for that particular
11 company. So they talk about industry trends and so
12 forth, but nothing specific to Duke Energy Ohio.

13 So it's been our -- what we've attempted
14 to do here is to isolated the information that's only
15 specific to the company which we hold as proprietary
16 and trade secret.

17 And one of the reasons we do that is
18 because these surveys are undertaken for the purpose
19 of improving our internal operations, and if we were
20 forced to disclose for, lack of a better term, some
21 of the less stellar parts of the company we are
22 working to improve, it would chill our efforts to
23 undertake such surveys and essentially not be good
24 public policy. So we would ask that that information
25 be kept proprietary and confidential for those

1 reasons.

2 EXAMINER WALSTRA: Thank you.

3 Any responses from the intervenors?

4 MR. SERIO: Yes, thank you, your Honor.

5 First of all, the requirement is that if
6 they want to keep the documents confidential, there
7 has to be value to a competitor. Duke has made
8 absolutely no showing that there is any value to a
9 competitor from any of the documents attached to
10 Mr. Arnold's testimony that they are asking
11 protection for.

12 In particular, the J.D. Power documents,
13 Duke might have a contract with J.D. Power, and if
14 anybody is going to assert any confidentiality claim,
15 then it should be J.D. Power and not Duke. Duke's
16 concerned that it could have a chilling effect on
17 their looking at improving internal operations, but
18 the PUCO requires customer surveys. So it might
19 chill Duke's efforts to engage J.D. Power to do it,
20 but the company is still required by PUCO rules to do
21 a certain minimum amount of customer surveys, and
22 that would be used then for their internal
23 operations.

24 And to the extent that the surveys show
25 that the company is not doing well, then that's

1 exactly the information that the public should have
2 available so that they can make demands known to the
3 company that this is what we need you to do better.
4 By keeping that confidential and secret from the
5 public, you're requiring the public to pay for things
6 that they don't get to know what's being considered
7 and, in fact, what are the areas that you've
8 identified as being -- that need to be improved and,
9 you know, what are you doing to improve them.

10 So it's absolutely information that
11 should be made public, especially to the extent that
12 the company is now asking the Commission to impose an
13 additional rider with significant dollars associated
14 with it that customers would be required to pay as a
15 result of the information contained in those
16 attachments.

17 EXAMINER WALSTRA: Thank you.

18 MS. WATTS: May I respond, your Honor?

19 EXAMINER WALSTRA: Certainly.

20 MS. WATTS: First of all, with respect to
21 value to a competitor, the surveys that are attached
22 to Mr. Arnold's testimony are paid for at great
23 expense to the corporation and would provide great
24 value to competitors if known. I think a quick
25 review of what is contained in the surveys would

1 disclose that.

2 Secondly, with respect to who is
3 obligated to protect the information in the surveys,
4 the contract provides -- the contract between Duke
5 Energy Corporation and J.D. Power provides that Duke
6 Energy Ohio protect the documents, and so it's our
7 responsibility to do so and not J.D. Power in the
8 first instance.

9 Finally, with respect to the survey that
10 the Commission requires, that survey is attached to
11 Mr. Arnold's testimony and it is offered as open to
12 the public. We have not redacted any portion of that
13 survey and that is the survey that the Commission
14 requires that we -- that we do on an ongoing basis
15 and provides much of the information that Mr. Serio
16 would need to understand the status of our
17 reliability at this time.

18 MR. SERIO: Your Honor, one last thing,
19 the company alleges that there is values to
20 competitors. The last time I checked, distribution
21 service is a monopoly service. There is no
22 competitor to Duke electric for distribution service.
23 So who is the competitor that gets value of knowing
24 if Duke has problems with distribution service?

25 EXAMINER WALSTRA: Anyone else?

1 Ms. Watts, on page 3 of that
2 attachment --

3 MS. WATTS: I'm sorry, which attachment,
4 your Honor?

5 EXAMINER WALSTRA: MWA-2.

6 MS. WATTS: Okay.

7 EXAMINER WALSTRA: Is that -- whose model
8 is that?

9 MS. WATTS: Page 3 of that chart?

10 EXAMINER WALSTRA: Yes.

11 MS. WATTS: Your Honor, that information,
12 if I understand your question correctly, relates to
13 all utilities.

14 EXAMINER WALSTRA: Is -- I guess my
15 question is this a -- the "Factor Model Weights" is
16 what you are looking at?

17 MS. WATTS: Yes, that's what I am looking
18 at.

19 EXAMINER WALSTRA: Okay. Is that -- the
20 weights that are attributed to each thing, is that
21 what J.D. Power does? Is that, like, a specific
22 formula that they use?

23 MS. WATTS: I believe that's likely to be
24 correct. Associated with SSO.

25 EXAMINER WALSTRA: Ms. Watts, are you

1 only talking about the first exhibit or all of them
2 as well?

3 MS. WATTS: I was trying to speak
4 generally about all of them. I would note that the
5 next two involve information from J.D. Power that as
6 Mr. Arnold correctly identified when he changed the
7 titles, were -- that information was excerpted by
8 Duke Energy and put into an internal discussion
9 document, but the information is still the same
10 proprietary information. It was just revised into a
11 presentation.

12 And then the very last attachment is of a
13 different nature that requires a separate discussion.

14 EXAMINER WALSTRA: Right.

15 MR. SERIO: Your Honor, I do have one
16 clarification. OCC has no objection to the
17 attachments that are indicated "Business Customer."
18 If the Commission chooses to keep those confidential,
19 we have no objection to them inasmuch as we don't
20 represent business customers. Our concern is related
21 to the attachments that are specifically related to
22 residential customers.

23 EXAMINER WALSTRA: Mr. Serio, do you have
24 any objection to that page 3 of MWA-2 being kept
25 confidential?

1 MR. SERIO: Well, your Honor, unless we
2 have absolute certainty that that's something that
3 comes from J.D. Power, "I think so" shouldn't be
4 sufficient to meet the burden of proof necessary to
5 keep it confidential.

6 MS. WATTS: Mr. Serio, which specific
7 thing are you unclear about with respect to whether
8 or not it comes from J.D. Power?

9 MR. SERIO: Well, my understanding is
10 when the Examiner inquired about page 3, as to
11 whether that was a J.D. Power factor model and
12 whether that was something proprietary, the response
13 I heard was "I think so." It wasn't an absolute
14 "yes." And without an absolute "yes," I don't know
15 how you can possibly meet the burden of proof that --
16 and demonstrate that these are the extraordinary
17 circumstances that warrant the Commission deviating
18 from its policy that this type of information should
19 be public without a showing of extraordinary
20 circumstances and potential harm.

21 MS. BOJKO: Your Honor, I'm sorry.

22 EXAMINER PIRIK: Mr. Serio, let me ask
23 you -- let me ask you with regard to, for example,
24 page 5 of attachment 2.

25 MR. SERIO: Yes, your Honor.

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1 EXAMINER PIRIK: And the -- the graphics
2 that are there for other utilities other than the --
3 than Duke, do you have a problem with eliminating
4 those from the open record? Since they are not a
5 party to this case?

6 MR. SERIO: Only to the extent that the
7 Commission might be called on to rely on information
8 from utilities or customers that aren't Duke Energy
9 Ohio customers. To the extent that the company
10 and/or the Commission has asked to rely on
11 information from companies that aren't a part of this
12 case, then the customers that are going to pay the
13 cost should know who was held up as the standard and
14 that they are being asked to pay additional costs
15 because of something going on not in your own service
16 territory, but because of what's going on in these
17 other service territories, and they should know who
18 those individual companies are.

19 And, again, to the point that MWA-2 is
20 the business customer survey, I believe MW -- so we
21 would only object to the residential customer survey.
22 To the extent it's business customer, I will leave
23 that up to any of the commercial or business
24 representatives to make their arguments. My argument
25 is against anything that's residential customer only.

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1 And, your Honor, I did want to point one
2 other thing out. I believe there was an indication
3 there is nothing in the testimony that's confidential
4 and on page 13 there is a couple of lines that are
5 blacked out.

6 MS. WATTS: Mr. Serio, we filed an open
7 version of that.

8 MR. SERIO: Oh, I'm sorry. I did not see
9 that. Okay.

10 EXAMINER WALSTRA: Ms. Bojko, did you
11 have anything?

12 MS. BOJKO: Your Honor, I was going to
13 add that I appreciate Mr. Serio not attempting to
14 represent business interests, but I don't think the
15 arguments would be any different for business
16 customers versus residential customers, so.

17 EXAMINER WALSTRA: Thank you.

18 Understanding the arguments and
19 objections made by Duke, we will open up attachments
20 2, 3, and 4.

21 In regards to the other attachment,
22 Ms. Watts.

23 MS. WATTS: Yes, your Honor. The last
24 attachment has specific information with respect to
25 forward budgeting of the company and deals with

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1 specific programs and dollar amounts budgeted for
2 those, and much of the contracting for that work
3 obviously has not yet begun. So information of that
4 nature released in the public record would have a
5 deleterious effect on potential for issuing RFPs for
6 that work, and ultimately be harmful to customers, as
7 well, because the higher prices that could result
8 from competitors knowing that information would
9 ultimately, presumably, be passed on to customers,
10 and so I would think it would be in the interest of
11 all of us to protect that information.

12 EXAMINER WALSTRA: Thank you.

13 Any objections?

14 MR. SERIO: Yes, your Honor. If you look
15 at attachment MW -- MAW-7, the company has indicated
16 that the descriptions are not public. And if there's
17 a supplier out there, it doesn't take a lot to look
18 at the description of the item and realize what's
19 going to be involved in doing the work that the
20 company wants to do. The total amount is known, so
21 all that isn't known is the specifics that they are
22 going to spend or propose to spend in each individual
23 year.

24 EXAMINER WALSTRA: Are you looking at
25 those last two pages?

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1 MR. SERIO: I'm starting at page 1 of 1.

2 EXAMINER WALSTRA: Okay.

3 MR. SERIO: So that gives the
4 descriptions; it just doesn't give the dollar
5 amounts. And if you have the descriptions and you
6 have the total dollars that the company is going to
7 spend over the three-year period, it doesn't really
8 impact that much because a contractor is going to
9 know that, you know, if you are going to do manhole
10 vault capital rebuilds, they know how much it
11 requires to do that type of work because they are the
12 contractors, so all you're determining is how much is
13 going to be done in any one particular year.

14 And then the second two pages, I don't
15 see anything blacked out on those.

16 EXAMINER WALSTRA: Right.

17 MR. SERIO: So the only thing I see
18 blacked out is page 1 of 1 and it's the dollar
19 amounts for the 2015, 2017 -- '16, '17, and '18
20 budgets. And, as I indicated, once you know what the
21 areas are and you know what the company is going to
22 spend in total, breaking down the specifics doesn't
23 really make that big a difference and doesn't really
24 arise to extraordinary circumstances.

25 EXAMINER WALSTRA: Thank you.

1 Any other responses?

2 Ms. Watts.

3 MS. WATTS: Yes, your Honor. I'm a
4 little puzzled by Mr. Serio's response here because
5 when a contractor bids on a job, they certainly know
6 the scope of the job and the nature of the job, but
7 the price that they bid on that -- on that work is
8 certainly unique to that individual contract and if
9 they know the outside scope of the company's budget,
10 they would certainly build their bid to fit to that
11 dollar amount. I certainly, as a contractor, would
12 bid whatever I thought the company was willing to
13 pay. It's -- I can't understand why Mr. Serio
14 wouldn't understand the competitive nature of that
15 information.

16 EXAMINER WALSTRA: Thank you.

17 Ms. Watts, for clarification, are the
18 bottom numbers, kind of below the chart, are those
19 marked confidential?

20 MS. WATTS: The aggregate number was not.

21 EXAMINER WALSTRA: Was not?

22 MS. WATTS: Was not.

23 EXAMINER WALSTRA: Those will -- what you
24 have blacked out will remain confidential.

25 MS. WATTS: Thank you, your Honor.

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1 EXAMINER WALSTRA: It's just the numbers,
2 right? The titles above are open?

3 MS. WATTS: Yes.

4 EXAMINER WALSTRA: Okay.

5 MS. WATTS: Just the budget numbers.

6 EXAMINER WALSTRA: Okay. Thank you.

7 Mr. Arnold, did you understand what we
8 marked as confidential and what we did not?

9 THE WITNESS: I do. Just for
10 clarification so the columns, the headers are
11 permissible?

12 EXAMINER WALSTRA: Correct.

13 THE WITNESS: But just not the individual
14 dollar amounts each year.

15 EXAMINER WALSTRA: Yes.

16 THE WITNESS: Okay. Thank you.

17 EXAMINER WALSTRA: Ms. Hussey, any
18 questions?

19 MS. HUSSEY: No questions, your Honor.

20 EXAMINER WALSTRA: Ms. Bojko?

21 MS. BOJKO: Yes, your Honor.

22 - - -

23 CROSS-EXAMINATION

24 By Ms. Bojko:

25 Q. There are people absent today. Good

1 morning, Mr. Arnold.

2 A. Good morning.

3 Q. Could you look at page 8 of your
4 testimony, please.

5 A. I'm there.

6 Q. You reference electric system studies in
7 the -- in line 14 and you're talking about from a
8 planning perspective. Are these the J.D. Power
9 studies? What electric system studies are you
10 referencing there, sir?

11 A. The reference on line 14 to system
12 studies, these are internal system studies. This is
13 actually loading capacity of those feeders.

14 Q. Okay. And, sir, did you provide those
15 studies in support of your testimony?

16 A. As far as the individual ones, no, I did
17 not.

18 Q. Okay. And were you involved in the
19 studies?

20 A. I was not directly involved. They are
21 done at a feeder analysis, so they're not under my
22 direction, those planning studies. However, my group
23 gets the result of those studies. So they are done
24 by the individual planners.

25 Q. And just to make sure that we're clear,

1 the studies that you are referencing, the load
2 studies, are completely different than the
3 customer-service-type studies and the J.D. Power
4 studies you talk about later.

5 A. Yes, you are correct.

6 Q. On page 9 of your testimony, line 19, you
7 discuss the duration of the life of some distribution
8 equipment. Do you see that?

9 A. On page -- I'm sorry, on page 9, line 19?

10 Q. Yes.

11 A. Yes.

12 Q. And you state that "equipment typically
13 lasts for about 30 to 50 years if preventive
14 maintenance is performed...." And my question is has
15 Duke consistently performed this preventive
16 maintenance?

17 A. Yes, ma'am.

18 Q. And you believe that Duke has performed
19 it to date?

20 A. In regards to this specific equipment or
21 in general?

22 Q. Well, you're just talking about general
23 distribution equipment in your response here.

24 A. Actually, on line 19 and 20, I'm
25 specifically talking about our downtown Cincinnati

1 equipment.

2 Q. Oh, so you're talking about -- you say
3 "By way of example." So your 30 to 50 years of the
4 life of distribution facilities and preventive
5 maintenance is only in reference to Cincinnati,
6 downtown Cincinnati?

7 A. No. That would be in general for our
8 entire system, but you referenced line 19 and 20 and
9 that's specific to downtown Cincinnati.

10 Q. I'm actually referencing -- I was
11 referencing "30 to 50 years if preventive maintenance
12 is performed on a regular schedule" and that sentence
13 starts on 18. So I was talking about that sentence,
14 not line 20.

15 A. Okay. I'm sorry, I thought you said
16 "19." Yes.

17 Q. Okay. Yes, that that's with regard to
18 the entire system?

19 A. Yes.

20 Q. In general terms?

21 A. Yes.

22 Q. Okay. So, to date, do you believe that
23 Duke's system has been maintained and is maintained
24 currently?

25 A. Yes, it is.

1 Q. On page 10 of your testimony, you talk
2 about technology changes, and when you're talking
3 about these technology changes with regard to cell
4 phones and mobile devices, you're talking about
5 complete power outages; is that right?

6 A. You reference page 10. Can you give me
7 lines?

8 Q. Line 20. You start talking about
9 customer expectations and you talk about technology
10 and mobile devices. With respect to these kind of
11 technology changes, you're talking about their
12 expectations not to have power outages; is that
13 right?

14 A. That is correct.

15 Q. And power outages for long durations
16 because of charging phones, et cetera?

17 A. This is specifically all power outages,
18 so even momentary outages for computers can be a big
19 deal.

20 Q. Momentary outages wouldn't be a big deal
21 for charging cellular phones, would it?

22 A. It would be potentially.

23 Q. A momentary power outage would affect the
24 charging of a cell phone?

25 A. It depends on what the cell phone is

1 charged at. So if it's completely dead and there is
2 a momentary outage, it's not going to continue
3 charging.

4 Q. How long does a momentary outage last?

5 A. A momentary outage can be up to 5
6 minutes.

7 Q. It's a problem for 5 minutes and then
8 that problem is cured.

9 A. That's correct.

10 Q. Okay. Let's turn to page 16 of your
11 testimony, please, sir.

12 A. Okay. I'm there.

13 Q. At the top on -- starting at the end of
14 line 1 through the rest of line 5 of that question
15 and answer, you talk about that the distribution
16 infrastructure plans and associated recovery
17 mechanism are designed to balance the needs of the
18 Company to maintain its financial stability with its
19 commitment to its customers. Do you see that?

20 A. Yes, I do.

21 Q. The company would do this same balancing
22 analysis when it proposes a rate case; isn't that
23 true?

24 A. I don't know if I would agree with that
25 totally, because we do have some incremental built

1 into our DCI plan. So some of these unless we had --
2 I'm sorry, if we did not have DCI, we may not have
3 the incremental that is shown in my plan.

4 Q. Right. But when the company's proposing
5 and starts putting together its rate case filing, it
6 does a balancing analysis of how much of an increase
7 to request with regard to its customers and what
8 would or wouldn't be acceptable under that level;
9 isn't that true?

10 A. As far as the actual rate filing, that
11 would probably be a better question for Mr. Wathen or
12 Ms. Laub.

13 Q. So you're saying in the context of a rate
14 case filing, you can't speak to whether the company
15 would balance the needs of its financial stability
16 with the commitment to customers?

17 A. I would agree with the commitment to
18 customers. As far as the financial stability, again,
19 that would be a question for Mr. Wathen.

20 Q. On the bottom of page 16 you reference
21 "MWA-7." Do you see that?

22 A. Yes, I do.

23 Q. Okay. I want to turn to MWA-7 but,
24 first, you also say "including estimated customer
25 rate impacts." Do you see that?

1 A. Yes, I do.

2 Q. And so, is it your testimony here on the
3 lines 20 to 22 that in attachment MWA-7 you actually
4 provided rate impacts to customers?

5 A. No. MWA-7 does not include estimated
6 customer rate impacts.

7 Q. Okay. So do you know whether the company
8 did perform estimated rate impacts for the DCI in the
9 programs that you are proposing?

10 A. That would be a question for
11 Mr. Ziolkowski.

12 Q. You don't know -- are you sponsoring the
13 DCI rider?

14 A. I am sponsoring the DCI rider, yes, from
15 a distribution perspective.

16 Q. And you don't know whether the
17 customer -- or, the company proposed the estimated
18 customer rate impacts that you testified to on lines
19 21 and 22?

20 A. No, I do not.

21 Q. Were you here for Mr. Ziolkowski's
22 testimony?

23 A. For portions of it, yes.

24 Q. Okay. Did you -- did you hear
25 Mr. Ziolkowski say it wasn't included in his bill

1 impacts that he produced?

2 MS. WATTS: Objection. Mr. Ziolkowski
3 did not make that statement.

4 MS. BOJKO: I think Mr. Ziolkowski did
5 say that the PSR and the DSI riders were not included
6 in his bill impacts.

7 Well, I asked this witness if he was here
8 and whether if he knew that.

9 MS. WATTS: Well, the record will speak
10 for itself. I don't think Mr. Arnold's recollection
11 of it helps anyone.

12 EXAMINER WALSTRA: He can answer if he
13 knows.

14 A. I don't recall.

15 Q. Okay. Let's turn to -- I'm sorry, MWA-7,
16 page 1 of 3. Did you produce the chart on this page,
17 sir?

18 A. Yes, I did.

19 Q. So I understand the chart, the column --
20 the third column over titled -- I'm sorry. Before I
21 talk about this, it doesn't appear this chart is
22 confidential; is that right?

23 A. This -- this chart is confidential. The
24 individual dollar amounts are.

25 EXAMINER WALSTRA: Below the years in

1 capital.

2 Q. I'm sorry. My version I can't tell
3 what's confidential. I apologize.

4 Okay. So the third column it's titled
5 "Current Annual Budget." Do you see that?

6 A. Yes, ma'am.

7 Q. Okay. Is this the amount that's already
8 included embedded in base rates currently today?

9 A. This would not be embedded in base rates
10 today. This is capital.

11 Q. Okay. So is this current annual budget
12 for what?

13 A. This would be current annual budget. So
14 you could replace "Current Annual Budget" with "2014
15 Capital." So these are current programs this year.

16 Q. Okay. So I guess I am trying to figure
17 out the DCI rider isn't in existence today, is it?

18 A. That's correct.

19 Q. Okay. So these current -- this current
20 annual budget number, it's a budget for the DCI rider
21 if it gets approved or are you stating it's a capital
22 improvement budget that you would do and then roll
23 into base rates later?

24 A. I believe you said that correctly. It's
25 our current annual capital budget, so it would be

1 included in base rates when it goes in service at a
2 later date.

3 Q. Okay. So without a DCI rider, these
4 amounts would be expended as demonstrated on this
5 chart, but then would be included in base rates if
6 they fulfilled the requirements for inclusion in a
7 base rate case; is that right?

8 A. That's correct.

9 Q. And then, so as I understand it, the next
10 one, two, three, four columns, 2015 capital through
11 2018 capital, that then those four columns are added
12 together to get the total capital line at the end of
13 the line; is that correct?

14 A. Just so I'm clear, could I have you
15 repeat that question?

16 Q. Sure. For your total capital budget, it
17 doesn't include the current annual budget, 2014, does
18 it? It's merely a summation of 2015, '16, '17, '18
19 capital budget.

20 A. Yes, you are correct.

21 Q. Okay. So for the term of the ESP -- is
22 this on a calendar-year basis?

23 A. This is on a calendar-year basis.

24 Q. So it's not exactly aligning with the
25 term of the ESP; is that correct?

1 A. That's correct. With our budget cycle
2 being January to January, and the ESP being June to
3 June, it does create some challenges in that regard,
4 but this is based on the Duke capital budget, Duke
5 Energy Ohio, that is.

6 Q. And your numbers don't have -- I can't
7 find a value associated with them. Is this in
8 millions?

9 A. This is in millions.

10 Q. So as I understand it, all the capital
11 items and the millions of dollars indicated for each
12 program are incremental to base rates; is that
13 correct?

14 A. I'm sorry. I need you to repeat that
15 question for me.

16 Q. The -- I am not allowed to say the
17 number. But the millions in the total capital budget
18 is all incremental to what's included in base rates
19 currently; is that correct?

20 A. These would be included in our next rate
21 base -- next rate case.

22 Q. If the DCI isn't approved.

23 A. That's correct.

24 Q. But your proposal is to have these items
25 included in a DCI rider so that would be incremental

1 to base rates; is that correct?

2 A. I'm struggling with the word
3 "incremental" because my understanding of the DCI is
4 that when we would come in for a rate case, the
5 DCI -- whatever is in the DCI we would put into base
6 rates and it would be reset. So I am struggling when
7 we say it's "incremental to base rates."

8 Q. Well, you do understand there is a
9 current base rate.

10 A. I do.

11 Q. Okay. And so, this -- these numbers,
12 these charges or expenses, would be in addition to
13 whatever the company already receives in base rates.

14 A. That would be correct.

15 Q. Okay. And the DCI is to be proposed to
16 be collected from all customers; is that correct?

17 A. Again, my familiarity with where rider
18 DCI would impact customers, that's something that
19 probably Mr. Ziolkowski would be better to answer.

20 Q. Well, it's your understanding all
21 customers will pay for these distribution type of
22 programs, correct?

23 A. Again, I would defer that to
24 Mr. Ziolkowski.

25 Q. You don't know whether residential

1 customers versus business customers versus industrial
2 customers would pay for these?

3 A. If they're a distribution customer more
4 than likely they would, but, again, that's a question
5 for Mr. Ziolkowski.

6 Q. Okay. There's a line item called
7 "ownership of Underground Residential Services." Do
8 you see that?

9 A. Yes, I do.

10 Q. Okay. Is it my understanding from this
11 that you currently do not own these residential
12 service lines and that you are proposing to replace
13 them and own them?

14 A. Currently, we -- there is a couple of
15 questions there. Currently, we do not own the
16 customer residential services. The proposal is to go
17 forward. As they fail, we would replace them. So if
18 the customer has an outage -- I'm sorry, based on
19 when -- let's use the effective date of the DCI, we
20 would replace that service, capitalize it from a Duke
21 perspective.

22 Q. So you're not doing any proactive
23 replacement like the -- are you familiar with the
24 riser replacement on the gas side? Are you doing any
25 proactive replacement?

1 A. I'm not an expert by any means on the gas
2 side. As far as the service, there may be
3 possibilities where we are proactive on those
4 replacements depending on the conditions of those
5 services. And that would be in conjunction with a
6 couple of the other programs that are in that column.

7 Q. Are you familiar with the AMRP program on
8 the gas side?

9 A. At a very high level, yes.

10 Q. So is this kind of a comparable activity?

11 A. I would not draw those parallels because
12 I am not familiar with that entire program.

13 Q. And, sir, is it -- so, is it your
14 understanding or do you not know whether this
15 residential underground service program is going to
16 be collected from all customers including commercial
17 and industrial customers?

18 A. Again, I would defer that to
19 Mr. Ziolkowski.

20 Q. Do you know whether Duke has a vegetation
21 management plan today?

22 A. Yes, I am.

23 Q. And so, on the second line you have
24 "Vegetation Clearing R/W Acquisition Facility
25 Modification." Is this in addition to the vegetation

1 management plan that you have currently in place or
2 is this something that will replace that current
3 plan?

4 A. There's two vegetation programs today.
5 There is an O&M component which is a large one, and
6 then there's the capital one which I mention here.
7 So the current annual budget as you see, and I won't
8 get into, obviously, because of the confidential
9 record -- I may have crossed the line there with
10 that, but that's an existing program today.

11 Q. I'm sorry, you paused. So the O&M
12 vegetation management program is an existing program
13 today?

14 A. And so is the capital that's mentioned on
15 this line.

16 Q. Okay. Do you know whether the company
17 gets line item cost recovery for the vegetation
18 management plan?

19 A. I'm sorry. I didn't hear your entire
20 question.

21 Q. Do you know whether the company receives
22 a rider amount for the vegetation management that's
23 collected outside of base rates as well?

24 A. I do not know that.

25 Q. Can we turn to the next page, please, of

1 that same attachment.

2 A. I'm there.

3 Q. Okay. So this is a list, as I understand
4 it, you took the list from the chart on the previous
5 page and you expanded it to include a description of
6 the program; is that correct?

7 A. That's correct.

8 Q. I just want to ask you about a couple of
9 these programs. Go down to the "DTUG-Online...Sump
10 Pump, Oil Monitoring" program.

11 A. Okay.

12 Q. Is this related to gas service?

13 A. This is not related to gas service. This
14 is dissolved gas analysis. So it's actually testing
15 oil in the transformers.

16 Q. In the transformers.

17 A. Correct.

18 Q. Go to the next one, the "Manhole/Vault
19 Capital Rebuild." Do you see that?

20 A. Yes, I do.

21 Q. On page 24 of your testimony you say it's
22 underground facilities and utilities. Is this for
23 both utilities, electric and gas service?

24 A. No. This is just for electric.

25 Q. So the manholes, you don't have gas

1 facilities in those manholes?

2 A. No. They don't mix very well together.

3 Q. And would your response be the same to
4 the "Congested Underground Structures"?

5 A. I'm sorry. Can you ask the question
6 again?

7 Q. I said would your response be the same to
8 the "Worst Congested Underground Structures," that's
9 merely for electric? There are no gas services under
10 there?

11 A. That's correct. Just for a point of
12 clarification you said "under there." You mean in
13 the actual compartment or the vault?

14 Q. Yes.

15 A. Okay.

16 Q. And would your answer be the same with
17 regard to the manhole lid retro?

18 A. That's correct. Those are electric only.

19 Q. And then your last item on this page it's
20 called "Distribution Substation Protection."

21 A. Yes.

22 Q. As I understand it, this line item would
23 be for security cameras; is that correct?

24 A. Yes. You're correct.

25 Q. Now, let's turn to page 17 of your

1 testimony, please.

2 A. Okay. I'm there.

3 Q. Isn't it true, sir, that you -- first of
4 all, I think you told me before you are going to do
5 these programs. They are already in the budget for
6 2014. You are going to do these programs regardless
7 of whether you receive a DCI rider; is that correct?

8 A. For 2014, yes, I would agree.

9 Q. Okay. And so, it's true that -- it's
10 also true that rider DCI would not -- if it is
11 approved, it will not prevent any outages from storms
12 occurring; is that correct?

13 A. Can I ask you to repeat that question?

14 Q. Sure. The DCI rider itself, if it is
15 approved, that will in no way affect whether there
16 are outages from storms; is that right?

17 A. Correct. I mean, there is no way I can
18 prevent a storm, so.

19 Q. Right. And when you talk on line 11 of
20 your testimony, still on page 17, you say replacement
21 of obsolete and aging infrastructure. That includes
22 communication systems and the security cameras and
23 things of that nature; is that right?

24 A. Specifically if you are referring to the
25 last line item on that attachment, distribution

1 substation, it is not replacement of those cameras.

2 Q. Those are new cameras.

3 A. That's correct.

4 Q. But there is going to be a replacement of
5 some type of communication systems; is that accurate?

6 A. No.

7 Q. No.

8 A. That is not correct.

9 Q. It is your understanding that Duke is
10 proposing to include collection for general and
11 common plant in the DCI; is that correct?

12 A. That's correct.

13 Q. And you're familiar that staff has
14 opposed the inclusion of such general and common
15 plant; is that correct?

16 A. I'm somewhat familiar with that. That
17 would be more of a question for Ms. Mullins who was
18 up here.

19 Q. But that's your understanding that staff
20 opposes the inclusion of general and common plant?

21 A. Yes.

22 Q. And, sir, do you know when the last base
23 rate case was?

24 A. I don't recall exactly.

25 Q. Would you believe, subject to check, that

1 an order came out in April of 2013?

2 A. Subject to check, I would agree.

3 Q. And did you -- are you aware that the
4 company received a revenue increase of 49 million for
5 that case?

6 A. I was not involved with that filing.

7 Q. Okay. Do you know the last base rate
8 case prior to that, 2012? It was filed in 2012; the
9 order was issued in 2013.

10 A. I was not involved with that one either.

11 Q. As you sit here today, it's your belief
12 that Duke's current distribution system is reliable
13 and in compliance with the Commission's rules and
14 Ohio law; is that correct?

15 A. That is correct. Our primary focus is
16 safety, reliability, and reasonable cost for our
17 customers.

18 Q. And staff has confirmed that belief in
19 its testimony; is that correct?

20 A. I'm sorry, can I get to you repeat that?

21 Q. Sure. Staff, in its testimony, has
22 confirmed that it believes your current system is --
23 has met the standards in Ohio law and the Commission
24 rules?

25 A. When you say "standards," specific

1 reliability standards?

2 Q. Yes.

3 A. Yes.

4 Q. And you are not sitting here today, sir,
5 suggesting that if Duke doesn't receive the DCI
6 rider, that Duke's service would somehow become
7 unreliable; is that correct?

8 A. I'm not able to forecast in the future.
9 These are integrity-based programs.

10 Q. But it's Duke's intent to maintain a
11 reliable system, as you say in your testimony; is
12 that right?

13 A. Absolutely. My job depends on it.

14 Q. And so, regardless of the outcome of this
15 case, you would continue to meet those reliability
16 standards because your job depends on it; is that
17 right?

18 A. That's correct. So there is proactive
19 and there's reactive. The reactive piece, we're
20 always going to do. What we are asking is to be
21 proactive.

22 Q. Well, maintenance is proactive, isn't it?

23 A. Yes, it is.

24 Q. So you do that currently, right?

25 A. Correct. Maintenance is an O&M expense

1 and maintaining that existing asset. What we are
2 asking for is to start replacing some of these assets
3 because they live beyond their reasonable life.

4 Q. Well, vegetation management you do
5 currently, and some of that is capital and some of
6 that is O&M; isn't that true?

