DUKE ENERGY OHIO EXHIBIT______

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Modify Rider PSR.	)))	Case No. 17-872-EL-RDR
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Amend Rider PSR.	)))	Case No. 17-873-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 17-874-EL-AAM

DIRECT TESTIMONY OF

WILLIAM DON WATHEN JR.

ON BEHALF OF

DUKE ENERGY OHIO, INC.

March 31, 2017

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Don Wathen Jr., and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services LLC (DEBS), as Director of Rates and Regulatory Strategy for Ohio and Kentucky. DEBS provides various administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I received Bachelor Degrees in Business and Chemical Engineering, and a Master of Business Administration Degree, all from the University of Kentucky. After completing graduate studies, I was employed by Kentucky Utilities Company as a planning analyst. In 1989, I began employment with the Indiana Utility Regulatory Commission as a senior engineer. From 1992 until mid-1998, I was employed by SVBK Consulting Group, where I held several positions as a consultant, focusing principally on utility rate matters. I was hired by Duke Energy (then Cinergy Services, Inc.), in 1998, as an Economic and Financial Specialist in the Budgets and Forecasts Department. In 1999, I was promoted to the position of Manager, Financial Forecasts. In August 2003, I was named to the position of Director - Rates. On December 1, 2009, I took the position of General Manager and Vice President of

Rates, Ohio and Kentucky. On July 3, 2012, as a result of the merger between Duke Energy and Progress Energy Corp., my title changed to Director of Rates and Regulatory Strategy for Ohio and Kentucky.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR OF RATES AND REGULATORY STRATEGY FOR OHIO AND KENTUCKY.

A. As Director of Rates and Regulatory Strategy for Ohio and Kentucky, I am responsible for all state and federal rate matters involving Duke Energy Ohio and its subsidiary, Duke Energy Kentucky, Inc.

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

A. Yes. I have previously testified in a number of cases before the Public Utilities Commission of Ohio (Commission) and other regulatory commissions.

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

A. I provide testimony supporting the implementation of the Company's Price Stabilization Rider (Rider PSR). I discuss the proposed calculation for the rider, including allocation methodology and applicability, the Company's proposed revision to the rider, and the Company's request to begin deferring the amounts that would flow through Rider PSR beginning April 1, 2017.

II. BACKGROUND AND OVERVIEW OF REQUEST

Q. PLEASE BRIEFLY DISCUSS DUKE ENERGY OHIO'S CONTRACTUAL ENTITLEMENT IN THE GENERATING ASSETS OWNED BY THE OHIO VALLEY ELECTRIC CORPORATION (OVEC).

A. Duke Energy Ohio witness Judah Rose briefly addresses the history of OVEC and I do not intend to duplicate his testimony. But to put the Company's request in perspective, it is critical to appreciate the unconventional history that is OVEC. This corporation was formed in response to the country's then-pressing need for uranium enrichment facilities. Duke Energy Ohio's predecessor responded to this urgent need by becoming a stockholder in OVEC. Additionally, it committed to help ensure that the Atomic Energy Commission's (AEC) significant power requirements would be met at that vital time in our nation's history by entering into the Inter-Company Power Agreement (ICPA). It is this agreement that provides for obligations relevant to the Company's request in these proceedings.

OVEC and thirteen co-sponsors are signatory parties to the ICPA, which establishes the rights and obligations of the counterparties. Under the ICPA, Duke Energy Ohio has the right to a portion of the output of the two OVEC-owned[1] generating plants commensurate with its power participation ratio, which is 9 percent. Additionally, Duke Energy Ohio is responsible for a share of the costs, as defined in the ICPA, based upon its power participation ratio. The ICPA was first entered into in 1953 for a term of twenty-five years, which term was later extended consistent with the needs of the AEC's successor, the Department of Energy. The ICPA was subsequently amended, with one such amendment serving to extend its term through June 30, 2040. Notably, the ICPA, both in its original and amended forms, has been approved by the Federal Energy Regulatory Commission (FERC). As I have been informed by counsel, the significance of

[1] OVEC and its subsidiary, Indiana-Kentucky Electric Corporation (IKEC), own and operate the two generating plants. For ease of naming convention, these entities are collectively referred to as OVEC.

these approvals is that the FERC has determined that the underlying agreement – enabled only by the extraordinarily rare actions of a combination of diverse service providers – was reasonable.

