

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)
Duke Energy Ohio, Inc., for an) Case No. 22-0618-GA-RDR
Adjustment to the Capital Expenditure)
Program Rider Rate.)

DIRECT TESTIMONY OF

JAY P. BROWN

ON BEHALF OF

DUKE ENERGY OHIO, INC.

March 31, 2022

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION AND PURPOSE	1
II. REVIEW OF CASE NO. 21-0618-GA-RDR	3
III. OVERVIEW OF RIDER CEP SCHEDULES	4
IV. REASONABLENESS OF RIDER CEP RATES	10
V. CONCLUSION	11

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Jay P. Brown, and my business address is 139 East Fourth Street,
3 Cincinnati, Ohio, 45202.

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

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

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

11 A. I earned a Bachelor of Science degree in Business Administration with a major in
12 Business: Finance, Investment and Banking from the University of Wisconsin -
13 Madison. I began my career with The Alexander Companies, a real estate
14 development company, as an Assistant Project Manager in January 2002 managing
15 and developing real estate. Subsequently, in December 2003 I began working for
16 Dell Inc., mainly as a Financial Analyst in Worldwide Procurement Finance,
17 accounting for and reporting on supplier rebates. In January 2008, I began working
18 for Bigfoot Networks, a technology start-up. I was in charge of developing
19 distribution, online and retail channels for a new networking product. Beginning
20 in April 2009, I also served as a Financial Advisor for Edward Jones. In June 2011,
21 I began working as a contractor for Progress Energy and since February 2012, I
22 have been employed by, and worked for, companies under what is now Duke

DIRECT TESTIMONY OF JAY P. BROWN

1 Energy. The roles I've held include Sr. Business Finance Analyst and in December
2 2012, I took the position of Manager Nuclear Station Finance. In August of 2018,
3 I transitioned to the Rates and Regulatory group as a Lead Rates & Regulatory
4 Strategy Analyst. I earned a Master of Business Administration from the University
5 of North Carolina Wilmington in July of 2020 and was promoted to my current role
6 as Director of Rates & Regulatory Planning, effective October of 2020.

7 **Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR OF RATES AND**
8 **REGULATORY PLANNING.**

9 A. I am responsible for preparing financial and accounting data used in retail rate
10 filings and various other rate recovery mechanisms for Duke Energy Ohio and
11 Duke Energy Kentucky, Inc.

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

14 A. Yes. I have provided written testimony in several proceedings before the
15 Commission regarding Duke Energy Ohio's various rates and mechanisms. Most
16 recently, I provided written testimony in Case No. 21-0012-EL-RDR and testified
17 in the Company's application for approval of an alternative form of regulation, Case
18 No. 19-0791-GA-ALT.

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

21 A. The purpose of my testimony is to support the reasonableness of Duke Energy
22 Ohio's proposed rate adjustments to the Capital Expenditure Program rider (Rider
23 CEP). I provide an overview of the underlying accounting and calculations of the

DIRECT TESTIMONY OF JAY P. BROWN

1 proposed Rider CEP revenue requirement and sponsor the Application,
2 Attachments A and B, and the CEP Schedules filed on March 31, 2022.

II. REVIEW OF CASE NO. 21-0618-GA-RDR

3 **Q. HAS THE COMMISSION ISSUED AN ORDER IN CASE NO. 21-0618-GA-**
4 **RDR?**

5 A. As of the date of this application, the Commission has not yet issued an order in Case
6 No. 21-0618-GA-RDR, regarding Rider CEP rates that were to go into effect in
7 November 2021, for recovery of 2019 CEP deferrals, and regarding Rider CEP rates
8 that were to go into effect in May 2022, for recovery of 2020 CEP deferrals. While
9 waiting for the Commission's Order in Case No. 21-0618-GA-RDR, which will
10 clarify certain issues that were not able to be resolved in settlement discussions, the
11 Company is filing this application to adjust Rider CEP rates for recovery of 2021 CEP
12 deferrals so that the process for adjusting the rates under Rider CEP can proceed as
13 contemplated under the terms of the Opinion and Order in Case No. 19-0791-GA-
14 ALT as issued on April 21, 2021. Duke Energy Ohio's application is based upon a
15 test year beginning January 1, 2021, and ending December 31, 2021, with a date
16 certain of December 31, 2021. The data being provided herein, and the testimony filed
17 together with this application, is being filed so that the Company will meet its
18 obligation to file Rider CEP updates by March 31st of each year and to allow the
19 Commission sufficient time to act on the application for 2021 expenditures.