7 A. That's correct.

8 Q. Did you do any kind of cost/benefit
9 analysis of the DCI rider at different levels?

10 A. No, not myself. Again, that's a question
11 for Mr. Ziolkowski.

12 Q. And did you do any kind of analysis to
13 determine whether a rate base case versus a DCI
14 rider, which of those types of programs or
15 methodology for recovering costs is better for
16 consumers?

17 A. That's a question for Mr. Wathen.

18 Q. So, but I asked if you performed any kind
19 of cost/benefit analysis.

20 A. No, I am not a rate expert.

21 Q. No. A cost/benefit analysis, did you
22 perform this?

23 A. You mentioned "rate" specific.

24 Q. No. I am asking if you did any kind of
25 cost analysis with regard to having the DCI rider in

1 place versus a rate base in place -- base rate case,
2 not rates, base -- a base distribution case.

3 A. That's a question for Mr. Wathen. No, I
4 did not.

5 Q. And so, it's your understanding, I
6 believe from one of your prior responses, that if the
7 Commission does not approve a DCI rider, you would go
8 forward with the programs and then you could seek
9 recovery for those programs, for those capital
10 expenditures through a base rate case; is that your
11 understanding?

12 A. That is my understanding. Again, we're
13 looking at proactive replacement, not reactive.

14 Q. And it's also -- there's no limit or
15 proposal to cap the increases provided in -- in your
16 testimony, is there?

17 A. Can you clarify when you say "increases"?

18 Q. Well, the capital investments, there's no
19 cap on those of what you can pass on through the
20 distribution rider, is there?

21 A. That would actually be a decision by the
22 staff. As far as the actual capital equipment, the
23 in-service dates would dictate whether it would be
24 included in the next case.

25 Q. No, no. I am talking about this current

1 proposal. There is no proposal on behalf of the
2 company to cap the level of expenditures that can
3 flow through the DCI rider; is that right?

4 A. We're talking about the rider here again.
5 That's Ms. Mullins' territory as far as the actual
6 capital expenditures because there is more than
7 what's proposed here.

8 Q. No, no. I am -- you're sponsoring the
9 DCI rider. I am asking if you put a cap on that DCI
10 rider we will only pass through, to customers,
11 \$5 million for 2014. Is that -- is that your
12 proposal?

13 MS. WATTS: Objection. Asked and
14 answered. The witness has explained that -- that's
15 not an area of his testimony.

16 EXAMINER WALSTRA: He can answer if he
17 knows.

18 A. That's not my area of expertise as far as
19 the rider is concerned.

20 Q. No, but for your program, do you have
21 expenditure caps on your programs that are listed in
22 your chart?

23 A. That's correct. That's what's proposed
24 in my attachments.

25 Q. And they're caps that you cannot pass on

1 to customers any incremental amounts above those?

2 A. We are talking two different things.
3 This is a budget and a forecast, and we are talking
4 about passing on to customers. I would like to
5 clarify which question you're asking.

6 Q. Well, that's exactly what I am asking.
7 Is the budget a cap on what you can expend and pass
8 on to customers or is it just a budget and forecast
9 that is likely to change?

10 A. All forecasts have potential for
11 changing.

12 Q. So it's not a cap.

13 A. I just need clarification because there
14 is a compound question here. Is the cap my spending
15 cap or is it what's getting passed on to customers?

16 Q. Both. Is it a spending cap?

17 A. I can't answer that question, I don't
18 know.

19 Q. Well, you just told me you believed it
20 was a forecast and it was a budget, so it was likely
21 to change because all forecasts change. So I'm
22 understanding you to say that this is not a proposed
23 cap on any kind of programs.

24 A. This is what we propose in our forecast
25 as part of this rate case.

1 Q. But it's a forecast and you expect it to
2 change.

3 A. I didn't say "I expect the forecast to
4 change," but the forecast can change.

5 Q. You're not suggesting that the company is
6 tied to the numbers that are in your chart with
7 regard to spending levels, are you?

8 A. No. I would agree with that.

9 Q. Okay. And as far as the second part of
10 my question, you don't know what, if anything -- you
11 don't know whether the charges the customer will
12 receive is somehow limited or capped by your
13 proposal.

14 A. As far as passing on to the customers
15 through this, again, that's a question for
16 Mr. Ziolkowski or one of our rate folks.

17 Q. Okay. But when you are sponsoring the
18 DCI rider, it's your understanding that all costs
19 that Duke expends will be passed on to customers.

20 A. That's correct.

21 Q. And so, we're talked a little bit about
22 base case proceedings today. It's not your
23 understanding that Duke has committed to freeze
24 distribution rates and not have a base rate case in
25 the foreseeable future, is it?

1 A. I haven't been involved in the previous
2 cases.

3 Q. Well, it's not a previous case; it's a
4 future case. Has Duke agreed in this case, if you
5 get the DCI rider, to not come in for a distribution
6 base rate case?

7 A. That's not my area of expertise. I don't
8 know.

9 MS. BOJKO: I have no further questions.
10 Thank you, sir.

11 THE WITNESS: Thank you.

12 EXAMINER WALSTRA: Mr. Serio.

13 MR. SERIO: Thank you, your Honor.

14 - - -

15 CROSS-EXAMINATION

16 By Mr. Serio:

17 Q. Good morning.

18 A. Good morning.

19 Q. First, I would like to get a little bit
20 of understanding of your background and your
21 responsibilities. You're the Director of Engineering
22 and Construction Planning, correct?

23 A. That's correct.

24 Q. What exactly does that mean?

25 A. I'm the director for Ohio and Kentucky

1 for distribution, engineering, and construction
2 planing. So my responsibility is the engineering and
3 delivery of reliability and integrity programs for
4 Ohio and Kentucky, as well as in my responsibility is
5 relocations, line extensions to new customers.

6 Q. So, as you indicated earlier, your job is
7 to make sure that service on the distribution system
8 is reliable, correct?

9 A. Correct.

10 Q. Now, if money was not an option and they
11 said go build a system that is 100-percent reliable,
12 for the most part can you do that?

13 A. I could do that, but that would not be
14 fair to our customers.

15 Q. Okay. So there has to be a balance
16 between what you spend and how reliable service is,
17 correct?

18 A. Oh, I absolutely agree.

19 Q. And, in fact, your testimony says that
20 the reason you need the DCI rider is that customers
21 are clamoring for better service, so you need to
22 spend more money to improve service, correct?

23 MS. WATTS: Objection. That's not what
24 his testimony was.

25 EXAMINER WALSTRA: He can clarify.

1 A. I don't recall mentioning "clambering."

2 Q. Are customers asking for you to improve
3 service reliability?

4 A. I do mention that in my testimony.

5 Q. So customers are asking you to improve
6 service reliability, so you're proposing the DCI
7 program of a couple hundred million dollars over the
8 next three years to improve service reliability,
9 correct?

10 A. That is one of several reasons, yes.

11 Q. Okay. Now, today, Duke is able to
12 maintain its system in a reliable manner without the
13 DCI rider, correct?

14 A. That is correct.

15 Q. All the recovery that Duke has for any
16 capital or O&M spending is done through base rate
17 cases and cost recovery in those base cases, correct?

18 A. That's correct.

19 Q. Now, if the Commission denies you rider
20 DCI, the company would continue to have the option of
21 using base rate cases to recover capital investment
22 and O&M costs in the future for any
23 service-reliability spending, correct?

24 A. From a reactive perspective, I would
25 agree.

1 Q. Now, when you talk about "reactive"
2 versus "proactive," am I correct that reactive is
3 done to maintain, and proactive is done to improve?

4 A. I would not agree with that.

5 Q. So, today, under the base rate model,
6 does the company do anything to improve service
7 reliability?

8 A. Yes, we do.

9 Q. Okay. So under the base rate model, you
10 also do proactive spending on capital and O&M
11 spending, correct?

12 A. Can I ask you to repeat that question?

13 Q. Sure. Today, using base rate cases to
14 recover your costs, the company does proactive
15 spending to maintain and improve service reliability,
16 correct?

17 A. I would agree with "maintain." I don't
18 necessarily know if I would agree with "improve."

19 Q. So, today, the company does not spend
20 money to improve service reliability; is that your
21 testimony?

22 A. I believe that we do it to maintain.
23 Now, when you say "improve," for those individual
24 customers, I would agree that their reliability is
25 improving. As far as our standards, I would not

1 agree that that would move the needle as far as when
2 you blend that across our reliability standards.

3 Q. You've talked about reliability
4 standards. You're familiar with CAIDI, SAIFI, and
5 SAIDI?

6 A. Yes, sir.

7 Q. Can you explain what CAIDI is?

8 A. I believe I explain it in pretty much
9 detail in my testimony.

10 Q. Pages 7 and 8, right?

11 A. That is correct.

12 MR. SERIO: May I approach, your Honor?

13 EXAMINER WALSTRA: You may.

14 MR. SERIO: I would like to mark, for
15 purposes of identification, OCC Exhibit 33, a
16 one-page document entitled OCC Interrogatory 07-148.

17 EXAMINER WALSTRA: So marked.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. Do you have that in your hand,
20 Mr. Arnold?

21 A. Yes, I do.

22 Q. And you are the Mr. Arnold that's
23 indicated as the person responsible, correct?

24 A. Yes, sir.

25 Q. So you're familiar with this document,

1 correct?

2 A. I am.

3 Q. And this document shows the CAIDI, SAIDI,
4 and SAIFI standards from 2005 to 2013, correct?

5 A. Yes, sir.

6 Q. And there's two different sides there.
7 One says "Excluding MEDs (storms)," the other says
8 "Including MEDs (storms)." Can you tell me what
9 "MEDs" are?

10 A. Those are major event days.

11 Q. Okay. And what does it mean to include
12 or exclude major events days?

13 A. That would be included in the formulas
14 for CAIDI, SAIFI, and SAIDI.

15 Q. And am I correct that if you exclude MEDs
16 then your performance should look better than if you
17 include them? Meaning fewer outages.

18 A. I would agree as far as predictability.

19 Q. Well, on a historic basis, if you exclude
20 major storms, wouldn't it be safe to assume that
21 your -- should have fewer outages and that the
22 outages should have been shorter than if you include
23 the impact from those storms?

24 A. When we say "outages" it can be a result
25 of several things, including auto damages, other

1 things that I can't control as well.

2 Q. I understand. But we're just -- the only
3 heading you put on this was major -- MEDs, and that's
4 storms, correct?

5 A. That's correct.

6 Q. So, generally speaking, if you exclude
7 storms, would I expect -- everything else is going to
8 stay the same, correct? Outages from auto accidents
9 and things like that?

10 A. As far as the MEDs, I'm fairly certain it
11 just includes storm. I can't say when we say "major
12 event days" that it wouldn't include anything other
13 than storms.

14 Q. Okay.

15 A. But since it specifically says here
16 "storms," I would agree with your statement.

17 Q. All right. Let's look at CAIDI first.
18 If the CAIDI number -- what does the CAIDI number
19 indicate?

20 A. As in my direct testimony on page 7, I
21 can read it or --

22 Q. Just give me your -- you don't have to
23 read it exact. What you understand it to be.

24 A. That's the customer average interruption
25 duration index.

1 Q. So that means how long a customer
2 experiences an outage, correct?

3 A. I would agree with that.

4 Q. And from an individual customer
5 standpoint, the shorter an outage the better,
6 correct?

7 A. I would agree.

8 Q. Okay. Now, SAIFI measures what?

9 A. Frequency.

10 Q. So the SAIFI is how often a customer
11 experiences an outage, correct?

12 A. Correct.

13 Q. So from a SAIFI perspective, the customer
14 wants a smaller number, correct?

15 A. I would agree.

16 Q. And then SAIDI represents what?

17 A. That's the system average.

18 Q. Okay. And the difference between SAIDI
19 and SAIFI is that SAIFI is individual customers and
20 SAIDI is an average of all customers, correct?

21 A. I would not agree with that.

22 Q. I'm sorry. CAIDI is individual customers
23 where SAIDI is the system average.

24 A. I would agree with that.

25 Q. So SAIDI, like CAIDI, the smaller the

1 number, the better, correct?

2 A. I don't know if I necessarily agree with
3 the lower the number the better. I think it's
4 important that you understand how CAIDI is
5 calculated, because you could actually have less
6 frequencies which would make your CAIDI number go up.

7 Q. And, in fact, that's what -- that's the
8 company's claim is what occurs as you reduce SAIFI,
9 you are going to get an increase in SAIDI, correct?

10 A. It can be one of several results of that.

11 Q. But am I correct that the company
12 believes that there is a correlation between SAIDI
13 and SAIFI -- SAIFI and CAIDI?

14 A. I'm struggling with the word
15 "correlation."

16 Q. Okay. Let me try it a different way. If
17 you reduce how often you have those short
18 interruptions, the interruptions that are left, by
19 definition, are going to be the longer ones, correct?

20 A. As far as correlating, I think you need
21 to correlate SAIFI and SAIDI in order to get CAIDI.

22 Q. Okay. Let me ask this way: Of the three
23 standards, which are the two that the Commission has
24 in its rules that the company has to comply with?

25 A. It is CAIDI and SAIFI.

1 Q. Okay. CAIDI and SAIFI, that's the two
2 first columns after the year, correct?

3 A. Yes.

4 Q. Now, SAIFI is how often they occur and
5 CAIDI is how long they occur. So if, in a year, I
6 eliminate a lot of the short-duration outages, I'm
7 going to improve the frequency, correct, because
8 there is going to be fewer outages?

9 A. When you say "short duration"?

10 Q. Momentary, a few seconds.

11 A. Momentaries aren't included in those
12 calculations.

13 Q. What's the shortest outage that's
14 included?

15 A. Five minutes.

16 Q. Okay. You eliminate the five-minute
17 outages, as a result, the ones that are left are
18 going to have a longer duration, correct? That's
19 math.

20 A. I would agree with that.

21 Q. In fact, that's the company's argument
22 whenever there is a reliability case is that if
23 you're improving SAIFI, to some measure the CAIDI is
24 going to go -- get -- the number is going to be
25 larger because you're eliminating the easy fixes as

1 far as frequency goes.

2 A. As far as -- as far as your statement
3 there, I think if you look at exactly what's reported
4 here, you can see our SAIFI has dropped, but our
5 CAIDI has increased.

6 Q. Okay. Now, the SAIFI has dropped from
7 1.49 to less than 1 since 2005, and the company has
8 been able to do that by being reactive and collecting
9 their capital and O&M costs under base rate
10 distribution cases, correct?

11 A. There's quite a few other things that go
12 along with that.

13 Q. But all your spending for O&M and capital
14 improvements during this period from 2005 to '13, has
15 been in base rate cases, correct? You haven't had
16 the DCI rider, correct?

17 A. That's correct.

18 Q. So money that you've spent to improve the
19 system to bring these numbers down, you've been able
20 to do this by using base rate cases, correct?

21 MS. WATTS: Mr. Serio, are you separating
22 out SmartGRID from --

23 MR. SERIO: Well, your Honor, if the
24 witness wants to do that, he can without counsel
25 testifying on his behalf.

1 EXAMINER WALSTRA: Overruled.

2 A. Can I have you repeat your question?

3 Q. Looking at the document that you provided
4 to OCC in discovery, the SAIFI number that's
5 decreased, the cost recovery for that you've been
6 able to do as a result of base rate cases, correct?

7 A. No, because we do -- we had a SmartGRID
8 filing as well.

9 Q. When was your SmartGRID filing?

10 A. I was not involved with the SmartGRID
11 filing specifically. So, as far as dates, et cetera,
12 I'm not familiar with those.

13 Q. Do you know if it was back in 2005?

14 A. Subject to check.

15 Q. You do or don't know? I am asking you.

16 A. I do not know.

17 Q. So how do you know that there's been any
18 recovery for SmartGRID outside of base rate cases?

19 A. I am somewhat familiar with there were
20 certain reliability standards that had to be met as
21 part of the SmartGRID approval by staff.

22 Q. Is all of the service reliability
23 improvements that are reported on this as a result of
24 the SmartGRID program?

25 A. I would say no because you mentioned the

1 word "all."

2 Q. Can you tell me if any reliability
3 improvements are a direct result of just the
4 SmartGRID program?

5 A. No, I cannot.

6 Q. Have you done any analysis that shows
7 that SmartGRID improved reliability by X and other
8 programs improved reliability by Y?

9 A. I mentioned earlier, I wasn't involved
10 with the SmartGRID filing.

11 Q. There is nothing in your testimony that
12 would break out SmartGRID versus non-SmartGRID
13 service reliability improvements, correct?

14 A. That's correct.

15 Q. Is there anything in the application or
16 in the testimony of any other Duke witness in this
17 case that shows the improvements in service
18 reliability in the past from SmartGRID versus none
19 SmartGRID?

20 A. I don't know.

21 Q. Now, we've -- I think you indicated with
22 Ms. Bojko that the company system today is safe and
23 reliable, correct?

24 A. Yes.

25 Q. And the company has an obligation to

1 maintain a safe and reliable system, correct?

2 A. At a reasonable cost, yes.

3 Q. If there's no DCI rider and it required
4 you to spend \$100 million next year to maintain a
5 safe and reliable system, would the company spend it?

6 A. Can you repeat that?

7 Q. Sure. If there is no DCI rider next year
8 and you need \$100 million to maintain service
9 reliability, will you get authorization to spend
10 \$100 million to maintain customer service
11 reliability?

12 A. I'm struggling with the dollar amount,
13 the "\$100 million." We will maintain reasonable
14 service for our customers at a reasonable cost.

15 Q. You'll maintain a safe and reliable
16 system, correct?

17 A. That's correct.

18 Q. And if it takes X dollars to do it, the
19 company will spend those dollars to maintain the
20 system, correct?

21 A. That's correct. But I can't predict
22 future outages and the request of this DCI is an
23 integrity-based program.

24 Q. Can you predict what's going to happen to
25 the system whether you have the DCI or not?

1 A. The purpose of the DCI is the assets who
2 have -- that are beyond a reasonable life that are
3 fully depreciated be updated, as I mentioned several
4 times in my testimony and in attachments, so it's a
5 proactive replacement.

6 Q. Does the company replace aged equipment
7 today that is completely depreciated that has a risk
8 of failure?

9 A. When you say "risk of failure," if it
10 fails, absolutely.

11 Q. Okay. So if a piece of equipment fails,
12 you replace it today, correct?

13 A. If it fails, yes.

14 Q. And if you have a piece of equipment that
15 you are fairly certain is going to fail today, do you
16 ever replace that before it fails?

17 A. Yes, I would. Not from a programmatic
18 perspective, though.

19 Q. So "programmatic" means you are going to
20 do it on a more wide-scale basis.

21 A. That's correct. So we've identified and
22 I mentioned several times in my testimony, different
23 specific assets that we see programmatic issues with.

24 Q. Now, to the extent that you're calling
25 the DCI program more preventive, has the company

1 indicated with any certainty that that would result
2 in an improvement in service reliability as a result
3 of implementing the DCI program?

4 A. Absolutely for those customers.

5 Q. So customers will absolutely see a
6 service reliability improvement.

7 A. For that individual customer, preventing
8 a future outage, yes.

9 Q. Will that improvement be something that
10 can be quantified and measured?

11 A. For that individual customer, yes.

12 Q. And how would that be measured? Would it
13 be in the CAIDI or SAIFI?

14 A. It could be either.

15 Q. Has the company proposed any guaranteed
16 service reliability improvements to CAIDI or SAIFI as
17 a result of the DCI program?

18 A. From a reporting perspective, as far as
19 our standards, no.

20 Q. And, in fact, hasn't the company
21 indicated that any improvement reliability is just an
22 incidental impact and it's not something that can be
23 measured?

24 A. That's correct. We believe some of these
25 programs may have a direct impact on our reliability

1 standards but, again, we are preventing a future
2 outage, a possible future outage based on data, so
3 it's -- it's hard to predict the future outages, it's
4 like preventing a storm.

5 Q. So customers say to you "We want you to
6 improve service reliability." You want to implement
7 the DCI that's going to spend hundreds of millions of
8 dollars to improve it; yet, you're not telling the
9 customer with certainty that they are going to see an
10 improvement in service reliability, correct?

11 A. I think, to get specific, we would
12 probably need to look at individual programs, because
13 I would disagree with your statement.

14 Q. Does CAIDI or SAIFI measure the
15 individual programs?

16 A. From a program level, no.

17 Q. And the only service reliability indices
18 that the Commission uses are done on an overall
19 basis, not on an individual-item basis, correct?

20 A. But it means a lot to those customers.

21 Q. I understand that. What happens to
22 individual customers is measured within CAIDI and
23 SAIFI, correct?

24 A. It can be pulled from that, yes.

25 Q. All customers in the distribution system

1 are going to be asked to pay for CAIDI -- for the DCI
2 rider, correct?

3 A. Again, that's a question for
4 Mr. Ziolkowski or Mr. Wathen.

5 Q. Accepting, subject to check, that all
6 distribution customers are going to pay it, are all
7 distribution customers going to see a service
8 reliability improvement?

9 A. We have 700,000 customers. I can't tell
10 you, one by one, which ones will and which ones
11 won't.

12 Q. So customers who are going to be asked to
13 pay the DCI rider, may, in fact, see no service
14 reliability improvement, correct?

15 A. Just like today. If we have a
16 transformer go out and it affects my house, you may
17 not see the improvement on your end.

18 Q. But today we're not paying the DCI rider,
19 correct?

20 A. That would be in base rates today.

21 Q. Now, on page 8 of your testimony -- I'm
22 sorry. On page 2, on line 10, of your testimony you
23 indicate that the DCI rider is necessary to continue
24 to provide "safe, reliable, and reasonably priced
25 service," correct?

1 A. Yes.

2 Q. But you've indicated, even without it,
3 the company could continue to provide safe, reliable,
4 and reasonably-priced service, right?

5 A. Reactive, yes.

6 Q. Do you have the word "reactive" anywhere
7 in your answer to question -- to the question
8 beginning on line 6 and in your answer through line
9 18? Does it say "reactive" anywhere in there?

10 A. It does not specific to "reactive," but
11 it does say "enhance and improve."

12 Q. So your testimony is that the DCI will
13 enhance and improve service reliability.

14 A. Of those individual customers, yes.

15 Q. On page 8 of your testimony, line 6
16 through 10, you list some factors there. You have
17 customer expectations, planning criteria,
18 requirements mandated by either regulatory
19 authorities or reliability councils, or
20 government-mandated projects. Do you see that?

21 A. I do.

22 Q. Those are four separate items, correct?

23 A. They are four separate, but they can be
24 intertwined.

25 Q. I would like to go through those

1 individually so I can understand what they mean.

2 A. Okay.

3 Q. Okay. Customer expectations is what?

4 A. Specific to this question, these are
5 factors that the company must consider in providing
6 safe, reliable, and reasonably-priced electric
7 service. So customer expectations is exactly that.

8 Q. Okay. And customer expectations are
9 determined how?

10 A. There's several -- there is surveys that
11 we do for the staff of the PUCO. There's J.D. Power
12 that we initiate on our own, as well as the
13 individual customers.

14 Q. Is there anything attached to your
15 testimony or anywhere in the application or anywhere
16 in any other Duke witness's testimony in this
17 proceeding that quantifies any reactions that you get
18 from individual customers with regard to service
19 reliability?

20 A. There's several. Again, these are
21 surveys, so it doesn't get down to individual
22 customers but individual customers have to partake in
23 those surveys.

24 Q. Other than the surveys, is there anything
25 in your testimony, the application, or other company

1 testimony that would show what individual customers
2 have said about service reliability and their desires
3 to see improvements?

4 A. No. That was the purpose of including
5 the surveys.

6 Q. Okay. So from customer expectations,
7 everything that the company has in this case is built
8 into the three surveys, correct, the PUCO surveys,
9 the J.D. Power, and the quarterly surveys?

10 A. Subject to check.

11 Q. Now, what's Duke's planning criteria?

12 A. Duke's planning criteria, and similar to
13 the question, Ms. Bojko asked our planning criteria
14 is looking at the loading on those individual
15 circuits. So some of our circuits have a couple
16 hundred to a couple thousand customers. So it's
17 looking at the individual loading on those individual
18 circuits, potential future upgrades, et cetera.

19 Q. And what is the requirements mandated by
20 regulatory authorities or reliability councils?
21 Let's break it into two parts.

22 A. Okay.

23 Q. Who are the regulatory authorities or
24 reliability councils?

25 A. You break it into two parts, but it's

1 very similar. The regulatory authorities is where we
2 are today.

3 Q. So the PUCO would be the regulatory
4 authority.

5 A. Yes, sir.

6 Q. And that would be the PUCO service
7 reliability under SAIFI and CAIDI.

8 A. Correct.

9 Q. Okay. So the requirements from the PUCO.
10 Is there any reliability council other than the PUCO?

11 A. Reliability councils, so our company is
12 part of several different reliability councils, and
13 NEETRAC, and I mention them throughout my testimony
14 and I believe some of the discovery questions. So
15 trying to keep up with our customer expectations, we
16 take information from those reliability councils to
17 identify potential risk on our system. So not only
18 would that include the staff of the Commission, but
19 it could also be some of the trade groups that we are
20 part of.

21 Q. And the trade groups would be all other
22 utilities like yourself, correct?

23 A. I wouldn't limit that to just utilities.

24 Q. Who else would be included other than
25 utilities?

1 A. There is several partners from a
2 education perspective that do studies for us, testing
3 cable, et cetera.

4 Q. And then what's government-mandated
5 projects?

6 A. Government-mandated projects, those
7 specifically that I mention here, when we talk about
8 safe, reliable, and reasonably-priced service, those
9 could be road projects where we need to relocate our
10 facilities. We take that into account for providing
11 safe, reliable, and reasonable service to our
12 customers.

13 Q. Okay. Page 9 of your testimony, you
14 indicate, on lines 7 through 9, that the "biggest
15 challenge relating to aging infrastructure,
16 obsolescence of equipment, and the need to regularly
17 review," those are the biggest challenges, correct,
18 age of the -- age of the equipment and the fact that
19 it's obsolete.

20 A. Those are the largest. They are not all
21 of them, but they are the largest ones for us.

22 Q. Does -- is Duke in any way able to
23 quantify what service reliability problems they have
24 that are directly related to aging infrastructure?

25 A. I do that throughout my testimony and in

1 the attachments.

2 Q. Is there any item that shows directly
3 what outages are caused as a result of aging
4 infrastructure today?

5 A. Can I ask you to repeat that question for
6 me?

7 Q. Sure. Is there anything in your
8 testimony that says that these many outages were
9 caused as a direct result of aging infrastructure?

10 A. From an outage follow-up perspective,
11 yes.

12 Q. Does Duke have a formal process that you
13 can determine if an outage was caused as a result of
14 aging infrastructure?

15 A. Yes.

16 Q. You do.

17 MR. SERIO: Can I approach, your Honor?

18 EXAMINER WALSTRA: You may.

19 MR. SERIO: I would like to mark this as
20 OCC Exhibit 34.

21 EXAMINER WALSTRA: So marked.

22 (EXHIBIT MARKED FOR IDENTIFICATION.)

23 MR. SERIO: You know what, your Honor, I
24 don't have sufficient copies. I am going to show
25 this to the witness, and if we can get it cleared up

1 I won't need it to be marked as an exhibit. I am
2 handing the witness OCC Interrogatory 203 from this
3 proceeding, and I will indicate that there's a yellow
4 highlight I added that was not part of the original
5 Duke response.

6 Q. Could you take a look at that request,
7 sir.

8 A. Yes.

9 Q. And that request asked if there was a
10 formal process to determine if Duke could determine
11 if an outage is a result of aging infrastructure,
12 correct?

13 A. Other than what you have highlighted,
14 there is a lot of additional information.

15 Q. I understand. But does Duke have a
16 formal process according to the response?

17 A. I would like to read the whole response,
18 because I think just the highlighted response does
19 not do justice to the answer.

20 Q. Go ahead.

21 A. "There exists no formal process to
22 determine if the cause of the outage was a result of
23 an aging distribution system. Aging distribution
24 system refers to unique older equipment where similar
25 replacement units are no longer manufactured or in

1 stock other than in Duke Energy Ohio's inventory.
2 However, after an outage occurs, and it is determined
3 that a replacement unit is needed, Company crews
4 contact the Company's inventory management team.
5 Currently, Duke Energy Ohio has units that are in
6 service for which, due to their size or configuration
7 there are no direct replacements." And then I go
8 into specific example here.

9 Q. Okay. So is Duke able to, right now, in
10 a formal manner, able to keep track of how many -- of
11 how many outages are caused as a result of aging
12 distribution?

13 MS. WATTS: And, your Honor, I would like
14 to object just only to the extent Mr. Serio keeps
15 using a term "formal," and I am not sure we are clear
16 on what is intended by that characterization.

17 Q. Do you have a process where you can --

18 EXAMINER WALSTRA: Hold on. I think,
19 first of all, I think that should be marked as an
20 exhibit. I realize you don't have copies, if you can
21 get them to us later.

22 MR. SERIO: Yes.

23 EXAMINER WALSTRA: The witness will
24 probably still need a copy.

25 Q. Is there anything in your testimony where

1 you've quantified the outages that were caused as a
2 result of aging infrastructure?

3 A. As far as the aging infrastructure and
4 the individual outages, I did not specify, but I do
5 specify the equipment.

6 Q. So you can't tell me how many outages
7 occurred as a result of aging infrastructure on the
8 Duke system in 2013?

9 A. If you want a formal report -- when you
10 say "formal," I am looking at it as a reporting
11 mechanism, there is not a reporting mechanism, a
12 formal reporting mechanism.

13 Q. Is there any numbers anywhere in your
14 testimony or the application that says in 2013, this
15 many outages result -- occurred as a result of aging
16 infrastructure failure?

17 A. I'm hesitating when you say "formal,"
18 because I am looking at a report that tells me here's
19 all the specific equipment. For the individual
20 equipment, yes. But it's not in my testimony.

21 Q. Is it in the application?

22 A. There was a specific discovery request
23 that we opened up for folks to come visit and go
24 through those individual programs, because there are
25 multiple files and we have multiple datasets on that.

1 Q. Is there anything in your testimony or
2 the application where you list how many outages
3 occurred as a result of aging infrastructure?

4 A. Specifically, no.

5 Q. Now, does the company track the accuracy
6 of how many outages occurred, after the fact, as a
7 result of aging infrastructure?

8 A. Again --

9 MS. WATTS: Objection as to the form of
10 the question.

11 Q. Let me rephrase it.

12 Do you know what DOMS is?

13 A. Yes.

14 Q. Can you explain that?

15 A. Distribution outage management system,
16 that is our reporting information system.

17 Q. And that's a predictive tool, correct,
18 that predicts what might happen in the future?

19 A. No, it does not.

20 Q. Well, is it considered a predictive tool?

21 A. It's considered a predictive tool from
22 determining where the outage occurred from a line
23 perspective, but it does not dictate it to the
24 specific device. It does not tie with our asset
25 database.

1 Q. Do you ever go back and track how
2 accurate DOMS is as far as its predictability?

3 A. When we respond to every outage, we do.

4 Q. Do you compile the data that shows how
5 accurate it is?

6 A. I'm not a DOMS expert. I've got a high
7 level view of the system.

8 Q. Is there anything in your testimony or
9 the application that tracks the accuracy of the DOMS
10 data as far as how accurate it is as a predictive
11 tool?

12 A. In my application -- my testimony, no.
13 Again, I want to specify that the predictive tool is
14 the location of the outage and the nearest device;
15 it's not tied with our asset system. It is merely
16 the switch or device the customer is tied to.

17 Q. You can go back, after the fact, to
18 determine if DOMS accurately predicted that, correct?

19 A. We could, but there's no reporting
20 process for that.

21 Q. Does the company compile the data even if
22 you don't report it? Do you compile the data
23 internally to determine how accurate DOMS is after
24 the fact?

25 A. Again, I'm not a DOMS expert.

1 Q. As far as you know there's nothing in
2 your testimony or the application that shows that you
3 go back after the fact and do any of that analysis?

4 A. DOMS is our outage management tool. It
5 is not our asset tool.

6 Q. Now, you talk about obsolete equipment
7 also. Do you have any process of determining if an
8 outage is a result of obsolete equipment?

9 A. I don't have the response that we just
10 discussed, the discovery question, but that uses a
11 specific example, yes.

12 Q. Do you -- is there anything in your
13 testimony or the application that lists how many
14 service outages were the result of obsolete
15 equipment?