The output from the two OVEC-owned generating stations is not used to provide any generation supply for Duke Energy Ohio's retail electric customers. Rather, the output, to the extent Duke Energy Ohio takes any portion of its entitlement, is managed in the wholesale markets of PJM Interconnection, L.L.C. (PJM), which include the Reliability Pricing Model market for capacity and the day-ahead and real-time markets for energy and ancillary services.

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST IN THESE PROCEEDINGS.

A. Consistent with the Commission's Opinion and Order in the Company's current electric security plan (ESP),[2] Duke Energy Ohio is seeking approval to adjust the rate charged (or credited) under its existing Rider PSR, currently set at zero. Approval of this Application will allow the Company to flow through to customers the net costs[3] related to its contractual entitlement in generating assets owned by OVEC.

Additionally, because the Commission unambiguously found that "all implementation details" with regard to Rider PSR would be determined in this

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[2] *In the Matter of the Application of Duke Energy Ohio for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service,* Case No. 14-841-EL-SSO, *et al.*, Opinion and Order, at pg. 47 (April 2, 2015)(hereinafter ESP III).

[3] As used herein, "net costs" shall refer to the revenues received by the Company in liquidating its output in the applicable wholesale markets less all costs incurred under the ICPA, where such amount may be either positive or negative.

proceeding to adjust Rider PSR,[4] Duke Energy Ohio is further seeking authorization here to revise the term of Rider PSR and to defer costs for inclusion therein, beginning April 1, 2017.

Q. HAS THE COMMISSION IDENTIFIED FACTORS TO BE ADDRESSED IN CONNECTION WITH AN INITIAL REQUEST TO ADJUST RIDER PSR?

A. Yes.

Q. WHAT FACTORS DID THE COMMISSION IDENTIFY?

A. In ESP III, the Commission indicated that it would balance, although not be bound by, the following factors:

- Financial need of the generating plant;
- Necessity of the generating facility, in light of future reliability concerns, including supply diversity;
- Description of how the generating plant is compliant with all pertinent environmental regulations and its plan for compliance with pending environmental regulations; and
- The impact that a closure of the generating plant would have on electric prices and the resulting effect on economic development within the state.[5]

Q. DID THE COMMISSION IDENTIFY OTHER MATTERS TO BE ADDRESSED IN THE FILING?

A. Yes. The Commission directed the Company, in any future request to adjust Rider PSR, to provide for Commission oversight of the rider, including an audit process, a full exchange of information with Staff, an alternate plan to allocate financial risk, and a severability provision applicable to ESP III in the event Rider PSR

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[4] ESP III, Opinion and Order, at pg. 47 (April 2, 2015).
[5] Id.

were deemed invalid by a court of competent jurisdiction.[6] I will discuss the Company's response to these requirements later in my testimony.

Q. YOU PREVIOUSLY REFERENCED THE FACT THAT THE FERC HAS APPROVED THE ICPA. WHAT IS THE SIGNFICANCE OF THAT APPROVAL TO THE COMPANY'S REQUEST IN THESE PROCEEDINGS?

A. Contrary to arguments that had been raised by intervenors in several proceedings, the FERC's approval of the ICPA does not interfere with the Commission's jurisdiction over the Company's proposal in these proceedings. Although I am not an attorney, I am required to understand the scope and extent of any regulator's jurisdiction so that I can properly fulfill my professional responsibilities. In this regard and due to my nearly thirty years of experience in a wide range of state and federal regulatory proceedings, I am well versed in those issues for which the Commission has jurisdiction.

With regard to the Company's proposals in these proceedings, the Commission undeniably has jurisdiction. Indeed, R.C. 4905.13 clearly provides the Commission with authority over the books and records of a public utility, such as Duke Energy Ohio, and the Company's deferral request is thus appropriately before the Commission. Additionally, Rider PSR, as approved by the Commission, is intended to mitigate volatility in retail rates and the adjustment of the rider, as proposed herein, will not implicate or otherwise contravene the terms of the ICPA. Rather, as the Company proposes, the proceedings here concern **only** issues outside of the FERC's review. Further, it cannot be disputed that the

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[6] Id.

