DUKE ENERGY OHIO EXHIBIT_____

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 21-887-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 21-888-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 21-889-EL-AAM

SECOND SUPPLEMENTAL DIRECT TESTIMONY OF

SARAH E. LAWLER

ON BEHALF OF

DUKE ENERGY OHIO, INC.

IN SUPPORT OF SETTLEMENT

__________ Management policies, practices, and organization

__________ Operating income

__________ Rate Base

__________ Allocations

__________ Rate of return

__________ Rates and tariffs

____X____ Other: Settlement

September 22, 2022

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Second Supplemental Attachment SEL-1
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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Sarah E. Lawler 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 Vice President, Rates and Regulatory Strategy, for Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and Duke Energy Kentucky, Inc. (Duke Energy Kentucky). DEBS provides various administrative and other services to Duke Energy Ohio and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. ARE YOU THE SAME SARAH LAWLER THAT SUBMITTED DIRECT TESTIMONY IN THESE PROCEEDINGS?

A. Yes.

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

A. My Second Supplemental Direct Testimony describes and supports the Corrected Stipulation and Recommendation filed on September 19, 2022 (Stipulation), in these proceedings. In doing so, I summarize the Stipulation terms and conditions and support the stipulated revenue requirement and the corresponding rate impacts. I explain how the Stipulation, as a package, satisfies the Commission's three-part test for evaluating the reasonableness of a settlement. I further explain how the Stipulation resolves these proceedings in a fair and reasonable manner.

II. OVERVIEW OF THE STIPULATION

Q. ARE YOU FAMILIAR WITH THE STIPULATION FILED IN THIS PROCEEDING?

A. Yes. As, Vice President, Rates and Regulatory Strategy for Duke Energy Ohio and Kentucky, my responsibilities include the establishment and implementation of rates for Duke Energy Ohio. As such, I directly participated in negotiating the Stipulation.

Q. WHO ARE THE PARTIES TO THE STIPULATION?

A. The Stipulation is between the following parties to these proceedings: 1) the Company; 2) Public Utilities Commission of Ohio (Commission or PUCO) Staff (Staff); 3) Citizens Utility Board of Ohio (CUB-Ohio); 4) The City of Cincinnati (City); 5) Interstate Gas Supply Inc. (IGS); 6) Nationwide Energy Partners, LLC (NEP); 7) Ohio Energy Group (OEG); 8) Ohio Partners for Affordable Energy (OPAE); 9) One Energy Enterprises, Inc., (One Energy); 10) People Working Cooperatively, Inc. (PWC); 11) Retail Energy Supply Association (RESA); and 12) Walmart Stores East, LP and Sam's East Inc, (Walmart) (collectively, the Signatory Parties). The following parties have signed the stipulation as non-opposing parties: 1) ChargePoint, Inc., 2) The Kroger Company (Kroger); and 3) Ohio Manufacturer's Association Energy Group (OMAEG), (collectively, the Non-Opposing Parties).

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE STIPULATION.

A. The Stipulation resolves, in full, the issues raised in these proceedings among the Signatory Parties and Non-Opposing Parties related to the Company's application to increase its base distribution rates (Application). The negotiations considered numerous issues that were of importance to the Signatory Parties and Non-Opposing Parties in arriving at the final settlement package. The significant settlement terms include, but are not limited to, the following:

- Revenue Requirement for electric distribution service of $578.1 million, excluding all riders, which reflects an increase of $22.6 million comprised of an increase in overall base distribution rates of $23.1 million and a decrease in miscellaneous revenues of $0.5 million. The $578.1 million is comprised of $565.7 million of base distribution revenues and $12.4 million of miscellaneous revenues.
- Capital Structure consisting of 50.5 percent equity and 49.50 percent debt;
- Return on Equity of 9.5 percent;
- Depreciation rates as proposed in the Company's Application and as modified in Staff's report of recommendations (Staff Report).
- A cost of service based upon a 64 percent allocation of base distribution revenues to the residential classes and 36 percent allocation of base distribution revenues to the non-residential classes;
- Billing determinants based upon the test year actual weather normalized sales except for lighting rates which will use the billing determinants in the Company's Application;
- Customer charges as follows:
    - Rates RS, ORH, TD-CPP $8.00 per bill;

- Rate RS3P $10.50 per bill;
- Rate TD $17.50 per bill;
- Rate RSLI remains at $2.00 per bill;
- Rate DM $12 per bill for single-phase service and $24 per bill for three-phase service;
- Rate TS $197 per bill; and
- All other non-residential as proposed in the Company's Application;

- The new baseline for Rider DCI will be the net plant-in service as of the date certain in this proceeding, June 30, 2021. Rider DCI will recover a return on and of incremental investments from that date forward subject to certain caps. The Stipulation establishes new annual caps and a reliability performance-based SAIDI metric for purposes of calculating Rider DCI caps through May 31, 2025;
- Revisions to the Company's Electric Service Reliability Rider (Rider ESRR) for vegetation management expense as proposed in the Company's application and agreed to by Staff. The base-line amount of vegetation management expense included in base rates is $22.5 million;
- Revisions to and resetting of the Company's Distribution Storm Rider (Rider DSR). The amount of major storm expense established in these proceedings as a base level is $3.8 million, which equates to the five-year average of calendar years 2017 through 2021;

- The Distribution Decoupling Rider (Rider DDR) shall continue as currently approved and is adjusted for the updated billing determinants agreed upon in the Stipulation and base distribution revenue per customer outlined in Company Witness Bruce Sailers Second Supplemental Direct Testimony.
- Withdrawal of the Fee Free Electronic Payment proposal, the Reconciliation Rider (Rider RR), and the Community Driven Investment Rider (Rider CDI) as proposed in the Company's Application;
- Approval of changes to the Development Incentive Rider (Rider DIR) that the Company proposed in its Application;
- Withdrawal of changes to the Company's GoGreen Ohio Rider GP that the Company proposed in its Application;
- Rider ETCJA (Electric Tax Cuts and Jobs Act) shall be updated with any future changes in federal tax law as may be ordered by the Commission as part of a future proceeding;
- Updating of rate case expense to actuals and amortizing over a 5-year period as recommended in the Staff Report;
- Commitments regarding a future depreciation study;
- Implementation of a revised Time of Day/Critical Peak Pricing tariff (Rate TD-CPP); and
- Changes to the Company's LED Street Lighting tariffs as proposed in the Company's Application.