16 A. As far as specific numbers, no.

17 Q. There's no numbers anywhere that say
18 generally this many outages occurred as a result of
19 obsolete equipment anywhere in your testimony or the
20 application, correct?

21 A. I would agree with that.

22 Q. Now, on page -- page 9, line 15, you
23 indicate "the majority of outages experienced by
24 customers are due, at least in part, to the aging of
25 the distribution system." When you say "majority,"

1 what do you mean by that?

2 A. Specific lines, did you mention those?

3 Q. Line 15.

4 A. I would like to read the whole sentence
5 to you.

6 Q. Sure.

7 A. "Indeed the majority of the outages
8 experienced by customers are due, at least in part,
9 to the aging of the distribution system."

10 Q. Okay.

11 A. It doesn't say "only." Just "aging of
12 the distribution system."

13 Q. First, I am asking what does the word
14 "majority" mean?

15 A. "Majority," typically if we have a
16 failure on the system, whether it be a piece of
17 equipment, a specific device, the aging
18 infrastructure, typically if it's overloaded, that
19 would be the majority of the outages. And outage is
20 not going to occur unless something fails.

21 Q. If there's 100 outages, how many would
22 occur, for every 100 outages how many would occur
23 as -- in part, due to the aging infrastructure?

24 A. I can't predict that.

25 Q. On a historic basis, generally speaking,

1 for every 100 outages, how many -- your majority,
2 resulted because of the aging distribution system?

3 A. "Majority" is a pretty subjective term.
4 I can't give you a number.

5 Q. So there's nothing in your testimony that
6 provides a number that says this many resulted as a
7 result of aging infrastructure.

8 A. No, but I did want to clarify a point.
9 We're talking the DCI rider. The request is for
10 integrity. So it's replacing equipment. It is not
11 replacing all equipment because all equipment failed.

12 Q. Now, on page 9 of your testimony, line 16
13 through 21, you talk about equipment that's over 30
14 years old. And I believe you indicated with
15 Ms. Bojko, even if it's 30 to 50 years old, you have
16 maintained it in a manner that's still safe and
17 reliable, correct?

18 A. I would agree with that statement
19 currently.

20 Q. Now, you also indicate there are portions
21 of the underground network in downtown Cincinnati,
22 that equipment dates back to the 1920s. Is your
23 testimony that Duke has maintained and replaced and
24 repaired that equipment as necessary since the 1920s?

25 A. Can I ask you to repeat the last part of

1 that question?

2 Q. Sure. The equipment there, you're
3 talking about stuff that was initially put in place
4 in the 1920s, correct?

5 A. Correct.

6 Q. And has Duke, over the years, spent money
7 to maintain, repair, and replace as necessary?

8 A. From an O&M perspective, yes.

9 Q. From a capital perspective, has the
10 company replaced any of the equipment they put into
11 effect in the 1920s in downtown Cincinnati?

12 A. I would hope so.

13 Q. So anything that's still in place from
14 the 1920s still works, and it works because the
15 company spent the money to maintain it over the
16 years, correct?

17 A. Yes.

18 Q. Do you know in minutes or frequency how
19 many outages by year are caused as a result of aging
20 infrastructure? Do you keep track of that?

21 A. Can I have you repeat that question?

22 Q. Sure. With regards to either the
23 duration or frequency of outages, do you track the
24 minutes or the number of outages that are related to
25 aging infrastructure?

1 A. Formally, no.

2 Q. On page 10 of your testimony, lines 4 and
3 5, at the top of the page, you talk about a problem
4 with replacement parts becoming more difficult to
5 find, correct?

6 A. Yes.

7 Q. Now, is there anything in your testimony
8 that indicates how many parts are obsolete or old and
9 you can't find replacements for them?

10 A. I believe we reference some examples, but
11 we don't give a specific listing of all of them.
12 Similar to where you're referencing in my testimony,
13 this was a specific example.

14 Q. Is there any system -- is there any parts
15 that have gone bad in Duke's system over the last
16 couple of years that you couldn't find a replacement
17 part for?

18 A. No, because we're going to continue with
19 safety, reliability, and reasonable costs for our
20 customers.

21 Q. So to the extent you are concerned about
22 replacement parts becoming more difficult to find,
23 that's something that might occur in the future; it's
24 never occurred in the past.

25 A. How I would answer that question is

1 whether it's a direct fit or not, it could be an
2 additional cost where we may pay a premium for that
3 specific piece of equipment.

4 Q. Do you have any kind of quantification of
5 the premium that you've spent, by year, in making
6 these parts fit the older parts that are obsolete?

7 A. Specifically, no.

8 Q. So there's no quantification of the
9 additional dollars you spent.

10 A. We would have some examples of individual
11 units like I mentioned here, but as far as a formal
12 reporting, no.

13 Q. Is there any number in your testimony or
14 the application that would give me a dollar amount
15 that was spent in doing that additional work?

16 A. I don't recall.

17 Q. Now, on page 10 of your testimony, you
18 indicate that "customers today are more sensitive to
19 power quality than they have been in the past." Is
20 that your testimony?

21 A. Yes, it is.

22 Q. So you're saying that -- strike that.

23 Would you accept, subject to check, I
24 think you did, the company had an electric
25 distribution rate case with an order issued in 2012?

1 A. Subject to check.

2 Q. And would you -- is it your testimony
3 that customers are more sensitive to power quality
4 today than they were in 2012?

5 A. I think it increases year to year, yes.

6 Q. And do you have any kind of
7 quantification of how customers are more sensitive to
8 power quality today than they were in 2012?

9 A. No, I do not.

10 Q. There's nothing attached to your
11 testimony or the application that would show that,
12 correct?

13 A. From 2012 to current?

14 Q. Yes.

15 A. No.

16 Q. Now, on page 10, you also indicate at the
17 bottom of the page, customers expect restoration to
18 be made more quickly, and when you say "more
19 quickly," more quickly than what?

20 A. Most customers I've talked to, you can
21 never get the power turned back on soon enough.

22 Q. Is there any analysis that would show
23 what customer expectations were with regard to
24 service restoration in 2012 versus today?

25 A. We have some of that data in some of the

1 attached surveys, but I can't say I have, subject to
2 check, that it would compare 2012 with today. I
3 believe the surveys were either 2013 or 2014 as far
4 as restoration times.

5 MR. SERIO: Your Honor, I'm going to get
6 into the surveys. If you wanted to take a break,
7 this would be a good place. It's up to you.

8 EXAMINER WALSTRA: Yeah, we can take a
9 10-minute break.

10 (Recess taken.)

11 EXAMINER WALSTRA: We'll go back on the
12 record.

13 Go ahead, Mr. Serio.

14 MR. SERIO: Thank you, your Honor.

15 Q. (By Mr. Serio) Mr. Arnold, on page 11 of
16 your testimony line 16 through 20, if you would look
17 at that, I think that's where you talk about the
18 different surveys that the company does?

19 A. Yes.

20 Q. And am I correct that the first one is
21 the J.D. Power annual study, correct?

22 A. Yes.

23 Q. And that's attached to your testimony,
24 correct? In fact, isn't that attachment MWA-2?

25 A. Yes, it is.

1 Q. Okay. Then you talk about Duke Energy
2 also conducts its own surveys of residential and
3 various business customers, correct? Are those -- is
4 that second survey attached to your testimony?

5 A. The one that's specifically referenced
6 there, no, it is not.

7 Q. Okay. And then the third survey is the
8 quarterly surveys that you reference on line 21,
9 correct?

10 A. That's correct.

11 Q. And that would be the one that you do for
12 the PUCO, correct?

13 A. That's correct.

14 Q. And that's attached to your testimony as
15 MWA-5, correct?

16 A. Subject to check, I'll agree.

17 Q. Well, if you could turn to MWA-5, I think
18 MWA-5 is the Quarter 1-14 Update?

19 A. Just for confirmation, MWA-5?

20 Q. Yes.

21 A. Okay. I'm there.

22 Q. As part of your preparation for this
23 proceeding, did you read the testimony of OCC Witness
24 Williams?

25 A. I don't recall.

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1 MR. SERIO: Can I approach, your Honor?

2 EXAMINER WALSTRA: You may.

3 MR. SERIO: To make this easy, attached
4 to Mr. Williams' testimony is a copy of the same
5 update but it's for 2013. Do you need copies of
6 Mr. Williams' testimony? I have them if you need
7 them.

8 EXAMINER WALSTRA: No.

9 MR. SERIO: I am going to give him a copy
10 of Mr. Williams' testimony.

11 Q. I am handing you a copy of the prepared
12 testimony of James Williams that will be entered into
13 the record as an exhibit later in the proceedings,
14 but I will go ahead and mark it now so there is no
15 confusion. I would like to reserve No. 35.

16 EXAMINER WALSTRA: So marked.

17 MR. SERIO: Mr. Williams' testimony.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. If you could turn to the attachment of
20 Mr. Williams' testimony, and specifically it's
21 attachment JDW-15.

22 A. Okay. I'm there.

23 Q. That's the same quarterly survey as is
24 attached to your testimony, only this one is for 2013
25 and yours is for 2014, correct? I'm sorry. Yeah,

1 2013 and 2014.

2 A. I would agree his is 2013, yes.

3 Q. So you are familiar with the 2013
4 reliability survey, correct?

5 A. No, I am not.

6 Q. You're only familiar with the 2014
7 reliability survey?

8 A. Yes, the one that was included in my
9 direct testimony.

10 Q. To the best of your knowledge, the
11 quarterly surveys that the company does, is there
12 anything different in 2014 versus 2013?

13 A. Since I haven't read the 2013, I can't
14 answer your question.

15 Q. Okay. Well, then, my questions are going
16 to apply to both, and I think if you look at
17 Mr. Williams' attachment, and if you look at yours,
18 and you look at the first page of both documents,
19 those both show "Completed Survey Counts," correct?

20 MS. WATTS: Your Honor, I am going to
21 object, unless Mr. Serio is willing to give the
22 witness some time to look at the document he has just
23 been presented with before he is going to be asked
24 questions about it.

25 EXAMINER WALSTRA: I think he is going

1 through it page by page, so.

2 MR. SERIO: I was going to go through the
3 pages and walk him through it to show that they're
4 similar, but he can take all the time he wants. I
5 will accommodate the witness.

6 EXAMINER WALSTRA: Overruled. If the
7 witness needs more time, just let us know.

8 Q. If you look at the first page of both
9 documents, am I correct that the only difference in
10 the data is that it's looking at different quarters?
11 With Mr. Williams' is for Quarters 2-12 through
12 Q1-13, and yours is Q1-13 through Q1-14?

13 A. I wouldn't agree they are different,
14 because they are actually -- his is looking at Q1-13
15 and mine is looking at Q1-13 as well.

16 Q. Okay. It's the same type of data, just
17 for different time periods.

18 A. I would agree with that.

19 Q. Okay. Now, am I correct that this survey
20 does both residential regulated and residential
21 nonregulated, correct?

22 A. Subject to check, I would agree.

23 Q. Okay. I am going to focus on the
24 residential regulated, and I think in both of them
25 every other page is regulated and then nonregulated,

1 correct?

2 A. I would agree.

3 Q. Okay. So if we look at page 2, this asks
4 "How many brief interruptions of 5 minutes or less
5 have you experienced at your home in the past 12
6 months," for both documents, correct?

7 A. I'm struggling with this because his pages
8 aren't marked, so I want to be sure I'm on the same
9 page.

10 Q. I am looking for the question for both,
11 and the question is brief interruptions of 5 minutes
12 or less for regulated customers.

13 A. Okay. I think I'm there.

14 Q. Okay. Would you agree with me that both
15 surveys, the majority of the customers have
16 experienced three or fewer outages of 5 minutes or
17 less in the last 12 months?

18 A. Can I ask you to repeat your question?

19 Q. Sure. Would you agree with me for both
20 surveys, the majority of customers have experienced
21 three or fewer outages of 5 minutes or less over the
22 12-month period covered by each of the surveys?

23 A. I think where I'm struggling is the
24 surveys aren't comparable. They have got a different
25 Y axis.

1 Q. So let me point to you. If I look at the
2 top of each document where it says "Regulated
3 Customers," it lists the different quarters and then
4 this is one that says, "YE" and then a number, either
5 "12" or "13." That would be year ended, correct?

6 A. Yes, sir.

7 Q. So let's focus on the year ended data.
8 And for the 2013 --

9 A. I can't follow you. It's black and
10 white.

11 Q. It's the fourth bar over. Comparable to
12 yours.

13 A. I would request color to be fair, sir.

14 MR. SERIO: Can I approach, your Honor?

15 EXAMINER WALSTRA: You may.

16 MR. SERIO: I have a copy of the 2013
17 Quarter 1 update that's attached to Mr. Williams'
18 testimony that's colored, but I only have one other
19 one.

20 Q. The document I just handed you is
21 identical to what is Mr. Williams' testimony except
22 it's in color, correct?

23 A. Yes. Thank you.

24 Q. All right. So if we are looking at year
25 end '12 data from the 2013 document, that would be

1 the fourth bar over or the red bar, correct?

2 A. Just for clarification year end 2012?

3 Q. I am in the Q1-13 update.

4 A. And you mentioned year end 2012 which is
5 red.

6 Q. Yes, yes. The red bar or the fourth bar
7 over from the left, correct?

8 A. I would agree, yes.

9 Q. And then if you look at the Q1-14 update
10 that's attached to your testimony, the year end '13
11 is also the fourth bar over, correct? I'm sorry.
12 The fifth bar over.

13 A. I would agree.

14 Q. And that's the yellow bar. So if you add
15 up the numbers --

16 A. What color bar did you mention?

17 Q. The yellow bar in your exhibit.

18 A. Mine is more of a salmon color, but
19 yellow.

20 Q. Salmon, yellow. It's the fifth bar over,
21 correct?

22 A. I agree.

23 Q. So if you were to add up that fifth bar
24 over, for 0, 1, 2, and 3, for either -- for your
25 document, and then the fourth bar for 0, 1, 2, and 3,

1 that would be the majority of customers, correct?

2 A. Right now we are only looking at the 2013
3 survey.

4 Q. Start with 2013 survey. Fourth line
5 over. I'll walk you through it. For zero
6 interruptions, it's 20 percent, correct?

7 MS. WATTS: Objection. Mr. Serio, are
8 you asking if this is the majority of Duke Energy
9 Ohio customers or the majority of the responding
10 customers?

11 MR. SERIO: The majority of the
12 respondents to the survey.

13 MS. WATTS: Thank you.

14 A. Can I have you repeat the question?

15 Q. Sure. If you look at the fourth -- the
16 fourth bar over, the red bar, in the attachment to
17 Mr. Williams' testimony, the 2013 update, zero is 20
18 percent, correct?

19 A. If it's the fourth one over, and I am
20 looking at regulated customers, which would be on
21 page 3, it's about 24 percent.

22 Q. 24 percent, okay. And then 1 would be
23 about what, 8 percent?

24 A. Subject to check, I would agree.

25 Q. Okay. And then approximately another

1 17 percent for 2?

2 A. Subject to check, I agree.

3 Q. And then approximately, what, 13 percent
4 for 3?

5 A. I agree.

6 Q. So if you add those up, that's a majority
7 of customers, correct, that were surveyed?

8 A. Explain when you say "majority".

9 Q. You use the word "majority" in your
10 testimony. Do you recall?

11 A. That's correct.

12 Q. Applying that same standard here, would
13 you agree that the majority of the customers surveyed
14 indicated that less than -- that 0 to 3 interruptions
15 of 5 minutes or less is what they've actually
16 experienced during the last 12 months?

17 A. Without having a calculator, I would
18 agree it's greater than 50 percent.

19 Q. Okay. And if I did the same exercise for
20 the 2014 update that's attached to your testimony,
21 with 0, 1, 2, and 3 outages looking at the year end
22 '13, which would be the fifth column over from the
23 left, would you agree that a similar exercise would
24 show that that's a similar majority?

25 A. I would agree with the statement that the

1 majority, yes, but I wouldn't agree that they are
2 similar.

3 Q. It's a different number.

4 A. 0, 1, 2, and 3 are different.

5 Q. Right. It's a different number, but it's
6 still a majority.

7 A. I would agree.

8 Q. Okay. Now, if we look at page 4 which is
9 both for regulated customers on both documents, and
10 this time the question is "How many brief
11 interruptions of 5 minutes or less would you consider
12 acceptable during a 12-month period?" Do you see
13 that for both documents?

14 EXAMINER PIRIK: Mr. Serio, are you
15 referring to page 5?

16 MR. SERIO: In MWA-5, it's page 5. It's
17 the fourth page back in Mr. Williams' attachment.
18 Unfortunately, those didn't come labeled, and I did
19 not realize until after testimony was filed that they
20 were not numbered.

21 EXAMINER PIRIK: Actually, if you label
22 the first page of Mr. Williams', which is the cover
23 page, as 1.

24 MR. SERIO: It would be the same fifth
25 page.

1 EXAMINER PIRIK: Then it's the same
2 numbered pages. So you need to label the pages and
3 they would help the witness if he had a labeled set.

4 THE WITNESS: The one that you reference
5 as 5 is actually 4 in his.

6 MR. SERIO: When I did mine, I didn't
7 count the front page. So if you add a number to it,
8 and I will do it with my questions from here on in.

9 Q. So if you look at page 5 of your
10 attachment and page 5 of Mr. Williams' attachment,
11 they both ask the same question of regulated
12 customers, correct?

13 A. I would agree.

14 Q. Now, if you did the same exercise of
15 adding the percentages for 0, 1, 2, and 3, for year
16 ending '12 and year ending '13, would you agree with
17 me that for both the majority of customers would
18 consider 3 or fewer interruptions of 5 minutes or
19 less acceptable during a 12-month period?

20 A. I would agree that the majority of
21 customers. Again, they are not similar.

22 Q. Right. We can do the math ourselves.

23 A. If you go beyond 3, they are
24 significantly different.

25 Q. Now, if I -- if you want -- I don't want

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1 to go through every one of these, so I would ask you,
2 if you look at pages 7, 8, 9, 10, would you agree, as
3 you flip through the documents, that they are the
4 same in both documents just different years and
5 different results, but they are asking the same
6 questions?

7 A. 7, 8, 9, and 10, is that my numbers or
8 his numbers?

9 Q. If you use -- if you go to your page 6.

10 EXAMINER PIRIK: Here is the problem,
11 Mr. Serio. In the copy I have of Mr. Williams'
12 testimony there are no page numbers. It appears as
13 if the witness has a copy that has page numbers on
14 it.

15 MR. SERIO: If you look at your No. 6 and
16 Mr. Williams' No. 7.

17 EXAMINER PIRIK: Yeah, but the record
18 isn't going to be clear because the only record we
19 have is what we have before us. His document needs
20 to match our document for the record. You can't keep
21 saying "his number this" and "that number that"
22 because the document we have on the record that's
23 given to the court reporters doesn't have numbers on
24 it.

25 MR. SERIO: Can I approach, your Honor?

1 I will correct the numbers on his copy. When
2 Mr. Williams' testimony is provided to the court
3 reporter, we will make sure there are numbers.

4 EXAMINER PIRIK: What's the last number?

5 MR. SERIO: 36, I believe, is the last
6 page.

7 EXAMINER PIRIK: That's good.

8 Q. (By Mr. Serio) Okay. If you look through
9 the two documents and go page by page, would you
10 agree with me that it's the same questions as asked
11 to customers both in the 2013 and 2014 documents?

12 A. Are you asking me to go page by page and
13 make sure they're the same?

14 Q. You can go through as many of the pages
15 as you need to, I believe that they are, and you can
16 do as many spot checks as you want.

17 A. Well, since this is the first time I saw
18 it, I would like to go page by page. It's the first
19 time I've seen it.

20 Q. Go ahead.

21 A. Since this is the first time I have seen
22 this survey today, and I am, by no means, a survey
23 expert. I would agree that the questions are
24 similar. However, the responses, if you look at the
25 one that Mr. Williams submitted, since we're talking

1 about year end survey results, there are two
2 footnotes on page 2 that say "Use caution when
3 interpreting results; low sample sizes." And on the
4 survey that I was referencing, there's just one
5 footnote from Q1 of '13. So I'm hesitant on
6 comparing the two surveys.

7 Q. How long have you had your position, sir?

8 A. I have been in this position since July
9 of 2012.

10 Q. And the data in Mr. Williams' survey goes
11 back to 2012, correct? Second quarter of 2012?

12 A. Yes, sir.

13 Q. That's when you had your current
14 position, correct?

15 A. Q2 of 2012, no, I did not.

16 Q. When, in 2012, did you take your
17 position, sir?

18 A. I believe the record has July of 2012 is
19 what I mentioned.

20 Q. Okay. So the third quarter of 2012 of
21 Mr. Williams' document would be the time period
22 covering your current position, correct?

23 A. Can I ask you to restate that please?
24 I'm sorry.

25 Q. The third quarter of 2012 would include

1 the time period when you had your current position,
2 correct?

3 A. That is correct.

4 Q. Now, prior to providing testimony in this
5 proceeding, had you ever seen the PUCO survey results
6 for the Q1-14 updates that's attached to your
7 testimony?

8 A. I believe you said prior to --

9 Q. Prior to providing testimony in this
10 case.

11 A. No, I did not.

12 Q. So when did you first see the PUCO
13 reliability survey results?

14 A. As part of preparing my direct testimony.

15 Q. Would that be true also for the J.D.
16 Power results?

17 A. No. I had seen those previously.

18 Q. How come you've never seen the PUCO
19 reliability results prior to providing your testimony
20 in this proceeding?

21 A. Can I ask you to repeat the question?

22 Q. Sure. MWA-5, you indicated that prior to
23 preparing testimony, you'd never seen these
24 residential survey results, correct?

25 A. This level of detail, no, I did not.

1 Q. And I am asking you why you had never
2 seen this level of detail prior to preparing for your
3 testimony.

4 A. I don't know.

5 Q. Yet, your testimony says that customers
6 want greater service reliability; yet, prior to
7 putting your testimony together, you never looked at
8 the residential survey that the Commission requires
9 the company to do.

10 A. It was not part of my job, no, sir.

11 Q. Do you know if anybody else whose
12 testifying in this case has familiarity with the PUCO
13 reliability survey?

14 A. I don't know.

15 Q. But it was attached to your testimony.
16 That means you're the sponsor, correct?

17 A. That's correct. I'm familiar with the
18 one that's attached to my testimony.

19 Q. But you're also responsible for the third
20 quarter 2012, going forward, correct?

21 MS. WATTS: Objection. That one wasn't
22 attached to Mr. Arnold's testimony.

23 Q. But that covers the period of your
24 current position, correct?

25 A. Yes, it does.

1 Q. So why didn't you go back and look at the
2 prior survey that would cover the period coinciding
3 with your taking your current position?

4 A. I don't know.

5 Q. Do you know which survey was the most
6 current at the time that the company's most current
7 reliability standards were put in place?

8 A. No. I don't know.

9 Q. Now, if you would look at page 17 of
10 36 --

11 A. Which one?

12 Q. Of both documents.

13 A. Okay. I'm there.

14 Q. Okay. In looking at your document and
15 comparing the two, the question is the same, "During
16 a specified period of system stress, such as a hot
17 summer day, what is the maximum amount that you would
18 be willing to pay and have included in your electric
19 bill in order to avoid a one-hour electric service
20 outage to your residence?" Do you see that?

21 A. I do.

22 Q. And it's the same question in both
23 surveys, correct?

24 A. The question is the same, I would agree.

25 Q. Now, the question that asks "in your

1 electric bill," do you know if that's monthly or
2 annual?

3 A. I'm not a survey expert so I don't know.

4 Q. But it's attached to your testimony. Do
5 you understand what the attachment to your testimony
6 refers to?

7 A. I do.

8 Q. And does it refer to monthly or annual
9 bills?

10 A. I don't recall exactly, but I do believe
11 it is monthly.

12 Q. Okay. So to the extent that it indicates
13 a dollar amount there, that would be the customers
14 are willing to pay that dollar amount to avoid a
15 one-hour interruption, correct?

16 A. That is my understanding, yes.

17 Q. So the largest dollar amount is more than
18 five, and that was with no cap, correct? On both
19 surveys?

20 A. When you say larger than five, you mean
21 more than five?

22 Q. Yes. So if I took the 0 through \$5
23 maximum, would you agree with me that it's almost
24 90 percent for all categories of both surveys that
25 say that customers will be willing to pay \$5 or less

1 per month in order to avoid a one-hour electric
2 service outage, correct?

3 A. Is this all quarters and year end or any
4 specific timeframe?

5 Q. Generally -- I think there might be one
6 or two instances where's it's slightly over the
7 10 percent, but the more than \$5 category is
8 generally 10 or less, correct?

9 A. "10 or less," do you mean 10 percent or
10 less?

11 Q. 10 percent or less.

12 A. Subject to check, I would agree.
13 However, in the one from 2013, it does have Q4 2012,
14 the survey did not have enough respondents. So I
15 don't -- I don't know if we can draw comparisons
16 between the two surveys because of that data point.
17 However, the other months, I would agree.

18 Q. Now, when the company determined that
19 customers have higher service reliability, did the
20 company consider how much customers are willing to
21 pay per month in order to avoid service interruptions
22 as is indicated in these two surveys?

23 A. That was one of many factors, yes. The
24 other reason it was included in this survey was
25 looking at reliability, as well, and outage.

1 Q. Right. But in determining if customers
2 are willing to pay more money for better service
3 quality, doesn't the question, such as the one posed
4 on page 17, give you a direct response of what
5 customers think as far as how much they are willing
6 to pay in regard to service reliability?

7 A. Of the ones surveyed, I would agree.

8 Q. Well, when you do a survey, you do it
9 based on accepted scientific survey methods, right?
10 Or do you just pick the first 200 people you walk
11 across?

12 A. I don't know the details of how the
13 survey is conducted.

14 Q. So you have no idea how any of the
15 surveys attached to your testimony are conducted.

16 A. I didn't say that.

17 Q. Can you tell me how the survey, the PUCO
18 reliability survey that's MWA-5 to your testimony,
19 how it was conducted?

20 A. That's a pretty general question.

21 Q. How do you pick the people that you ask
22 the questions?

23 A. I don't know.

24 Q. Do you know how J.D. Power picks the
25 people that they ask for the survey that's attached

1 to your testimony, I think it's MWA-2?

2 A. No, I do not. It's one of many
3 components of my testimony.

4 Q. Right. But you're supposed to understand
5 all the components to your testimony, correct?
6 You're the one testifying to them.

7 A. That is correct. But I would not agree
8 that I have to know the details behind how the survey
9 is actually conducted.

10 Q. So is it possible that the survey results
11 were determined by picking the first 100 people that
12 someone came across on the street?

13 MS. WATTS: Objection. The witness has
14 already answered that he doesn't know how the survey
15 respondents were selected.

16 MR. SERIO: Your Honor, it's attached to
17 his testimony. He is -- he is the only witness
18 testifying about it. If he doesn't have some
19 understanding of the survey results --

20 EXAMINER WALSTRA: He can answer if he
21 knows.

22 A. Our surveys are conducted in accordance
23 with the requirements of this Commission.

24 Q. And would you assume that the
25 requirements from the Commission are that the survey

2200

1 should somehow be reflective of the customer base in
2 whole?

3 A. I don't know the specific details.

4 Q. I am not asking you specific details.
5 Generally speaking, would you assume that the PUCO
6 requires you to have your surveys be done on a basis
7 so that the results reflect customers as a whole?

8 A. Of the respondents of the survey?

9 Q. Yes.

10 A. Yes.

11 Q. Now, do you know how many customers were
12 surveyed in the Duke quarterly surveys?

13 A. Which survey?

14 Q. MWA-5, residential customers.

15 A. Yes, I know how many surveys were
16 completed.

17 Q. Okay. So if I took the completed survey
18 number and added them all the way across, that would
19 be how many customers responded for all the quarters,
20 correct? Looking at page 2 of 36 on either survey.

21 A. And you are looking on specifically page
22 2 of 36?

23 Q. Yes.

24 A. When you say "all the away across," are
25 you talking about adding each quarter up?

1 Q. Yes.

2 A. If I add all the quarters up for Q1
3 through Q4, it gives me the year end '14.

4 Q. And that would be the total number of
5 customers that responded for each of the quarters
6 that's listed in either of the surveys, correct?

7 A. Number of respondents, I would agree,
8 completed surveys.

9 Q. All right. Let's take that aside and
10 let's look at MWA-2. Now, MWA-2 is the J.D. Power
11 study that you referenced on page 11, line 16 of your
12 testimony, correct?

13 A. You said page 11, line 16?

14 Q. Yes.

15 A. Those specific lines speak to the J.D.
16 Power annual electric utility residential or business
17 customer surveys.

18 Q. Okay.

19 A. That was in my testimony. As I stated at
20 the beginning, this has been corrected. This is
21 actually a Duke Energy summary of those studies.

22 Q. Is the complete J.D. Power study attached
23 to your testimony?

24 A. The complete survey?

25 Q. Yes.

1 A. No, it is not.

2 Q. Okay. But if I look at MWA-2, page 3 of
3 14.

4 A. Okay. I'm there.

5 Q. The factors that are listed there would
6 apply to the actual J.D. Power's study, correct?
7 Customer service, power reliability, billing and
8 payment, corporate citizenship, price and
9 communication.

10 A. I would say subject to check.

11 Q. Now, those are the six factors that J.D.
12 Power asks customers about, correct?

13 A. Since I did not use the entire J.D. Power
14 for -- J.D. Power study for my testimony, at this
15 point I would say, subject to check, I would agree.

16 Q. Okay. If we look at those six factors,
17 which of those factors apply to the DCI rider when it
18 comes to customers' opinions about the DCI rider?
19 Would you agree the power quality and reliability
20 applies?

21 A. Yes.

22 Q. Does billing and payment apply?

23 A. Yes.

24 Q. Can you explain how billing and payment
25 applies to the DCI rider?

1 A. They would receive the DCI rider on the
2 bill.

3 Q. Does billing and payment have anything to
4 do with service reliability?

5 A. Yes, it does.

6 Q. How does billing and payment impact the
7 customer's service reliability?

8 A. Depending on -- and I mentioned this a
9 couple of times about reasonable cost, and I don't
10 believe this Commission would approve anything that
11 would be unreasonable, so billing and payment would
12 be part of this.

13 Q. How does billing and payment differ from
14 price?

15 A. Price is a component of payment.

16 Q. So you're saying that billing and payment
17 and price are both included in how much a customer
18 pays?

19 A. Can I ask you to repeat that?

20 Q. Yeah. So you're saying that both price
21 and billing and payment are factors that J.D. Power
22 asked customers about that are included as far as
23 the -- how much customers pay in the DCI?

24 MS. WATTS: Objection as to the form.

25 MR. SERIO: I'll rephrase it, your Honor.

1 EXAMINER WALSTRA: Thank you.

2 Q. What's the distinction between price and
3 billing and payment?

4 A. Price would be a component of the billing
5 and payment.

6 Q. Price is how much you actually pay for
7 the service, correct?

8 A. That is correct.

9 Q. Would you agree that billing and payment
10 would be the form of how you get charged, getting a
11 bill in the mail and actually putting a stamp on it
12 and sending it back?

13 MS. WATTS: Your Honor, I am going to
14 object to Mr. Serio's questions here, because these
15 are elements in the survey where customers were
16 questioned about their satisfaction with those
17 individual elements. Mr. Serio's questions seem to
18 suggest they relate to one another in the survey and
19 they don't necessarily do that. They are individual
20 elements of satisfaction.

21 MR. SERIO: And, your Honor, I am trying
22 to determine which individual factors of satisfaction
23 would apply to the DCI question of whether customers
24 are asking for greater service reliability and
25 whether they are willing to pay for it.

1 EXAMINER WALSTRA: Overruled.

2 A. Can I ask you to repeat the question?

3 Q. Would you agree that billing and payment
4 has more to do with getting a bill in the mail and
5 how you pay it, versus the price having to do with
6 the cost of the service itself?

7 A. It's not exactly my area of expertise,
8 but my personal opinion would be no.

9 MR. SERIO: Your Honor, unless there is a
10 J.D. Power expert to take the stand, I would move to
11 strike the J.D. Power study completely because he
12 can't answer questions about what's the components in
13 the study, and the company's relying on a study to
14 justify a program that I can't get answers to.

15 EXAMINER WALSTRA: Ms. Watts.

16 MS. WATTS: Your Honor, the witness has
17 just spent probably close to an hour answering
18 questions about this study. The study was provided
19 to support a couple of specific statements in his
20 testimony and he does have knowledge of the contents
21 of the study and it's not necessary for him to know
22 exactly how it was performed in order for him to rely
23 upon it. The study was conducted in the course of
24 the normal company's business operations.