Commission has jurisdiction over issues concerning the financial integrity of Ohio's electric distribution utilities. Finally, the Commission has recently found that a proposal similar to that advanced by Duke Energy Ohio is not subject to the FERC's review and, instead, fits "squarely within the [Commission's] jurisdiction."[7] The significance of the FERC's approval is relevant only to the manner in which the Company proposes to adjust Rider PSR, as I discuss later in my testimony.

III. RIDER PSR CALCULATION

Q. PLEASE DISCUSS HOW DUKE ENERGY OHIO PROPOSES TO ADJUST RIDER PSR.

A. The Company proposes to make quarterly filings with the Commission projecting the difference between the revenue it expects from the disposition of its share of the capacity, energy, and ancillary services from the OVEC-owned assets into PJM's markets and the costs it incurs as billed to Duke Energy Ohio under the provisions of the ICPA. Included in each filing will be a true-up of actual versus forecasted data from prior filings to ensure there is no over- or under-recovery from customers.

Because Duke Energy Ohio is proposing to allocate Rider PSR exclusively on energy, the projected average rate for Rider PSR is a simple calculation dividing the projected period gain or loss (plus any reconciliation adjustment) by the projected total retail kWh sales for the same period.

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[7] *In the Matter of the Application Seeking Approval of Ohio Power Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Rider*, Case No. 14-1693-EL-RDR, *et al.*, Second Entry on Rehearing, at pg. 97 (November 3, 2016)(hereinafter AEP PPA Proceeding).

Consistent with other riders that are updated on a quarterly basis, the Company further proposes that any adjustments to the rider take effect within thirty days of each quarterly filing, subject only to the Staff's confirmation that the mathematical calculations are correct.

Q. HOW DOES THE COMPANY PROPOSE THAT RIDER PSR BE AUDITED?

A. As required by the Commission in its order approving ESP III, Duke Energy Ohio commits to full exchange of information in its possession with the Commission Staff so that it may conduct an annual audit of the Company's bidding strategies relative to its participation in the wholesale markets.

Because the costs incurred by OVEC are outside the control of Duke Energy Ohio and the cost allocation methodology provided for under the ICPA has been established and approved by the FERC, the Company submits that the scope of any audit be limited to those actions that are within the Company's control. The Company's control extends only to the decisions it makes with regard to wholesale capacity market bidding strategies. These issues, therefore, should form the sole basis for scope of any annual audit.

Q. PLEASE ADDRESS THE ALTERNATE PLAN REGARDING THE ALLOCATION OF FINANCIAL RISK.

A. One day prior to the Commission approving the placeholder Rider PSR, PJM's capacity market reforms took effect. Under these reforms, PJM implemented a new capacity resource, known as Capacity Performance (CP), and made provision for a transition away from non-CP resources. PJM began transitioning to this new construct with the 2016/2017 delivery year by securing 60 percent of the PJM capacity requirement with CP resources. The transition will be completed by the 2020/2021 delivery year, when only CP-compliant resources will be eligible to participate in PJM's capacity markets.

A CP resource is, in its simplest terms, one that, unless off-line for a planned outage, will be available whenever called upon by PJM.[8] Under PJM's capacity market reforms, a CP resource is subject to both a performance credit (*i.e.*, bonus) and a non-performance charge (*i.e.*, penalty).[9]

In recently approving rider recovery similar to that proposed in these proceedings, the Commission found that both CP credits and charges should be excluded from the rider's scope, while also limiting that entity's ability to manage bidding strategies in such a way as to avoid non-performance charges.[10] It is this conclusion that forms the basis for Duke Energy Ohio to submit an alternative that, in its opinion, reconciles Rider PSR with the economic realities of participating as a CP resource, and appropriately aligns the interests of customers and the Company. Specifically, in order to maximize the total expected revenue for customers, Duke Energy Ohio proposes that CP credits and charges be included in Rider PSR. Doing so will remove any deterrent to the Company

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[8] PJM Interconnection, L.L.C., FERC Docket No. ER15-623-000, *et al.*, Reforms to the Reliability Pricing Market ("RPM") and Related Rules in the PJM Open Access Transmission Tariff ("Tariff") and Reliability Assurance Agreement Among Load Serving Entities ("RAA"), PJM Initial Filing, at pg. 21 (December 12, 2014). ("The fundamental attribute of a Capacity Performance Resource is that it shall provide energy and reserves when called upon by PJM during emergencies.")