In addition, the Stipulation resolves issues raised by Staff and intervening parties during the course of these proceedings, which resolution produces additional benefits to customers, low-income interests, and competitive retail electric service (CRES) providers. These benefits include, but are not limited to:

- Commitments to partner with low-income interests on future energy efficiency and demand side management programs;
- Continuation of existing weatherization programs included in base electric distribution rates;
- Coordination agreements between the Company and the City of Cincinnati regarding the City's future investments in street lighting, new technologies, enhanced communication with outages impacting their water district facilities, facility relocations, and stability in franchise fees. The resolution of the latter franchise fee issue includes a commitment from the City to use a portion of the franchise fee to fund low-income weatherization/energy efficiency and bill assistance programs for qualifying Duke Energy Ohio customers through the City's Warmup Cincy program;
- Adjustments to various fees for CRES providers eliminating the End-use Customer Enrollment/Switching Fee and the Customer Usage Request Charges, and reducing the fee for the Pre-Enrollment End use Customer Information List Fee, thereby reducing costs for CRES providers;
- Establishing a collaborative for evaluating supplier consolidated

billing;

- Tariff clarifications for Power Brokers;
- A process to address a change in law related to a mandate to separate default service costs from distribution rates, should one come to pass;
- Agreement to keep the Company's Field Collection Charge at current levels and that all other miscellaneous charges shall be adjusted as described in the Company's Application; and
- Modifications to the Company's residential tariffs to clarify that at a residential customer's request, the Company will waive late fees once in a twelve-month period.

Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE TO ARRIVE AT THE STIPULATED REVENUE REQUIREMENT.

A. Duke Energy Ohio filed its Application in these proceedings on October 1, 2021, requesting an increase in revenues for electric distribution service of approximately $55 million,[1] based upon a return on equity (ROE) of 10.3 percent and a capital structure consisting of a 50.5 percent equity ratio. After months of investigation, on May 19, 2022, Staff issued its Staff Report. The Staff Report included, among other things, recommendations regarding revenue deficiencies for the Company. On June 17, 2022, the Company filed its objections to the Staff Report explaining the items the Company disagreed with in the Staff Report. As part of my Supplemental Testimony filed on August 18, 2022, I explained those recommended adjustments that the Company agreed with and those it opposed.

[1] The Company's Application sought a $53.7 million increase in base rates and $1 million in misc. revenues for a total of $54.7 million.

In arriving at the agreed upon revenue requirement, the Company first revised its position based upon the Staff Report adjustments the Company agreed with in its objections as outlined in my Supplemental Testimony filed on August 18, 2022. These adjustments revised the Company's requested revenue requirement increase from $54.7 million to $50.7 million and are listed on Second Supplemental Attachment SEL-1 as an attachment to my testimony.

Then, as part of the negotiations, the Signatory Parties and Non-Opposing Parties discussed a number of other recommended adjustments. Some of these adjustments the Company agreed to and others, the other Signatory Parties agreed (and Non-Opposing Parties do not oppose) should not be made as part of the Stipulation. The additional adjustments that the Signatory Parties agreed to, and the Non-Opposing Parties did not oppose, resulted in a final increase of $22.6 million in overall revenues for electric distribution service or approximately 41 percent of the Company's requested revenue increase in its Application. These adjustments are also listed on Second Supplemental Attachment SEL-1 as an attachment to my testimony and I will explain them individually further on in my testimony. These adjustments were agreed to as a package by the Signatory Parties and not opposed by the Non-Opposing Parties and although the Company believes that these are all valid expenses that should be recovered from customers, the Company has agreed to these concessions in the spirit of settlement and compromise and the overall reasonableness of the Stipulation package taken as a whole.

Q PLEASE EXPLAIN THE POLE ATTACHMENT REVENUE ADJUSTMENTS AGREED TO IN THE STIPULATION.

A. The Company made adjustments to pole attachment revenues of approximately $0.8 million to properly reflect current actual pole attachment revenues in the test period and to reflect expected pole attachment revenues based on recent updated tariffs filed by the Company and approved by the Commission earlier this year after the Company had filed its Application in these proceedings. This had the effect of reducing the requested revenue requirement increase by approximately $0.8 million.

Q. PLEASE EXPLAIN THE ADJUSTMENTS AGREED TO IN THE STIPULATION TO REMOVE CERTAIN SUPPLIER DATA ACCESS AND SWITCHING FEES.

A. As part of the Stipulation, the Signatory Parties agreed to remove the End-use Customer Enrollment/Switching Fee and the Customer Usage Request Charges and reduce the fee for the Pre-Enrollment End-use Customer Information List Fee, thereby reducing costs for CRES providers. Non-Opposing Parties do not oppose this adjustment. This resulted in the reclassification of approximately $0.7 million from miscellaneous revenues to base distribution revenues with no impact on the Company's overall requested revenue requirement increase. As the Stipulation explains, the Company's new customer information system that went into service in April 2022 uses EDI transactions to complete enrollments as well as the supplier portal to provide interval meter data. These processes are now automated and therefore there are no discernable incremental costs for these services. Eliminating these fees for CRES providers is thus reasonable because they are no longer producing incremental costs to the Company.

Q. PLEASE EXPLAIN THE IMPACT TO THE REVENUE REQUIREMENT AS A RESULT OF THE AGREEMENT TO A 9.5 PERCENT ROE.

A. As discussed earlier in my testimony, the Signatory Parties have agreed to (and Non-Opposing Parties do not oppose) a 9.5 percent ROE which reduces the requested revenue requirement increase by $10.7 million. Company witness Dylan D'Ascendis explains the reasonableness of this stipulated adjustment in his Second Supplemental Direct Testimony.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO UPDATE THE BILLING DETERMINANTS TO TEST PERIOD WEATHER NORMALIZED ACTUALS.

