

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)
Energy Ohio, Inc., for Approval of a)
General Exemption of Certain Natural) Case No. 21-903-GA-EXM
Gas Commodity Sales Services or)
Ancillary Services.)

In the Matter of the Application of Duke)
Energy Ohio, Inc., for Tariff Approval.) Case No. 21-904-GA-ATA

In the Matter of the Application of Duke)
Energy Ohio, Inc., for Approval to) Case No. 21-905-GA-AAM
Change Accounting Methods.)

DIRECT TESTIMONY OF

JEFF L. KERN

ON BEHALF OF

DUKE ENERGY OHIO, INC.

April 27, 2022

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Jeff L. Kern. My business address is 139 East Fourth Street, Cincinnati,
3 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 Rates and
6 Regulatory Strategy Manager. 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 SUMMARIZE YOUR EDUCATIONAL**
10 **BACKGROUND AND PROFESSIONAL EXPERIENCE.**

11 A. I have a Bachelor's Degree in Quantitative Analysis from the University of
12 Cincinnati. I began my career with the Cincinnati Gas & Electric Company
13 (CG&E) as a rate analyst in 1988. I was employed by New York State Electric &
14 Gas Company between 1993 and 1997, returning to CG&E in 1997 as a Senior Rate
15 Analyst. In 1998, I became an administrator in Gas Operations. Since that time, I
16 have held positions of increasing responsibility in Gas Operations, having
17 responsibility for assuring adequate supply of gas for the retail customers of Duke
18 Energy Ohio and Duke Energy Kentucky, Inc. (Duke Energy Kentucky). In 2018,
19 I left the gas operations business unit and joined Pricing and Regulatory Solutions
20 as Lead Rates and Regulatory Strategy Analyst. I was promoted to Rates and
21 Regulatory Strategy Manager in 2020.

1 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS RATES AND**
2 **REGULATORY STRATEGY MANAGER.**

3 A. I am responsible for performing analyses and studies to support new or revised
4 rates, providing oral and written testimony before regulatory agencies and other
5 regulatory support, meeting with commission staff members in support of filings,
6 rate changes, and tariff administration issues, assisting in administration of rates
7 and programs, preparing and coordinating preparation of required regulatory
8 compliance filings, and leading projects related to new or revised rates.

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

11 A. Yes. I provided testimony in Case Nos. 15-50-GA-RDR, 15-218-GA-GCR,, 17-218-
12 GA-GCR and 18-218-GA-GCR.

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY OTHER**
14 **REGULATORY AGENCIES?**

15 A. I have testified before the Kentucky Public Service Commission and have submitted
16 written testimony before the Federal Energy Regulatory Commission.

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
18 **PROCEEDING?**

19 A. I am responsible for Duke Energy Ohio's proposed tariff changes to accommodate
20 the switch from the Gas Cost Recovery (GCR) mechanism to the Standard Service
21 Offer (SSO) auction process.

II. APPLICATION EXHIBITS SPONSORED BY WITNESS

1 **Q. PLEASE DESCRIBE EXHIBIT VII.**

2 A. Exhibit VII shows the tariff pages that Duke Energy Ohio proposes to implement
3 along with the redlined version of the proposed tariff changes with deletions
4 crossed out and additions underscored.

5 **Q. PLEASE DESCRIBE EXHIBIT VIII.**

6 A. Exhibit VIII contains a narrative description of the proposed tariff changes.

III. RETAIL NATURAL GAS RATE SCHEDULES AND RIDERS

A. REVISED NATURAL GAS RATE SCHEDULES

7 **Q. WHICH RATE SCHEDULES IS DUKE ENERGY OHIO PROPOSING TO**
8 **REVISE?**

9 A. Duke Energy Ohio is proposing to revise Rate Schedules RS, RSLI, GS-S, GS-L,
10 RFT, and RFTLI.

11 **Q. PLEASE DESCRIBE THE PROPOSED REVISIONS TO RATE SCHEDULES**
12 **RS, RSLI, GS-S AND GS-L.**

13 A. Duke Energy Ohio proposes to revise Rate Schedules RS, RSLI, GS-S and GS-L to
14 eliminate references to the Gas Cost Recovery Rate (Rider GCRR) and the
15 Manufactured Gas Plant rider (Rider MGP), and to include references to the new
16 proposed SSO-based riders, which are discussed below.

1 **Q. PLEASE DESCRIBE THE PROPOSED REVISIONS TO RATE SCHEDULES**
2 **RFT AND RFTLI.**

3 A. Duke Energy Ohio proposes to revise Rate Schedules RFT and RFTLI to eliminate
4 the references to Rider MGP and include references to the new proposed Auction
5 Transition Cost rider (Rider ATC).

B. NEW RATES AND RIDERS

6 **Q. DOES THE COMPANY PROPOSE ANY NEW RATES OR RIDERS?**

7 A. Yes. The Company proposes to implement a new Standard Service Offer rider
8 (Rider SSO), a new Standard Service Offer Rate (Rider SSOR), a new Standard
9 Service Offer Cost Reconciliation rider (Rider SSOCR), a new Standard Service
10 Offer Service (Rate SSOS), and a new Auction Transition Cost rider (Rider ATC).