25 Mr. Arnold is justified in relying on his

1 colleagues in conducting a reasonable study in that
2 process. And I think that it's a perfectly
3 reasonable exhibit to accompany the other parts of
4 his testimony.

5 MR. SERIO: Your Honor, the majority of
6 the time was spent on the quarterly surveys and he
7 was able to answer those questions. We just got to
8 the J.D. Power study and he cannot answer questions
9 about what the different components mean. If I can't
10 get answers to the components, then I'm at a real
11 disadvantage as far as arguing whether customers do
12 or don't want greater service reliability based on
13 this study.

14 And the company has based its
15 determination entirely on the J.D. Power study and
16 has not considered the quarterly reliability study.
17 So if he can't answer those questions and they don't
18 have a witness that can, then it has no part in the
19 record. It can't be authenticated and it should be
20 stricken.

21 EXAMINER WALSTRA: I am going to overrule
22 it.

23 Q. Mr. Arnold, what does "Communications,"
24 14 percent mean?

25 A. You are on page 3.

1 Q. Page 3?

2 A. That's communications from the company.

3 Q. And what does the 14 percent mean?

4 A. I did not focus on the communication part
5 of the survey.

6 Q. Do you know what "customer service"
7 means?

8 A. Yes, I do.

9 Q. And what does it mean?

10 A. Customer service is how we treat our
11 customers.

12 Q. Do you know what the 10 percent means?

13 A. As the survey say, it's the factor model
14 weights. That's how the survey is conducted. So
15 these are the weights.

16 Q. What does the "weight" mean?

17 A. Percentage.

18 Q. I understand it's a percentage. What
19 does that percentage mean?

20 A. How much the questions are weighted in
21 the calculation.

22 Q. So in determining how satisfied a
23 customer is with service, with your service overall,
24 10 percent has to do with customer service?

25 A. Can I ask you to repeat that?

1 Q. The customer service, 10 percent, the
2 total represents what customers think about the
3 company, correct?

4 A. In addition to communication, I would
5 agree.

6 Q. All six factors, together, are what
7 customers think about the company, correct?

8 A. Perception, yes, I would agree.

9 Q. So when customer service is 10 percent,
10 what does that 10 percent mean?

11 A. As I mentioned, it's the weight. It's
12 the average.

13 Q. I understand it's a weight or an average.
14 What does that mean in general terms? If I'm going
15 to explain to the Commission what that 10 percent
16 means, what does it mean to them?

17 A. I am not the expert on how the survey was
18 conducted.

19 Q. So you have no idea how this survey was
20 conducted at all?

21 A. No, I do not.

22 Q. All right. Let's look at page 4 of 14.
23 This is "Large Utility Results" and then it says
24 "Duke Energy Brands," correct?

25 A. That's correct.

1 Q. What does "Large Utility Results" mean?

2 A. Large utility results, that's large
3 utility companies.

4 Q. What constitutes a large utility company?

5 A. Again, that's getting into the details
6 behind the scenes, and I'm not aware of.

7 Q. So you don't know what size factor limits
8 a utility from being large versus one that's not
9 considered large?

10 A. From a J.D. Power perspective, no.

11 Q. Do you know if the Duke Energy brand was
12 considered large?

13 A. The Duke Energy brand as far as the
14 affiliates, yes.

15 Q. What does Duke Energy brand incorporate
16 there?

17 A. I'm sorry. Can I ask you to repeat that?

18 Q. What does Duke Energy brand mean?

19 A. My opinion, what Duke Energy brand means
20 is there's four in the right there, it's Duke Energy
21 Carolinas, Duke Energy Midwest, Duke Energy Progress,
22 and Duke Energy Florida.

23 Q. You know for a fact that "Duke Energy
24 Brands" stands for the four combined?

25 A. I would not say I know that for a fact.

1 Q. You don't know that for a fact, so you're
2 just guessing.

3 A. That's my opinion. That's what I
4 mentioned.

5 Q. And what's your opinion based on?

6 A. Based on what I know about the surveys
7 and how they are conducted.

8 Q. Two questions ago, you indicated you
9 didn't know how this survey was conducted, correct?

10 A. As far as the details, I have my opinions
11 on how the survey is conducted, but I don't have the
12 exact details. This is an excerpt of the study.

13 Q. There's --

14 MS. WATTS: Your Honor, I am going to
15 object again. Mr. Arnold indicated that information
16 was demonstrated on the exhibit itself.

17 MR. SERIO: Your Honor, I am entitled to
18 ask him questions about something attached to his
19 testimony to determine how much or how little he
20 knows about it.

21 EXAMINER WALSTRA: I am going to overrule
22 and allow him to explore this.

23 Q. If I look at page 4 of 14, there are a
24 number of graphic numbers on that chart, correct?

25 A. That's correct.

2211

1 Q. Do you know what those mean?

2 A. Those are actually, and it's mentioned in
3 my survey -- I'm sorry, in my direct testimony.
4 Sorry, my copy of my testimony is marked out there.

5 So, for example, Duke Energy Midwest is
6 in red. I'm not sure if the copy you have is in
7 color or not. The "666" actually represents that --
8 the top line indicates on a national average, overall
9 satisfaction is flat and slightly declining.

10 Q. Okay. There's an axis that goes 6 to
11 700. What do those numbers mean?

12 EXAMINER WALSTRA: What page are you on?

13 MR. SERIO: I am on page 4 of 14.

14 Q. On the far left-hand side there is a
15 vertical line, the bottom of the line is a 600, the
16 top of the line is a 700. What do those mean?

17 A. Subject to check, I believe those are
18 index points.

19 Q. And what does a 600 index point mean?

20 A. That's the overall customer satisfaction
21 index.

22 Q. Okay. What's the worst number you could
23 get on the customer satisfaction result?

24 A. Based on this and, again, I don't prepare
25 these surveys, I'm not the expert, but it looks like

1 600 would be the floor, and it may go lower than
2 that.

3 Q. And do you know what the top score would
4 be?

5 A. Based on this survey, it looks like the
6 way this graph is depicted, 604.

7 Q. Okay. And can you show me what number
8 here is Duke Energy of Ohio?

9 A. Duke Energy Ohio is not broken out
10 independently. It's Duke Energy Midwest and it's in
11 red.

12 Q. So to the extent that you're asking Duke
13 Energy of Ohio customers to pay the DCI, we don't
14 know, from the J.D. Power study, what Duke Energy of
15 Ohio customers think about their service reliability,
16 do we?

17 A. The way the survey was structured, it's
18 based on the midwest.

19 Q. Are customers in the midwest going to pay
20 the DCI or only customers of Duke Energy Ohio?

21 A. Customers in Ohio.

22 Q. So this says that based on results for
23 the midwest, you're asking Ohio customers to pay
24 greater costs because customers in the midwest are
25 asking for better service quality, correct?

1 MS. WATTS: Objection as to the
2 characterization of what the company's application
3 asks for.

4 Q. Does the company application ask Ohio
5 customers to pay the DCI?

6 A. Can I ask you to ask that question again?

7 Q. Does the company's application ask Ohio
8 customers to pay the DCI rider?

9 A. Yes, it does.

10 Q. Does it ask midwest customers to pay the
11 DCI rider?

12 A. No, it does not.

13 Q. So you're asking the Commission to
14 approve a rider for Ohio customers based on a survey
15 result that does not break out Ohio customers,
16 correct?

17 A. This survey specifically does not break
18 out Ohio customers. However, if you look at
19 Attachment 4, it does break this survey down.

20 Q. Okay. We will get to Exhibit 4. Can you
21 turn to page 5 of 14 of MWA-2. Is Duke Energy Ohio
22 broken out on this page?

23 A. No, it is not.

24 Q. If I look at Attachment MWA-2, page 6 of
25 14, is Duke Ohio listed on that page?

1 A. No, it is not.

2 Q. If I look at page 7 of 14, is Duke Energy
3 Ohio listed on this page?

4 A. No, it is not.

5 Q. If I look at page 8 of 14, is Duke Energy
6 Ohio listed on this page?

7 A. No, it is not.

8 Q. If I look at page -- page 9 doesn't have
9 anything. If I look at page 10 of 14, is this broken
10 out for Duke Energy of Ohio?

11 A. No, it is not.

12 Q. If I look at page 11 --

13 MS. WATTS: Objection, your Honor. The
14 document states that it represents midwest. I don't
15 think we need to go page by page to establish that.

16 EXAMINER WALSTRA: I think you have made
17 your point, Mr. Serio.

18 MR. SERIO: Okay.

19 Q. Let's look at MWA-3. Is MWA-3 broken out
20 in any parts for Duke Energy of Ohio?

21 A. No, it is not.

22 Q. So let's go to MWA-4. If I look at
23 MWA-4, page 4 of 20, does it break Duke Energy of
24 Ohio out on that page?

25 A. MWA-4, 4 of 20?

1 Q. Yes.

2 A. It does.

3 Q. And which line is Duke Energy of Ohio?

4 A. I'm sorry. I stand corrected. It's Ohio
5 and Kentucky.

6 Q. Is Duke asking Kentucky customers to pay
7 the Ohio DCI rider?

8 A. No, it is not, but I'll mention the
9 purpose of these surveys was to show customer
10 perceptions of --

11 MR. SERIO: Your Honor, I object. I
12 didn't ask him the purpose. I asked him a specific
13 question.

14 Q. If you could turn to page 6 of 20.

15 MS. WATTS: Your Honor, I would like to
16 request that the witness be allowed to finish his
17 answer.

18 EXAMINER WALSTRA: Overruled. You will
19 have a chance for redirect.

20 A. Was there a pending question? I'm sorry.

21 Q. I am ready to move to the next question.

22 If I look at page 6 of 20, does this page
23 indicate Duke Energy of Ohio customers broken out in
24 any way?

25 A. This one has Ohio and Kentucky.

1 Q. Would you agree with me that every page
2 in MWA-4 combines Ohio and Kentucky? And you can
3 look through them individually.

4 A. That's what the headings say.

5 Q. So there is no page in MWA-4 that breaks
6 out just Ohio customers, correct?

7 A. Subject to check, I would agree.

8 Q. Yet, MWA-5 which is the PUCO reliability
9 study, that's only asked of Duke Energy Ohio
10 customers, correct?

11 A. For the purposes of this, yes.

12 Q. Now, on page 11 of your testimony, on
13 line 13, you indicate Duke continuously evaluates
14 customer satisfaction. Would you agree with me that
15 the quarterly surveys that you do, as a result of the
16 PUCO requirements, give you continuous customer
17 evaluations as to your service reliability?

18 A. Not as a sole source, no.

19 Q. Do you do any other surveys on a
20 quarterly basis?

21 A. We meet with customers daily, so we are
22 doing customer surveys on a daily basis.

23 Q. Are any results of your daily customer
24 contacts included in your testimony?

25 A. I don't recall.

1 Q. Can you point to any page of your
2 testimony? And I'll wait for you to go through your
3 testimony if you need to, sir.

4 A. Can I ask you to repeat the question?

5 Q. Sure. Is there anywhere in your written
6 testimony that you can point to where there's any
7 kind of analysis showing what you meeting with
8 customers on a daily basis says about service
9 quality?

10 A. I don't believe so.

11 Q. Would you agree with me there is nothing
12 in the application or the testimony of any other Duke
13 witness that indicates the results of customer --
14 daily customer contacts with regard to service
15 quality?

16 A. I don't recall.

17 Q. Now, on page 14 of your testimony, you
18 reference attachment MWA-5 and -6, and you indicate
19 those are excerpts from the most recent PUCO-required
20 residential and nonresidential surveys, correct?

21 A. That's correct.

22 Q. And it says here that "the Company does
23 not use those surveys for planning purposes...." Can
24 you tell me why the company does not use the surveys
25 of its own customers for planning purposes?

1 A. I believe we had a discovery question
2 along those same lines. There's a complete sentence
3 in my testimony: "While, the Company does not use
4 these surveys for planning purposes, they are useful
5 as tools to indicate what our customers expect in
6 terms of power quality and service."

7 Q. What's the difference between planning
8 purposes and customer expectations in terms of power
9 quality and service?

10 A. The planning that I mentioned in my
11 testimony is in regards to distribution planning, so
12 feeder upgrades, et cetera.

13 Q. And wouldn't planning for upgrades, et
14 cetera, impact power quality and service reliability?

15 A. I would agree it could potentially.

16 Q. So the company does not use its own
17 customer surveys for planning purposes even though
18 they are a useful tool to determine what customers
19 think about power quality and service quality?

20 MS. WATTS: Objection as to the term "its
21 own surveys." Which specific surveys are you
22 referring to, Mr. Serio, in that question?

23 MR. SERIO: I am referring to the
24 quarterly surveys that the company does that's
25 referenced in MWA-5 and -6.

1 MS. WATTS: I further object then. I
2 think the witness just answered that question anyway.

3 EXAMINER WALSTRA: Overruled.

4 A. We don't use those surveys solely as
5 determination.

6 Q. Yet, the company is relying on surveys as
7 a justification for the DCI rider and the need for
8 service liability improvements, correct?

9 MS. WATTS: Again, I would object as to
10 Mr. Serio's representation about what the company is
11 relying upon.

12 EXAMINER WALSTRA: Overruled.

13 A. There's several factors in addition to
14 the surveys.

15 Q. Can you point to where, in your testimony
16 you are looking at factors other than customer
17 surveys or their feelings with regard to service
18 reliability?

19 MS. WATTS: And I object to the use of
20 the word "feelings" here as well.

21 MR. SERIO: I'm sorry. I didn't hear
22 that.

23 MS. WATTS: I believe Mr. Arnold has
24 established he has a great deal of experience and it
25 amounts to a lot more than just his feelings about

1 reliability.

2 EXAMINER WALSTRA: Overruled.

3 Q. Your experience since July of 2012.

4 A. Can I ask you to repeat the question for
5 me?

6 Q. Sure. Can you point to where in your
7 testimony you're indicating that something other than
8 the customer surveys are the basis for asking for the
9 DCI rider?

10 A. I talk about obsolescent equipment and
11 that's actually on page 9, line 11. I talk about
12 customer expectations. Although I think we disagree,
13 I talk about J.D. Power surveys. Those are a few.

14 Q. Are you familiar with Revised Code
15 section 4928?

16 A. I am not.

17 Q. The company is asking for a rider in this
18 case, correct?

19 A. That's correct.

20 Q. Do you know under what provision of the
21 law the company is asking for the rider?

22 A. I do not.

23 Q. Is it your understanding that in order to
24 get the rider, the company has to make a showing that
25 there is an agreement between the company's

1 expectations for service reliability and customers'
2 expectations regarding service reliability?

3 A. That would be a question for Mr. Wathen.
4 I do not.

5 Q. You do not. But you are the witness on
6 the DCI rider, correct?

7 A. I am here to support the DCI rider, yes.

8 Q. So you don't know if there's a
9 requirement in the statute that the company's
10 expectations and customers' expectations should be
11 aligned?

12 A. I'm not an attorney to know.

13 Q. Now, what's the difference between the
14 quarterly surveys, MWA-5 and -6, being a useful tool
15 and also being something you rely on for planning
16 purposes? What's the distinction?

17 A. Are you referencing a section in my
18 testimony?

19 Q. Page 14, lines 7 through 14 where we were
20 previously.

21 A. Specific lines?

22 Q. The lines -- lines 7 through 15, your
23 answer there.

24 A. The last statement, lines 13 through 15,
25 I can read if you would like.

2222

1 Q. Your reference on sentence 11 through 13,
2 I am asking you what the difference is between it
3 being a useful tool and being something that you rely
4 on?

5 A. I'm struggling with how the question is
6 worded, useful tool and something I rely on. This
7 mentions right here that "customer tolerances for
8 service interruptions...."

9 Q. Line 11 through line 13. The company
10 does not use the surveys for planning purposes, but
11 they are a useful tool. What's the difference
12 between using them for planning purposes and them
13 being a useful tool?

14 A. It gives us a picture of, specifically,
15 in the surveys, the outage time and what customers
16 are willing to pay in addition to not have an outage.

17 Q. So you agree me that the quarterly
18 surveys give you an idea of what the customers are
19 willing to pay, correct?

20 A. Among other things.

21 Q. Okay. Can you look at page 15 of your
22 testimony, line 23. You reference Revised Code
23 4928.143(B)(2)(a). Do you know what Revised Code
24 section 4928.143(B)(2)(a) is or what it requires?

25 A. I know what's in my direct testimony, but

1 I don't know anything beyond that.

2 Q. Did you put it in your testimony?

3 A. I did, sir.

4 Q. You put it in your testimony; yet, you
5 don't know what it means.

6 A. I know the Ohio Revised Code and the
7 distribution of structure plans and associated
8 recovery mechanisms, et cetera.

9 Q. Do you know if that section of the code
10 requires the company's expectations and customers'
11 expectations regarding service quality to be in
12 alignment?

13 A. As I mentioned previously, I don't know
14 the details of the code.

15 MR. SERIO: Your Honor, I would move to
16 strike the reference to section 4928.143(B)(2)(a)
17 from the testimony since he has no idea what it
18 means.

19 EXAMINER WALSTRA: Ms. Watts.

20 MS. WATTS: Well, your Honor, if
21 Mr. Serio would give Mr. Arnold a moment to look at
22 the reference. It specifically states that he
23 understands that the alignment has to be made. It
24 doesn't necessary -- beyond that, Mr. Arnold is not a
25 lawyer and he isn't here to parse sections of the

1 Revised Code.

2 MR. SERIO: Your Honor, generally, when
3 someone references the code, even if they are not a
4 lawyer, they have got at least a layman's
5 understanding of what they put in their testimony.
6 He does not know what that section means even as a
7 layman or even as counsel has advised other than the
8 objection. So I can't ask him any questions about
9 something he can't answer, so it shouldn't be in his
10 testimony. I move it be stricken.

11 MS. WATTS: Mr. Serio, the layman's
12 understanding is laid out right there in the
13 testimony.

14 EXAMINER WALSTRA: We are going to
15 overrule it, but we will give it the proper weight
16 that it deserves.

17 MR. SERIO: May I approach, your Honor?

18 EXAMINER WALSTRA: You may.

19 MR. SERIO: I don't need it as an exhibit
20 because the Revised Code is the Revised Code.

21 MS. WATTS: I don't need to look at it.
22 Thanks, Joe.

23 Q. I am handing you a copy of the Ohio
24 Revised Code section 4928.143(B)(2)(b). Could you
25 look at that paragraph, sir.

1 EXAMINER WALSTRA: Sir, his testimony
2 references (B)(2)(a).

3 Q. I'm sorry, (B)(2)(a). I gave you the
4 wrong thing.

5 MS. WATTS: Mr. Serio, do you have the
6 Administrative Code as well?

7 Q. Have you looked at that copy of the
8 Revised Code?

9 A. Yes, I have.

10 Q. Now, that section of the Revised Code
11 requires that the company's interests and the
12 customers' interests regarding service reliability be
13 in alignment?

14 A. I would agree with that.

15 Q. And to the extent that they are required
16 to be in alignment, is that why the company does
17 customer surveys to determine what customers think
18 about service reliability?

19 A. For the survey respondents, I would
20 agree.

21 Q. And I believe you indicated previously
22 that the customer quarterly surveys are the only
23 surveys that you do of Duke Energy Ohio customers
24 with regard to their expectations of service quality
25 and price, correct?

1 A. Can I ask you to repeat the question?

2 Q. Sure. And you would agree with me that
3 the quarterly survey results, MWA-4 and -5, are the
4 only surveys in this proceeding of Duke Energy Ohio
5 customers with regard to their views of service
6 reliability and the price they are willing to pay for
7 service?

8 A. The other surveys include Duke Energy
9 Ohio customers. It's just diluted amongst the
10 midwest and Kentucky customers.

11 Q. And we don't know how many Ohio customers
12 and how many non-Ohio customers are included in the
13 other surveys, correct?

14 A. I don't know.

15 Q. So we don't know how diluted they are,
16 correct?

17 A. I'm not the survey expert.

18 Q. Yet, the quarterly surveys are
19 100 percent Duke Energy Ohio customers, correct?

20 A. Subject to check, I would agree.

21 Q. On page 14, at the bottom of the page,
22 beginning on line 16, you talk about nonresidential
23 customer surveys. Do you see that?

24 A. I do.

25 Q. Did Duke consider the nonresidential

1 customer surveys when it was determining whether
2 customers would be willing to pay for the DCI rider?

3 A. No, we did not.

4 Q. Now, on page 15 of your testimony, top of
5 the page, line 5, you reference "Similar surveys were
6 performed for residential customers." Which surveys
7 are you referring to when you say "Similar surveys
8 were performed for residential customers"?

9 A. This whole section goes back to 14,
10 line 3. These are Commission reliability surveys.

11 Q. So it's your testimony that the
12 Commission reliability studies, MWA-4 and -5,
13 indicate that customers have increasing expectations
14 of reliability and power quality, correct?

15 A. Can I ask you to repeat that?

16 Q. Sure. So MWA-4 and -5 are the basis for
17 your testimony that Duke Energy Ohio residential
18 customers have increasing expectations of reliability
19 and power quality, correct?

20 A. That's correct.

21 Q. On page 15 of your testimony, lines 11
22 and 12, you indicate "...the majority of Duke Energy
23 Ohio's customers appear to be satisfied with the
24 Company's reliability and power quality...", correct?

25 A. I would agree with your statement, but

1 there is room for improvement.

2 Q. Now, which surveys are you referring to
3 when you say that the majority of customers appear to
4 be satisfied with the company's reliability and power
5 quality?

6 A. The general statement here is what do
7 these surveys indicate. So it's not specific to just
8 the Ohio surveys. And this is actually the -- this
9 would be Attachment 4.

10 Q. MWA-4?

11 A. Yes, sir.

12 Q. MWA-4 is one of the PUCO quarterly
13 surveys; is that correct?

14 A. Sorry, I grabbed the wrong survey. So
15 MWA-3. So this is one of the excerpts from J.D.
16 Power.

17 Q. Okay. So the Commission surveys say that
18 customers want increased expectations of reliability,
19 but the J.D. Power survey says that they are
20 satisfied.

21 A. Can I ask you to repeat that?

22 Q. Okay. I'll do it this way. Page 15,
23 lines 5 through 7, those refer to MWA-4 and -5,
24 correct?

25 A. That's correct.

1 Q. And page 15, lines 11 and 12, that refers
2 to MWA-3 or MWA-4 and -5?

3 A. That refers to MWA-3.

4 Q. Okay. Thank you.

5 Now, at the top of page 16 of your
6 testimony, you indicate rider DCI is "designed to
7 balance the needs of the Company to maintain its
8 financial stability with its commitment to customers.
9 When you talk about maintaining the company's
10 financial stability, what are you referring to?

11 A. Financial stability is maintaining
12 day-to-day operations and also seeking recovery
13 mechanisms appropriately.

14 Q. Does the company have financial stability
15 today to the best of your knowledge?

16 A. I would agree with that statement.

17 Q. Did the company have financial stability
18 yesterday to the best of your knowledge?

19 A. I would agree.

20 Q. And that occurred without a DCI rider,
21 correct?

22 A. I would agree.

23 Q. Now, on line 7 of page 16, you indicate
24 the company's implementing new initiatives, correct?

25 A. That's correct.

1 Q. But those include a lot of ongoing
2 maintenance capital, correct?

3 A. That's correct.

4 Q. So to the extent that you consider it
5 ongoing, that means you're just adding to a program
6 that you have in place right now, correct?

7 A. That's correct.

8 Q. On page 17 of your testimony, line 11,
9 you talk about replacing obsolete and aging
10 infrastructure?

11 A. I see that.

12 Q. That's something that you do today,
13 correct?

14 A. That's correct. As it fails.

15 Q. Now, on pages 18 and 19 of your
16 testimony, beginning on line 18 of page 18, you list
17 each of the various programs, correct?

18 A. That's correct.

19 Q. Okay. Now, beginning with the
20 "Transformer Retrofit Program," is that a new program
21 or is that a program that's enhancing an existing
22 program?

23 A. That is an existing program that we're
24 requesting incremental to -- it is an existing
25 program that we are requesting additional funding

1 for.

2 Q. And the retrofit program would involve
3 the company replacing transformers, correct?

4 A. No, it does not.

5 Q. What would this involve, the retrofit
6 program?

7 A. The transformer retrofit program, as
8 stated on my testimony on 19 and 20, goes into great
9 detail, but it is actually adding cutouts ahead of
10 CSP transformers, which are completely self-protected
11 transformers, to potentially mitigate future outages.

12 Q. As a result of implementing the retrofit
13 program, will the company be able to reduce its
14 operating and maintenance costs?

15 A. Eventually, once it's completed, yes.

16 Q. Does the company have any plan to pass
17 those savings, O&M cost savings to customers other
18 than waiting until there is a rate case?

19 A. It would be in our next rate case.

20 Q. So that means if the company was able to
21 reduce its O&M costs as a result of the transformer
22 retrofit program by, let's say, a million dollars,
23 the company would get to keep that million dollars
24 until the next rate case, correct?

25 A. I want to draw your attention, there's 19

1 programs.

2 Q. Yes.

3 A. Some of these programs have a significant
4 amount of O&M expenditures along the way.

5 Q. We are going to go through these one at a
6 time.

7 A. But one program would have direct impact
8 on the other.

9 Q. Okay. So my question to you was if the
10 company was able to save a million dollars in O&M
11 costs, the company would get to keep those costs
12 until its next rate case, correct?

13 MS. WATTS: Objection. Mr. Serio, did
14 your question assume that it is as balanced as
15 Mr. Arnold testified with other programs? You are
16 assuming it's a million dollars net?

17 MR. SERIO: My question said if the
18 company saved a million dollars from the transformer
19 retrofit program in O&M costs, would the company get
20 to keep that million dollars until its next rate
21 case?

22 A. And that's more of a financial question
23 probably for Peggy Laub. But my understanding, this
24 is my opinion, is that would be at the next rate --
25 rate case.

1 Q. So the company would get to retain it
2 until then, correct?

3 A. As I mentioned, Ms. Laub would be the
4 expert on that.

5 Q. Has the company done any analysis to
6 determine how much O&M cost savings there would be
7 from the transformer retrofit program as proposed in
8 the DCI?

9 A. No, we have not.

10 Q. Has the company done any analysis to
11 determine how much service reliability improvement
12 customers will see as a result of the transformer
13 retrofit program?

14 A. For those individual customers, there
15 would be potential service reliability increases.
16 However, overall, from the standards perspective,
17 when I say "standards reliability standards," it may
18 or may not improve that.

19 Q. All right. The second item is Vegetation
20 Clearing/Right-of-Way Acquisition/Facility
21 Modification." Do you see that?

22 A. Yes.

23 Q. And that involves Duke identifying dead
24 or high-risk trees or vegetation in the right-of-way,
25 correct?

1 A. Within or along the right-of-way.

2 Q. Does Duke today identify dead or
3 high-risk trees or vegetation within or along the
4 right-of-way?

5 A. Yes.

6 Q. And when you identify dead or high-risk
7 trees or vegetation, does the company take steps to
8 remove or trim them back today?

9 A. Yes, we do.

10 Q. And the company would do the same thing
11 under the DCI program for vegetation clearing,
12 right-of-way acquisition, facility modification,
13 correct?

14 A. There was a lot there. Can I ask you to
15 repeat that?

16 Q. The company is going to do the same thing
17 under the DCI program that it's doing today, correct?

18 A. We're asking for incremental.

19 Q. And what are you asking incremental for?

20 A. We, in southwest Ohio, see a significant
21 amount of ash trees that are infected with the
22 Emerald Ash Borer, so we are requesting additional
23 funding. We actually have a list of additional
24 locations that, because of funding, we cannot get to.

25 Q. Has the Ash Borer been -- is the Ash

1 Borer there today in trees?

2 A. Without being a scientist, I would agree.

3 Q. And has the company been removing trees
4 infected with the Ash Borer today?

5 A. We have.

6 Q. So you are just asking for more money to
7 do the same thing you are doing today?

8 A. We are asking for more money for
9 additional.

10 Q. Does the company anticipate any O&M cost
11 savings as a result of getting additional dollars for
12 the vegetation clearing/right-of-way program?

13 A. We do not.

14 Q. Today, if you don't trim a tree and it
15 causes damage, that results in the company expending
16 O&M dollars to repair the damage, correct?

17 A. I will need you to explain when you say
18 "damage."

19 Q. If a tree falls on a line, the line gets
20 knocked down, that interrupts service, correct?

21 A. Potentially.

22 Q. And you got to send a crew out to repair
23 the damage, correct?

24 A. Correct.

25 Q. Now, if you are removing more trees,

1 shouldn't that reduce the number of instances where
2 you got to send a crew out to repair the line?

3 A. I can't forecast the future event.

4 Q. So even if you get more money for the
5 vegetation clearing program, there's no assurances
6 that you're -- that you are going to get any cost
7 savings from it, correct?

8 A. If there would be any associated cost
9 savings, those would be included in the next
10 distribution rate case.

11 Q. So, again, if there were any savings, the
12 company would get to retain them until the next rate
13 case, correct?

14 A. That's your opinion.

15 Q. I'm sorry?

16 A. That's your opinion.

17 Q. Well, it's not just my opinion. Didn't
18 you also agree that the company wouldn't pass them
19 back until the next rate case?

20 A. Yes.

21 Q. So if they don't pass them back, that
22 means they get to keep them, correct?

23 A. I would agree.

24 Q. Okay. Now, No. 3, "Underground Cable
25 Injection" program, and this involves infusing

1 dielectric gel into the cable, correct?

2 A. Dielectric, yes.

3 Q. And does the company do that today?

4 A. Yes, we do.

5 Q. And the company has been doing that
6 without a DCI currently, correct?

7 A. On a moderate level, yes.

8 Q. Now, if the company gets to expand and
9 inject more of its underground cable, would that
10 result in any O&M cost savings?

11 A. Potentially.

12 Q. And does the company have any plans to
13 return those O&M cost savings to customers other than
14 at the next rate case?

15 A. It would be at the next rate case.

16 Q. So the company would get to retain the
17 cost savings until then, correct?

18 A. And I want to go back on a previous
19 comment. There are other programs where O&M will
20 actually increase. So we have got to look at all
21 programs together.

22 Q. And to the extent O&M increases, isn't
23 that built into the DCI that's asking customers for
24 more money?

25 A. O&M costs are not part of the DCI rider.

1 Q. There's no O&M costs in the DCI rider,
2 correct?

3 A. No, sir. That's capital.

4 EXAMINER WALSTRA: Mr. Serio --

5 Q. Do you know which programs are going to
6 have O&M cost increases?

7 A. Some of them, I believe I mentioned in my
8 testimony, subject to check, but I can go through
9 each individual one as we proceed.

10 Q. So far, of the three we've talked about,
11 do you anticipate O&M cost increases for any of those
12 three?

13 A. As part of the transformer retrofit
14 program, there's a few items that's included and this
15 is on page 20 of my testimony. Squirrel guards,
16 covered lead wires, that's an O&M function. So it's
17 a capital program that has O&M expenses associated
18 with it.

19 Q. And shouldn't there be a cost savings
20 when you put those guards in place that reduces the
21 need to go out and do repairs?

22 A. Possibly preventing a future outage, yes.

23 Q. Well, you just indicated that was going
24 to result in an O&M cost increase. Shouldn't it
25 result in an O&M increase?

1 A. Eventually once the program is completed.

2 Q. If you install one of them, it would
3 improve -- it would save O&M cost savings for any
4 service disruptions that you avoid at that one
5 location, correct?

6 A. At that one location, but, again, we're
7 predicting a future outage.

8 EXAMINER WALSTRA: Mr. Serio.

9 MR. SERIO: Yes, sir.

10 EXAMINER WALSTRA: Do you still have a
11 ways to go?

12 MR. SERIO: Yes, sir. There's another 16
13 programs.

14 EXAMINER WALSTRA: That's what I thought.
15 (Laughter.)

16 MR. SERIO: Sorry, your Honor. If the
17 company wants to withdraw them, we can get done real
18 quick.

19 EXAMINER WALSTRA: I'm thinking this is a
20 good time to break for lunch. We can go off the
21 record.

22 (Discussion off the record.)

23 (Thereupon, at 1 p.m., a lunch recess was
24 taken.)

25 - - -

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1 Friday Afternoon Session,
2 October 31, 2014.