[9] Id, at pp. 39-53. See also, Order on Proposed Tariff Revisions, at pp. 10-11 (June 9, 2015).

[10] AEP PPA Proceeding, Second Entry on Rehearing, at pg. 73 (November 3, 2016).

actively optimizing the value of its entitlement and will prevent Duke Energy Ohio from merely becoming a price taker in the capacity markets, potentially to the detriment of customers.

Q. HOW IS DUKE ENERGY OHIO ADDRESSING THE SEVERABILITY REQUIREMENT?

A. To appreciate the Company's proposal in this regard, it is important to put the issue in context.

The Commission established this requirement on April 2, 2015, prior to the commencement of the current ESP and, at that time, the Commission reasonably anticipated the prospect of appellate review. But a final decision in the ESP III proceeding has yet to be issued and, as based on the advice of counsel, the time period for perfecting an appeal has not commenced. Given that the current ESP is scheduled to expire, by its terms, on May 31, 2018, it is unlikely that any appeal of the Commission's decision to establish, in the context of ESP III, a placeholder Rider PSR will be fully prosecuted and a decision issued by that expiration date. Consequently, the need for a severability provision is arguably moot.

Importantly, also, the Company's Application completely disassociates Rider PSR from the current ESP, thereby ensuring "that all other provisions of its ESP will continue."[11]

Q. PLEASE IDENTIFY THE REVISIONS TO THE PLACEHOLDER RIDER PSR THAT DUKE ENERGY OHIO IS PROPOSING IN THESE PROCEEDINGS.

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[11] Id.

A. As an initial matter, Duke Energy Ohio is proposing that Rider PSR be a non-bypassable rider given that it will function as a hedge against the market-based prices that **all** retail customers in the Company's service territory are paying and will continue to pay, regardless of whether those customers purchase generation services from Duke Energy Ohio or from a competitive provider.

Duke Energy Ohio is proposing to extend the term of Rider PSR such that it will align with the term of the ICPA, thereby affording customers the benefit of the hedge over a meaningful period of time and recognizing the unique commitment to Ohio made by Duke Energy Ohio in respect of OVEC. The Company is thus seeking Commission authority to continue Rider PSR beyond May 31, 2018, and through June 30, 2040.

IV. BENEFITS OF RIDER PSR

Q. PLEASE DISCUSS THE FINANCIAL NEED OF THE GENERATING FACILITIES OWNED BY OVEC, AS WELL AS ANY IMPACT THAT RIDER PSR WILL HAVE ON THAT NEED.

A. Rider PSR will not directly impact the financial need of the OVEC-owned assets. Rather, because of the structure of the arrangement, each of the co-sponsors under the ICPA will continue to have obligations to OVEC and OVEC, in turn, will continue to have rights as against any co-sponsor. The critical focus thus should not be OVEC's need but, instead, the need of the co-sponsoring companies. Importantly, the fact that OVEC's financial condition is not tied to Rider PSR does not diminish the fact that a Commission-regulated EDU's financial condition is potentially weakened because of its inextricable participation in the ICPA.

Q. PLEASE ELABORATE ON THE FINANCIAL NEED OF A REGULATED CO-SPONSOR, SUCH AS DUKE ENERGY OHIO.

A. As the Commission has recognized, the financial health of Ohio's regulated utilities is vital.[12] And where the financial health is compromised, the utility's ability to favorably access credit markets and generally conduct its business is threatened. As proposed, Rider PSR is earnings-neutral to Duke Energy Ohio. As long as Rider PSR is active, Duke Energy Ohio's shareholders gain nothing and lose nothing related to the Company's participation in the ICPA. When market prices are low, Rider PSR prevents the Company from incurring losses that, otherwise, would diminish its earnings from regulated operations, which could impede its ability to meet its financial obligations to its stakeholders and could impede its investments in its utility grid. When market prices are high, Rider PSR allows customers to enjoy 100 percent of that benefit while Duke Energy Ohio can continue to meet its financial obligations to all of its stakeholders as a result of its regulated operations. Eliminating the financial impacts on Duke Energy Ohio, resulting from its participation in the ICPA, is consistent with the Commission's objective to preserve the financial health of Ohio's EDUs.