A. The test period in this case was the twelve months ended March 31, 2022, with the first three months being actual results and the last nine months being forecasted. In their Staff Report, the Staff recommended the Commission approve billing determinants using actual data from calendar year 2021. As part of the Stipulation, the Signatory Parties agreed to use actual data but to use the more recent test period data weather normalized except for the lighting rates which will use the billing determinants in the Company's Application. Non-Opposing Parties do not oppose this adjustment. This resulted in an increase to current base distribution revenues of approximately $7.7 million and thus a reduction in the needed revenue requirement increase of the same amount.

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO INCENTIVE COMPENSATION AGREED TO IN THE STIPULATION.

A. Several adjustments were agreed to by the Signatory Parties, and not opposed by Non-Opposing Parties, to remove various components of incentive compensation from the test period. These adjustments resulted in a decrease in the requested revenue requirement of approximately \$5.4 million and are comprised of approximately \$2.1 million to remove incentive compensation tied to earnings per share (EPS), approximately \$2.4 million of stock-based incentive compensation, approximately \$0.7 million of executive incentive compensation and \$0.2 million related to supplemental executive retirement plan expense.

Q. IS THIS A REASONABLE RESOLUTION OF THE ISSUE OF INCENTIVE COMPENSATION INCLUDED IN BASE RATES?

A. Yes, it is a reasonable resolution in the spirit of settlement and compromise. The Company believes that the entirety of its incentive compensation represents a necessary cost to serve its customers as it is an integral component of reasonable, market-based compensation to its employees necessary in providing safe and reliable service to its customers. It is important that the Company's compensation package is competitive with the external market of similar companies in order for it to remain attractive against competition and retain qualified employees. In that regard, Duke Energy Corporation employs a compensation strategy that combines base pay and variable incentive opportunities for all levels of positions. This approach fosters efficiency, safety, and a focus on the customer by motivating employees to lower costs and generate efficiencies that benefit customers, all while providing employee compensation opportunities at reasonable market-competitive rates that enable the Company to attract and retain the expertise needed to efficiently and effectively provide its electric service to customers.

Having said all of that however, the Company recognized the importance of this adjustment to the Signatory and Non-Opposing Parties and was willing to agree to the adjustment for purposes of settlement. The Stipulation removes all stock-based and financial-related incentives. Additionally, as part of the settlement, the Company agreed to a disallowance of 75 percent of Executive short term incentives when only 50 percent was financial related. The remaining portion of incentives includable in base rates are tied to non-financial/non-stock related metrics.

Q. PLEASE EXPLAIN THE ELIMINATION OF ACCOUNT 912 LABOR AND PAYROLL TAXES AGREED TO IN THE STIPULATION.

A. The Staff Report recommended disallowance of $2.7 million in costs the Company had included in Account 912 on the basis that these expenses recorded to this account involve promotion, demonstration, and sales activities, and are not appropriate for rate-making purposes. The Company was able to explain through discovery that the majority of the costs that are recorded to this account do NOT relate to promotion, demonstration or sales activities. Rather they are costs that pertain to customer account management necessary to provide distribution service. The labor and expenses for large account management for Ohio as well as low-income account management is accounted for here.[2] Additionally, the labor

[2] Second Supplemental Attachment SEL-2, STAFF-DR-21-001 Supplemental

necessary to support web and other online access for customers to review and pay their bills, review usage reports, report outages, start and stop service, etc. is recorded to this account. These are fundamental activities that all benefit Ohio customers.

Additionally, the $2.7 million adjustment that Staff recommended was based on the labor included in the adjusted test year (3 months actuals and nine months budget). When using the 12 months actual data for the test year which was the basis for Staff's labor adjustment that was not disputed in this proceeding, the adjustment would have been $2.4 million.

Upon review of the costs charged to Account 912, it was determined that $2.3 million in labor should have been booked to either Account 908 or 910.[3] As a result, the Signatory Parties agreed for purposes of the Stipulation that these costs should be included in base rates. Non-Opposing Parties do not oppose this adjustment. As a result, the Company's requested revenue requirement only decreased by $0.1 million.

Q. PLEASE EXPLAIN THE ELIMINATION OF PUBLIC ADVERTISING AGREED TO IN THE STIPULATION.

A. The Company proposed a public advertising campaign in its application which the Staff recommended in their Staff Report the Commission not approve. In the spirit of settlement, the Company has agreed to withdraw this advertising campaign and as a result the requested revenue requirement increase is decreased by $1 million.

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[3] Second Supplemental Attachment SEL-3, STAFF-DR-105-001

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO AMORTIZE DEFERRALS OVER FIVE YEARS AGREED TO IN THE STIPULATION.

A. The Company has two deferrals in this proceeding that were proposed to be recovered over three years in the Application: rate case expenses and vegetation management costs. For purposes of settlement, the Company has agreed to amortize these expenses over five years thus reducing the overall revenue requirement increase by $1.2 million.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO MAJOR STOMRS O&M.

A. In its Application, the Company proposed an adjustment to Major Storms O&M based on actual expenses for a five-year period of calendar years 2016 through 2020 as final year 2021 data was not available at the time the Company filed their Application in October 2021. As part of the Stipulation, the Signatory Parties agreed to use actual expenses but to use a more recent five-year period of calendar years 2017 through 2021. Non-Opposing Parties do not oppose this adjustment. This resulted in a reduction to the revenue requirement of $0.7 million.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO CAPITALIZED INCENTIVES AGREED TO IN THE STIPULATION.