3 - - -

4 EXAMINER WALSTRA: We will go on the
5 record.

6 MS. WATTS: Can we have a second, your
7 Honor? We need to shift gears here just a minute.

8 EXAMINER WALSTRA: Sure.

9 Just to clear up everything now that we
10 are on the record, I think both Sierra Club's witness
11 and OEG's witness both have outgoing flights this
12 afternoon and to try to accommodate that, we are
13 going to have their witnesses go forward now and we
14 will get back to Mr. Arnold as soon as we can. This
15 was done over -- I guess Duke did object to the
16 interjection of witnesses for the record.

17 MS. WATTS: You're asking if we object?

18 EXAMINER WALSTRA: I was saying that,
19 yes, I get we should put a formal objection on the
20 record.

21 MS. WATTS: Well, we would like to note
22 our objection that Mr. Arnold is having to have his
23 testimony split, but, other than that, we are willing
24 to go forward with Ms. Jackson.

25 EXAMINER WALSTRA: Okay. Thank you.

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1 MS. WATTS: Thank you.

2 (Witness sworn.)

3 EXAMINER WALSTRA: Thank you. You may be
4 seated.

5 And were you ready, Ms. Watts? Sorry.

6 MS. WATTS: She --

7 EXAMINER WALSTRA: I know you said you
8 needed a few minutes.

9 MS. WATTS: Oh, I'm sorry. Thank you
10 very much. I'm ready to go.

11 EXAMINER WALSTRA: Thank you.

12 - - -

13 SARAH E. JACKSON

14 being first duly sworn, as prescribed by law, was
15 examined and testified as follows:

16 DIRECT EXAMINATION

17 By Mr. Mendoza:

18 Q. Good afternoon, Ms. Jackson.

19 A. Good afternoon.

20 Q. Would you please state your full name and
21 business address for the record.

22 A. My name is Sarah Elizabeth Jackson. My
23 business address is 485 Massachusetts Avenue, Suite 2
24 in Cambridge, Massachusetts 02140.

25 Q. And what is the name of your employer,

1 Ms. Jackson?

2 A. Synapse Energy Economics, Inc.

3 Q. And you have appeared in this proceeding
4 on behalf of Sierra Club?

5 A. Yes, I have.

6 Q. And can you identify the document in
7 front of you for the record?

8 A. It's my direct testimony filed in this
9 case.

10 Q. And that document has been premarked as
11 Sierra Club 4a, correct?

12 A. That's not premarked on mine, but I think
13 so.

14 Q. And was this testimony prepared by you or
15 under your direction?

16 A. Yes, it was.

17 Q. Do you have any changes, additions, or
18 corrections to your testimony?

19 A. Yes, I do.

20 Q. Could you tell us those?

21 A. On page 11, line 2. It begins "mixed
22 and." The "and" should be an "of."

23 Q. And do you have another one?

24 A. Yes. On page 19, line 17, after the word
25 "million" there's supposed to be an open parenthesis

1 2012 dollar sign, close parenthesis.

2 Q. Okay. And is there one more?

3 A. Yes. The same omission was made on
4 page 21, line 22. After the word "million" open
5 parenthesis 2012 dollar sign closed parenthesis.

6 Q. Okay. Thank you.

7 And aside from that typographical
8 correction, those two additions, if I were to ask you
9 the questions today that appear in your direct
10 testimony, would you answer them the same?

11 A. Yes, I would.

12 MR. MENDOZA: I would like to have
13 Ms. Jackson's public testimony marked as Sierra
14 Club 4 and her confidential testimony as Exhibit 4a.

15 EXAMINER WALSTRA: So marked.

16 (EXHIBIT MARKED FOR IDENTIFICATION.)

17 MR. MENDOZA: At this time I tender
18 Ms. Jackson for examination.

19 EXAMINER WALSTRA: Thank you.

20 MS. WATTS: And, your Honor, if I may.
21 It occurs to me we have one sort of logistic issue
22 here. Ms. Kingery had managed the redactions of
23 Ms. Jackson's testimony and she is not here with us
24 right now. There is a proposed redaction document
25 that was circulated with all the parties, and so I

1 don't know where we are in terms of confidentiality
2 in that respect.

3 MR. MENDOZA: And I reviewed
4 Ms. Kingery's proposed redactions, and had a few -- I
5 agreed with most of them, but had a few changes, and
6 we can either do that now or, on Monday, Mr. Allwein
7 will be here for Sierra Club and we can handle it
8 then, if we would like to move along. I am open to
9 whatever process.

10 MS. BOJKO: I'm sorry. Just so I
11 understand Ms. Kingery's redactions. The yellow was
12 Sierra Club, and now you have since gone back and
13 anything blocked in red is what you are deeming to be
14 confidential?

15 MS. WATTS: That's correct.

16 MS. BOJKO: Thank you.

17 MR. MENDOZA: And I would say the only
18 objection to Ms. Kingery's suggestions is the issue
19 of annual cash flow, which I believe we've discussed.
20 There were -- perhaps she made these before that
21 ruling was made, and I think there are about eight
22 instances where the annual cash flow number is -- or,
23 a variation of it is proposed for redaction, and we
24 would request that those be made public. And I could
25 go through those now or we could put it to Monday if

1 we want to streamline.

2 EXAMINER WALSTRA: Realizing we'll make
3 probably the majority of the arguments when
4 Ms. Kingery is able to be here, but I guess keeping
5 in line with our ruling, I believe a couple of days
6 ago, in regard to the cash flow line, and I think,
7 like, the ultimate aggregate, the fact that we ruled
8 those open, we will treat those numbers as open.

9 MS. WATTS: Okay.

10 EXAMINER WALSTRA: We will address a lot
11 of the other stuff that's in the attachments, we can
12 address that perhaps on Monday when Ms. Kingery is
13 here.

14 MS. WATTS: That's fine. Thank you, your
15 Honor. And just so you know, most of my
16 cross-examination will be public information. I
17 don't intend to deal too much with anything
18 confidential.

19 EXAMINER WALSTRA: Okay. That's fine.
20 Appreciate that.

21 MS. BOJKO: Your Honor, for clarification
22 with the dates, then, associated with those cash flow
23 lines, I would assume that those would be open? I
24 think that's what we did yesterday.

25 EXAMINER WALSTRA: I believe those were

1 open as well.

2 MS. BOJKO: Okay. Thank you.

3 EXAMINER WALSTRA: Ms. Hussey.

4 MS. HUSSEY: No questions, your Honor.

5 EXAMINER WALSTRA: Ms. Bojko.

6 MS. BOJKO: No questions, your Honor.

7 EXAMINER WALSTRA: OCC.

8 MR. SERIO: No questions, your Honor.

9 EXAMINER WALSTRA: Mr. Kurtz.

10 MR. KURTZ: Thank you. A little bit.

11 - - -

12 CROSS-EXAMINATION

13 By Mr. Kurtz:

14 Q. Good afternoon, Ms. Jackson.

15 A. Good afternoon.

16 Q. This is obvious and easy. You testified
17 that the PSR proposal shifts all risks to ratepayers?

18 A. Yes, I do.

19 Q. Okay. Doesn't it also shift all benefits
20 to ratepayers?

21 A. It would.

22 Q. Okay. Really, the return on equity that
23 Duke has on this OVEC asset would be fixed, it would
24 be -- they are giving up all upside profit potential
25 as well as being protected on the downside; is that

1 right?

2 A. Yes.

3 EXAMINER WALSTRA: Mr. Kurtz, could you
4 turn on your microphone.

5 MR. KURTZ: Sorry.

6 A. It's also a little hard to hear you.

7 Q. Thank you. Sorry.

8 You indicate that the PSR proposal is
9 contrary to Ohio's policy of transitioning to a fully
10 competitive market; is that correct?

11 A. Yes, that's what I testified.

12 Q. You are a lawyer also?

13 A. I am not a lawyer.

14 Q. Okay. Are you familiar with Senate Bill
15 221?

16 A. I am not.

17 Q. That's the law authorizing ESPs in Ohio?
18 Are you familiar with that?

19 A. I am familiar with the concept, yeah.

20 Q. Are you familiar that under Senate Bill
21 221 -- well, first of all, do you know what Senate
22 Bill 3 was?

23 A. That's the one from 1999?

24 Q. Yes. That was the full transition to a
25 fully competitive deregulated market; is that your

1 understanding?

2 A. Yes.

3 Q. And 221 modified Senate Bill 3 in
4 significant respect; do you agree?

5 A. I am not familiar with 221.

6 Q. 221, among other things, you probably
7 agree with this, has renewable portfolio standard
8 mandates?

9 A. I don't know, but.

10 Q. Would that be contrary to a fully
11 competitive market requiring a certain type of power
12 to be purchased by consumers?

13 MR. OLIKER: Objection.

14 MS. BOJKO: Objection.

15 MR. OLIKER: The witness just indicated
16 she doesn't know Senate Bill 221, so you can't ask
17 questions about that subject.

18 MR. KURTZ: Well, the witness, the main
19 theme in her testimony is the PSR is contrary to
20 Ohio's policy of transitioning to a fully competitive
21 market, and Senate Bill 221 is not that.

22 MS. BOJKO: Objection. I am going to
23 object to counsel's characterization of the law in
24 testifying.

25 EXAMINER WALSTRA: If the witness knows,

1 she can answer.

2 A. I'm not familiar with Senate Bill 221, so
3 I can't speak to it.

4 Q. Well, in general, is a requirement, a
5 state requirement that consumers buy a certain type
6 of power, renewable power, inconsistent with a fully
7 competitive free market?

8 MS. BOJKO: Objection.

9 EXAMINER WALSTRA: If the witness knows.

10 A. I mean, I think that supporting resources
11 like renewables is outside of the market.

12 Q. So that would be inconsistent with a
13 fully competitive market also?

14 A. I wouldn't say that.

15 Q. What about mandating energy efficiency
16 for customers, is that inconsistent with a fully
17 competitive market?

18 A. I wouldn't say that either.

19 Q. What about allowing a utility that
20 dedicates the output of a power plant to get full
21 cost re -- that dedicates the output of a power plant
22 to Ohio consumers and the utility, in exchange, gets
23 full cost recovery? Is that inconsistent with a
24 competitive market?

25 A. Could you restate your question?

1 Q. Yes. If Duke Energy Ohio got permission
2 from the Commission to build a new power plant and
3 dedicate the output of that power plant to Ohio
4 consumers, is that inconsistent with a competitive
5 market?

6 A. I don't think that Duke Energy can build
7 a new power plant in Ohio.

8 Q. You think --

9 A. Duke Energy Ohio could.

10 Q. You think that's the case, they could
11 not?

12 A. My understanding is that they cannot
13 directly supply generation to their customers, by
14 owning generation.

15 Q. Well, their current generation is being
16 divested and sold to Dynegy. Do you think there is a
17 prohibition against them building new power plants
18 under Ohio law?

19 A. It's building new power plants?

20 Q. Yes. Do you think that they are
21 prohibited?

22 A. I am not sure, Mr. Kurtz.

23 Q. You talk about long-term environmental
24 risks associated with the OVEC facility; is that
25 correct?

1 A. Yes, I do.

2 Q. If the PSR was for a shorter term and was
3 not the life of the unit, would that mitigate some of
4 your concern?

5 A. It would -- I suppose it would depend on
6 the term.

7 Q. Would a nine-and-a-half-year term be
8 better than the life of the unit, all else equal in
9 your opinion?

10 A. I think that you would have to look at
11 the analysis of what future emission reductions might
12 be required at the plants before you could know that
13 for sure.

14 Q. Well, would nine and a half years be
15 better than the life of the unit?

16 A. I suppose a shorter term would be easier
17 to look at than 25.

18 Q. You testified to EPA's proposed Clean
19 Power Plan, the section 111(d) rule; is that correct?

20 A. I mention it, yeah.

21 Q. Is it really nothing more than mentioning
22 it?

23 A. Well, can you point me to the place in my
24 testimony where I talk about it.

25 Q. No. I mean, I know it's in there. I

1 don't know exactly where.

2 A. I think I discussed it at length.

3 Q. Okay. You just mentioned it in passing.

4 MR. KURTZ: Okay. Thank you,
5 Ms. Jackson.

6 Nothing further, your Honor.

7 EXAMINER WALSTRA: Thank you.

8 Mr. Olikar.

9 MR. OLICKER: No questions, your Honor.

10 EXAMINER WALSTRA: Mr. Hart.

11 MR. HART: No questions.

12 EXAMINER WALSTRA: Duke.

13 MS. WATTS: Thank you, your Honor.

14 - - -

15 CROSS-EXAMINATION

16 By Ms. Watts:

17 Q. Good afternoon.

18 A. Good afternoon.

19 Q. Ms. Jackson, in preparing your testimony
20 for this case, you reviewed Ohio law, correct?

21 A. Just what was included in the
22 application.

23 Q. Thank you.

24 And you are not an attorney, correct?

25 A. I'm not.

1 Q. And you've not been involved in energy
2 policy matters in Ohio previous to this case,
3 correct?

4 A. I haven't.

5 Q. And so, I think Mr. Kurtz asked you this
6 question, but you were not involved in working on
7 SB 221 as it was winding its way through the
8 legislature, correct?

9 A. No, correct, correct.

10 Q. And you've not advised parties or
11 legislators or other interested stakeholders in Ohio
12 with respect to Ohio energy legislation, correct?

13 A. Correct.

14 Q. And you can't offer an opinion on what
15 may be included in a standard service offer in the
16 form of an ESP, correct?

17 A. Yeah, correct.

18 Q. Is it fair to say your work at Synapse --
19 Synapse primarily involves energy policy as it
20 relates to environmental issues?

21 A. I wouldn't say "primarily." I address a
22 number of issues at Synapse, including market rules
23 and regulations, focused mainly in New England, in
24 the ISO New England area, and I do review a lot of
25 environmental policies and how they impact energy

1 resources. I've done a number of other types of
2 work, too, at Synapse.

3 Q. Okay. Can you ballpark the percentage of
4 time you spend in each area at all?

5 A. It varies depending on what our workload
6 is, but generally I work about 30 percent of the
7 time, if I had to guess, on market issues in New
8 England; and maybe 40 percent on issues, as you
9 brought up, the environmental -- the application of
10 policies to energy resources; and what does that
11 leave me with, 30 percent of other. That's my best
12 guess right now.

13 Q. We'll take it.

14 A. Okay.

15 Q. And when you mention market issues in
16 respect of the New England area, are you talking in
17 particular with respect to the NEPOOL ISO?

18 A. Yes. The NEPOOL is a stakeholder
19 process, the New England Power Pool process that
20 advises the ISO on decisions about market rule
21 changes, transmission planning, reliability issues,
22 things like that.

23 Q. Just for purposes of the record would you
24 explain what the "NEPOOL" acronym stands for?

25 A. It's the New England Power Pool.

1 Q. And you have not previously had any
2 clients that require consultation or services with
3 respect to PJM, correct?

4 A. That's right.

5 Q. And you're testifying on behalf of the
6 Sierra Club in opposition to the company's proposed
7 rider PSR, correct?

8 A. Correct.

9 Q. And that's the only rider you are
10 addressing in this proceeding.

11 A. Yes.

12 MS. WATTS: Just a minute, your Honor.

13 Your Honor, may I approach?

14 EXAMINER WALSTRA: You may.

15 MS. WATTS: I would like to ask this be
16 marked as Duke Energy Ohio Exhibit 22, I believe.

17 EXAMINER WALSTRA: So marked.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 EXAMINER WALSTRA: 22 is right.

20 Q. Ms. Jackson, you have before you what has
21 been marked as Duke Energy Exhibit 22.

22 A. Yes.

23 Q. And have you seen this before?

24 A. I have not.

25 Q. You're aware that the Sierra Club is an

1 Intervenor in this case, correct?

2 A. Yes, I am.

3 MR. OLIKER: Could we have copies of the
4 exhibits, please?

5 MS. WATTS: I didn't bring extra copies
6 of it because it's docketed.

7 MR. MENDOZA: Would you mind identifying
8 it so we can pull it up?

9 MS. WATTS: I'm sorry. It's the Sierra
10 Club's Motion to Intervene.

11 MR. MENDOZA: In this case?

12 MS. WATTS: In this case. Mr. Mendoza,
13 let me know when you have it.

14 MR. MENDOZA: I'm ready. Thank you.

15 Q. (By Ms. Watts) Ms. Jackson, do you have
16 any reason to believe your counsel would misstate its
17 interest in this proceeding?

18 A. I don't have any reason.

19 Q. Would you turn to page 2 of that
20 document, please.

21 A. I'm there.

22 Q. You note there that the Sierra Club has
23 indicated that its interest in this proceeding
24 involves modifications to the alternative energy
25 rider.

1 A. I see that, yes.

2 Q. You are not testifying with respect to
3 that, correct?

4 A. Correct.

5 Q. Are you offering an opinion with respect
6 to any issue related to Duke Energy Ohio's source of
7 generation?

8 A. No, I'm not.

9 Q. Does Duke Energy Ohio provide generation
10 to any of its customers?

11 A. Directly?

12 Q. Yes.

13 A. I guess I would have to say I'm not sure.

14 Q. Okay. So you're not aware of how
15 generation is supplied to Duke Energy Ohio customers?

16 A. I mean, other than through CRES providers
17 and SSO auctions, so maybe you have to define what
18 you mean by "directly."

19 Q. Well, with respect to supply -- CRES
20 suppliers or CRES providers and SSO auctions, those
21 would be two ways. Are there any more?

22 A. Not that I'm aware of.

23 Q. Thank you.

24 Is it your understanding that Duke Energy
25 Ohio proposes, through rider PSR, to provide

1 generation from the Ohio Valley Electric Corporation
2 to its customers?

3 A. No, I don't believe so.

4 Q. And is it okay with you if I refer to the
5 Ohio Valley Electric Corporation as "OVEC"?

6 A. Yes.

7 Q. Okay. Thank you.

8 Would you turn to page 4 of that Duke
9 Energy Ohio exhibit.

10 A. I'm there.

11 Q. And in particular I would like to direct
12 your attention to the second paragraph which I
13 believe states that the Sierra Club has an interest
14 in reducing the "nation's reliance on outdated coal
15 generation...." Do you see that?

16 A. Yes.

17 Q. And so far as you know, has that interest
18 with respect to that particular issue and this case
19 caused the Sierra Club to generate a letter-writing
20 campaign?

21 A. I'm not sure.

22 Q. And you're aware, having spent quite a
23 few hours in this room now, that Duke Energy Ohio has
24 a 9-percent contractual -- contractual entitlement to
25 the energy and capacity that OVEC generates, correct?

1 A. Yes.

2 Q. And if rider PSR should not be approved,
3 that 9-percent ownership is not changed in any way so
4 far as you know, correct?

5 A. That's my understanding.

6 Q. Turning to your testimony, on page 3 of
7 your testimony you list four major conclusions and
8 recommendations regarding rider PSR, correct?

9 A. Correct, going on to page 4.

10 Q. Looking at the first bullet, you mention
11 that you believe rider PSR is inappropriate because
12 it shifts the risk of Duke Energy's contractual
13 obligation with OVEC to customers who will
14 essentially become owners of generation they are not
15 directly using. Is that a correct reading of your
16 testimony?

17 A. It is.

18 Q. You use the word "essentially" in that
19 statement. Is that because you understand that
20 customers will not -- will not actually own
21 generation if rider PSR is approved?

22 A. Yes, that's my understanding.

23 Q. And just to be clear about this, is it
24 your understanding that Duke Energy Ohio customers
25 own any generation?

1 A. No, I don't believe so.

2 Q. And Duke Energy Ohio retail customers
3 will not have any ownership rights to the OVEC-owned
4 generating plants if the PSR is approved, correct?

5 A. That's right.

6 Q. And you've been present in the hearing
7 room for much of the testimony that's -- that's gone
8 on before today, correct?

9 A. Much of it, yes.

10 Q. So you know that rider PSR, as proposed
11 by the company, is intended to pass the net benefits
12 through to Duke Energy Ohio retail customers,
13 correct?

14 A. And the net costs, yes.

15 Q. I believe you just said as much in
16 response to Mr. Kurtz.

17 A. Yes.

18 Q. On page 5 of your testimony, you mention,
19 at line 15 that rider PSR would shift costs from
20 Duke's portion of OVEC to customers for the next 25
21 years and would require customers to pay for
22 generation that's not competitively bid into the SSO
23 auction. Do you see that reference?

24 A. Yes, I do.

25 Q. But you would agree the energy and

1 capacity from OVEC is bid into the PJM market,
2 correct?

3 A. Yes. My understanding is it will be bid
4 in when it looks favorable.

5 Q. Fair. Thank you.

6 Turning again to that statement on page 5
7 and beginning at line 19, you state that rider PSR
8 forces customers to take on substantial risk without
9 allowing them to -- any control over cost, strategic
10 decisions, or bidding strategies. Do you see that?

11 A. Yes, I do.

12 Q. Do any Duke Energy Ohio retail customers
13 currently have control over the costs and strategic
14 decisions or bidding strategies of generation?

15 A. No. Retail customers shouldn't have to
16 have control over those costs because they shouldn't
17 be exposed to those costs directly.

18 Q. Okay. So is it your understanding then
19 that retail customers presently have no control over
20 such costs?

21 A. Well, I believe the costs that you are
22 referring to are the costs that would flow from the
23 OVEC generation.

24 Q. Well, I am asking generally whether
25 retail customers have control over such costs.

1 A. I think through shopping options and
2 through the structure of the SSO auctions, there's
3 some control of that, but.

4 Q. Is there any other control?

5 A. I think I'm not sure what you're asking.
6 Could you maybe --

7 Q. What do you understand "control" to be as
8 you've used it in your testimony?

9 A. What do I mean here?

10 Q. Uh-huh.

11 A. I mean that customers won't have any
12 control over the decisions that Duke is making in
13 regards to the OVEC generation. So I think -- I
14 think the point I'm making here is that customers, in
15 a competitive arena, would not be subject to the
16 costs and I guess also the benefits that come from a
17 merchant -- a -- I'm sorry, market resources
18 decisions and the options of what they do with their
19 resources, and here those customers are going to be
20 subject to that -- those costs and those revenues,
21 those potential revenues; however, they would have no
22 control over what decisions are made for how that
23 resource is bid into the PJM market.

24 Q. Okay. I'm not sure I fully understand,
25 so I need to back up a little bit.

1 A. Okay.

2 Q. With respect to customers having control
3 over costs and decision making, I believe -- and
4 please correct me if I don't say this right, I think
5 you said that the customers don't have a control over
6 costs with respect to decisions that Duke is making.
7 Is that a correct --

8 A. I think that's what I said.

9 Q. Okay. And so, what decisions is Duke
10 making, in respect of OVEC, that you would like to
11 see customers have control over?

12 A. Well, I think if they are going to be
13 paying for this generation, they should have -- they
14 should theoretically have a chance to challenge bad
15 decisions that are made about how it's bid into the
16 market or if it's bid into the market.

17 So I think if an uneconomic decision is
18 made, the customers are going to be responsible for
19 that. And they under, this PSR proposal, won't have
20 any recourse for that because my understanding is
21 that this won't be reviewed by the Commission each
22 year, that this is a rider that will continue for 25
23 years.

24 Q. Okay. So the only decision that you're
25 concerned about in this respect would be whether the

1 energy and capacity are bid into the market or not,
2 prudently?

3 A. I don't think that's the only decision.
4 I mean, I think it's -- that decision will affect the
5 costs and revenues that could be passed through to
6 customers. But there are other decisions that, you
7 know, whether to keep going with this type of -- of
8 generation. I think that there's a dispute about how
9 the re -- how the OVEC entitlement can be handled in
10 the future, so I am not going to try to go into that,
11 but whether it's prudent to continue that
12 relationship with OVEC is another decision that
13 customers won't have.

14 Q. If the Commission approves the rider for
15 the proposed term, for whatever term, that decision
16 is effectively already made, correct?

17 A. Right. And my understanding is it will
18 continue for 25 years.

19 Q. Okay.

20 A. Or until the entitlement ends.

21 Q. So, hypothetically, if the Commission
22 approves the rider for 25 years, the decision to
23 continue the rider has effectively, from a regulatory
24 standpoint, already been made, correct?

25 A. Oh, yeah. I think I know what you're

1 saying. Yes.

2 Q. Okay. So the -- in addition to whether
3 to continue to the rider and whether to bid the
4 energy and capacity into the market or not, is there
5 any other decision that you would like to see
6 customers have?

7 A. I don't think so. I think I covered them
8 all.

9 Q. Thank you.

10 With respect to a shopping customer who
11 purchases generation from a supplier, what control
12 does that shopping customer have over the supplier's
13 decision with respect to where that supplier obtains
14 generation?

15 A. I will say just insofar as they can
16 choose different suppliers who make better decisions
17 and whose prices reflect that decision.

18 Q. Okay. And just to be clear, when Ohio
19 transitions to a fully competitive market, you
20 believe that customers will have the ability to
21 choose energy providers and that will permit them a
22 degree of control over their risk factors, correct?

23 A. Yes, that's what I testified.

24 Q. Okay. I just wanted to make sure I
25 understood where we were with that.

1 In this instance, when we are talking
2 about control in respect of a CRES providers's risk
3 factor, are we talking about their risk as they
4 compete in an SSO auction or some other risk factor?

5 A. Could you -- could you repeat the
6 question?

7 Q. Sure. I think you testified that you
8 believed that when we -- when Duke -- sorry. When
9 Ohio transitions to a fully competitive market, that
10 customers will have the ability to choose their
11 energy providers and that will permit them a degree
12 of control over the risk factors -- over their risk
13 factors, correct?

14 A. Correct.

15 Q. And so that I understand, I'm trying to
16 further understand what risk factors you are
17 referring to with respect to the customer having
18 control?

19 A. That's your question? What they are?

20 Q. Yes.

21 A. Well, I think I've -- in comparing it to
22 what's happening under the PSR with the OVEC
23 generation, the risks of that -- in that situation
24 are that the customers will bear these costs and will
25 receive any potential revenues and, yet, they have no

1 control over what happens there.

2 I think in a competitive environment you
3 have the choice of a different provider, and the
4 decisions are sort of wrapped up in what -- what
5 makes you choose that provider and so, in that way,
6 you are working out your risk factors to the way --
7 the way that satisfies you as the customer.

8 Q. And it -- would it be your understanding
9 that CRES providers would be subject to the same
10 market risk factors as rider -- as OVEC would be?

11 A. I think, yeah, it depends on their --
12 what their portfolios are, sure.

13 Q. And if rider PSR is approved, customers
14 will still have an opportunity to choose suppliers,
15 correct?

16 A. That's right.

17 Q. And I apologize if you have already been
18 asked this question by others, but I am going to ask
19 it one more time for purposes of clarity. Do you
20 agree that the company is not, through this
21 proceeding, seeking approval to use the OVEC capacity
22 entitlement to displace any of the load procured in
23 the SSO auction?

24 A. That's my understanding, yes.

25 Q. Thank you.

1 And the company is not, through this
2 application, seeking approval for an arrangement
3 between the company and competitive retail energy
4 service providers to supply any of their energy or
5 capacity needs, correct?

6 A. That's my understanding, yeah.

7 Q. And you state that rider PSR is not an
8 appropriate mechanism for the company to manage
9 market price risk in a competitive market
10 environment, correct?

11 A. Yes. I do say that.

12 Q. But you don't currently have an
13 understanding of how Duke Energy Ohio might be
14 managing that risk, correct?

15 A. Its market price risk?

16 Q. Correct.

17 A. My only understanding currently is that
18 it's proposing this PSR to shift that risk away from
19 it and on to the customers.

20 Q. And on page 14 of your testimony you
21 begin a discussion of environmental compliance risk,
22 correct?

23 A. Yes, correct.

24 Q. Now, you have not visited the OVEC
25 plants, have you?

1 A. No, I have not.

2 Q. And you've not discussed environmental
3 compliance risk with any principal at OVEC, correct?

4 A. That's right, correct.

5 Q. And you didn't do any independent
6 analysis regarding forecasted wholesale energy or
7 capacity prices for this case, did you?

8 A. No, I did not.

9 Q. And you have not done any independent
10 analysis regarding forecasted OVEC net benefits,
11 correct?

12 A. Correct.

13 Q. So you just relied upon information from
14 the company.

15 A. Yes, I did.

16 Q. On page 14 of your testimony at line 13,
17 you begin a discussion of rule 111(d) of the Clean
18 Air Act, correct?

19 A. Correct.

20 Q. And that discussion and other
21 environmental compliance risks that you mentioned is
22 provided to point out that you believe that the
23 trajectory of the net present value of the proposed
24 rider PSR can turn out differently than the way the
25 company is proposing it will turn out, correct?

1 A. That's a fair assessments of my
2 testimony, yes.

3 Q. And would you agree with me that
4 trajectory can change in either direction?

5 A. I would agree that forecasts are
6 uncertain, so, yes, you can have things go either
7 way. But I would say that, you know, with respect to
8 these plants, the fact they are very old coal plants
9 suggests that their costs could increase at a greater
10 rate than the company is currently forecasting.

11 Q. Okay.

12 A. It's a risk.

13 Q. I understand. And section 111(d) is a
14 proposed rule, correct?

15 A. Correct.

16 Q. And the rule may become final in June of
17 2015, correct?

18 A. Correct.

19 Q. It may also not become final in June of
20 2015, correct?

21 A. I suppose that's a possibility.

22 Q. And once it's enacted, it will require
23 action on behalf of each of the states, correct?

24 A. Correct.

25 Q. And can you tell me what states will be

1 required to do to respond once the rule is final?

2 A. It's hard to know entirely what each
3 state will have to do, but the basic plan under the
4 proposed rule is states will have to draft compliance
5 plans which are essentially blueprints showing how
6 they'll achieve the targets that EPA has set for them
7 for emission reductions.

8 Q. Do you have any idea how long such plans
9 might take to come into fruition?

10 A. The way it's been proposed, the states
11 have a couple of options. They could draft
12 individual plans which are supposed to be -- which
13 are supposed to be submitted to EPA at the end of
14 June, 2016. Individual states can request a year
15 extension, and I don't know what the likelihood is
16 that those would be granted.

17 And a second option is for states to work
18 together in groups -- groups of states in which they
19 would draft one compliance plan together and that
20 plan, I believe they have a deadline of June, 2018,
21 as proposed.

22 Q. Some of those activities you mentioned
23 would require legislative acts within those states,
24 correct?

25 A. It depends on what kind of measures a

1 state chooses to undertake to meet the plan's
2 requirements.

3 Q. But some of them require legislative
4 activity.

5 A. Some of what?

6 Q. Some of those plans within the states.

7 A. The plans would not. If particular
8 measures -- if a state chose a particular measure to
9 meet the 111(d) targets and that measure wasn't
10 allowed in that state, there may have to be
11 legislation to allow that measure to be a part of the
12 plan.

13 Q. Okay. Thank you.

14 Do you have any specific knowledge with
15 respect to what the state of Ohio intends to do when
16 that rule becomes final?

17 A. Not at this time I don't.

18 Q. And have you had any discussions with
19 anybody in Ohio in state government with respect to
20 activity related to that?

21 A. I don't believe so, no.

22 Q. And you've not performed any studies on
23 the impacts of environmental regulation on energy
24 prices, correct?

25 A. I have not.

1 Q. And you're not aware of what generation
2 may be retiring specifically in PJM?

3 A. I'm not sure specifically, no.

4 Q. Okay. And you would agree with me
5 retirements could potentially affect wholesale market
6 prices in the PJM market, correct?

7 A. Sure.

8 Q. And you have not performed any studies of
9 the impacts of generation retirements have on the
10 wholesale market price for energy and capacity,
11 correct?

12 A. I have not.

13 Q. And you are not aware of any new
14 generation being built in Ohio to replace retiring
15 generation, correct?

16 A. I think yesterday somebody said a plant
17 just got approved somewhere in Ohio, but, other than
18 that, I don't have any specific knowledge of plants
19 being built in Ohio.

20 Q. Thank you.

21 On page 15 of your testimony and
22 continuing on to page 16, you discuss a number of
23 different regulations that could increase compliance
24 costs at the OVEC plants, correct?

25 A. Yes, correct.

1 Q. Those include effluent limitation
2 guidelines, correct?

3 A. Yes.

4 Q. Disposal of coal combustion residues?

5 A. Yes.

6 Q. Cooling water-intake facilities?

7 A. Yes.

8 Q. And National -- you have to help me with
9 this, NAAQS, I want to call them "NAAQS."

10 A. You can call them "NAAQS."

11 Q. Would you --

12 A. "National Ambient Air Quality Standards."

13 Q. Thank you.

14 And particulate matter and sulfur dioxide
15 standards?

16 A. Yes.

17 Q. And cross-state air pollution which we
18 call CASPR, right?

19 A. Yes.

20 Q. And at least some of those were taken
21 into account when the company performed its net
22 present value, correct?