11 **Q. PLEASE DESCRIBE PROPOSED RIDER SSO.**

12 A. Rider SSO effectively replaces Rider GCR, which is proposed to be cancelled and
13 withdrawn. Rider SSO details how the rate will be determined for customers who
14 do not elect service from a third-party supplier through the Company's Customer
15 Choice Program. This includes Rates RS, RSLI, GS-S and GS-L.

16 **Q. PLEASE DESCRIBE PROPOSED RIDER SSOR.**

17 A. Rider SSOR effectively replaces Rider GCRR, which is proposed to be cancelled
18 and withdrawn. This Rider will be updated monthly and will show the calculated
19 rate resulting from adding the Retail Price Adjustment from the auction to the
20 NYMEX closing price for the month in which the rate will be in effect, converted
21 from a rate per dekatherm (DTH) to a burner-tip rate per CCF by applying the
22 system loss factor and rolling 12-month average BTU. This rate will apply to Rates

1 RS, RSLI, GS-S and GS-L.

2 **Q. PLEASE DESCRIBE PROPOSED RIDER SSOCR.**

3 A. Rider SSOCR will be used to recover costs or refund overcollections for
4 incremental costs associated with providing service under the Company's SSO,
5 including, but not limited to, any incremental provider-of-last-resort costs, costs
6 associated with managing the annual audit, adjustments to charges billed through
7 the SSOR during prior periods, costs associated with storage and transportation
8 costs needed to utilize storage, revenues and penalties received from Commission-
9 approved balancing services, charges that Duke Energy Ohio pays to Duke Energy
10 Kentucky for transportation across Duke Energy Kentucky's system, reconciliation
11 of actual costs to SSO revenue, pipeline transportation charges and credits, and
12 other costs or credits applicable to SSO service. Initially, Rider SSOCR will also
13 be used to recover or pass back the Unrecovered Gas Cost Balance and Refunds
14 remaining from the GCR mechanism. This rider will be updated quarterly.

15 **Q. PLEASE DESCRIBE THE UNRECOVERED GAS COST BALANCE AND**
16 **REFUNDS REMAINING FROM THE GCR MECHANISM THAT WILL**
17 **BE INCLUDED IN RIDER SSOCR.**

18 A. When the Company transitions from the GCR to the SSO auction, there will likely
19 be balances in the Actual Adjustment (AA) and Refund Adjustment (RA)
20 components of the GCR. These balances represent the over- or under-collection of
21 gas costs and refunds received from pipeline transportation service providers prior
22 to the adoption of the SSO auction process. Eventually, the Unrecovered Gas Cost
23 Balance and Refunds remaining from the GCR mechanism will be fully recovered

1 or passed back to customers and this component of the SSOCR will be
2 discontinued.

3 **Q. WHY IS THE COMPANY PROPOSING TO INCLUDE THE**
4 **UNRECOVERED GAS COST BALANCE AND REFUNDS REMAINING**
5 **FROM THE GCR MECHANISM IN RIDER SSOCR RATHER THAN**
6 **RIDER ATC, AUCTION TRANSITION COSTS?**

7 A. Residential firm transportation customers on Rate RFT will be charged Rider ATC,
8 along with customers who have not chosen a third-party supplier. With the
9 exception of customers who switch to Rate RFT just prior to the Company's
10 implementation of the SSO auction process, these customers were not paying the
11 GCR during the time that the over- or under-collection occurred and were not
12 paying for the pipeline transportation associated with any refund, so they should
13 not be included in the recovery or pass-back of the Unrecovered Gas Cost Balance
14 or Refunds remaining from the GCR.

15 **Q. WHY IS THE COMPANY PROPOSING INCLUDING THE COST OF**
16 **STORAGE FOR BALANCING IN RIDER SSOCR RATHER THAN**
17 **ALLOCATING THE STORAGE AND BALANCING RESPONSIBILITY**
18 **TO THE SUPPLIERS?**

19 A. The Company initially considered allocating storage to the SSO suppliers similar
20 to the way Enhanced Firm Balancing (EFBS) works with suppliers to the Customer
21 Choice Program. It was determined that this would not work because Rider EFBS
22 frequently requires suppliers to purchase natural gas from the Company or sell
23 natural gas to the Company to keep their banks within certain tolerances. If the

1 Company allocated all the storage not allocated to EFBS to the SSO suppliers, then
2 the Company would be in the position of dictating to third parties that they must
3 buy or sell natural gas to each other. By keeping the storage used for balancing
4 itself, the Company avoids this complication.

5 **Q. WILL THE COMPANY BE PURCHASING THE GAS THAT IS USED TO**
6 **FILL THE STORAGE?**

7 A. Yes. When the Company instructs the SSO suppliers each day regarding the amount
8 of natural gas they need to deliver, that amount will be increased during the summer
9 months to fill storage and decreased during the winter months to cause withdrawals
10 from storage.