Q. PLEASE DISCUSS THE REGION'S NEED FOR THE OVEC-OWNED GENERATING FACILITIES, IN LIGHT OF FUTURE RELIABILITY CONCERNS, INCLUDING SUPPLY DIVERSITY.

A. Coal plants, including those located in Ohio, are retiring. And the pace of

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[12] *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Fifth Entry on Rehearing, Concurring Opinion of Chairman Haque, at pg. 3 (October 12, 2016).

retirement is steady. Indeed, on March 21, 2017, The Dayton Power & Light Company (DP&L) announced its intention to close two Ohio-based coal plants by next year, given challenging economic conditions.[13] In July 2016, FirstEnergy Generation announced the closure of four coal-fired units (720 MW) at its W.H. Sammis station, located in Stratton, Ohio. And more Ohio-based retirements may happen, as evident from the published reports of the financial plight of FirstEnergy Generation's parent company.[14] With these retirements and more likely to come, coal's contribution to fuel-source diversity in PJM is declining. Ongoing operation of the OVEC-owned coal assets necessarily mitigates this decline.

Q. PLEASE DESCRIBE HOW THE OVEC GENERATING PLANTS ARE COMPLIANT WITH ALL PERTINENT ENVIRONMENTAL REGULATIONS AND ANY PLAN FOR COMPLIANCE WITH PENDING ENVIRONMENTAL REGULATIONS.

A. The OVEC plants are compliant with all applicable environmental regulations, as was established in ESP III.[15] Future adherence to environmental regulation is confirmed in the projected billable cost summary generated by OVEC.

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[13] https://www.firstenergycorp.com/newsroom/news_releases/firstenergy-to-deactivate-units-at-two-ohio-power-plants-.html

[14] https://www.moodys.com/research/Moodys-downgrades-FirstEnergy-Solutions-CFR-to-Caa1-from-Ba2-Allegheny--PR_356746

[15] See *e.g.*, ESP III, Transcript of Hearing, Vol. V, Cross examination of OCC witness John Brodt, at pp. 1322-1323 (October 28, 2014).

Q. EXPLAIN THE IMPACT THAT A CLOSURE OF THE OVEC GENERATING PLANTS WOULD HAVE ON ELECTRIC PRICES AND THE RESULTING EFFECT ON ECONOMIC DEVELOPMENT WITHIN THE REGION.

A. It is intuitive that reduction in supply without a commensurate reduction in demand has the potential to increase prices. The retirement of over 2,200 MW of capacity associated with OVEC's generation, not to mention the numerous projected retirements of other coal capacity in the region, is expected to be replaced mostly with gas-fired generation resources, further increasing reliance on a single fuel source. This reduction in diversity has the potential to significantly increase volatility, at a minimum, but also has the potential to raise overall prices if gas prices see sustained price spikes in the future.

The OVEC-owned assets provide a financial benefit to the region. As evident from OVEC's FERC Form 1, it paid about $6 million in property taxes alone, during 2015.[16] Furthermore, it is undeniable that these plants employ a large number of individuals who similarly contribute to the local tax base and, importantly, live in or support the local communities. From its Annual Report, OVEC employs over 700 individuals,[17] amounting to approximately $70 million[18] in salaries and wages, all of whom would be at risk if OVEC retired its two generating stations.

Q. ARE THERE OTHER CONSIDERATIONS RELEVANT TO THE COMPANY'S REQUEST IN THESE PROCEEDINGS?

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[16] 2015 FERC Form 1 Annual Report, page 262-263, for OVEC and IKEC.
[17] OVEC "Annual Report - 2015," page 37.
[18] 2015 FERC Form 1 Annual Report, page 355, for OVEC and IKEC.

A. As confirmed in a recent decision by the Commission, the factors identified above are not determinative of the Company's request in these proceedings.[19] Because the Commission has indicated that it is not bound by these factors, I address here the benefits of Rider PSR as proposed herein.