23 A. Yes, I believe they were. And I also
24 think you left out ozone.

25 Q. Okay. Thank you.

1 And you note on page 15 that the company
2 tracks CO-2 price, correct?

3 A. Yes.

4 Q. And "by company" in this instance you
5 mean Duke Energy Ohio, correct?

6 A. Yes.

7 Q. And further down on page 15, you again
8 note that the company estimates include costs for
9 planned environmental projects, correct?

10 A. Yes.

11 Q. Which company are you referring to there?

12 A. Duke provided us a response, but the --
13 the response, I believe, was from OVEC.

14 Q. So either Duke Energy Ohio or OVEC
15 provided estimates related to certain of these rules,
16 correct?

17 A. Correct.

18 Q. And on page 16 you say that you can't
19 fully evaluate cost estimates for environmental
20 projects, but that at least the 316(b) rule, which
21 involves cooling intake structures, those estimates
22 are probably reasonable, correct?

23 A. Yes, I think that -- without -- without
24 knowing more, it would be hard to really say, but it
25 looks like a reasonable estimate.

1 Q. Okay. And, again, on page 16, you're
2 discussing NAAQS, and after providing some
3 explanation, you note that the USEPA has designated
4 four areas in Ohio as "nonattainment" areas, correct?

5 A. I know that's in there. Can you point me
6 to the line?

7 Q. Yeah. You will probably find it faster
8 than I can.

9 MR. MENDOZA: It's page 18, lines 9
10 through 10.

11 MS. WATTS: Thank you, Mr. Mendoza.

12 Q. But for now, those nonattainment areas do
13 not include where the Kyger and Clifty Creek plants
14 are located, correct?

15 A. That's correct. My understanding is
16 those plants -- the counties where those plants are
17 located don't have monitors so the attainment status
18 couldn't be determined.

19 Q. Okay. Do you know when that next round
20 of designations will occur?

21 A. My understanding is that EPA is planning
22 the next round in 2017 based on monitoring and/or
23 dispersion modeling.

24 Q. That date could change, correct?

25 A. I don't have any reason to believe that

1 it would change, but.

2 Q. But you don't have any certainty that it
3 will occur exactly at that time either, do you?

4 A. I can just say that's what the EPA has
5 stated it plans to do.

6 Q. Okay. Thank you.

7 And you've also provided a discussion
8 around another EPA rulemaking that deals with the
9 8-hour ozone NAAQS, correct?

10 A. Yes.

11 Q. And this rulemaking relates to a standard
12 that was set in 2008; isn't that correct?

13 A. This rulemaking would pertain to an
14 update of that standard, yes.

15 Q. And the standard in 2008 was 75 parts per
16 billion?

17 A. It was, yes.

18 Q. And the proposal, in 2010, was to lower
19 that 75 parts per billion to 60 to 70 parts per
20 billion, correct?

21 A. Yes, correct.

22 Q. And then in 2011, the EPA withdrew its
23 proposal and said that it would wait until the
24 regular five-year cycle was up to start the review,
25 correct?

1 A. Correct.

2 Q. And the review is continuing as of today?

3 A. As of today, yes. I believe that the --
4 a policy assessment was released by the EPA staff
5 recommending the same 60 to 70 part per billion range
6 as was proposed in 2010.

7 Q. And when was that policy assessment?

8 A. I want to say the end of August this
9 year.

10 Q. And with respect to particulate matter
11 standards, you state the EPA will make final area
12 designations by December, 2014?

13 A. Yes, that's my understanding.

14 Q. And right now, do you have any knowledge
15 about whether or not the areas of Kyger and Clifty
16 Creek will be -- will fall within such area
17 designations?

18 A. I don't know.

19 Q. Would anyone know this right now?

20 A. The Ohio environmental department might
21 have an idea, but.

22 Q. You mean the Ohio EPA?

23 A. Yes.

24 Q. Okay. If the areas where the Kyger and
25 Clifty Creeks are located are determined to be within

1 dispersion area and the plants are found to be in
2 nonattainment for the particulate matter rules, do
3 you have any knowledge or understanding of what
4 exactly those two plants would need to do to come
5 into compliance?

6 A. I don't know specifically. They would
7 probably need to adjust the way their equipment runs
8 or potentially add new equipment to help reduce the
9 emissions of particulate matter and precursors to
10 that.

11 Q. But you don't know anything about
12 specific business plans that would be required for
13 that purpose.

14 A. No.

15 Q. Is it correct that the EPA withdrew its
16 last draft update to the ozone NAAQS?

17 A. Yes, that's correct.

18 Q. And you don't have any idea why it was
19 withdrawn?

20 A. I think you stated earlier they asked --
21 that they decided to wait until the five-year cycle.

22 Q. Okay. But do you know why they decided
23 to wait for that five-year cycle specifically?

24 A. I don't have any insight into why they
25 decided that.

1 Q. Would you agree with me that there are
2 political considerations with respect to such
3 decisions?

4 A. About ozone?

5 Q. Yes.

6 A. Yes.

7 Q. And will the next Presidential election
8 possibly affect the outcome of that rulemaking?

9 A. You said the Presidential election?

10 Q. Yes.

11 A. It's possible, though these are
12 science-based standards, and so I think that now that
13 the science and the staff policies has come out in
14 favor at the same level that it would be difficult
15 for the next administration to request much outside
16 of that recommendation.

17 Q. Wow, I hope that's true. I'm sorry.

18 And might political considerations impact
19 other potential USEPA policy with respect to the
20 Clean Air Act?

21 A. I think there are always political
22 considerations.

23 Q. Are there any other factors that
24 influence the outcome of such rulemakings?

25 A. Politics, the need, public -- public

1 interest. I think that you might also find that as
2 science evolves and we learn more about the effects
3 of the different pollutants that are supposed to be
4 regulated through these rules that may be driving
5 standards maybe to be more stringent.

6 Q. Thank you.

7 Let's look at the CO-2 price report
8 that's attached to your testimony, please.
9 Specifically page 25 of that report.

10 A. I'm there.

11 Q. I'm not. Just a second.

12 Can you agree with me the analysis of
13 emission caps suggests a wide range of possible
14 prices?

15 A. Yes.

16 Q. And factors to consider in looking at
17 emission caps include the stringency of any future
18 climate policy, correct?

19 A. Correct.

20 Q. Is that federal policy that we are
21 referring to there?

22 A. I think it refers to both federal and any
23 state actions around climate.

24 Q. And other factors could include the
25 existence of complimentary policies, either state or

1 federal?

2 A. Yes.

3 Q. And technology available?

4 A. Yes.

5 Q. And how quickly capital stock can be
6 phased out in favor of other technologies?

7 A. Yes.

8 Q. Any others?

9 A. No. I think this is a good list.

10 Q. Thank you.

11 The study on emission caps recognizes
12 that prudent utilities consider potential future
13 policies, correct?

14 A. Yes. I would agree with that.

15 Q. And referring to page 27 of the study,
16 the study assumes a zero carbon price for any state
17 other than the RGGI states in California, correct?

18 A. Yes.

19 Q. And could you tell us what RGGI states
20 are again?

21 A. That's the -- let me RGGI, Regional
22 Greenhouse Gas Initiative. It's a northeast --
23 regional cap and trade system in the northeast.

24 Q. Okay. Why were zero carbon prices
25 assumed for that period of time and for that

1 population of states?

2 A. You mean the states other than RGGI and
3 California?

4 Q. Correct.

5 A. Because, at the moment, there's no carbon
6 regulations requiring a price.

7 Q. Now --

8 A. Other than in those areas.

9 Q. Okay. Thank you.

10 This -- this report is something that you
11 worked on, correct?

12 A. I worked on a piece of it, yes.

13 Q. Okay. So you didn't -- you had some,
14 let's say, some help writing?

15 A. Oh, yes.

16 Q. Okay. And you expect federal regulatory
17 measures will put economic pressure on
18 carbon-emitting power plants in other states
19 beginning in 2020, correct?

20 A. Yes.

21 Q. And you're not aware of why the year 2020
22 was selected, correct?

23 A. I'm not specifically aware of why because
24 I didn't -- I didn't write that particular piece, but
25 my best guess is that that is when we expect the

1 111(d) rule to take effect.

2 Q. Okay. And what variables could change to
3 impact if and when that occurs?

4 A. Impacting the start date of a price?

5 Q. Yes.

6 A. Changes to regulatory timelines, carbon
7 legislation, other types of rulemaking, public
8 pressure.

9 Q. Beginning on page 20 and through page 22
10 of that report, there's a section entitled "CO-2
11 Price Forecasts," correct?

12 A. Page 20, you said, yes, "CO-2 Price
13 Forecasts in Utility IRPs."

14 Q. And on page 21 of the study, the section
15 of the study entitled "CO-2 Price Forecasts," it's --
16 that study is based upon 91 utilities that were
17 sampled, correct?

18 A. Yes.

19 Q. And the information that was obtained
20 from those utilities was largely integrated resource
21 plan material, correct?

22 A. Correct.

23 Q. Okay. You went back and tried to get
24 data from earlier years, 2003 to 2007, but you
25 weren't able to find carbon pricing in those years

1 mostly because consideration of carbon pricing began
2 in 2008, correct?

3 A. That's my understanding. Just to be
4 clear, the "you" isn't me here; Synapse.

5 Q. Thank you. I appreciate that
6 clarification.

7 And there were possible 3,412 utilities
8 that could be sampled, correct?

9 A. Yes, that's what it says here in Table 2.

10 Q. And 11 states were not represented
11 because they have no filing requirements for
12 long-term planning, correct?

13 A. That's my understanding, yes.

14 Q. And 10 states are not represented because
15 they have long-term plans, but not integrated
16 resource plans, correct?

17 A. Correct.

18 Q. Do you know whether states that --
19 there's any overlap between the states that don't
20 require integrated resource plans with states that
21 are competitive retail states?

22 A. I'm not 100 percent sure. I know that
23 there are some states that have -- that do require
24 IRPs but are also part of the competitive market. So
25 I'm not -- I'm not sure of the extent of the overlap

1 though.

2 Q. Okay. Thank you.

3 Were you present when Mr. Mendoza
4 cross-examined Mr. Wathen?

5 A. Yes.

6 Q. And do you recall Mr. Mendoza presenting
7 Mr. Wathen with a table that showed the hourly
8 generation of certain plants?

9 A. Yes.

10 Q. And he asked about days and hours and the
11 generation that was the output from those plants on
12 certain days?

13 A. Yes, I remember that.

14 MS. WATTS: Your Honor, may I approach?

15 EXAMINER WALSTRA: You may.

16 Q. Ms. Jackson, do you have a Sierra Club 3
17 up there with you?

18 A. It's not marked Sierra Club, but it looks
19 like what I've seen.

20 Q. Okay. Good. That's not what I just
21 handed you. I just want to make sure -- what I just
22 handed you we'll have marked as a Duke exhibit.

23 A. Oh. What is Sierra Club 3, I'm sorry?

24 Q. Would you take a moment to look at both
25 of those, please.

1 MS. WATTS: And, your Honor, the document
2 I distributed would be Duke Energy Ohio Exhibit 23, I
3 think.

4 EXAMINER WALSTRA: It will be so marked.

5 (EXHIBIT MARKED FOR IDENTIFICATION.)

6 EXAMINER WALSTRA: Ms. Watts, is there a
7 title to this exhibit?

8 MS. WATTS: The "Hourly Megawatt Output
9 by Unit (Clifty Creek and Kyger Creek.)" Is that
10 what you're looking for?

11 EXAMINER WALSTRA: That will work. Thank
12 you.

13 Q. (By Ms. Watts) What I would like you to
14 do is essentially turn to page 8 of the document
15 that's marked Duke Energy Ohio Exhibit 23.

16 A. Okay. I'm there.

17 Q. And starting on day 22 you'll see that
18 there's some light highlighting there, I think it
19 turns pink.

20 A. Uh-huh.

21 Q. Could you take some of those days and
22 cross-reference them with Sierra Club 3 just to make
23 sure that the information relative to those days is
24 the same as what's in Sierra Club 3?

25 A. Yes. It's a different format so it will

1 take me a minute. So far it looks good. I haven't
2 looked at every single unit, but they look the same.

3 Q. Okay. And then I need to give you one
4 more piece of information. It's Sierra Club
5 Exhibit 2.

6 MS. WATTS: Your Honor, may we approach?

7 EXAMINER WALSTRA: You may.

8 Q. With respect to Sierra Club Exhibit 2,
9 would you turn to page 10, please.

10 A. Yes, I'm there.

11 Q. And would you agree with me that on
12 Exhibit 2, on page 10, the January 6, 7, and 8 were
13 the days that the polar vortex occurred that we've
14 been discussing?

15 A. My understanding the polar vortex was an
16 event that took place all winter. If you meant the
17 cold days as identified on this table it's the 6, 7,
18 8, 22, 23, 24, 27, 28, and 29.

19 Q. So January 6, 7, and 8 were the coldest
20 days of that cold spell, correct?

21 A. I'm not sure. I think so.

22 Q. Okay. All right. So Duke Energy
23 Exhibit 3, beginning on page 1, the days that are
24 highlighted in pink are all of the same cold days as
25 shown on Sierra Club Exhibit 2, correct?

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1 A. I think so. No. You guys are missing 26
2 and 28. But the other days are the same.

3 Q. Okay. Thank you.

4 And you would agree with me that the
5 Kyger Creek and Clifty Creek plants were all -- were
6 both -- all the units were running on each of those
7 days, correct?

8 A. No. Unit 3 was not running on any of the
9 early days.

10 Q. Without putting you on the spot, would
11 you agree with me that the majority of the plants
12 were running on each of those days?

13 A. The majority, yes.

14 Q. Okay. Thank you.

15 MS. WATTS: I have no further questions,
16 your Honor.

17 EXAMINER WALSTRA: Thank you.

18 MS. WATTS: I would like to move into
19 evidence Duke Energy Ohio Exhibits 22 and 23.

20 MR. MENDOZA: Is there going to be
21 redirect?

22 EXAMINER WALSTRA: Yeah. We'll wait for
23 after the --

24 MS. WATTS: Sorry.

25 EXAMINER WALSTRA: Staff.

1 MR. BEELER: I don't have anything on
2 cross.

3 EXAMINER WALSTRA: Go ahead.

4 MR. MENDOZA: Just a few questions.

5 - - -

6 REDIRECT EXAMINATION

7 By Mr. Mendoza:

8 Q. I won't ask too much about Duke 23, but
9 really quickly, Ms. Jackson, could you confirm for me
10 on every day in January, at least one of these units
11 was -- putting aside the issue of lower-than-maximum
12 load, but just on every day that at least one of the
13 units was out of -- was at zero load on every day in
14 January, 2014?

15 A. Yes, I can confirm that.

16 Q. Okay. And do you know if Duke has a seat
17 at the Board of Directors of OVEC?

18 A. I've heard that they do.

19 Q. And would you imagine that the Board of
20 Directors of a corporation has influence over the
21 operations of the corporation?

22 A. I assume so.

23 Q. And might that influence include taking
24 measures to reduce costs of operation?

25 A. Sure.

1 Q. And might that influence also include
2 taking measures to increase revenues?

3 A. I would think so.

4 Q. Okay. Let's talk about 111(d) quickly.
5 If a state doesn't draft a plan that EPA deems
6 adequate, is that the end of the matter?

7 A. No. The -- in -- under the proposed rule
8 and the way these things work, typically, the EPA
9 would step in and enforce its own plan on that state.

10 Q. And so, would you say that's a fairly
11 common process under various areas of the Clean Air
12 Act?

13 A. It happens -- it's a requirement under
14 many of the acts. I don't think it's happened all
15 that often.

16 Q. And what is the name of, you know, the
17 state plan and the federal plan just so we have the
18 terminology?

19 A. In general or under 111(d)?

20 Q. Just in general, under the Clean Air Act.

21 A. Under the -- under the NAAQS program it
22 would be the State Implementation Plan, and a federal
23 version of that would be a Federal Implementation
24 Plan.

25 Q. Okay. And I think you told Ms. Watts

1 that you think retirements could affect capacity
2 prices in the future, correct?

3 A. Sure, yes.

4 Q. And would you also say that new
5 generation coming on line could affect capacity
6 prices as well?

7 A. Yes.

8 MR. MENDOZA: Okay. I have no further
9 questions.

10 EXAMINER WALSTRA: Thank you.

11 Ms. Bojko.

12 MS. BOJKO: No. I have no questions.

13 EXAMINER WALSTRA: Thank you.

14 Mr. Serio.

15 MR. SERIO: No questions.

16 EXAMINER WALSTRA: Mr. Kurtz.

17 MR. KURTZ: Just a little bit.

18 - - -

19 RE CROSS-EXAMINATION

20 By Mr. Kurtz:

21 Q. 111(d), Ms. Jackson --

22 A. Yes.

23 Q. The states have flexibility in how to
24 comply under the proposed rule; is that your
25 understanding?

1 A. As it's proposed, yes.

2 Q. If the state of Ohio chose to comply to
3 reduce its carbon intensity from what --

4 A. I can't hear you very well. I'm sorry.

5 Q. If the state of Ohio chose to comply with
6 111(d) to reduce its carbon intensity from about
7 1,700 pounds of CO-2 per megawatt-hour in 2012, is
8 that about the baseline?

9 A. I don't have all the baselines.

10 Q. About 1,300. If Ohio chose to comply by
11 building all renewable resources, what would be the
12 cost on the coal facilities?

13 A. I don't know what the specific cost would
14 be. The effect would be to reduce generation from
15 those facilities.

16 Q. Couldn't you comply by building
17 renewables and reducing the carbon intensity and have
18 no impact on the coal generation in Ohio?

19 A. I think that would be unlikely because
20 the renew -- the new renewable energy you build would
21 affect the dispatch of those plants.

22 Q. Well, it's possible -- it may or may not
23 affect dispatch, but if you build renewables the
24 direct cost on the coal facilities is zero, isn't it?

25 A. You're asking if the coal companies would

1 be -- the coal plants would be building renewables.

2 Q. No, no. The state of Ohio's
3 implementation plan was to build a thousand megawatts
4 of wind generation, for example?

5 A. Okay.

6 Q. To get a thousand megawatts of zero
7 carbon generation into the Ohio footprint, thereby
8 reducing the carbon intensity. I mean, I may not
9 have the exact math right, I don't know how many
10 megawatts it would take, but that would have zero
11 impact on the coal generation, wouldn't it?

12 A. No, I don't agree.

13 Q. It would have zero direct costs on the
14 coal generation.

15 A. I don't know what you mean by "direct
16 cost," but their -- their generation would be reduced
17 and that would have an effect on those plans.

18 Q. You are assuming generation would be
19 reduced because they would not dispatch it in the PJM
20 model? Is that what you're assuming?

21 A. I'm assuming when you build new
22 generation that you are displacing some amount of
23 your existing generation.

24 Q. Well, the non-dispatchable wind would
25 dispatch whenever the wind blows, but the coal

1 generation would dispatch whenever the energy price
2 cleared the PJM market; isn't that your understanding
3 of how it works?

4 A. Essentially, yes.

5 Q. So there would be zero direct cost on
6 coal generation if the state of Ohio elected to
7 comply with 111(d) through new renewable generation?

8 A. I don't think you can look at it that
9 way. I think that there will be an effect on all
10 existing generation if you're going to build a
11 thousand megawatts of new generation.

12 Q. What if the state of Ohio elected to
13 comply by doing all energy efficiency, what would be
14 the cost on the coal generation?

15 A. I couldn't give you a figure, but it
16 would have the same effect of reducing the need for
17 that existing generation.

18 Q. It would reduce the need, but it wouldn't
19 have any direct cost on coal at all, would it?

20 A. I think if you run your coal plant less,
21 you are going to earn less and that will have an
22 effect on your bottom line.

23 Q. The amount of time you run your coal
24 plant will be a function of its operating costs
25 versus the PJM LMP clearing price for energy; isn't

1 that right?

2 A. Yes, but your -- if your capacity factor
3 is reduced because you are operating less, then you
4 have less generation over which to spread your fixed
5 costs.

6 Q. Well, sure. Just because there's less
7 demand in Ohio doesn't mean the coal plants in Ohio
8 will dispatch less; they sell into the wholesale
9 market. Isn't that right?

10 A. That's right.

11 Q. Okay. What if -- so there's no real --
12 there's no physical device, like a scrubber for SO-2,
13 or an SCR for NOx, or a precipitator for -- for fly
14 ash, there's no device to reduce carbon from an
15 existing coal plant, is there?

16 A. There's carbon capture and sequestration.

17 Q. Well --

18 A. And there's efficiency upgrades that can
19 help.

20 Q. Efficiency can help. You can get more
21 megawatt-hours per ton for MMBtu, but there is no
22 carbon sequestration for existing coal units; there's
23 no technology for that. If there were, 111(d) would
24 be that.

25 A. Right. I mean, you theoretically could

1 install carbon capturing sequestration, but what
2 you're saying is it's not required at this point.

3 Q. It's not the best controlled technology,
4 it's not a realistic technology; is that right? My
5 point is the cost of 111(d) on coal generation really
6 remains to be seen how much, if any, there will be
7 under the state implementation plan. Would you agree
8 with that?

9 A. I would dispute your "if any," because I
10 don't see how a rule designed to reduce carbon
11 dioxide emissions from the electric sector wouldn't
12 have an effect on the part of that sector that
13 reflects 75 percent of those emissions.

14 Q. Well, strike the "if any." The amount
15 certainly remains to be seen, correct?

16 A. Sure, correct.

17 Q. And you would expect -- you understand
18 there is going to be significant legal challenges to
19 the outside of -- the outside-of-the-fence proposal
20 of the EPA to --

21 A. I expect there will be many legal
22 challenges.

23 Q. Right.

24 MR. KURTZ: Thank you, Ms. Jackson.

25 Thank you, your Honor.

1 EXAMINER WALSTRA: Thank you.

2 Mr. Olier.

3 MR. OLIER: No, thank you.

4 EXAMINER WALSTRA: Ms. Petrucci?

5 MS. PETRUCCI: No questions.

6 EXAMINER WALSTRA: Mr. Hart.

7 MR. HART: No questions.

8 EXAMINER WALSTRA: Ms. Watts.

9 MS. WATTS: Just a few questions, your
10 Honor.

11 - - -

12 RECROSS-EXAMINATION

13 By Ms. Watts:

14 Q. Ms. Jackson, you responded, on
15 questioning by your counsel, you understood that Duke
16 Energy Ohio had a seat on the board at OVEC, correct?

17 A. That's what I think I've heard in this
18 setting.

19 Q. Okay. You don't know much about it more
20 than just what you've heard while being here in the
21 hearing room.

22 A. That's right.

23 Q. Okay. And were you here when Mr. Brodt
24 from OVEC testified?

25 A. For part of his testimony.

1 Q. You understand that decisions by a --
2 decisions by a board, in particular the OVEC board,
3 most decisions require majority vote?

4 A. I'm not sure, but I imagine that's true.

5 Q. Okay. And do you know how many -- how
6 many votes Duke Energy Ohio has on the OVEC board?

7 A. I'm assuming just one, but I'm not sure.

8 Q. Okay. And did you also hear Mr. Brodt
9 talk about a continuous-improvement process at OVEC?

10 A. I don't think I heard that part actually.

11 Q. You have no reason to dispute that OVEC
12 undertakes efforts to reduce costs, correct?

13 A. I don't have any reason to dispute or
14 confirm that.

15 Q. Okay. And, again, with respect to
16 111(d), you wouldn't expect anything to happen in
17 respect of that legislation realistically until 2020,
18 correct?

19 A. Which legislation?

20 Q. 111(d)?

21 A. The regulation?

22 Q. Yes, regulation, I'm sorry.

23 A. The regulation is set to take effect,
24 essentially reductions need to be in place by 2020.

25 Q. Okay. That could change as well,

1 correct?

2 A. Sure.

3 MS. WATTS: Thank you. I have nothing
4 further.

5 EXAMINER WALSTRA: Staff?

6 MR. BEELEER: No questions, your Honor.
7 Thanks.

8 EXAMINER WALSTRA: Thank you. You may
9 step down.

10 Mr. Mendoza.

11 MR. MENDOZA: We would move that Sierra
12 Club 4a be admitted as well as Sierra Club 4,
13 although we still need to work out those redactions
14 with Duke, which we will do over the weekend,
15 hopefully, and have that for Monday.

16 EXAMINER WALSTRA: Any objections?

17 MS. WATTS: No objections.

18 EXAMINER WALSTRA: It will be admitted.

19 (EXHIBITS ADMITTED INTO EVIDENCE.)

20 MS. WATTS: Duke 21, 22, I think it was,
21 and 23.

22 EXAMINER WALSTRA: Yes.

23 Any objections? Hearing none, they will
24 be admitted.

25 (EXHIBITS ADMITTED INTO EVIDENCE.)

2301

1 EXAMINER WALSTRA: We'll take a quick
2 5-minute break. The court reporters need a quick
3 break.

4 (Recess taken.)

5 EXAMINER WALSTRA: Would you like to call
6 your witness.

7 MR. KURTZ: Yes, your Honor. We call
8 Mr. Baron.

9 (Witness sworn.)

10 EXAMINER WALSTRA: Thank you. You may be
11 seated.

12 - - -

13 STEPHEN J. BARON
14 being first duly sworn, as prescribed by law, was
15 examined and testified as follows:

16 DIRECT EXAMINATION

17 By Mr. Kurtz:

18 Q. Would you state your name and business
19 address for the record.

20 A. Stephen Baron. My business address is
21 J. Kennedy and Associates, 570 Colonial Park Drive,
22 Suite 305, Roswell, Georgia 30075.

23 Q. You have in front of you a document
24 entitled the Direct Testimony of Steven J. Baron with
25 eight exhibits.

1 A. Yes.

2 Q. Okay. Was this testimony prepared by you
3 or under your direct supervision?

4 A. Yes.

5 Q. If I were to ask you the same questions
6 as those contained herein, would your answers be the
7 same?

8 A. Yes, they would.

9 Q. Any corrections or additions?

10 A. Not that I'm aware of.

11 MR. KURTZ: Your Honor, could we have
12 this marked as OEG Exhibit 2, and I tender the
13 witness for cross.

14 EXAMINER WALSTRA: So marked.

15 MR. KURTZ: Maybe this is Exhibit 3.
16 Could we have this marked as OEG Exhibit 3.

17 EXAMINER WALSTRA: 3 it is.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 EXAMINER WALSTRA: Ms. Hussey.

20 - - -

21 CROSS-EXAMINATION

22 By Ms. Hussey:

23 Q. Good afternoon, Mr. Baron.

24 A. Good afternoon.

25 Q. You discuss rider LFA beginning on

1 page 20 of your testimony; is that correct?

2 A. Yes.

3 Q. Okay. And as you understand it, Duke is
4 proposing to discontinue rider LFA effective June 1,
5 2014?

6 A. The company is proposing to discontinue
7 it, yes.

8 Q. Okay. And by "the company" you mean Duke
9 Energy Ohio?

10 A. Duke Energy Ohio.

11 Q. Okay. And are you proposing that the LFA
12 rider be gradually phased out over the term of the
13 ESP?

14 A. Yes, that's correct. Well, we've
15 referred to it as "phase-down" because it drops each
16 year.

17 Q. Okay. And the rationale behind that
18 would be the promotion of gradualism to mitigate
19 significant rate increases?

20 A. Yes, yes. That was a principle reason
21 for the alternative proposal that we're making.

22 Q. Okay. Thank you.

23 And you've also recommended that the
24 Commission discontinue the application of rider LFA
25 to rate DS customers; is that correct?

1 A. That is correct. The -- there is, I
2 think, about 19,000 DS customers who are currently
3 subject to that rider and they would be removed and
4 the calculation would be done in a revenue neutral
5 manner for just DP and TS.

6 Q. Okay. And you state in support of your
7 proposal to eliminate rider DS customers from the
8 rate classes to which rider LFA applies on page 23,
9 line 16, that "The OEG proposal immediately...
10 eliminates thousands of smaller DS customers from the
11 Rider who tend to have lower load factors and would
12 otherwise face higher rates with the Rider in place";
13 is that accurate?

14 A. Yes, that's correct.

15 Q. Are you familiar with the recommendation
16 advanced by Staff Witness Donlon on rider LFA in his
17 testimony filed in this case?

18 A. Yes. I have read that.

19 Q. Okay. And to your knowledge has staff
20 suggested that the LFA rider should be phased out
21 over the term of the ESP by reducing it 33 percent in
22 year one, 33 percent in year two, and 34 percent at
23 the end of the ESP?

24 A. Yes. That's my understanding and the --
25 in addition to that, as I understand Mr. Donlon's

1 proposal, it would continue to include DS customers
2 in the calculations.

3 Q. Okay. Thank you.

4 MS. HUSSEY: Your Honors, I have offered
5 a copy of Mr. Donlon's testimony in this case to
6 Mr. Baron and to counsel, and I believe the Bench has
7 copies as well. To my understanding, I believe that
8 staff intends to introduce it as Staff Exhibit 5 at
9 some point.

10 MR. BEELER: That's correct, your Honor.

11 EXAMINER WALSTRA: It will be so marked.

12 (EXHIBIT MARKED FOR IDENTIFICATION.)

13 Q. Mr. Baron, could you turn to page 3 of
14 Mr. Donlon's testimony.

15 A. Yes.

16 Q. And on that page there's a chart entitled
17 estimated impacts of illuminated -- of eliminating
18 the LFA rider; is that accurate?

19 A. Yes. I see that.

20 Q. Okay. And do you have any reason at all
21 to believe that Mr. Donlon has misrepresented any of
22 the figures in the flow chart?

23 A. No. It appears, I think I cited an
24 impact for a TS customer, a high-load factor TS
25 customer that I've calculated approximately a

1 14 percent increase. So this appears to be
2 consistent.

3 Q. Okay. Largely consistent, then, with
4 what your testimony is?

5 A. Yes, I believe so.

6 Q. Okay. Could you take a look at Schedule
7 DS on the chart for me. And do you see that the
8 approximate number of customers on Schedule DS with
9 the load factor of over 50 percent appears to be
10 3,711?

11 A. Yes, I see that.

12 Q. And it appears Mr. Donlon has also noted,
13 immediately beneath the chart, that generally
14 customers above 50 percent LFA currently benefit from
15 the rider. We're talking about load factor in terms
16 of 50 percent; is that accurate?

17 A. Yes, that's what the note below the table
18 shows.

19 Q. Okay. Would you agree with that
20 statement?

21 A. Yes. I haven't done that specific
22 calculation on the current rider, but it doesn't
23 surprise me.

24 Q. Okay. So then under your proposal, as
25 opposed to the company's, is it your understanding

1 that the DS customers would lose any benefit they've
2 previously received under rider LFA?

3 A. Yes. The -- basically, under our
4 proposal -- under my proposal, for DS customers it
5 would be the same as the company which is a one-time
6 elimination of the LFA rider so that customers on DS
7 who, assuming 50 percent is the breakeven load
8 factor, customers above 50 percent on DS would
9 experience an increase relative to where they are
10 under the current rider, all else being equal.

11 Q. Okay. And in contrast to that, under
12 your proposal, customers in the DP and TS classes
13 that are presently benefiting from the rider will
14 continue to do so, only with a phase-down approach?

15 A. Well, it would have -- I've calculated
16 under our -- under my proposal, I've just recently
17 calculated actually, I think I was asked in my
18 deposition about a breakeven load factor and I have
19 calculated that since my deposition and it's about
20 67 percent, so the economics of the LFA change when
21 you pull out the DS customers.

22 And so, it's -- but the -- because of the
23 loss of DS customers and the revenue neutral
24 calculation, it has the effect, under my proposal, of
25 reducing the benefits of the LFA rider to higher-load

1 factor customers in every year. And like so -- it
2 does have an effect, if that's what you were asking.

3 Q. Okay. It does have an effect. However,
4 under the DP and TS classes, there will still be --
5 they will still benefit if they are above that load
6 factor threshold --

7 A. Yes.

8 Q. -- under your proposal.

9 A. That's correct, that's correct.

10 Q. Okay. And from your understanding of
11 Mr. Donlon's proposal, would any customers under any
12 rate class who are presently benefiting under
13 rider LFA, have those benefits terminated as of
14 June 1, 2015?