DIRECT TESTIMONY OF JAY P. BROWN

III. OVERVIEW OF RIDER CEP SCHEDULES

1 **Q. WHAT ATTACHMENTS AND SCHEDULES ARE YOU SPONSORING IN**
2 **THIS PROCEEDING?**

3 A. The following is a list of the CEP Rider attachments and schedules filed on March
4 31, 2022, that I am sponsoring and supporting in this proceeding:

Item	Description
Attachment A	Existing, Redlined, and Proposed Tariff Amendments
Attachment B	Typical Bill Comparison
Schedule 1	2021 Revenue Requirement Calculation
Schedule 2	Prior Year Capital Budget
Schedule 3	Cumulative Estimated Bill Impact
Schedule 4	Monthly Investments
Schedule 5a	Deferred Depreciation – Distribution Improvement
Schedule 5b	Deferred Depreciation – Information Technology
Schedule 6	Deferred Post In-Service Carrying Costs
Schedule 7	Deferred Property Tax
Schedule 8	Incremental Revenue
Schedule 9	Explanation of Variance
Schedule 10	Estimated Capital Budget 2022
Schedule 11	Depreciation Offset
Schedule 12	Deferred Tax – Liberalized Depreciation
Schedule 13	Revenue Reconciliation Adjustment

5 **Q. HOW WAS RIDER CEP AUTHORIZED BY THE COMMISSION?**

6 A. The Commission authorized the establishment of Rider CEP in its Opinion and
7 Order dated April 21, 2021, in Case No. 19-0791-GA-ALT.

8 **Q. PLEASE DESCRIBE HOW THE RIDER CEP REVENUE REQUIREMENT**
9 **IS CALCULATED.**

10 A. As outlined on Schedule 1, the Rider CEP Revenue Requirement comprises an
11 annualized return on rate base (Line 21) and the recovery of annualized operating
12 expenses (Line 25). The revenue requirement also includes a revenue reconciliation
13 adjustment (Line 27) which is necessary to true-up any over or under recovery of

DIRECT TESTIMONY OF JAY P. BROWN

1 previously authorized revenue requirements. The CEP rate base includes net plant
2 in service and the CEP deferral regulatory asset offset by Accumulated Deferred
3 Income Taxes (ADIT). Annualized operating expenses include amortization of the
4 CEP deferral regulatory asset, annualized depreciation expense, and annualized
5 property taxes.

6 **Q. PLEASE EXPLAIN HOW NET PLANT IN SERVICE HAS BEEN**
7 **CALCULATED.**

8 A. As outlined on Schedule 1, net plant in-service includes gross capital investments
9 placed in service since December 31, 2012, through December 31, 2021, adjusted
10 for retirements, offset by accumulated depreciation, adjusted for retirements, on
11 those investments. The Company has also reduced plant in-service for the
12 depreciation that has occurred on existing assets in rate base since December 31,
13 2012, through December 31, 2021 (2012 Rate Case Depreciation Offset). The
14 details of plant in-service can be found on Schedule 4. The details of accumulated
15 depreciation can be found on Schedule 5. The Company's calculation of the 2012
16 Rate Case Depreciation Offset is shown on Schedule 11.

17 **Q. PLEASE DESCRIBE HOW THE DEPRECIATION OFFSET HAS BEEN**
18 **CALCULATED.**

19 A. The Company's depreciation offset is calculated by summing the total natural gas
20 depreciation expense from the Company's FERC Form 2 filings for each year of
21 2013 through 2021, and then subtracting the following:
22 (1) Rider AMRP depreciation expense,
23 (2) Rider AU depreciation expense,

- 1 (3) Rider CEP depreciation expense,
2 (4) Common Plant Gas depreciation expense, and
3 (5) Production depreciation expense.

4 The sum of the total, with those exclusions above, equals the depreciation offset.

5 **Q. HAS THE COMPANY INCORPORATED ALL OF THE ADJUSTMENTS**
6 **AND RECOMMENDATIONS FROM THE AUDIT REPORT IN CASE NO.**
7 **21-0618-GA-RDR?**

8 A. No, the Company only incorporated the adjustments that were agreed to in my
9 supplemental testimony filed on January 18, 2022, in Case No. 21-0618-GA-RDR.
10 When an order in that case is issued, the Company intends to amend the filing to
11 incorporate any adjustments or recommendations approved at that time.