A. As part of the Stipulation in its previous electric distribution rate case, the Company agreed to include a credit in Rider DCI to reflect the estimated revenue requirement impact of capitalizing the portion of employee incentive compensation related to the achievement of financial goals and stock-based compensation. For purposes of settlement, the Company agrees that the same methodology be applied to base rates in this proceeding. Although the Company will not be required to modify its corporate parent's convention of capitalizing employee bonus expense, for all incremental investments on projects placed in-service since June 30, 2016, the date certain in the Company's last electric distribution base rate case, the Company will include a credit in rate base in this proceeding and in future Rider DCI and Rider PF filings, as applicable, for the estimated revenue requirement impact of capitalizing employee bonus expense related to the achievement of financial goals and stock-based compensation. This reduces the overall revenue requirement increase by approximately $0.5 million.

Q. PLEASE EXPLAIN THE ELECTRIC SYSTEM OPERATIONS (ESO) FACILITY ADJUSTMENT AGREED TO IN THE STIPULATION.

A. The Signatory Parties agreed to Staff's adjustment to reduce the requested revenue requirement increase by $1.8 million for the portion of the ESO facility attributed to Duke Energy Kentucky. The Company had already agreed to $1.5 million of this adjustment in its initial revised position of a $50.7 million revenue requirement increase but after further settlement discussions, agreed that the adjustment should in fact be $1.8 million. Non-Opposing Parties do not oppose this adjustment.

Q. HOW DID STAFF CALCULATE THIS ADJUSTMENT?

A. Staff reduced rate base by $12.6 million for the net book value of the portion of the facility that they considered would be allocated to Duke Energy Kentucky.

Q. DO YOU AGREE WITH STAFF'S METHODOLOGY AS A BASIS FOR THE CALCULATION?

A. For purposes of this Stipulation in this proceeding it is a reasonable method to determine the reduction to the revenue requirement associated with the distribution-related service to Duke Energy Kentucky. But going forward, Duke Energy Ohio will directly charge Duke Energy Kentucky for the distribution-related services performed at the ESO Facility for Duke Energy Kentucky. In future rate cases, Duke Energy Ohio's rate base will include the total net book value of the ESO Facility, and the revenues received from Duke Energy Kentucky will offset the revenue requirement. This is consistent with the methodology that Duke Energy employs for all shared assets.

Q. PLEASE SUMMARIZE HOW THE STIPULATION RESOLVES THE ISSUE OF ALLOCATING THE STIPULATED REVENUE REQUIREMENT IN THESE PROCEEDINGS.

A. The Company's Application proposed a 63 percent allocation of the total revenue requirement to residential rate schedules and 37 percent allocation of the total revenue requirement to non-residential rate schedules, consistent with the principles of cost causation. The Company's cost of service study actually supported a higher allocation if the Company were to eliminate 100 percent of the residential rate subsidy. In the interests of avoiding rate shock, the Company proposed its 63 percent allocation to residential rate classes. The Staff Report, while recommending a lower revenue requirement than what the Company requested, suggested a higher allocation, 65 percent allocation of the total revenue requirement to residential rate classes. The Stipulation, after negotiation among the parties, arrived at a 64 percent allocation to residential rate schedules and 36 percent allocation to non-residential rate schedules and provides for the following agreed-upon allocation of base distribution revenues across all classes:

Rate Class		Proposed Revenues $	Proposed Revenues %
Rate RS, ORH, TD, RS3P, RSLI	$	362,041,019	64.00%
Rate DS		132,235,604	23.38%
Rate EH		1,509,393	0.27%
Rate DM		34,167,022	6.04%
Rate GSFL		806,026	0.14%
Rate DP		25,184,015	4.45%
Rate TS		117,660	0.02%
Lighting		9,628,354	1.70%
Total	$	565,689,093	100.00%

As I previously stated, the billing determinants are the Company's weather normalized actual sales that occurred during the rate case test year (twelve months ended March 31, 2022) for purposes of recovering the agreed upon revenue requirement for all rates other than lighting. Lighting rates will use the billing determinants in the Company's Application and as recommended in the Staff Report. The electric distribution base rates are calculated using the kilowatt hours and kilowatts included in Stipulation Attachment 3.

Q. YOU MENTIONED THAT THE COMPANY'S COST OF SERVICE STUDY ACTUALLY SUPPORTED A HIGHER ALLOCATION OF COSTS TO RESIDENTIAL RATES IF THE COMPANY WERE TO ELIMINATE 100 PERCENT OF THE RESIDENTIAL RATE SUBSIDY. CAN YOU PLEASE EXPLAIN WHAT YOU MEAN BY A RESIDENTIAL RATE SUBSIDY AND HOW A HIGHER ALLOCATION WAS SUPPORTABLE UNDER THE COMPANY'S COST OF SERVICE STUDY?

A. Rate disparities exist because, over the years, the Company's rates have not been set solely based upon the cost to serve customers as determined by a cost-of-service study. The Company's last distribution base rate case, filed in 2017, resulted in a settlement that did not fully reflect the demonstrated cost of serving each individual class. The result of that case was the perpetuation of inter-class subsidization whereby non-residential classes were paying more, and residential classes were paying less than what the cost-of-service study would indicate.

Although it is a general tenant of ratemaking that each class should, to the extent practicable, pay the cost of providing service to that class, in this case, as in others, the Company chose to follow the rate making principle of gradualism to mitigate the volatility of eliminating 100 percent of this inter-class residential subsidy. In this case, the Company proposed not to change the subsidy that existed in base rates. Eliminating the existing subsidy would require allocating more to the residential classes. Based upon the Company's Application, if the Company were to have eliminated the subsidy of residential classes, the Company would have proposed to increase residential base distribution rates by more than 22 percent vs the 10.9 percent increase in base distribution rates that the Company requested on average for residential customers.

Q. PLEASE EXPLAIN HOW THE STIPULATION ADDRESSES THIS INTERCLASS SUBSIDY.

A. The Stipulation results in a much lower increase than what was included in the Company's Application, representing a 59 percent reduction from the Company's initial request. The Stipulation provides for a negotiated re-allocation of the total revenue requirement to residential customers of 64 percent versus the 63 percent proposed by the Company and the 65 percent recommended by Staff in its Staff

Report. Moving the allocation one percent is reasonable insofar as it moves one step closer to the cost-of-service study-based rate allocation, while maintaining a substantial portion of the existing subsidy. The net impact to residential customers of this allocation, combined with the lower agreed upon revenue requirement results in an overall average increase to residential customers of approximately 2.5 percent.