15 A. No, not as I understand Mr. Donlon's
16 proposal.

17 MS. HUSSEY: Okay. Thank you. That's
18 all I have.

19 EXAMINER WALSTRA: Ms. Bojko. Oh.

20 MR. SECHLER: Thank you.

21 - - -

22 CROSS-EXAMINATION

23 By Mr. Sechler:

24 Q. Mr. Baron, good afternoon. Would you
25 agree with me that IRP is a type of demand response

1 program?

2 A. That the IRP?

3 Q. Yes.

4 A. Yes.

5 Q. And you would agree with me one of the
6 goals of DR programs in general should be to maximize
7 the number of customers that participate in the
8 programs?

9 A. From -- maximize to the extent that it
10 makes economic sense for the customer to participate
11 and so forth, yes. I mean, there's a rational
12 optimized basis for participation; it's not just a
13 singular objective of having the largest
14 participation rate.

15 Q. Understood.

16 A. That wouldn't be an objective just
17 singularly by itself.

18 Q. Would you agree with me, generally, that
19 another goal of DR would be to maximize benefits for
20 all customers in the service territory?

21 A. Yes. I think when you broaden the term
22 "benefits" sort of from an economic standpoint of
23 overall, the economic benefits in the service area,
24 when you consider the impact on customers who -- who
25 are exchanging reliability for reduced power costs in

1 the form of a credit; when you consider the
2 reliability benefits that all customers in the
3 service area and, in the case of PJM, it really --
4 some of the benefits are local, some are RTOWide;
5 when you consider other economic benefits to Ohio in
6 terms of the impacts of costs that large
7 participate -- customer -- manufacturing customers
8 who have -- have large numbers of employees and
9 economic -- the more efficient operation in terms of
10 incorporated demand response, when all of those are
11 factored in, yes, that is the ultimate calculation
12 that would be done. It's not -- but it's broader
13 than just a rate calculation.

14 Q. And, generally speaking, you're in
15 support of aggregating customers to participate in
16 DR-type programs; would that be correct?

17 A. I don't -- maybe you could clarify what
18 you mean by that and what you are referring to.

19 In terms of, for example, the current
20 protocol that's used in PJM where curtailment service
21 providers aggregate customers who -- that they have
22 signed up and offer that to PJM, if that's what
23 you're referring to, certainly that makes sense. I'm
24 not testifying on that one way or the other, but I
25 certainly don't oppose it.

1 Q. Okay. A couple of basic questions about
2 your IRP proposal. Does your IRP proposal propose to
3 change the current minimum load requirements needed
4 to participate in the program?

5 A. No. For this large customer program, my
6 proposal is basically to maintain the current
7 threshold which is 10 megawatts. Duke Energy Ohio
8 has the PowerShare program which would be available
9 for customers who are much smaller than that.

10 Q. And does your IRP proposal change the
11 current terms regarding length of customer IRP
12 commitments or when and under what circumstances the
13 customer could opt out of IRP?

14 A. I haven't -- I'm not proposing any
15 changes to that. To the extent that Duke has certain
16 contract provisions that it enters into with
17 participating customers, I'm not proposing any
18 changes one way or the other.

19 MR. SECHLER: Thank you, Mr. Baron. No
20 further questions from me at this time.

21 EXAMINER WALSTRA: Thank you.

22 Ms. Bojko?

23 MS. BOJKO: Thank you, your Honor.

24 THE WITNESS: Could you move the mic a
25 little closer.

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1 MS. BOJKO: Sure. Can you hear me now?

2 THE WITNESS: Yes, I think so. I'll let
3 you know.

4 - - -

5 CROSS-EXAMINATION

6 By Ms. Bojko:

7 Q. Good afternoon, Mr. Baron. Good to see
8 you again.

9 A. Good afternoon.

10 Q. Let's turn to page 3 of your testimony.
11 You talk about uncertainties with regard to
12 generation service in Duke's territory on line 20. I
13 want to ask you a couple of questions about that.
14 It's your understanding, sir, that Ohio is in a
15 deregulated state; is that correct?

16 A. Yes.

17 Q. And the utilities are required to
18 separate their distribution and their generation
19 functions, and distribution companies are not allowed
20 to own generation; is that your understanding?

21 A. Certainly going forward that's my
22 understanding that the -- that each of the major
23 companies will have -- either have or in the process
24 of divesting.

25 Q. And the reason why you say "going

1 forward" is because you are aware that Duke Energy
2 Ohio still owns a small 9 percent entitlement into
3 OVEC generating units; is that your understanding?

4 A. No. I was really thinking of the prior
5 ESP when they were in the -- they still owned, and
6 AEP, to some extent too, in the past. That's really
7 what I was referring to.

8 Q. Okay. So --

9 A. Not the OVEC.

10 Q. Okay. So it's your understanding that
11 the Ohio utilities have either separated their
12 generation distribution functions or are in the
13 process of doing just that.

14 A. Yes. They've all separated the
15 functions. What I was really referring to was
16 whether they've divested into -- out to another
17 entity.

18 Q. Okay. And it's your understanding in
19 Duke -- Duke's service territory specifically that
20 the entitlement that Duke does own to the OVEC
21 generating units, the output of that, that's not
22 being used to serve Ohio customers; is that your
23 understanding?

24 A. That's my understanding.

25 Q. Okay. So in Duke's territory today, they

1 basically have two options. One, they can either
2 shop with a certified retail electric service
3 supplier; or, they can take service pursuant to the
4 standard service offer; is that your understanding?

5 A. Yes.

6 Q. And the standard service offer is done by
7 a series of laddering auctions; is that correct?

8 A. Yes. The proposal that Duke is making is
9 that there will be a series of auctions.

10 Q. Okay. And those auctions then -- the
11 result of those auctions is then averaged so that a
12 customer gets a fixed SSO rate; is that correct?

13 A. During the -- right, during the term of
14 the ESP, that would be my understanding.

15 Q. Okay. And that's currently under the ESP
16 as well as how it's going to be under the proposed
17 ESP.

18 A. Yes. I'm talking about the proposed ESP,
19 yes.

20 Q. Okay. And also on that page, line 21,
21 you state that "It is important to maintain some
22 level of stability for large customers"; do you see
23 that?

24 A. Yes.

25 Q. And the stability you are talking about

1 in that line is rate stability; is that correct?

2 A. Yes.

3 Q. Okay. And you would agree with me that
4 that's important for other customers as well, just
5 not necessarily large customers?

6 A. Yes. I was referring specifically -- I
7 would agree with you, yes. And I was referring in
8 that statement to -- specifically to the large
9 customer interruptible program which obviously is
10 geared towards large customers. But there --

11 Q. But it would be something that a large
12 customer other than one that's under an interruptible
13 program would likely be -- would take into
14 consideration when selecting their options under --
15 their energy options, I guess?

16 A. Well, you're speaking of -- maybe I
17 didn't -- I am not following entirely. You're
18 speaking of rate stability or back to the rate
19 stability again or?

20 Q. Right. I'm just saying that even
21 customers that are not on an interruptible program
22 would likely take into consideration options that
23 they have for rate stability versus the risk of not
24 rate stability and different product offerings in the
25 market to do that, right?

1 A. Yes. I think that seems reasonable.

2 Q. And those customers would --
3 commercial/industrial customers would likely look for
4 different product offerings from CRES suppliers that
5 take in different hedging strategies to do just that.

6 A. That seems reasonable.

7 Q. On page 4, I read this page of your
8 testimony, and maybe I misunderstood a response that
9 you had to Mr. Sechler, but I understand your
10 testimony on this page to be talking generally about
11 demand response programs, in that the demand response
12 programs in general do provide regional benefits to
13 customers regarding both reliability of the service
14 as well as the price of capacity; is that correct?

15 A. Yes. They clearly provide regional
16 reliability benefits. If I -- if -- I certainly
17 wasn't suggesting otherwise.

18 Q. Okay.

19 A. In the first instance, customers who
20 provide demand response or interruptible load provide
21 the -- an increase in reliability, starting in the
22 local zone and, at some point, there are benefits
23 that might fan out to all of the RTO, but certainly
24 initially it's the local zone. It's Ohio customers
25 to the extent that their -- that reliability could be

1 threatened by the loss of a local generating unit or
2 a transmission line or something of that nature.

3 Q. And, sir, through your testimony I
4 understood your position that DR programs could also
5 help the reliability of the system during cold
6 weather events; is that how I read your testimony?

7 A. Yes. As a matter of fact -- that's
8 consistent with where I understand, based on reading
9 PJM documents, that PJM is focusing -- that in the
10 past PJM's demand response program and their
11 generation performance focus has been on the summer
12 months, but obviously this past winter we've seen, in
13 January and February, a number of emergency events
14 where, due to the extreme cold weather, there were --
15 it was really insufficient capacity. So, yes, and
16 under -- so more -- the ability to interrupt
17 customers annually seems to be taking on a much more
18 significant aspect in -- within PJM.

19 Q. And although OMA as well as others have
20 actually recently proposed offering year-round DR
21 programs into PJM, it's true that currently those
22 programs do not exist; is that correct?

23 A. I believe -- I think in the -- starting
24 in the '14-'15 delivery year, there is annual demand
25 response in P -- as part of the PJM portfolio. I

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1 don't know -- I don't recall sitting here what the
2 percentage of megawatts, but they have -- PJM has
3 implemented an annual demand response program
4 category that customers can participate in. And that
5 requires unlimited -- it's really consistent with
6 what I'm proposing. Is that what you are speaking
7 of?

8 Q. Go ahead. Go ahead, sir. I thought that
9 was a recent proposal that was just put out in the
10 PJM White Papers. I didn't --

11 A. The annual demand response, I believe, is
12 effective delivery year '14-'15. There's basically
13 three categories of emergency demand response.
14 There's limited which is the summer months, and there
15 are certain restrictions on the number -- frequency
16 and duration of interruptions; there's the extended
17 summer that would go June through October plus the
18 following May; and then there is annual and that's
19 demand response.

20 PJM has just recently issued a white
21 paper in October in response to the litigation
22 concerning opinion -- FERC Opinion 745, that would
23 establish a new category, performance capacity, and
24 there -- demand response would qualify for that as
25 well and it has -- it's much more -- it's annual,

1 unlimited interruptions for emergencies. The
2 duration of an interruption would be up to 72 hours
3 for a customer. And so, maybe, I think maybe perhaps
4 that's what you are referring to?

5 Q. No, no. Actually, there's a current
6 stakeholder process going on at the -- at PJM that
7 they just accepted comments regarding DR-type
8 programs, energy efficiency, as well as demand
9 response, in the -- for the capacity market and they
10 just recently accepted comments on that with regard
11 to the polar vortex response.

12 A. I may have misunderstood what you are
13 referring to.

14 Q. That's fine. We'll get to the 745 order
15 in a little bit because I know we like to talk about
16 that.

17 As I understand, your recommendation in
18 this case is that you would like for Duke to maintain
19 the existing interruptible program; is that correct?

20 A. Yes. With -- with a major modification
21 that it is -- that the customers are subject to
22 inter -- unlimited emergency interruptions annually
23 as opposed to the more restrictive, limited program
24 which is only applicable during June through
25 September, ten interruptions for six hours maximum.

1 Q. Okay. So you're proposing for -- to
2 expand the interruptible program to include winter
3 demand response interruptions, emergency only,
4 similar to what we were just discussing with regard
5 to the PJM?

6 A. Yes, the -- yes, that's correct.

7 Q. And your testimony also has a
8 recommendation for LFA rider as you have discussed
9 with Ms. Hussey; is that correct?

10 A. That's correct.

11 Q. And but your testimony does not -- you do
12 not testify to or discuss the price stability rider
13 that the company is proposing; is that correct?

14 A. The price stability, no.

15 Q. Okay. And going now to your
16 interruptible modification, would your expanded
17 program only be available to customers that are
18 currently participating in the interruptible program,
19 or would it be open to all customers?

20 A. There -- it would be open to all
21 customers subject to the threshold size limitation
22 that I've proposed. Currently there's, I think, four
23 customers, two to four customers, I am not a hundred
24 percent certain, that comprise about 502 megawatts
25 that are on the program now. But the proposal I am

1 making is it would be open to -- subject to, I think
2 there was a cap originally of 200-some-odd megawatts,
3 maybe 250, and I'm not proposing to change that.

4 Q. Your testimony, I think -- I just want to
5 clarify, your testimony, I thought, said four
6 customers, and, now, you are telling me that it's
7 somewhere between two and four; you are not exactly
8 sure?

9 A. My understanding is it was four. There
10 was some -- I think in my deposition there was a
11 question about whether it was only two, but what
12 appears to be certain is -- to the best of my
13 understanding, it's four customers and a total of
14 52 megawatts.

15 Q. Okay. And 52 megawatts that you have
16 recently researched and --

17 A. Actually, that may be confidential. I
18 don't know.

19 MS. SPILLER: I think it was disclosed in
20 open discovery, sir.

21 THE WITNESS: All right.

22 Q. Okay. And I guess while we're talking
23 about it, let's go through, you are referring to -- I
24 think you were searching for a document up there, and
25 I want to make sure we're on the same page. The

1 existing interruptible program was established in the
2 stipulation for the last ESP case which was in
3 11-3549-EL-SSO; is that correct?

4 A. And that was what I was looking for.

5 Q. Okay. I do have a copy here, sir, for
6 you. Would you like a copy?

7 A. I'm certain I have it but.

8 Q. For the record --

9 A. Yeah, that would be fine, unless I can
10 find it.

11 MS. BOJKO: For the record this was
12 previously marked as OMA Exhibit 2.

13 May I approach, your Honor?

14 EXAMINER WALSTRA: You may.

15 MS. SPILLER: Ms. Bojko, are you on the
16 stipulation or order?

17 MS. BOJKO: Oh, I'm sorry. I am actually
18 on the order. I apologize. It's OMA Exhibit 2 is
19 the order. Sorry.

20 Q. (By Ms. Bojko) If you turn to page 35 of
21 the opinion and order in the last ESP stipulation, I
22 think you might find the criteria you are searching
23 for, sir.

24 A. Yes. That is what I was looking for.

25 Q. Okay. So let's talk a little bit -- as I

1 understood your previous testimony to prior counsel,
2 you said you are not proposing to change the current,
3 and I want to make sure that all the elements under
4 your proposal are going to remain the same.

5 You believe that this -- the new
6 interruptible program, I'll call it the "expanded,"
7 is that fine, your expanded interruptible program,
8 would apply to shopping or nonshopping customers; is
9 that correct?

10 A. Yes.

11 Q. Okay. And it would remain at the 10
12 megawatt at a single site, which I think you alluded
13 to earlier; is that right?

14 A. Correct.

15 Q. And it would be -- customers would have
16 an annual option to participate or not participate;
17 is that correct?

18 A. Yes.

19 Q. Okay. And then that nomination -- oh,
20 that's the original. It couldn't take effect before
21 June 1 but that element is really no longer
22 applicable.

23 A customer must be registered with PJM
24 and abide by all PJM requirements for the demand
25 response program; is that still in your program?

1 A. Yes. Unless and until PJM change --
2 there's some flux going on in that regard that
3 could -- but, yes, as of now, that would be under the
4 PJM rules.

5 Q. Well, presumably, even if PJM changed its
6 rules, it would still have to abide by the rules,
7 right?

8 A. Yes.

9 Q. And it must not have previously sold or
10 committed its -- committed to PJM or another party,
11 the demand response resource that it's going to
12 interrupt for this interruptible program; is that
13 right?

14 A. Yes.

15 Q. Okay. And Duke will be the curtailment
16 service provider; is that accurate?

17 A. Yes.

18 Q. And then, also under the expanded plan,
19 Duke would be required -- since they are no longer an
20 FRR entity, they would be required to bid the
21 capacity resource into the PJM market and then credit
22 the rider mechanism with any revenues that they may
23 receive for compensation of participation in that PJM
24 market.

25 A. That is correct.

1 Q. And then your new proposal, your expanded
2 proposal, would also credit -- it would be the same
3 credit, one-half of CONE; is that correct?

4 A. One-half of net CONE, yes.

5 Q. Net CONE, thank you.

6 And, okay, so let's talk a little bit
7 about the 250 megawatts you just discussed. Is your
8 proposal to maintain the 250-megawatt limitation, or
9 is it to expand the interruptible program to more
10 than 250 megawatts?

11 A. At this point, my proposal, as I
12 indicated, was to continue the program with the
13 modifications I specified which would -- and so I'm
14 not proposing to change the 250 maximum.

15 Q. Okay. But you wouldn't oppose an
16 expansion of the program beyond the 250 megawatts,
17 would you?

18 A. I wouldn't -- I wouldn't oppose it.

19 Q. Okay. And your expanded program would
20 also have the interruptible credit recovered through
21 Duke's rider DR-ECF which is an
22 economic-development-type rider; is that correct?

23 A. That's -- yes, the answer is yes, it
24 would continue the DR-ECF and that's where the credit
25 and the costs and any revenue credits would be

1 included.

2 Q. And it's your understanding, sir, that
3 beyond the four customers that are participating in
4 the interruptible program currently offered by Duke,
5 that there are likely other commercial customers
6 participating in demand response programs; is that
7 accurate?

8 A. Yes. I would assume so. Certainly --
9 well, Duke has a PowerShare program which is a
10 demand-response-type program. And other customers
11 certainly could be participating through a CSP
12 independently of this program through the PJM
13 program.

14 Q. Okay. And "CSP," you are talking about a
15 curtailment service provider, a third-party provider;
16 is that right?

17 A. Yes.

18 Q. And so, it's also possible, you've named
19 two, through a PowerShare program offered by Duke,
20 through a curtailment service provider, but it's also
21 possible customers could be participating in the
22 market themselves; is that right?

23 A. Yes. I believe there is a -- basically,
24 a customer can become its own CSP, effectively, and
25 participate in that manner through PJM.

1 Q. And it's your understanding that some
2 marketer suppliers also provide that service to their
3 customers; is that accurate?

4 A. Yes. I think that's -- I assume that's
5 the case.

6 Q. And also, the 10 megawatts per one site,
7 sir, you're familiar -- are you familiar that this is
8 the same threshold that was in the other OEG's
9 witness's testimony for a recommendation regarding
10 opting out of the PSR program; are you aware of that?

11 A. I -- I believe -- I actually haven't read
12 that, so I'm not familiar, but I think I may have
13 seen -- it's possible. I have a general recollection
14 of that, but I honestly -- that's not an issue that
15 I've addressed, so I'm trying to remember whether
16 I've seen that number or not.

17 Q. Going back to rider DR-ECF. It's your
18 understanding that this rider's paid by all
19 customers; is that correct?

20 A. Yes.

21 Q. And it's a nonbypassable rider?

22 A. That's my understanding, yes.

23 Q. And one of the rationals you provide for
24 continuing the program is that the current PJM
25 pricing alone may not provide sufficient pricing

1 incentive for customers to participate; is that
2 accurate?

3 A. That's one of them. I think a key factor
4 that's evolving, as we speak, are the changes that
5 are occurring in the -- in the entire capacity market
6 with respect to demand response because of the -- the
7 D.C. Circuits, vacation of Opinion 745, PJM has
8 issued a White Paper talking about an alternative
9 arrangement for demand response that would shift it
10 back effectively to the states and to LSEs. There's
11 a lot of uncertainty today as I -- as I understand
12 and perceive it that would contribute to the support
13 for the Ohio Commission establishing a program which
14 is what I'm recommending.

15 Q. Okay. I promise we'll get to that D.C.
16 Circuit decision, but on page 8 of your testimony,
17 it's on this page that you talk about the pricing
18 differential and that's what I want to focus on.
19 Your -- the rationale -- one of your reasons for
20 continuing this program is because you state that PJM
21 pricing may not provide sufficient incentive and --
22 is that right?

23 A. That is absolutely correct.

24 Q. Okay. And you are referring -- when you
25 make those assertions, you are referring to the kW

1 credit provided under PJM's programs compared to the
2 credit provided under Duke's current IRP program; is
3 that correct?

4 A. Yes. Basically the Duke -- the Duke
5 program and that which I'm recommending continue is a
6 credit based on 50 percent of net CONE. Over the
7 years, the RPM reliability -- PJM reliability pricing
8 model has not produced capacity rates at that rate,
9 though there appears to be a strong push towards
10 moving -- modifying the capacity market to move it up
11 to that rate, but it's not -- it's not there now.

12 And so, the RPM rate I think for the
13 '16-'17 year is dropping precipitously compared to
14 the current year or '14-'15, and then even the
15 '17-'18, it sort of bounces back up. So it really
16 does bounce around a lot.

17 And from my experience representing large
18 customers who participate in these types of
19 interruptible arrangements, whether it's in PJM or
20 outside of PJM, the stability of the interruptible
21 credit is an important factor. I mean, customers --
22 interruptible -- receiving interruptible credit is
23 not just something people line up for a handout.
24 They have to respond and curtail their operation and
25 that requires investments and takes risks. They have

1 to install equipment and do a lot of other changes in
2 order to participate. So stability of the rate is
3 important based on my experience.

4 Q. Okay. So you would agree with me that
5 the PJM programs provide a different incentive
6 pricing than what the Duke IRP program provides; is
7 that right?

8 A. Based on the RPM -- the base residual
9 auction results that have -- that are in effect for
10 the next three years, the 50 percent of net CONE is
11 greater, yes.

12 Q. Okay. And you have already told me that
13 the IRP, Duke's interruptible program, is paid
14 through a rider paid by all customers. How is the
15 PJM compensation -- who pays the PJM compensation to
16 customers?

17 A. That's -- that's paid for, as I
18 understand it, through a -- effectively through the
19 locational reliability charges that LSEs pay to PJM.

20 Q. So PJM actually pays the customers; is
21 that right?

22 A. PJM pays the credit to the DR customer.
23 The load at each of the LSEs, in the case of Duke, by
24 virtue of being supplied by competitive --
25 competitive suppliers and bidding into SSO load, have

1 to pay to support that like they pay to support a
2 generating unit.

3 Q. Right.

4 A. It's basically equivalency -- PJM today
5 treats demand response in the same manner as any
6 other supply resource like a generating unit.

7 Q. So, today, PJM compensates either the
8 customer or the curtailment service provider for
9 giving them that load, and Duke pays the
10 interruptible credit to the customer; is that --

11 A. Well, as I think I explained in my
12 previous answer, PJM doesn't generate the money; it's
13 basically a passthrough entity. It charges load
14 customers for whatever it pays for when it -- when it
15 procures generation to supply each of the zones in
16 PJM like the Duke Ohio zone, it -- it pays generating
17 units for that, and then it charges those customers
18 in the zone capacity charges to recover that. So, in
19 that sense, ultimately, customers' load pays the cost
20 whether it's through PJM or through Duke, customers
21 ultimately pay, load pays.

22 Q. Okay. And they pay but it's a lot lower
23 rate is, I think, what you are telling me.

24 A. It's a different rate. Certainly I agree
25 that 50 percent of net CONE is higher than the

1 current RPM rate, though, as with these changes that
2 are occurring in PJM, some of -- my understanding is
3 part of PJM's White Paper my -- would -- can affect
4 interim auction results that will affect delivery
5 year ultimate -- the final zonal capacity price paid
6 by load in Duke and other companies probably starting
7 in delivery year '15-'16.

8 Q. Okay. Let's get to the D.C. Circuit
9 decision that you are referencing. It's your
10 understanding that the D.C. Circuit decision was
11 specifically deciding the issue of whether incentive
12 pricing for demand response was proper at the same
13 level of other generating sources in the energy
14 market; is that correct?

15 A. It's -- I read the order, and it's my
16 understanding that the D.C. Circuit vacated the rule
17 based on its belief that FERC had overstepped its
18 bounds in establishing these pricing protocols,
19 allowing customers to participate in -- on
20 economic -- from demand -- the demand response
21 economic program in the wholesale energy markets.

22 Q. In the energy market.

23 A. In the energy market. The rationale from
24 what material that I've read, including PJM itself in
25 the White Paper that I referred to which is -- was

1 issued just a couple of weeks ago, PJM said that
2 though the D.C. Circuit decision only affected
3 specifically Opinion 745 related to the energy
4 markets, there is certainly reason to believe and a
5 strong concern that a rationale will apply to the
6 capacity markets.

7 And, in fact, FirstEnergy has an
8 expedited or emergency complaint before FERC now,
9 basically attempting to implement the same, remove
10 demand response from the RPM model.

11 Q. Actually, sir, those are -- those two
12 events that you just talked about, you have them in
13 reverse order. First what happened was FirstEnergy
14 filed a complaint, and then PJM came out and said
15 because of the risk of litigation, we're going to
16 give alternatives in case it is interpreted that this
17 may apply to the capacity market. It wasn't saying
18 it's conceding that it's going to apply. It's saying
19 given concerns that are raised, they are going to
20 have an alternative option in place; isn't that
21 right?

22 A. Yes, I agree. The FirstEnergy complaint
23 was filed in May. The D.C. Circuit decision came
24 after that. Well, I think about the same time. And
25 the PJM paper that I spoke of came in October, a

1 couple of weeks ago. The concern expressed by PJM is
2 that the FERC has to make a decision as to whether --
3 what it's going to do in regard to appealing the
4 D.C. Circuit decision or whether to actually modify
5 the protocols affecting demand response.

6 MS. BOJKO: I mean, I have -- I would
7 actually, at this time, think it would be appropriate
8 since we were referring to it, ask that the Bench
9 take administrative notice of the United States Court
10 of Appeals for the District of Columbia Circuit,
11 Case No. 11-1486, and it was decided, to help, in
12 May -- May 23, 2014. Would the Bench like copies?

13 EXAMINER WALSTRA: Please.

14 MR. KURTZ: Your Honor, we agree.

15 EXAMINER WALSTRA: Noted.

16 MS. BOJKO: I mean, just to make the
17 record clear since he is referring to it.

18 THE WITNESS: I know there is not a
19 question before me, but I agree with you.

20 EXAMINER WALSTRA: The Bench will take
21 notice.

22 Q. (By Ms. Bojko) And so, as I understand
23 it, sir, just so we have the events in chronological
24 order, this order came out and then FirstEnergy
25 filled out a complaint saying, because of the order,

1 they think it needs to be considered -- or, they are
2 asking for the order to be expanded, in fact, to
3 include the capacity markets?

4 A. Yes. And I think, I read the FirstEnergy
5 complaint, and I think, essentially, for the legal
6 reasons cited by the D.C. Circuit, there was --
7 there's certainly reason to raise an issue as to
8 whether the capacity market would also be affected by
9 that same rationale.

10 Q. And your -- is it your understanding,
11 sir, or are you aware that the D.C. Circuit Court
12 decision just got stayed?

13 A. Yes. So that the FERC can have time to
14 make a decision with regard to whether or not to
15 appeal.

16 Q. Right. So, as of now, due to the stay,
17 the rule actually has not been vacated, so there's
18 not the immediacy that you were referring to a little
19 bit ago.

20 A. Yes. But I think -- the answer is yes.

21 Q. Okay.

22 A. But it's not, I should add just for --
23 and I think I stated it in my testimony that this is
24 not an issue that has just come up with respect to
25 the D.C. Circuit decision. It has also been raised

1 by the independent market monitor for PJM, and so
2 it's not something that's just all of a sudden
3 arisen. The issue is regarding the market design
4 with respect to demand response.

5 Q. Right. But the issue is in no way
6 resolved at this point anyway.

7 A. That is correct.

8 Q. Okay.

9 A. That is correct.

10 Q. So we have to operate under the existing
11 rules and laws that are in place, and if it does get
12 appealed to the Supreme Court, then the -- then the
13 order would remain in place until it's resolved --

14 A. Well --

15 Q. -- due to the stay?

16 A. I agree with you from what you said
17 factually, but I think in terms of a policy issue --
18 decision before the Commission that's an -- it's an
19 important factor that, in my view, supports the idea,
20 the proposal that OEG is making to continue -- to
21 continue with a state program.

22 Q. Okay. And let's turn now to page 11 of
23 your testimony, and on 11 of your testimony, line 16,
24 you talk about continuation of reliability benefits
25 of interruptible load for Ohio, and I think, as we've

1 discussed this afternoon, those benefits really are
2 for the region, for the PJM zone.

3 A. No. When I said "region," I meant Ohio.
4 When I said "region" -- I said there are reliability
5 benefits that are provided to all of PJM, but when I
6 use the word "region," I meant Ohio and the Duke area
7 of Ohio.

8 Q. Okay. And the benefit, sir, of the
9 existence of demand response would exist regardless
10 of at or how the customers are compensated for that
11 DR; is that correct?

12 A. Well, I don't know -- if you assume that
13 a customer is going to behave exactly the same, no
14 matter what the level of compensation, then the
15 answer to your question is yes. But you've answered
16 it in the question, essentially.

17 If the question is does the -- does the
18 level of the credit and the form -- formation of the
19 program for, for example, going from a limited term
20 to an annual program, subject to unlimited emergency
21 interruptions any time during the year including the
22 winter, does that have an effect on reliability? The
23 answer is, of course, it does. It improves it.

24 Q. And, actually, on the bottom of page 11,
25 you agree that demand -- demand response resources

1 helped to reduce market prices for all consumers; is
2 that correct?

3 A. Yes. That's --

4 Q. And that would be all types of demand
5 response programs, right?

6 A. Yes. I think everything else being
7 equal, the evidence that I have reviewed is -- is
8 that the existence of demand response in the RPM
9 model, as it exists today, lowers what otherwise
10 would be the clearing price. That's -- the
11 independent market monitor has done a number of
12 analyses on that very subject.

13 Q. And if we can turn to page 12 of your
14 testimony. You've also stated that the interruptible
15 programs is a form of economic development; is that
16 correct?

17 A. Yes. That's correct to the extent that
18 customers participate, and the customers, the 52
19 megawatts that are currently in the program receiving
20 credits, to the extent that that facilitates more
21 economic operation of their facilities, it creates
22 economic value in Ohio, jobs and so forth.

23 Q. And you are aware that there are other
24 economic development mechanisms in the state of Ohio,
25 I believe we've discussed them before, such as

1 reasonable arrangements?

2 A. Yes. I'm familiar with reasonable
3 arrangements.

4 Q. And is it your understanding that a
5 customer could take service pursuant to the
6 interruptible program and then could also participate
7 in a reasonable arrangement or other economic
8 development program?

9 A. I believe that's true. I think
10 they're -- essentially they're independent of each
11 other because the interruptible program is -- is
12 related to the ability of a customer to curtail
13 subject to the requirements of the program. If it's
14 annual emergency, it's any time there is a emergency
15 on an unlimited basis. It's independent of the
16 reasonable arrangements.

17 Q. And your proposal, your expanded
18 interruptible program would not change that, right?
19 You are not suggesting that there be a prohibition or
20 limitation on participation in
21 economic-development-type programs in addition to the
22 interruptible?

23 A. No, I'm not addressing that. I'm
24 certainly not making any recommendation to restrict
25 it in that fashion.

1 Q. And on the bottom of page 12 of your
2 testimony, you -- here you cite to the AEP case. You
3 were a witness in the AEP case, testifying on the
4 same subject matter; is that correct?

5 A. Yes.

6 Q. And AEP also proposed to eliminate their
7 interruptible program, and you participated in that
8 to propose a continuation and modification -- or, you
9 actually proposed options, in the AEP case, of two
10 different types of interruptible programs; is that
11 right?

12 A. Yes, that's correct.

13 Q. And the the AEP program, as it exists
14 today, is at a level of \$8.21 kW; is that correct?

15 A. Yes.

16 Q. And what is the current net half,
17 50 percent of net CONE, that would be applicable in
18 the Duke's current case?

19 A. My calculation is that it's about \$4.88
20 per kW a month.

21 Q. Okay. And it's your proposal, I believe,
22 that you are expanding the program to be the annual
23 program that we've discussed, but you -- you are
24 proposing to keep the 50 percent of net CONE as the
25 credit; is that right?

1 A. That is correct.

2 Q. And I think you've stated this, or it
3 could be implied, but the current interruptible
4 program, because it was only related to summer
5 months, it would not have helped or didn't provide
6 any assistance during the January, 2014, polar vortex
7 event?

8 A. You're saying the current limited
9 program?

10 Q. Yes.

11 A. That may or may not be true because under
12 the limited program customers are not obligated to
13 curtail in the nonsummer months, but they can curtail
14 and receive if they are participating in the full
15 emergency program, which they get economic benefits
16 from curtailment in terms of avoided LMP.