12 **Q. PLEASE DESCRIBE THE COMPONENTS OF THE CEP DEFERRAL**
13 **REGULATORY ASSET INCLUDED IN RATE BASE.**

14 A. The CEP deferral regulatory asset includes deferred depreciation expense, property
15 tax expense, and post-in-service carrying costs related to the capital additions made
16 since December 31, 2012, through December 31, 2021. Additionally, the Company
17 has included an offset for incremental revenue the Company has earned that is
18 attributed to the investments being recovered in this rider. Deferred depreciation
19 expenses are outlined on Schedule 5. Deferred post-in-service carrying costs are
20 outlined on Schedule 6. Deferred property tax expenses are outlined on Schedule
21 7. The incremental revenue offset calculation is shown on Schedule 8.

1 **Q. WERE THESE DEFERRED EXPENSES CALCULATED IN**
2 **ACCORDANCE WITH PROVISIONS OF THE COMMISSION’S OPINION**
3 **AND ORDER ISSUED IN CASE NO. 19-0791-GA-ALT?**

4 A. Yes. The CEP deferral regulatory asset was calculated using the formulas
5 proposed, and approved by Stipulation, in the Company’s application in 19-0791-
6 GA-ALT, which were originally established in Case Nos. 13-2417-GA-UNC and
7 13-2418-GA-AAM, and the incremental revenue deferral in the year 2021 was
8 calculated using a baseline of current annual bills issued as of the date certain in
9 Case No. 19-0791-GA-ALT.

10 **Q. WHAT TYPES OF OPERATING EXPENSES ARE INCLUDED IN THE**
11 **RIDER CEP REVENUE REQUIREMENT CALCULATION?**

12 A. Annualized operating expenses include amortization of the CEP deferral regulatory
13 asset, annualized depreciation expense, and annualized property taxes.

14 **Q. PLEASE EXPLAIN HOW THE ANNUALIZED AMORTIZATION OF THE**
15 **CEP DEFERRAL REGULATORY ASSET IS CALCULATED.**

16 A. Deferred expenses, such as deferred depreciation, deferred property taxes, and
17 deferred post-in-service carrying costs, are amortized over the life of the underlying
18 assets using the 2.25% composite depreciation rate authorized in Case No. 19-0791-
19 GA-ALT. Amortization of CEP deferral regulatory assets is calculated based on
20 the cumulative deferral balance less amortization of previously approved deferral
21 regulatory assets for which deferral has ceased.

1 **Q. IS IT PROPER TO INCLUDE THESE EXPENSES IN DEVELOPING THE**
2 **RIDER CEP REVENUE REQUIREMENT?**

3 A. Yes. All of these expenses should be included because they relate to capital
4 investments made by Duke Energy Ohio required for safe, reliable, and efficient
5 operation of the natural gas distribution business.

6 **Q. HOW WILL THE RIDER CEP REVENUE REQUIREMENT BE**
7 **ALLOCATED AND CHARGED TO CUSTOMERS?**

8 A. Duke Energy Ohio will allocate costs between customer classes utilizing the
9 allocation percentages from its last natural gas base rate case, Case No. 12-1685-
10 GA-AIR, *et al.* Next, the allocated revenue requirement will be converted to a
11 monthly fixed charge based on the number of customer bills for the twelve months
12 ended December 31, 2021.

13 **Q. PLEASE DESCRIBE THE CONTENTS OF SCHEDULE 13.**

14 A. Schedule 13 provides the reconciliation of costs recoverable and estimated costs
15 recovered, and the methodology and calculation of that reconciliation related to the
16 revenue requirements in Case Nos. 19-0791-GA-ALT and 21-0618-GA-RDR. The
17 Company has included the under-recovered balance of 9.7 million dollars as an
18 adjustment to the revenue requirement in Schedule 1, Line 27.

19 **Q. WHAT ARE THE ESTIMATED MONTHLY RIDER CEP RATES**
20 **PROJECTED TO BE INCLUDED IN NOVEMBER 2022 BILLS?**

21 A. As outlined on Schedule 1, commencing with November 2022 bills, the Company
22 projects that the monthly Rider CEP for residential customers (Rate RS) will be
23 approximately \$10.31 per monthly bill prior to reconciliation and \$11.73 per

DIRECT TESTIMONY OF JAY P. BROWN

1 monthly bill after reconciliation. The monthly rate for small general service
2 customers (Rate GS-S) and small firm transportation customers (Rate FT-S) is
3 projected to be \$21.09 per monthly bill prior to reconciliation and \$23.98 per
4 monthly bill after reconciliation. The monthly rate for large general service
5 customers (Rate GS-L) and large firm transportation customers (Rate FT-L) is
6 expected to be \$118.20 per monthly bill prior to reconciliation and \$134.41 per
7 monthly bill after reconciliation. For interruptible transportation customers (Rate
8 IT), the monthly rate is expected to be approximately \$3,625.57 per monthly bill
9 prior to reconciliation and \$4,122.91 per monthly bill after reconciliation.