Consequently, reducing the agreed-upon allocation from the 64 percent to 63 percent as included in the Company's Application or even towards something lower, would only perpetuate and exacerbate the existing inter-class subsidy already embedded in the Company's electric distribution rates. Such a result is contrary to fundamental rate-making principles.

In this case, a 64 percent allocation is reasonable and supportable. An approximate 2.5 percent increase on the average residential customer's total bill is not unreasonable. It is consistent with the principle of gradualism and will not result in rate shock. It maintains a substantial subsidy that the residential customers currently have enjoyed in the Company's existing rates, while moving one small step towards a cost-of-service based rate allocation.

Q. PLEASE SUMMARIZE THE STIPULATED DCI CAPS.

A. The Stipulation provides for the following Rider DCI caps:

- For 2022, the DCI Revenue Cap will be $20.7 million, pro-rated by month for when new base rates as part of this proceeding go into effect.

- For 2023, the DCI Revenue Cap will be $39.1 million. This amount may be increased by an additional $2.4 million to $41.5 million if, in 2022, Duke Energy Ohio achieves a SAIDI of 117. The Revenue Cap amounts for 2023 will be prorated by month should new base rates not go into effect until 2023.
- For 2024, the DCI Revenue Cap will be $57.4 million. This amount may be increased by an additional $2.4 million to $59.8 million if Duke Energy Ohio achieves a SAIDI of 117 in 2023 but not in 2022. This amount may be increased by a total of $4.8 million to $62.2 million if, in 2022 and 2023, Duke Energy Ohio achieves a SAIDI of 117.
- For the five-month period ending May 2025, the DCI Revenue Cap will be $31.6 million. If Duke Energy Ohio achieves a SAIDI of 117 in only one year between 2022 and 2024, the DCI Revenue Cap will be $32.6 million. If Duke Energy Ohio achieves a SAIDI of 117 in only two years between 2022 and 2024, the DCI Revenue Cap will be $33.6 million. This amount may be increased to $34.6 million if Duke Energy Ohio achieves a SAIDI of 117 in every year between 2022 and 2024.

A portion of the DCI Revenue Cap amount each year will depend on the Company's SAIDI performance in previous years. Company witness Mr. Hesse discusses the Company's reliability performance and the reasonableness of the performance-based incentive.

Q. WHAT IS THE ESTIMATED IMPACT TO CUSTOMERS RATES OF THESE AGREED-UPON CAPS TO RIDER DCI?

A. If the Company achieves a SAIDI of 117 each year and recognizes Rider DCI revenues at the capped values, customer rates will increase on average by approximately 1.2 percent per year.

Q. ARE THE AGREED UPON DCI CAPS REASONABLE?

A. Yes. Rider DCI allows the Company to continue to make critical investments in its delivery infrastructure and the DCI Caps agreed upon in this proceeding allow the Company to do so with modest measured annual increases in customer rates. The addition of the SAIDI metric to achieve slightly higher caps provides guardrails that allow for small further increases in customer rate increases only if certain reliability targets are met. In either instance (at the lower or higher cap levels), these caps are lower caps than what the Company proposed in its Application. The continuation of Rider DCI allows the Company to make these critical investments without having to file costly time-consuming electric distribution base rate cases as often as it otherwise would have to absent the Rider DCI. Mr. Hesse explains in his testimony the investments the Company must make to provide safe reliable service to its customers and meet its aggressive reliability targets. He also explains the cost pressures the Company is facing in order to make these critical investments. To the extent the Rider DCI caps are any lower, the Company would be faced with the need to file rate cases more often in order to recover these costs from customers. Meeting existing CAIDI and SAIFI targets will require significant reliability investments, in excess of what is recoverable through Rider DCI at these caps.

Maintaining the ability to timely recover a portion of its investments through Rider DCI will help the Company to maintain cash flows, reduce regulatory lag and reduce the frequency of filing full electric distribution base rate cases. However, the caps are set at levels such that the Company will not be able to avoid filing periodic rate cases which gives Staff and other parties the opportunity to perform a periodic comprehensive review of the Company's books and records.

Q. IS RIDER DCI SUBJECT TO TRUE-UP AND RECONCILIATION? PLEASE EXPLAIN.

A. Yes. Rider DCI is subject to an annual true-up and reconciliation consistent with the agreed-upon caps. Duke Energy Ohio will work with Staff to manage its Rider DCI consistent with the established caps. The Stipulation acknowledges that adjustments may be necessary as part of the true-up process to ensure that the Company is recovering its distribution spend consistent with these caps. This true-up will protect customers from potential over recovery, and the Company from under-recovery in terms of what is permissible to recover under the agreed upon caps.

Q. PLEASE EXPLAIN THE RATE IMPACTS OF THE SETTLEMENT TO AN AVERAGE CUSTOMER.

A. The revenue requirement agreed to in this Stipulation will result in an average 1.4 percent increase on a total customer bill (including generation, transmission and distribution charges). On average, residential customers will experience an approximate 2.5 percent increase on their total bill. On average, the Stipulation will result in an approximate 0.3 percent increase for non-residential customers.

III. STANDARD FOR CONSIDERING THE REASONABLENESS OF A STIPULATION

Q. PLEASE IDENTIFY THE CRITERIA USED BY THE COMMISSION WHEN CONSIDERING APPROVAL OF A STIPULATION.

A. Based upon my experience and expertise in Ohio rate making, review of numerous Commission orders, and direct participation in proceedings before the Commission, I understand that the Commission will approve a stipulation package when it 1) is the product of serious bargaining among capable, knowledgeable parties; 2) does not violate any important regulatory principle or practice; and 3) as a package, benefits customers and the public interest. Further, as I understand, the three-part test considers and evaluates the reasonableness of a settlement as a total package, and not whether any individual issue or component, on a stand-alone basis, passes the three-part test.[4]

Q. DOES THE STIPULATION, AS A PACKAGE, REPRESENT THE PRODUCT OF SERIOUS BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES?