As an initial matter, the Commission's determinations in ESP III with respect to Rider PSR are maintained through the Company's proposals in these proceedings. That is, Rider PSR will function as an option that serves to mitigate price volatility in that, when market prices for energy and capacity are high, Rider PSR is more likely to be a credit for all customers, thus offsetting their overall bills. When the market price for capacity and energy is low, shopping and non-shopping customers enjoy low prices for electricity, partially offset by fixed costs, the cost of the hedge, related to OVEC. At those times, Rider PSR is more likely to be a charge but, again, that charge is likely to be incurred when a customer's underlying electric bill is already low. Recently, the Commission reiterated this benefit[20] and its decision in that proceeding is equally applicable here. Additionally, as structured, Rider PSR is competitively neutral, both at the wholesale level and the retail level, and thus advances state policy.

In addition to the foregoing, established benefits, Duke Energy Ohio is committing to helping ensure the vitality of the communities in its service territory through economic development. Specifically, and provided its Application is approved as proposed herein, Duke Energy Ohio will annually invest $1 million in shareholder dollars toward economic development initiatives

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[19] AEP PPA Proceeding, Second Entry on Rehearing, at pp. 66-67 (November 3, 2016).
[20] Id, at pg. 50.

in its service territory, beginning June 1, 2018. This commitment will terminate upon the termination of Rider PSR with Duke Energy Ohio's commitment in the year of termination being pro-rated based on the number of months Rider PSR was applicable during that year.

Q. WHY IS THE COMPANY PROPOSING JUNE 1, 2018, AS THE DATE ON WHICH THIS COMMITMENT COMMENCES?

A. In ESP III, the Commission ordered Duke Energy Ohio to commit shareholder dollars, annually, toward economic development initiatives for the term of the ESP, or May 31, 2018. The Company acknowledges that this issue is presently before the Commission in ESP III and thus makes no assumption here with regard to the outcome of any rehearing request. Rather, for purposes of this proceeding, the Company reasonably assumed the lack of any commitment related to economic development effective June 1, 2018, which cannot be disputed, and includes here a commitment commensurate with those applicable to Ohio's other EDUs.

Q. ARE THERE OTHER CONSIDERATIONS OR FACTORS YOU BELIEVE RELEVANT TO THE COMPANY'S REQUEST IN THESE PROCEEDINGS?

A. Yes. As I described above, the OVEC structure is unique – counterparties to the ICPA include utilities in both regulated and non-regulated jurisdictions; entities operating inside and outside of a regional transmission organization; and cooperatives. Of these counterparties, or sponsoring companies, three are EDUs under the Commission's jurisdiction. Approval of the Company's Application will place it on par with these other Ohio EDUs that also responded to the nation at a critical time.[21] The similarity does not end there. Rather, the costs and sources of revenue for the OVEC entitlement are the same for these Ohio EDUs. Stated another way, the value and cost of 1 MW or 1 MWh of output from OVEC is the same for AEP Ohio as it is for DP&L as it is for Duke Energy Ohio. All three of these EDUs are deriving each unit of output from the exactly the same source and selling that output into exactly the same wholesale market. It cannot be the case that one of these EDUs is profiting from its participation in the ICPA and another is not.

As a share of total retail sales, the entitlement shares of AEP Ohio, DP&L, and Duke Energy Ohio are nearly identical at roughly five percent. Accordingly, how costs under the ICPA are recovered for any one of these Ohio-based EDUs/sponsoring companies should be consistent with how they are recovered for another, subject only to the review and audit of those aspects of the ICPA arrangement for which the EDU has discretion. The Commission has already approved this recovery for AEP Ohio[22] and will soon be considering a stipulation, signed by the Commission Staff, recommending this recovery for DP&L.[23]

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[21] AEP PPA Proceeding, Second Entry on Rehearing, Concurring Opinion of Chairman Haque, at pg. 2 (November 3, 2016). See also, *In the Matter of the Application of The Dayton Power & Light Company for Approval of its Electric Security Plan,* Case No. 16-395-EL-SSO, Amended Stipulation and Recommendation, at pg. 13 (March 14, 2017) (Duke Energy Ohio acknowledges that the Stipulation and Recommendation is pending and that parity is achieved upon approval of said stipulation) (hereinafter DPL ESP III Proceeding).

[22] AEP PPA Proceeding, Second Entry on Rehearing, Concurring Opinion of Chairman Haque, at pg. 2 (November 3, 2016).