10 **Q. DID THE COMPANY EXCLUDE ASSETS FROM THE RIDER CEP DUE**
11 **TO THE CAPS ESTABLISHED IN CASE NO. 19-0791-GA-ALT?**

12 A. Yes. The Company excluded 116.1 million dollars of assets and 10.9 million
13 dollars of retirements from investment year 2021, as outlined in Schedule 4, Line
14 12 and Line 18.

15 **Q. PLEASE EXPLAIN ATTACHMENT A AND ATTACHMENT B.**

16 A. Attachment A includes copies of the existing, redlined, and proposed tariff
17 amendments to Original Sheet No. 84, P.U.C.O. Gas No. 18 for the November 2022
18 adjustments. Attachment B provides a comparison of typical bills for each rate
19 schedule between Rider CEP rates proposed in Case No. 21-0618-GA-RDR and
20 proposed Rider CEP rates reflecting the November 2022 adjustments.

IV. REASONABLENESS OF RIDER CEP RATES

1 **Q. WHAT PERCENTAGE ADJUSTMENT DOES THE PROPOSED RIDER**
2 **CEP REPRESENT ON CUSTOMER BILLS?**

3 A. A residential customer using 100 CCF of natural gas can expect their bill to increase
4 by approximately 2.0 percent in November of 2022 as compared to Rider CEP rates
5 proposed in Case No. 21-0618-GA-RDR, as a result of the proposed rate increase
6 for Rider CEP.

7 **Q. PLEASE EXPLAIN HOW THE PROPOSED RIDER CEP RATES DO NOT**
8 **EXCEED THE CAPS ESTABLISHED IN CASE NO. 19-0791-GA-ALT.**

9 A. For investment year 2021 included in the annual update filing made by the
10 Company, the Company agreed to a cap on residential customer rates of \$10.31, or
11 an increase of no more than \$1.00 from the previous year's residential Rider CEP
12 rate of \$9.31. Schedule 1 outlines this calculation for the year 2021. As shown on
13 Line 43 of Schedule 1, the rate impact as of December 31, 2021, is \$10.31 prior to the
14 revenue reconciliation adjustment and \$11.73 after consideration of the previously
15 approved revenue requirement that was not collected from customers. This represents
16 a rate increase of \$1.00 per monthly bill prior to reconciliation and \$2.42 per monthly
17 bill after reconciliation related to 2021 investments as compared to the proposed Rider
18 CEP residential rate of \$9.31 in Case No. 21-0618-GA-RDR.

19 **Q. DO YOU BELIEVE THE PROPOSED RATES ARE REASONABLE AND**
20 **PRUDENT?**

21 A. I do. I have reviewed the capital investment balances and the CEP deferral
22 regulatory asset as it relates to the proposed rates, ensuring they are within the

DIRECT TESTIMONY OF JAY P. BROWN

1 authorized annual caps, as well as for consistency with the Company's accounting
2 procedures and to ensure that the assets included in the CEP deferral regulatory
3 asset were not double counted as part of any other cost-recovery mechanism. I
4 believe that the Company's proposed Rider CEP rates are reasonable and prudent.

V. CONCLUSION

5 **Q. ARE THE ATTACHMENTS AND SCHEDULES TO THE APPLICATION**
6 **TRUE AND ACCURATE TO THE BEST OF YOUR KNOWLEDGE?**

7 A. Yes.

8 **Q. WERE THE ATTACHMENTS AND SCHEDULES TO THE**
9 **APPLICATION PREPARED BY YOU OR UNDER YOUR DIRECTION**
10 **AND CONTROL?**

11 A. Yes.

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

13 A. Yes.

**This foregoing document was electronically filed with the Public Utilities
Commission of Ohio Docketing Information System on**

3/31/2022 1:59:40 PM

in

Case No(s). 22-0618-GA-RDR

Summary: Testimony Direct Testimony of Jay P. Brown On Behalf of Duke Energy Ohio, Inc. electronically filed by Mrs. Tammy M. Meyer on behalf of Duke Energy Ohio Inc. and D'Ascenzo, Rocco and Kingery, Jeanne W. and Vaysman, Larisa and Akhbari, Elyse Hanson