A. Yes. The capability and knowledge of the Signatory Parties and Non-Opposing Parties and their counsel is readily apparent. The Signatory Parties and Non-Opposing Parties represent nearly all intervening parties to these proceedings and include a vast array of stakeholder interests. These stakeholder interests include: Staff who represent all interests in these proceedings; brokers and competitive

[4] *See In the Matter of the Application of Ohio Power Company for an Increase in Electric Distribution Rates,* Case No. 20-585-EL-AIR, *et al.,* Opinion and Order ¶ 131 (Nov. 17, 2021) ("We emphasize that the Commission must evaluate the benefits of the Stipulation as a package and each provision of the Stipulation need not provide a direct and immediate benefit to ratepayers and the public interest.").

suppliers; industrial customers; commercial customers; low-income customer interests; the City of Cincinnati who is representing all of its constituents, including residential customers; large chain grocery and retail stores; and energy product and service providers. All of these parties regularly participate in rate proceedings before the Commission, are very knowledgeable in regulatory matters, and are represented in these proceedings by experienced, competent counsel.

The process that culminated in the Stipulation addressed all of the issues raised by the Signatory Parties and Non-Opposing Parties in these proceedings, with those issues being thoroughly reviewed, discussed, and to the extent agreement could be reached, resolved during negotiations. The negotiations began in June, as directed by the Commission's May 20, 2022, Entry that, among other things, established a pre-hearing conference that provided an opportunity for the parties to conduct settlement discussions.[5]

Following that initial prehearing/settlement conference, the parties to these proceedings began meeting regularly, almost weekly, to discuss issues in the case. After the initial "in-person" meeting, the subsequent settlement discussions occurred virtually with all parties invited to the large group meetings. In addition, the Company offered to meet individually with parties to discuss their specific issues that were raised in their respective objections. If the Company and the individual parties came to terms on a provision, that provision was brought to the remaining parties to provide an opportunity for their review and input. The final Stipulation was agreed upon through electronic exchange of drafts. Despite the

[5] See Entry pg. 2, directing a prehearing conference to be held on June 28, 2022 to "…provide an opportunity for the parties to conduct settlement discussions."

divergent interests among them, all parties, including those opposing the Stipulation, had the opportunity to express their opinions during the negotiation process.

As it relates to the final agreement, the fact that the agreed upon revenue requirement, ROE, and Rider DCI caps are lower than what the Company proposed in its Application demonstrates that serious bargaining occurred. The Stipulation results in an overall lower increase to customers than what the Company requested and a slightly different allocation of the rate increase than what was initially proposed. The Company also agreed to lower residential customer charges than was proposed, including no increase to the low-income monthly customer charge. Moreover, the Company agreed to withdraw several of its proposals in order to reach a final resolution, including a new Rider CDI that would enable a new funding alternative for customer-requested distribution investments, fee-free electronic card payments processes, certain tariff language changes, and a customer information advertising campaign. The Company further agreed to other tariff changes that were of interest to the Staff, brokers, and competitive suppliers, that the Company did not propose in its Application. It is indisputable that serious bargaining occurred.

These proceedings have been pending before the Commission for nearly a year, and all parties had the opportunity to conduct significant discovery and have had ample time to review the Company's Application, Direct Testimony, Objections, and Supplemental Testimony supporting objections. As a total package, this Stipulation represents a balance of issues raised in these proceedings by experienced and competent parties and achieves a reasonable outcome that achieves a balance of all competing interests.

Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE OR PRACTICE?

A. No. Based upon my experience, involvement in these proceedings, and review of the Stipulation, I believe that it complies with all relevant and important principles and practices. This Stipulation provides certainty to all stakeholders by resolving these proceedings in a fair and balanced way. The Stipulation resolves the Company's revenue deficiency to enable it an opportunity to recover its reasonable costs to continue providing safe, reliable, and reasonable electric distribution service.

As I mentioned above, the agreed-upon revenue increase is significantly smaller than what the Company requested in its Application, resulting in a much smaller increase to customers. The Company's Application and requested rate increase was supported by a full cost of service study that allocated costs in a reasonable manner, and consistent with the principles of cost causation. The smaller negotiated increase and the allocation methodology agreed to in the Stipulation is consistent with the principles of cost causation, which prioritizes the assignment of costs to the entity or group of entities that cause the cost on the system, and with the principle of gradualism, that favors smaller increases over time, rather than large increases at once that could produce rate-shock. The final settlement does not result in any unreasonable cost subsidies between rate classes. The 1.4 percent increase to an average customer will not produce rate shock. In fact, this percentage increase is lower than the rate of compounded annual inflation experienced since the Company's last electric distribution base rate increase, which went into effect in 2019.

There is no evidence that contradicts the fact that the Stipulation meets the second prong of the three-part test. The Stipulation is consistent with important rate-making principles of cost causation, follows gradualism, does not create unreasonable cross subsidies, and overall results in a smaller increase to customers that what was initially requested.

Q. DOES THE STIPULATION BENEFIT CUSTOMERS AND THE PUBLIC INTEREST?

A. Yes. If approved without material modification, this Stipulation resolves the rate proceeding in a fair, balanced, and efficient manner. The Signatory Parties and Non-Opposing Parties include stakeholders representing each of the Company's customer classes, who through the negotiation processes, agreed upon an overall revenue increase that is lower than what the Company initially requested, with an overall lower return.