11 **Q. WHAT STORAGE COSTS WILL BE INCLUDED IN RIDER SSOCR?**

12 A. Rider SSOCR will include the demand and commodity charges from Columbia Gas
13 Transmission and Texas Gas Transmission, which are the pipeline companies with
14 which the Company maintains storage service. Similar to the way it works today,
15 additional natural gas purchased during the summer to refill storage will be held in
16 an account that will be expensed as the gas is withdrawn in the winter. As the
17 withdrawn gas is expensed, it will be compared to the amount collected from the
18 SSOR, with the difference being included in the SSOCR.

19 **Q. PLEASE ELABORATE ON THE RECONCILIATION OF ACTUAL**
20 **COSTS TO SSOR REVENUE.**

21 A. As Company witness Brady Gould explains in his direct testimony, the winning
22 bidders in the SSO auction will be delivering gas each day based on that day's
23 requirements and will be paid based on the NYMEX closing price plus the Retail

1 Price Adjustment for that month. However, due to the billing cycles, most
2 customers' usage will not be for just the month in which their meter is read. For
3 example, if a customer's meter is read on December 15th, the usage will contain the
4 last half of November along with the first half of December. However, they will be
5 billed the December SSOR for all of the usage. Therefore, there will never be a
6 perfect matching of payments to the SSO suppliers with the revenue received from
7 customers. In addition, the Company bills customers based on CCF usage, while
8 paying the SSO suppliers on a per-DTH basis. The SSOCR will be used to match
9 up revenues with the amounts paid to the SSO suppliers to assure that the Company
10 is passing through the cost of gas similar to how the GCR works today.

11 **Q. PLEASE DESCRIBE THE NON-BYPASSABLE PROVISION IN RIDER**
12 **SSOCR.**

13 A. In order to protect customers in the event that the Choice Program experiences
14 growth to the extent that only a few customers would be left with the responsibility
15 for a large under- or over-collection, this provision would spread the cost or credit
16 among all firm customers. This provision would only be triggered if the percentage
17 of customers who have switched to a Competitive Retail Natural Gas Service
18 supplier exceeds ninety percent. The Company would make a filing with the
19 Commission to convert the rider to non-bypassable for a period until the switching
20 percentages fall back below ninety percent or the Commission approves a different
21 way to address these costs.

1 **Q. PLEASE DESCRIBE PROPOSED RATE SSOS.**

2 A. The SSOS tariff describes the terms and conditions of how the SSO auction will be
3 executed, and the obligations of both the Company and SSO suppliers for assuring
4 that the demand requirements of customers are met, including the credit
5 requirements for the SSO suppliers. It also includes an addendum with a sample of
6 the SSO Supplier Agreement, which SSO suppliers will need to execute once they
7 are awarded a tranche in the auction. In a similar fashion to how the current Rate
8 FRAS, Full Requirement Aggregation Service, describes requirements for suppliers
9 to the Customer Choice Program, Rate SSOS describes the requirements for the
10 SSO suppliers.

11 **Q. PLEASE DESCRIBE PROPOSED RIDER ATC.**

12 A. Rider ATC will be used to recover or pass back applicable incremental costs
13 associated with the transition from service under the GCR to service under an SSO.
14 It will be updated quarterly and will eventually become zero once the transition to
15 the SSO is completed and any over- or under-collections have been rectified.

16 **Q. WHY IS RIDER ATC APPLIED TO CUSTOMERS TAKING SERVICE**
17 **UNDER RATE RFT AND RATE RFTLI?**

18 A. In the stipulation in Case No. 14-0375-GA-RDR *et al.*, the Company agreed that
19 the SSO transition costs would be recovered by a non-bypassable rider on
20 residential natural gas customers and by a bypassable rider on non-residential
21 natural gas customer bills. Company witness Sarah E. Lawler explains this more
22 fully in her direct testimony.

C. RIDERS TO BE CANCELLED AND WITHDRAWN

1 **Q. DOES THE COMPANY PROPOSE TO ELIMINATE ANY TARIFF**
2 **SCHEDULES IN THIS CASE?**

3 A. Yes. The Company proposes to cancel and withdraw Rider GCR and Rider GCRR
4 since these riders are effectively being replaced by Rider SSO and Rider SSOR. In
5 addition, the Company is cancelling its Rider MGP. Currently, Rider MGP is set at
6 zero. Again, as a result of the settlement in Case No. 14-0375-GA-RDR, *et al.*,
7 which, among other things, resolved the various issues regarding the incremental
8 MGP investigation and remediation costs incurred between 2014 and 2019, the
9 Company agreed that it would terminate the Rider MGP.

IV. CONCLUSION

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

11 A. Yes.

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Summary: Testimony Direct Testimony of Jeff Kern electronically filed by Mrs.
Debbie L. Gates on behalf of Duke Energy Ohio Inc. and D'Ascenzo, Rocco O. Mr.