[23] DPL ESP III Proceeding, Amended Stipulation and Recommendation, at pg. 13 (March 14, 2017).

V. EARNINGS TEST

Q. WILL RIDER PSR IMPACT THE COMPANY'S EARNINGS AS IT RELATES TO THE ANNUAL SIGNIFICANTLY EXCESSIVE EARNINGS TEST (SEET)?

A. Before answering this question, I provide information necessary to understanding why the SEET is being addressed in these proceedings.

In its Opinion and Order in ESP III, the Commission determined that the SEET would be administered consistent with the methodology employed in the Company's prior ESPs, with one revision. Specifically, the Commission found that the SEET threshold for each year of the ESP would be determined in the context of each annual filing.[24] The approved methodology makes provision for inclusion of the Company's contractual entitlement in OVEC[25] and would necessarily include Rider PSR as well. But under the proposed Rider PSR, the Company will earn $0 related to its interest in OVEC. Therefore, Rider PSR is unlikely to increase the chances of Duke Energy Ohio having significantly excessive earnings during any period when the rider is applicable.

VI. DEFERRAL REQUEST

Q. WILL YOU BRIEFLY EXPLAIN THE COMPANY'S REQUEST FOR A DEFERRAL?

A. Duke Energy Ohio is seeking to defer the net cost applicable to its Company's contractual entitlement in generating assets owned by OVEC, with such deferral

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[24] ESP III, Opinion and Order, at pg. 84 (April 2, 2015).

[25] See, *e.g.*, *In the Matter of the Application of Duke Energy Ohio, Inc., for Administration of the Significantly Excessive Earnings Test under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code*, Case No. 16-781-EL-UNC, Application, at pp. 3-4 (April 15, 2016)(describing calculation applicable to SEET as administered with regard to Duke Energy Ohio).

beginning April 1, 2017. In this regard, and as I stated previously, the net costs are calculated as revenues received by the Company in liquidating its output in the applicable wholesale markets, less all costs incurred under the ICPA.

Q. IN YOUR OPINION, SHOULD THE COMMISSION APPROVE THE CREATION OF A DEFERRAL WITH REGARD TO THE OVEC-RELATED NET COSTS?

A. Yes.

Q. PLEASE EXPLAIN YOUR RATIONALE.

A. The Commission has historically approved deferral treatment for costs incurred by a public utility where such costs are not otherwise recoverable in existing rates.[26] Additionally, the Commission has approved deferral authority where the costs are outside the company's control.[27] As I previously discussed, the Company's contractual entitlement in OVEC has never been included in Duke Energy Ohio's retail rates and the power associated with same used to supply its customers. It is therefore undeniable that the net costs for which deferral authority is sought here are not presently recovered. Additionally, the costs incurred under the ICPA are the product of a FERC-approved agreement and the result of OVEC's operation and management of its two generating plants. It is thus fair to conclude that Duke Energy Ohio does not control the costs. The investments of Ohio EDUs in OVEC are "different" than other generation, as previously observed by Chairman Haque, and the net costs that would be deferred are

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[26] *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval to Change Accounting Methods*, Case No. 14-1615-GA-AAM, Finding and Order, at pg. 16 (December 17, 2014).

[27] See, *e.g.*, *In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods Associated with its Integrity Management Program*, Case No. 16-387-GA-AAM. Opinion and Order (January 4, 2017).

exclusively dependent on wholesale market conditions.[28] The terms of the ICPA and the nature of the FERC's jurisdiction over that agreement limit the options available to the Company, as well as options available to the Commission to encourage the utility to do something it would not otherwise do. Based on the recognized need to protect Duke Energy Ohio's financial health and the other factors I have just mentioned, this is an appropriate situation for the creation of a Commission-approved deferral.

VII. CONCLUSION

Q. WAS ATTACHMENT WDW-1 PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

Q. DO YOU HAVE AN OPINION REGARDING WHETHER DUKE ENERGY OHIO'S REQUEST IS REASONABLE?

A. Yes.

Q. PLEASE STATE YOUR OPINION.

A. Duke Energy Ohio's rate request is fair and reasonable and consistent with existing Commission precedent.

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

A. Yes.

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[28] AEP PPA Proceeding, Opinion and Order, Concurring Opinion of Chairman Haque, at pg. 5 (November 3, 2016).