Besides providing the Company an ability to recover its reasonable costs of providing electric distribution service, coupled with an opportunity to earn a reasonable return on the capital it has invested, the Stipulation includes numerous benefits directed towards customers and the public interest. For example, the Stipulation provides for continued funding for low-income weatherization through two programs, one administered by PWC, and a second program, that includes bill assistance and energy efficiency that is administered by the City of Cincinnati. The Company has agreed to not increase the fixed customer charge for low-income customers, no increase to its field collection charge, and a modest overall increase for residential customers. The Company has agreed to many of the adjustments recommended by the Staff and to include a reliability performance-based incentive cap that governs its annual Rider DCI revenues. The Stipulation results in the resetting of several of the Company's riders, including its Rider DDR, Rider DSR, and Rider ESRR. The Company has agreed to either reduce or eliminate certain fees paid by suppliers related to participation in the Company's choice program, commence a collaborative to explore supplier consolidated billing, and to clarify certain credit and testing provisions for power brokers, thereby enhancing the competitive market in the Company's service territory. While the Signatory Parties agree not to implement the Retail Reconciliation Rider as was included in the Company's Application at the direction of the Commission, the Signatory Parties are agreeing to a process to revisit the issue proactively if there is a change in law. The Non-Opposing Parties do not oppose this provision. Additionally, the Stipulation recommends approval of a new Time of Day, Critical Peak Pricing rate for qualifying customers interested in managing their consumption based upon market pricing signals. The Stipulation provides that the Company will amend its residential tariffs to include a provision that the Company will waive an initial late fee for customers over a rolling twelve-month period and commits the Company to work with stakeholders to determine the potential for future energy efficiency and demand-side management programs, particularly for low-income customers.

Accordingly, the Stipulation, by providing all of the forementioned benefits to customers, and the public interest, satisfies the third prong of the three-part test.

Q. DO YOU BELIEVE THE SETTLEMENT REPRESENTS A REASONABLE RESOLUTION OF THE ISSUES RAISED IN THESE PROCEEDINGS? PLEASE EXPLAIN.

A. Yes. The settlement is comprehensive and resolves all issues in these proceedings among the Signatory and Non-Opposing Parties. The Company has been able to make significant investments in its electric distribution system with only modest increases in customer rates. Rate base has increased nearly 60 percent since the Company's last electric distribution rate case in 2017. The Company has instituted cost control measures that will be passed along to customers in this rate case decreasing operations & maintenance expenses nearly $10 million since that last rate case. Additionally, the settlement keeps the fixed customer charge unchanged for low-income customers and continues low-income programs through PWC and the City. The customer charge for most other residential customers increases from $6.00 to only $8.00, significantly less than what the Company proposed in its Application and what was supported by its cost of service study. The continuation of Rider DSR and ESRR allows customers to pay no more or less than the actual costs incurred for these expenses. The continuation of Rider DCI allows the Company to continue to make critical investments in its delivery infrastructure with modest measured annual increases in customer rates. The Stipulation also provides guardrails that allow for small further increases in customer rates only if certain reliability targets are met. In either instance (at the lower or higher cap levels), these caps are lower caps than what the Company proposed in its Application. The Stipulation is reasonable and should be approved.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR SECOND SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes.

Duke Energy Ohio
Summary of Revenue Requirement Adjustments
Case 21-887-EL-AIR, et al

Line No.	Description	Base Distribution Revenues		Miscellaneous Revenues		Total Revenue	
1	Current Revenues per Company Application	$	534.9	$	11.9	$	546.8
2	Proposed Revenues per Company Application	$	588.6	$	12.9	$	601.5
3	Revenue Increase per Company Application	$	53.7	$	1.0	$	54.7
4	Current Revenues per Settlement	$	542.6	$	12.9	$	555.5
5	Proposed Revenues per Settlement	$	565.7	$	12.4	$	578.1
6	Revenue Increase per Settlement	$	23.1	$	(0.5)	$	22.6
	Reconciliation:						
7	**Revenue Increase per Company Application**	**$**	**53.7**	**$**	**1.0**	**$**	**54.7**
8	Remove PUCO & OCC Fees in Gross Revenue Conversion Factor	$	(0.1)			$	(0.1)
9	Plant Adjustments excluding Capitalized Incentives and ESO Facility	$	(0.5)			$	(0.5)
10	ESO Facility Adjustment (Company corrected)	$	(1.5)			$	(1.5)
11	Plant Inappropriately Classified as Held for Future Use (Company corrected)	$	0.2			$	0.2
12	Remove Material & Supplies (M&S)	$	(2.8)			$	(2.8)
13	Remove Accumulated Deferred Income Tax Adjustments	$	1.4			$	1.4
14	Interest on Customer Service Deposits Adjustment	$	(0.1)			$	(0.1)
15	Property Tax Adjustment for M&S	$	(0.4)			$	(0.4)
16	Annualize PUCO & OCC Fees Adjustment	$	0.1			$	0.1
17	Annualize Labor Adjustment	$	-			$	-
18	Customer Connect Expenses Adjustment	$	-			$	-
19	Pole Attachment Revenue (Company Corrected)			$	(0.3)	$	(0.3)
20	**Revised Company Position**	**$**	**50.0**	**$**	**0.7**	**$**	**50.7**
21	Adjust Pole Attachment Current Revenues			$	(1.0)	$	(1.0)
22	Adjust Pole Attachment Proposed Revenues			$	0.2	$	0.2
23	Reverse Pole Attachment Adjustment Above in Line 19			$	0.3	$	0.3
24	Remove Certain Supplier Data Access and Switching Fees	$	0.7	$	(0.7)	$	-
25	Adjust ROE to 9.5 percent	$	(10.7)			$	(10.7)
26	Updated Billing Determinants to Test Period Weather Normalized Actuals	$	(7.7)			$	(7.7)
27	Adjust Incentive Compensation	$	(5.4)			$	(5.4)
28	Eliminate Account 912 Labor & Payroll Taxes	$	(0.1)			$	(0.1)
29	Eliminate Public Advertising	$	(1.0)			$	(1.0)
30	Adjust Rate Case Expense Amortization to 5 Years	$	(0.3)			$	(0.3)
31	Adjust Vegetation Deferral Amortization to 5 Years	$	(0.9)			$	(0.9)
32	Adjust Major Storms O&M to be Based on Average of 2017-2021 Historical	$	(0.7)			$	(0.7)
33	Adjust Capitalized Incentives	$	(0.5)			$	(0.5)
34	ESO Adjustment - Additional	$	(0.3)			$	(0.3)
35	**Revenue Increase per Settlement**	**$**	**23.1**	**$**	**(0.5)**	**$**	**22.6**

Duke Energy Ohio
Case No. 21-887-EL-AIR
STAFF Twenty-First Set Data Requests
Date Received: November 4, 2021

STAFF-DR-21-001
SUPPLEMENTAL

REQUEST:

Please describe in detail activities that are included in ACCT 912 Demonstrating & Selling that comprise the total amount $2,702,045 in labor and $4,127 in non-labor. Please indicate which activities are promotional, educational, etc.