17 So customers have the option to curtail
18 in the nonsummer months even if they are in the
19 limited program, but they are not required to;
20 whereas, under an annual program they would be
21 required to curtail.

22 Q. I'm sorry. You believe that under the
23 stipulation and the opinion and order that approved
24 that in the Duke ESP, that there was a voluntary
25 aspect to their interruptible program?

1 A. That's not -- no, that's under -- I was
2 referring to the PJM rules that govern the limited
3 program.

4 Q. Okay. I'm sorry. That was probably a
5 poor question on my part. I meant to ask you, under
6 the Duke current interruptible program, there's no
7 provision for voluntary interruptions, so the Duke
8 program would not have assisted PJM during the polar
9 vortex; isn't that correct?

10 A. That's correct in terms of reliability.
11 That's absolutely correct. I was referring to the
12 PJ -- the more expanded PJM program.

13 Q. Right. And that was actually a
14 distinguishing factor between the Duke program and
15 the existing program, and the AEP existing program;
16 isn't that right?

17 A. That's my understanding.

18 Q. Okay. Let's turn to page 15 of your
19 testimony. You discuss a little bit here about
20 customers in different areas of the state of Ohio
21 receiving a disadvantage if interruptible programs
22 are not uniformly offered throughout the state; is
23 that right?

24 A. Yes.

25 Q. Okay. You would agree with me, sir, that

1 large manufacturers or other industrial and
2 commercial customers receiving an IR -- receiving an
3 interruptible credit could similarly be disadvantaged
4 or some customers could receive an economic advantage
5 over others that are not receiving such credit; is
6 that correct?

7 A. Well, to the extent that if you hold --
8 if you eliminate the cost of being interruptible that
9 I -- was discussed earlier, if you just think of it
10 as a credit, perhaps what you said is correct. In
11 terms of weighing that with the cost of being
12 interruptible, I guess you would have to do it on an
13 individual customer basis to know that.

14 Q. Well, I mean, a customer receives the
15 credit regardless of whether they are actually
16 interrupted; isn't that correct?

17 A. Yes, but when you sign up to be
18 interruptible, subject to emergency interruptions,
19 you have to be -- you have to make those investments
20 and be prepared to be interrupted whether or not you
21 are interrupted, and that's a cost.

22 Q. Absolutely. But given that there are
23 only four large interruptible customers, it's fair to
24 say that many other large customers will have similar
25 equipment on their system already, and they would be

1 similarly situated with regard to the preparedness of
2 being able to interrupt or not interrupt?

3 A. I haven't done any analysis of how many.
4 I think I would have to read into your question that
5 there are other customers on the Duke system who are
6 participating in the PJM demand response program but
7 are not in the Duke-specific IRP program.

8 I can't imagine -- if that's not the
9 case, I can't imagine a customer making investments
10 to be interruptible and not participating in some
11 interruptible program.

12 Q. Right. I'm talking other than Duke's
13 interruptible program. So they don't receive the
14 Duke credit that the net CONE -- half of net CONE,
15 but they do participate in other programs. So
16 there's a varying level of credit that may put one
17 commercial and industrial customer at an advantage
18 over another.

19 A. Well, I assume that's the choice of the
20 customer. I mean, to the extent that the Duke
21 program had a cap of 250 megawatts and, today, there
22 are 52 megawatts participating, I assume there's --
23 there's availability and it was a choice of a
24 customer. So whether that can be construed as a
25 disadvantage, if a customer chooses Program A instead

1 of Program B, I don't think I agree with that.

2 Q. Well, if the customer receives an
3 economic-development-type program over another
4 customer, that would be a price reduction and,
5 similarly, they would have a price advantage over
6 another customer, right?

7 A. Well, I guess from -- if the question is
8 simply Customer A receive -- has some kind of benefit
9 from an economic development program and Customer B
10 does not, and therefore, A has a lower rate,
11 that's -- that's an arithmetic calculation. But I
12 can't -- I don't draw any -- I don't think I can draw
13 any conclusions as to whether Customer B is
14 disadvantaged by that. Perhaps Customer B is
15 advantaged by help -- by being a supplier to
16 Customer A and keeping Customer A in business.

17 Q. Well, but then, all of the rationales
18 that you've just stated also true -- are also true
19 with regard to the northern region of Ohio versus any
20 other part of Ohio; isn't that correct? There could
21 be many other factors involved that wouldn't
22 necessarily make them advantaged depending on the
23 location in the state of Ohio.

24 A. I would agree there are many factors
25 affecting a customer's economic behavior. I

1 certainly can agree with that.

2 Q. Well, let's turn to page 16. Let's talk
3 about the PowerShare program now. I'm a little
4 uncertain in your testimony whether you're proposing
5 to continue the PowerShare program or eliminate the
6 PowerShare program.

7 A. Oh, I'm proposing to continue it. I'm
8 not making a recommendation, per se, but I'm
9 certainly not opposed -- not proposing to do anything
10 to change the PowerShare program.

11 Q. Okay. So under your proposal, there
12 would be two interruptible-type, demand-response-type
13 programs. One would be the continuation and expanded
14 interruptible program, and then the second would be
15 the PowerShare program.

16 A. Yes. The PowerShare program today is
17 tied to the limited-term demand response, limited
18 interruptions during June through September. The IRP
19 program that I'm recommending would have annual
20 emergency -- be subject to unlimited annual emergency
21 interruptions. Those are -- those are key
22 differences.

23 Q. And it's your understanding that the
24 PowerShare program was created through Duke's energy
25 peak demand response portfolio program?

1 A. Yes, that's my understanding.

2 Q. Do you know what the credit is that
3 customers receive from that PowerShare program?

4 A. I don't know exactly. I've seen
5 brochures talking about credits of -- I think I saw
6 one reference for \$3 per kilowatt month if you sign
7 up by a certain date, but I don't know for sure what
8 the specific credit would be for a particular
9 customer under certain -- particular set of
10 circumstances. Certainly, if they signed up today, I
11 couldn't tell you.

12 Q. But you believe it is probably less, at
13 least, than the current 50 percent of net CONE?

14 A. Yes. I would expect that is the case.

15 Q. I think we've talked about most of these.
16 You did say that your continued program would be to
17 bid it into the PJM and then flow through, through
18 the rider, the same as it's done today, any revenues
19 from PJM, that's your proposal?

20 A. Yes.

21 Q. Okay. Let's change to LFA rider for a
22 minute. Your proposal -- I believe you're agreeing
23 with the company in part, and you're not agreeing
24 with the company in part because you're proposing
25 that it be eliminated for DS customers, but you're

1 not proposing that it be eliminated for DP and TS.

2 Is that how I understand it?

3 A. Yes, and in addition to phasing down the
4 effect of the LFA rider even within the DP and TS
5 group.

6 Q. Okay. So where you agree with Duke is
7 the elimination for at least one class, DS customers?

8 A. The 19,000 secondary customers on rate
9 DS.

10 Q. And you understand that the purpose of
11 eliminating, or the proposal, at least, the rationale
12 stated by Duke, was that it would eliminate the
13 subsidy that would flow between the different rate
14 classes; is that one of the reasons they've given for
15 eliminating it?

16 A. I think I've read that, yes.

17 Q. And it's your understanding if a customer
18 previously received a 10 percent increase with the
19 establishment of the LFA, that they would receive a
20 corresponding 10 percent decrease with the
21 elimination of the LFA rider?

22 A. Well, I don't think you can -- I mean, in
23 general, let's take a DS customer. If a DS customer
24 was paying -- if a lower load factor DS customer was
25 paying an LFA charge and it's eliminated, that would

1 have the effect of decreasing the rates.

2 I don't think you can -- things are --
3 based on my review of the typical bill analyses
4 presented in this case, it's not uniform that there's
5 no rate change actually being effectuated in this
6 proceeding, so. But with respect to the LFA itself
7 on DS customers, that rider, whether it provided a
8 net credit or a net charge, would be eliminated. It
9 would have corresponding effects on rates.

10 Q. So, sir, as I understand what you just
11 said, you are not sure if the math is as simple as I
12 put it, that if you got a 10 percent increase, you
13 get a 10 percent decrease, but that's the concept
14 that Duke is proposing to put forward.

15 A. Well, yes. I -- like I said, the -- for
16 customers who previously would be -- would have been
17 subject -- on DS who would have been subject to the
18 LFA rider, and that rider resulted in a net charge,
19 meaning the increase in the demand charge was greater
20 than the decrease in the emergency charge from the
21 rider, then those customers would experience a
22 decrease in their bill. And, likewise, DS customers,
23 as I think I responded to the staff, DS customers who
24 are higher-load factor, who are getting a net
25 benefit, would receive an increase.

1 Q. So, I don't know if I heard your response
2 to Ms. Hussey exactly completely. What do you
3 believe the impact is going to be on the elimination
4 for the DS class?

5 A. Well, for the DS class, for lower -- for
6 lower load factor customers, I think there would be a
7 decrease in the current bill because the LFA --
8 assuming the LFA on net for those low load factor
9 customers on DS would -- would have been -- is a net
10 charge and it's eliminated.

11 For those DS customers that -- for which
12 the LFA rider provided a net credit at eliminating
13 it, those customers will receive an increase and
14 similar to, under the company's proposal, what would
15 happen to customers on DP and TS.

16 And I think the staff exhibit that I --
17 testimony, Mr. Donlon has a chart, I cited some
18 numbers, and for, you know, for higher load factor
19 customers we're talking about substantial increases
20 for TS, high load factor customers, regardless of
21 size. They could be small customers. We're talking
22 14 percent increases, the same with DP.

23 Q. And so, as I understand, you're saying
24 for DS customers, let's just focus on the DS class
25 for a minute because I understand your gradualism

1 arguments for the DP and TS. But for the DS
2 customers you're saying that basically there will be
3 winners and loses because some of them are high load
4 factor customers and some of them are low load factor
5 customers.

6 A. Yes. I think that's what -- that's what
7 the staff's exhibit -- or, paper shows.

8 Q. And is that what you were -- in reference
9 to, you said the breakeven load factor is 67 percent,
10 is that what you were talking about with regard to
11 the DS class?

12 A. No.

13 Q. No.

14 A. Under -- the 67 percent is under the
15 proposal that I am making for the new LFA that would
16 be limited only to DP and TS.

17 Q. Okay. Thank you for that clarification.

18 And do you have an idea -- for the DS
19 class, specifically, do you have an idea of how many
20 customers would receive a benefit for that versus how
21 many customers would receive a not benefit of that
22 elimination?

23 A. I haven't done an analysis, but, again,
24 based on the table in Mr. Donlon's testimony, it
25 appears that if you assume, as he has, that customers

1 above 50 percent load factor receive a benefit, and
2 customers below do not, I think he's calculated that
3 20 percent of the customers above that load factor
4 would receive increases of, I think if I understand
5 this right, 12 percent. Those below that 50 percent
6 load factor would receive, all else being equal,
7 decreases from the current LFA, as I understand it.

8 Q. Okay. So then, as you read this, under
9 your proposal, it appears that 15,000 customers would
10 receive a benefit from the elimination.

11 A. Yeah.

12 Q. And 3,000 customers --

13 A. Yeah. And I want to correct myself. I
14 am looking at Mr. Donlon's table. That last column
15 is customers with 83 percent load factor, so the
16 12 percent is just for that specific. It's not an
17 average.

18 Q. Okay. So, now, let's just -- if we're
19 assuming that 50 percent receive a benefit under your
20 proposal, the 3,711 number here would actually see a
21 decrease in their bill, while 15,000 customers would
22 see an increase in the bill from elimination of DS.

23 A. By elim -- by eliminating DS from the
24 calculation.

25 Q. Did I say that wrong?

1 A. Yes. I think, based on Mr. Donlon's
2 analysis, about 15,000 customers on DS are below
3 50 percent, which is -- appears to be the breakeven
4 load factor.

5 Q. Okay. I said that in reverse. 15,000
6 would see a benefit from the elimination and 3,000
7 would see --

8 A. On DS. According -- that's how I am -- I
9 believe that's what his table shows.

10 Q. Okay.

11 A. I hope I haven't misstated his testimony.

12 MS. BOJKO: We'll confirm that with
13 Mr. Donlon. I wanted to make sure that was clear. I
14 said it opposite of what it should have been.

15 I believe that's all I have. Thank you,
16 sir. Thank you for your time this afternoon.

17 THE WITNESS: Thank you.

18 EXAMINER WALSTRA: Thank you.

19 Mr. Serio?

20 MR. SERIO: Thank you, your Honor.

21 - - -

22 CROSS-EXAMINATION

23 By Mr. Serio:

24 Q. Good afternoon, Mr. Baron.

25 A. Good afternoon.

1 Q. Page 4 of your testimony, top of the page
2 on around line 4, you talk about the value of its
3 large customer interruptible program. Who's that
4 value for? PJM? Duke? Industrial customers
5 themselves?

6 A. The value is for -- I think as I've
7 testified earlier this afternoon, the value is for
8 the Duke zone in terms of reliability, and it also
9 provides -- it does provide reliability benefits to
10 the RTO itself which is PJM, but in the first
11 instance an Ohio-specific program from -- for the
12 Duke zone would benefit re -- would increase, all
13 else being equal, reliability in the Duke zone to the
14 extent this is additional interruptible load.

15 Q. Now, the bottom of your page, line 22,
16 you talk about the benefit or price reduction is
17 measured in terms of PJM costs. Does that mean that
18 PJM is getting the benefit, line 22 on page 4?

19 A. What I am referring to -- I am referring
20 to the credit that customers -- participating
21 interruptible customers receive. When I use the word
22 "benefit," I'm referring to the credit.

23 Q. Okay. So the benefit on page 4, at the
24 bottom of page 4, is for the customers themselves
25 that are in the program.

1 A. Excuse me. I misstated. I see -- you're
2 referring to the last line of my testimony?

3 Q. Actually it's line -- yes, line 22 and
4 23.

5 A. Yes. The sentence "this will preserve
6 the benefits" I'm referring to the reliability
7 benefits provided by an interruptible load to Duke's
8 territory and -- and in the first instance and
9 general reliability benefits thereafter. Exactly the
10 same answer I gave you to your prior answer.

11 Q. The benefits that go to PJM, how do those
12 flow to Duke in particular?

13 A. When I say benefits, I'm talking about
14 benefits to customers. Reliability benefits -- PJM
15 doesn't receive the benefits. Customers receive the
16 benefits. And local interruptible demand response
17 available load provides, in the first instance, local
18 Duke zone reliability benefits. That's what I'm
19 speaking of.

20 Now, because Duke is in the entire RTO,
21 to some extent when an interruptible -- interruptible
22 load in New Jersey interrupts it, provides benefits
23 to Duke's customers as well and likewise that would
24 be true throughout the zone, throughout the RTO.
25 That's what I was referring to.

1 But specifically into my testimony here,
2 I'm referring to the enhanced reliability benefits in
3 the Duke zone.

4 Q. Okay. On page 6 of your testimony, lines
5 9 through 12, you identify uncertainties there and
6 risk associated with Duke's approach. Are you saying
7 that Duke's approach is increasing uncertainty and
8 risk?

9 A. Yes. What line were you referring to?

10 Q. Lines 9 through 12 on page 6.

11 A. I guess the answer to that question is I
12 tend to look at it having -- continuing the large
13 interruptible rate program for Duke provides
14 benefits, reliability benefits and some of the other
15 benefits that I spoke of. The -- so I guess its
16 reasonable to conclude that absent those which is
17 what would occur under Duke's proposal to eliminate
18 it, the -- those benefits would be diminished, all
19 else being equal.

20 Q. Duke -- under your -- if you continue the
21 program, Duke would have interruptible load. Now,
22 once a bid is accepted at PJM how does the
23 interruptible load impact the short-term bid price?

24 A. Well, in the way -- in the RPM base
25 residual auction demand response provides megawatts

1 of supply in the same manner as generating units.
2 And so essentially the -- the thousands -- when you
3 think of PJMwide, thousands of megawatts of demand
4 response load increased the supply, and so all else
5 being equal, the cleared RPM rate is lower. The --
6 I've reviewed studies that the market monitor has
7 done where they've modeled what the clearing price
8 would be absent the demand response. In other words,
9 he took it out of the supply demand equilibrium
10 result, and the prices, the RPM prices, the cleared
11 prices go up tremendously, I think in some cases more
12 than double, so that's what -- I think that's what
13 I'm referring to there.

14 Q. The program itself has only been in place
15 three years of the current -- the current ESP,
16 correct?

17 A. Yes. As of June, it will be three --
18 June, '15, three years, right?

19 Q. Right. Now, on page 8 of your testimony,
20 on line 20, when you talk about sufficient incentive
21 for customers, you're indicating that essentially
22 it's not enough money for industrial customers to
23 make it worth their while to participate.

24 A. I'm -- I'm saying that the -- obviously
25 to the extent that the 50 percent of net CONE

1 provides a higher credit. There is an issue as to
2 whether absent that there would be sufficient
3 participat -- as much participation so at the lower
4 available alternative rate, either -- the
5 participating directly in the PJM demand response
6 program directly and receiving compensation.

7 There is a broader issue also with
8 respect to all of the changes, some of which I think
9 I talked about earlier today and there's a tremendous
10 amount of uncertainty as to the continuation of the
11 program, certainly in its current form, whether it,
12 in fact, needs to move back to the state as opposed
13 to the wholesale -- the Federal Energy Regulatory
14 Commission for setting the prices.

15 Q. Obviously a large customer that's going
16 to participate wants the largest possible financial
17 incentive to participate, correct? Now --

18 A. Relative to -- I -- yeah, I mean,
19 obviously -- I'm not sure -- relative to what? But I
20 think I understand what you're saying.

21 Q. If they are going to participate, they
22 want the greatest potential dollar incentive they can
23 get, correct?

24 A. I think that's fair.

25 Q. Has anybody done any kind of analysis to

1 determine where the point might be where large
2 industrial customers are going to say it's no longer
3 worth my effort or is that just a number that --
4 between what Duke's program does and your suggestion
5 of 50 percent CONE? It's a lot of guesswork.

6 A. I'm not familiar with any such analysis.
7 The only thing I can tell you is that Duke, under the
8 settlement that we read a few minutes ago, there is a
9 cap of 250 megawatts on this program, 52 megawatts
10 are actually participating.

11 There are changes afoot in PJM, one of
12 which is in the '15-'16 delivery year, customers are
13 going to be subject to, under the PJM rules,
14 30-minute notice interruption. That's going to be --
15 that's going to have some effect on the ability and
16 interest of customers to participate. In other
17 words, they have to be able to interrupt their load
18 at their production process, their steel mill or
19 their chemical process or what have you within 30
20 minutes.

21 MR. SERIO: Okay. Thank you.

22 That's all I have, your Honor.

23 EXAMINER WALSTRA: Thank you.

24 MS. SPILLER: I guess I'm up, your Honor.

25 Thank you.

CROSS-EXAMINATION

By Ms. Spiller:

Q. Mr. Baron, how are you, sir?

A. I'm doing all right.

Q. Good. Just a few questions for you, if I may. You do recall a discussion with Ms. Hussey, sort of a compare and contrast of the company's proposal, your proposal, and staff's proposal?

A. Yes.

Q. And I believe, sir, in response to one of her questions you made reference to a revenue neutral calculation. With respect to rider LFA is that revenue neutrality in respect of Duke Energy Ohio?

A. Yes. It's in respect of Duke Energy Ohio, and it's in respect of all of the other rate schedules that are not subject to the rider. So it's revenue neutral with -- today revenue neutral within DS, DP, and TS.

Under my proposal it would be revenue neutral within DP rate -- DP and TS but not -- but only within those groups. In other words, there's not a contribution by Duke or any other rate class.

Q. So under your recommendation, sir, you would expect the revenue neutrality to continue, correct?

1 A. Yes.

2 Q. And you were asked some questions by
3 Ms. Bojko concerning the SSO supply procurement
4 process. Is it your understanding, Mr. Baron, that
5 SSO auction bidders will factor in wholesale energy
6 and capacity prices into their bids?

7 A. Yes. I would assume that would be the
8 case.

9 Q. And would you expect that to be the same
10 for competitive retail electric service providers?

11 A. Yes, I would agree that they would factor
12 that in.

13 Q. So as changes in the wholesale market
14 prices occur or are anticipated in respect of energy
15 and capacity, would those changes influence the
16 prices that Duke Energy Ohio retail customers pay for
17 retail generation supply?

18 A. Yes.

19 Q. Ms. Bojko also asked you, and she
20 referred to your expanded interruptible program and
21 there was reference, sir, to the company's rider
22 DR-ECF, and to your knowledge, is that currently a
23 nonbypassable rider?

24 A. Yes. That's my understanding.

25 Q. And under your proposal, we can call it

1 the expanded interruptible program, would you expect
2 cost recovery to continue as it is now?

3 A. Yes, that would be the case.

4 Q. Sir, do you still have before you -- I
5 believe the last reference to your testimony that you
6 were discussing with Mr. Serio was page 6. Do you
7 have that, sir?

8 A. I can turn to that.

9 Q. Thank you.

10 A. I've got it.

11 Q. And I do have to ask the questions of you
12 concerning line 10 and the references there to the
13 uncertainties and the risks associated with Duke
14 Energy Ohio's chosen rate-setting approach. Am I to
15 interpret it that this -- that there are risks and
16 uncertainties with how Duke Energy Ohio has decided
17 to structure this ESP, or are these external risks
18 and uncertainties influencing where the company is
19 today?

20 A. Well, the answer is, first, I was
21 referring to the -- to the IRP issue here, but the
22 uncertainties are being created by external factors.

23 Q. Okay. And those external factors, sir,
24 are the ones you identified previously in this
25 particular part of your response?

1 A. Yes.

2 Q. And to your knowledge, Mr. Baron, did
3 those risks and uncertainties exist in 2011 when Duke
4 Energy Ohio agreed to use a competitive bidding
5 process plan for -- in 2011 for this its third SSO?

6 A. Well, there -- some of the risks and
7 uncertainties might have existed. If 111(d) did not,
8 the polar vortex did not, the implications on the --
9 for -- that will emanate from PJM's capacity
10 performance proposal which is tied to that were not
11 there at the time. There may be other environmental
12 rule changes. I haven't focused on those.

13 Q. And what about the issues with respect to
14 demand response as a capacity resource you discussed
15 with Ms. Bojko?

16 A. In 2011, to my knowledge, that was not an
17 issue and it's clearly an issue now as to when that
18 will -- those -- that demand response will
19 participate in the RPM model as a supply resource.

20 Q. And could the outcome of the demand
21 response issues that are currently before the D.C.
22 Circuit Court, could those affect the results of the
23 base residual auctions that have already cleared?

24 A. It's my understanding based on reading
25 the PJM White Paper from I believe it was October 6

1 that it wouldn't affect the BRA auction that's
2 occurred, but it could. As I understand it, they are
3 talking about changing the participation of demand
4 response in interim auctions which ultimately will
5 affect the final zonal capacity price to the end of
6 the year.

7 MS. SPILLER: Thank you. Nothing
8 further, your Honor.

9 EXAMINER WALSTRA: Thank you.

10 Staff?

11 MR. BEELER: Nothing, your Honor. Thank
12 you.

13 EXAMINER WALSTRA: Any redirect?

14 MR. KURTZ: Thank you, your Honor.

15 - - -

16 REDIRECT EXAMINATION

17 By Mr. Kurtz:

18 Q. Mr. Baron, real quickly, put the
19 interruptible in perspective a little bit. What did
20 you say the one-half of net CONE translates into in
21 dollars per kW a month?

22 A. My calculation it's roughly \$4.88 a
23 kilowatt-month.

24 Q. Okay. And what did you say the Duke
25 PowerShare demand response interruptible credit is?

1 A. I had seen some numbers of \$3. It wasn't
2 clear that was a -- what the final to some extent for
3 large customers, there may be some other factors that
4 would influence that, so it could be certainly
5 different, but so I haven't seen -- the number I saw
6 in one of the documents, brochures, was \$3, but it
7 seemed to be for a particular time period or.

8 Q. It wouldn't have been 3.50? Is that a
9 number you saw?

10 A. Yes.

11 Q. Let's use \$3.

12 EXAMINER WALSTRA: Could you turn your
13 microphone on?

14 A. I just -- let me see if I have it in
15 front of me.

16 MS. BOJKO: Objection, your Honor. We've
17 now introduced a new number that we haven't talked
18 about the whole time and.

19 Q. Let's use the \$3 number.

20 A. I am looking at my Exhibit SJB-8, and the
21 number on -- this is an excerpt, page 6, and the
22 number there is \$36 a kilowatt-year from this
23 brochure.

24 Q. Which is \$3 a kW month?

25 A. Right.

1 Q. Okay. Let's use -- 4.88 minus \$3 is a
2 \$1.88 -- a \$1.88 a kW a month difference under the
3 large interruptible programs versus the PowerShare
4 program, correct?

5 A. Correct.

6 Q. Times 52,000 kW participating in the
7 current Commission-approved large industrial program?

8 A. Yes.

9 Q. Times 12 is \$1.173 million more money
10 credit for the large industrial -- large
11 interruptible program versus the PowerShare program?

12 A. Yes. And, of course, it's important to
13 recognize that the program for that extra money there
14 is unlimited annual emergency interruptions.

15 Q. So for the extra \$1.2 million you get
16 52 megawatts of year-round interruptible polar vortex
17 protection versus summer only under the PowerShare.

18 A. Yes, exactly.

19 Q. Okay. You were asked a lot of questions
20 about Witness -- Staff Witness Donlon's load factor
21 adjustment proposal.

22 A. Yes.

23 Q. In your opinion is his proposal
24 reasonable?

25 A. His proposal is a reasonable -- it is a

1 reasonable proposal to mitigate the -- what I
2 consider to be unreasonable rate shock of 14 percent
3 increases for higher load factor customers so it is
4 a -- it is a plan that would mitigate that rate
5 shock, and it's a different plan. It has different
6 features, but it's designed to accomplish the same
7 thing as my proposal which is to mitigate the rate
8 impact.

9 MR. KURTZ: Thank you, your Honor.

10 EXAMINER WALSTRA: Thank you.

11 Ms. Hussey? Or Mr. Sechler?

12 MR. SECHLER: No further questions from
13 me, your Honor. Thank you.

14 EXAMINER WALSTRA: Ms. Hussey?

15 - - -

16 RECROSS-EXAMINATION

17 By Ms. Hussey:

18 Q. I just have one quick question for you,
19 Mr. Baron.

20 A. Yes.

21 Q. You discussed with Ms. Spiller that you
22 expect that Duke will remain revenue neutral under
23 your approach to rider LFA; is that correct?

24 A. Yes.

25 Q. And would you expect that Duke will

1 remain revenue neutral under Staff Witness Donlon's
2 proposal?

3 A. Yes, they would.

4 MS. HUSSEY: Okay. Thank you.

5 MS. BOJKO: Yes, your Honor. Thank you.

6 - - -

7 RECROSS-EXAMINATION

8 By Ms. Bojko:

9 Q. I understand you just did quick math on
10 the stand with your counsel but --

11 A. Did I make a mistake are you suggesting?

12 Q. I'm not suggesting anything. I guess to
13 put this -- keep this in perspective, first, do you
14 know how many customers take on PowerShare versus how
15 many customers take on the interruptible program?

16 A. I do not.

17 Q. So I mean, the calculation we did really
18 isn't an apples-to-apples calculation; isn't that
19 fair?

20 A. No, it is an apples-to-apples because
21 Duke indicated in a discovery response which I
22 believe I've referred to in my testimony that one of
23 the options for customers who participate could go to
24 PowerShare --

25 Q. I see.

1 A. -- so this is the impact.

2 Q. Sorry, sorry. Your analysis was if these
3 customers don't take on the interruptible program,
4 they would take -- there's a couple underlying
5 assumptions. I just want to make sure we're clear.
6 If they don't take on the interruptible program, they
7 would take on the PowerShare program as opposed to
8 doing some other demand response through PJM directly
9 or through another curtailment service provider, and
10 it's in that limited circumstance you're saying there
11 would be a difference -- different credit for those
12 four customers of \$1.2 million?

13 A. Right, but I think that's the proper
14 economic analysis. I mean, Duke is not offering its
15 PowerShare program as a gift. There's a valid basis
16 for it and which I'm not opposing. And so -- and
17 they've -- and they've stated that those customers,
18 those 52 megawatts, can move the PowerShare. So it's
19 not a hypothetical. It's a realistic calculation.

20 Q. Right. And I -- I didn't understand you
21 to say that those customers would go down to the
22 PowerShare program. I mean, there are other options
23 available; isn't that right?

24 A. Well, they could -- they could try to
25 sign up with a CSP and hopefully receive, you know,

1 RPM -- whatever the CSP offers.

2 Q. Okay. And you haven't done any analysis
3 of the cost/benefit of that compared to doing the
4 PowerShare program, have you? You haven't done the
5 similar analysis like you just did for your counsel
6 with regard to the IRP versus PowerShare? You
7 haven't gone out to the market to see what a
8 curtailment service provider might offer and then
9 compared that to the PowerShare program?

10 A. Well, no, I haven't, you're correct. But
11 this -- this is -- the calculation is an absolutely
12 legitimate calculation to say if customers who are
13 not on Duke's IRP program can move to the PowerShare
14 program and the rate impact is a \$1.88 per -- roughly
15 per kW, then it is 1.1 or 2 million dollars a year.
16 I mean, that's a legitimate calculation and obviously
17 anything could happen. They could decide they are
18 not going to be interruptible and then there are
19 reliability changes that affect customers and some
20 nonqual -- I haven't quantified that but clearly that
21 would be reasonable to assume. So I'm not disputing
22 your point, but I don't know that it's -- it's
23 relevant to look at this calculation that I just did.

24 Q. And, sir, I didn't understand the
25 calculation question to you to mean what we've just

1 established, that it was IRP program versus the
2 PowerShare program so thank you for that
3 clarification.

4 And it's also your understanding -- well,
5 there are four -- only four customers taking pursuant
6 to the interruptible, right?

7 A. That's my understanding, yes.

8 Q. Do you know how many customers are
9 eligible for the interruptible program on Duke's
10 service territory?

11 A. For the IRP program?

12 Q. Yes.

13 A. The 250-megawatt cap is a megawatt cap as
14 I understand it.

15 Q. Terrific. Do you know how many customers
16 are actually eligible to participate?

17 A. Oh, how many 10 megawatt or above?

18 Q. Yes.

19 A. No, I don't. I'm sorry.

20 Q. And also just so we're clear, in your
21 mathematical calculation when you did it, you said
22 it's a difference of \$1.2 million and that \$1.2
23 million is paid by customers; is that right?

24 A. Yes.

25 MS. BOJKO: Okay. Thank you. I have

1 nothing further.

2 EXAMINER WALSTRA: Thank you.

3 Mr. Serio?

4 MR. SERIO: Nothing, your Honor, thank
5 you.

6 EXAMINER WALSTRA: Mr. Olikar?

7 MR. OLICKER: No questions, your Honor.

8 MS. PETRUCCI: No questions.

9 MS. SPILLER: Nothing, your Honor.

10 EXAMINER WALSTRA: Staff?

11 MR. BEELER: No questions.

12 EXAMINER WALSTRA: Thank you for your
13 time. Good luck with that flight.

14 THE WITNESS: I appreciate getting on.
15 Thank you.

16 EXAMINER WALSTRA: In regard to your
17 Exhibit, one quick thing was your testimony was
18 already previously introduced.

19 MR. KURTZ: Oh, okay.

20 EXAMINER WALSTRA: So it will be Exhibit
21 2, but it hasn't been moved for admission.

22 MR. KURTZ: Okay. Well, I move for the
23 admission of OEG Exhibit 2, Mr. Baron's testimony and
24 exhibits.

25 EXAMINER WALSTRA: Are there any

1 objections?

2 Hearing none, it will be admitted.

3 (EXHIBIT ADMITTED INTO EVIDENCE.)

4 MR. KURTZ: Thank you, your Honor.

5 EXAMINER WALSTRA: And --

6 MS. BOJKO: Your Honor, just to clarify
7 you did say you were taking administrative notice of
8 the D.C. decision?

9 EXAMINER WALSTRA: We'll go off the
10 record.

11 (Discussion off the record.)

12 (Thereupon, at 5:03 p.m., the hearing was
13 adjourned.)

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CERTIFICATE

I do hereby certify that the foregoing is
a true and correct transcript of the proceedings
taken by me in this matter on Friday, October 31,
2014, and carefully compared with my original
stenographic notes.

Karen Sue Gibson, Registered
Merit Reporter.

(KSG-5952)

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