SUPPLEMENTAL RESPONSE: These costs pertain to customer account management necessary to provide distribution service. The labor and expenses for large account management for Ohio as well as low-income account management is accounted for here. Additionally, the labor necessary to support web and other online access for customers to review and pay their bills, review usage reports, report outages, start and stop service, etc. is recorded to this account. These are fundamental activities that all benefit Ohio customers.

The Large Account Management (LAM) Team manages hundreds of Duke Energy Ohio's largest customers, representing approximately 7,000 accounts. LAM's team of Account Executives and Customer Account Specialists serve as the primary point of contact for Duke Energy Ohio's largest customers in assisting with any service or billing/payment-related matter. These accounts include manufacturing, commercial, hospital, institutional, and governmental customers with a combined load of 1.676 GW, and annual energy consumption of 7.7 billion kWh. These customers are the largest employers in the region.

The LAM Team assists these large customers and significant employers with adding new load, working with the Company's Transmission, Customer Delivery, and Natural Gas business units to ensure that all Duke Energy Ohio work is completed on the customer's schedule, and customer can commence operations on their timeline. These large loads are typically more complex in nature and require extensive coordination for on-time power delivery.

The LAM Team also proactively monitors the reliability of Duke Energy Ohio's largest customers to identify areas of the system that are unduly affecting large customers. LAM's Account Executives field calls from their assigned customers regarding reliability issues customers may be experiencing, and work with their Customer Delivery team mates to ensure the successful operation of these businesses and institutions. During storms, the team deploys to Duke Energy Ohio's Operations Centers to assist in fielding outage calls and prioritizing restoration efforts.
Large customers typically have multiple utility accounts, some with as many as several hundred accounts. These customers often take service under some of Duke Energy

Ohio's more complex rates, and often require assistance in validating bills, processing payments, and resolving any billing and payment issues that may arise. The LAM team, by focusing on the region's largest customers, by helping them meet their manufacturing, commercial, educational, health care and public service missions, ensures the economic vitality of our region. These expenses are not for advertising and promotion.

Low-income account management for low-income customers includes costs associated with interacting with local agencies and educating them to better help our customers.

Likewise, the web and online access benefits to customers are available to all. It takes labor and expenses to maintain and develop new services for customers to enable them to access their account information electronically and enable the creation of usage reports, process bill payments, and other access issues

Based on the above, the Company realizes that these types of costs may more accurately be reflected in Account 908 "Customer Assistance Expenses" and plans to explore making this change going forward.

PERSON RESPONSIBLE: Danielle Weatherston

REQUEST:

Please describe in detail activities that are included in ACCT 912 Demonstrating & Selling that comprise the total amount $2,702,045 in labor and $4,127 in non-labor. Please indicate which activities are promotional, educational, etc.

RESPONSE: These amounts include the cost of labor, materials used and expenses incurred in promotional, demonstrating, and selling activities, except for merchandising, the object of which is to promote or retain the use of utility services by present and prospective customers.

Labor related expenses include staff costs for demonstrating uses of utility services; staff costs for exhibitions, lectures, and other programs designed to promote use of utility services; and engineering and technical advice to present to prospective customers in connection with promoting or retaining the use of utility services.

Non-labor related expenses include supplies pertaining to demonstration activities, booth and temporary space rental, and transportation, meals, and incidental expenses.

PERSON RESPONSIBLE: Danielle Weatherston and Tripp Carpenter

Duke Energy Ohio
Case No. 21-887-EL-RDR
STAFF One Hundred and Fifth Set Data Requests
Date Received: August 8, 2022

STAFF-DR-105-001

REQUEST:

Pertaining to DR #21 Supplement, provided by the company on 8/5/2022:

Duke clarifies that labor costs booked to FERC Acct 912 Demonstrating and Selling provide "fundamental activities" and that the company plans to explore changing how these costs are classified going forward.

1. Please identify specifically the revised breakdown of costs (labor and non labor) included in this account for the test year that should have been booked to FERC Account 912 vs. costs that should have been booked to other accounts.
2. Please list the account or accounts that should have been used and provide support for why these costs should have been booked to the alternative accounts.
3. Please provide this data for both the as filed data provided in the original response to DR #21 ($2,702,045 labor and $4,127 non-labor) and for actual test year costs.
4. Please verify that this is a correction the company is making in the rate case and plans to implement going forward for all Duke Ohio (gas and electric) records.

RESPONSE:

Upon review of the costs charged to Account 912, it was determined that $2.3 million in labor should have been booked to either Account 908 or 910. As explained in the Supplemental response to STAFF-DR-21-001, these costs relate to customer account management necessary to provide distribution service. These costs pertaining to customer account management include labor for large account management and low-income assistance as well as labor necessary to support web and other online access for customers to review and pay their bills, review usage reports, report outages, start and stop service, etc. The Company is planning a comprehensive review of all labor and non-labor charges recorded to Account 912 to determine which costs are more appropriately recorded to Account 908 and 910. It is likely that, as a result of that review, additional charges will begin to be categorized in Account 908 and 910 going forward but, due to the numerous small amounts being charged from various departments, a final determination cannot be made at this time. The Company plans to implement the results of this review effective January 1, 2023.

PERSON RESPONSIBLE: Sarah Lawler