

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)
Duke Energy Ohio, Inc., for an) Case No. 23-0618-GA-RDR
Adjustment to the Capital Expenditure)
Program Rider Rate.)

DIRECT TESTIMONY OF

JEFFERSON “JAY” P. BROWN

ON BEHALF OF

DUKE ENERGY OHIO, INC.

March 31, 2023

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Jefferson “Jay” P. Brown, and my business address is 139 East Fourth
3 Street, 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 in January 2002 with The Alexander Companies, a real
14 estate development company, as an Assistant Project Manager managing and
15 developing real estate. Subsequently, in December 2003, I began working for Dell
16 Inc., mainly as a Financial Analyst in Worldwide Procurement Finance, accounting
17 for and reporting on supplier rebates. In January 2008, I began working for Bigfoot
18 Networks, a technology start-up. I was in charge of developing distribution, online
19 and retail channels for a new networking product. Beginning in April 2009, I also
20 served as a Financial Advisor for Edward Jones. In June 2011, I began working as
21 a contractor for Progress Energy and, since February 2012, I have been employed
22 by, and worked for, companies under what is now Duke Energy. The roles I have

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

8 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR, RATES**
9 **AND REGULATORY PLANNING.**

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

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

15 A. Yes. I have provided written testimony in several proceedings before the
16 Commission regarding Duke Energy Ohio's various rates and mechanisms. Most
17 recently, I provided written testimony in Case No. 22-0507-GA-AIR and testified
18 in the Company's application for approval of an alternative form of regulation, Case
19 No. 19-0791-GA-ALT. I have also provided written direct and supplemental
20 testimony in Case No. 22-0618-GA-RDR and 21-0618-GA-RDR.

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

3 A. The purpose of my testimony is to support the reasonableness of Duke Energy
4 Ohio's proposed rate adjustments to the Capital Expenditure Program rider (Rider
5 CEP). I provide an overview of the underlying accounting and calculations of the
6 proposed Rider CEP revenue requirement and sponsor the Application,
7 Attachments A and B, and the CEP Schedules filed on March 31, 2023.

II. REVIEW OF CASE NO. 22-0618-GA-RDR

8 **Q. HAS THE COMMISSION ISSUED AN ORDER IN CASE NO. 22-0618-GA-**
9 **RDR?**

10 A. Yes, the Commission issued its Finding and Order on December 14, 2022, in Case
11 No. 22-0618-GA-RDR. The Company is filing this application to adjust Rider CEP
12 rates for recovery of 2022 CEP investments and deferrals so that the process for
13 adjusting the rates under Rider CEP can proceed as contemplated under the terms of
14 the Opinion and Order in Case No. 19-0791-GA-ALT, as issued on April 21, 2021.
15 Duke Energy Ohio's application is based upon a test year beginning January 1, 2022,
16 and ending December 31, 2022, with a date certain of December 31, 2022. The data
17 being provided herein, and the testimony filed together with this application, is being
18 filed so that the Company will meet its obligation to file Rider CEP updates by March
19 31st of each year.

III. OVERVIEW OF RIDER CEP SCHEDULES

1 **Q. WHAT ATTACHMENTS AND SCHEDULES ARE YOU SPONSORING?**

2 A. The following is a list of the CEP Rider attachments and schedules filed on March
3 31, 2023, 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	2022 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 2023
Schedule 11	Depreciation Offset
Schedule 12	Deferred Tax – Liberalized Depreciation
Schedule 13	Revenue Reconciliation Adjustment
Schedule 14	Reconciliation of Beginning Balances
Schedule 1 (22-507)	2022 Revenue Requirement Calculation
Schedule 2 (22-507)	Prior Year Capital Budget
Schedule 3 (22-507)	Cumulative Estimated Bill Impact
Schedule 4 (22-507)	Monthly Investments
Schedule 5a (22-507)	Depreciation – Distribution Improvement
Schedule 5b (22-507)	Depreciation – Information Technology
Schedule 5c (22-507)	Deferred Depreciation – Information Technology
Schedule 5d (22-507)	Deferred Depreciation – Information Technology
Schedule 6 (22-507)	Deferred Post In-Service Carrying Costs
Schedule 7 (22-507)	Deferred Property Tax
Schedule 8 (22-507)	Incremental Revenue
Schedule 9 (22-507)	Explanation of Variance
Schedule 10 (22-507)	Estimated Capital Budget 2023
Schedule 11 (22-507)	Depreciation Offset
Schedule 12 (22-507)	Deferred Tax – Liberalized Depreciation
Schedule 13 (22-507)	Revenue Reconciliation Adjustment
Schedule 14 (22-507)	Reconciliation of Beginning Balances

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

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

4 **Q. DID THE COMPANY FILE A RATE CASE AS CONTEMPLATED IN THE**
5 **OPINION AND ORDER IN CASE NO. 19-0791-GA-ALT?**

6 A. Yes. The Company filed a natural gas base rate case (Case No. 22-0507-GA-AIR)
7 on June 30, 2022.

8 **Q. WILL THE COMPANY’S ONGOING GAS DISTRIBUTION RATE**
9 **PROCEEDING IN CASE NO. 22-0507-GA-AIR IMPACT RIDER CEP**
10 **RATES?**

11 A. Yes. Upon approval of new base rates, Rider CEP will be reset and amended,
12 including investments placed into service and related regulatory assets recorded
13 after the date certain in the base rate case, or March 31, 2022. Therefore, the
14 Company will be filing two sets of Rider CEP schedules, as included in the
15 application, one reflecting twelve months of 2022 capital additions and retirements
16 with associated deferrals, and the other reflecting nine months of capital additions
17 and retirements with associated deferrals for 2022 that occurred after the rate case
18 date certain. The Company has also proposed additional modifications to
19 provisions in Rider CEP that could impact the Rider CEP rate, including a
20 volumetric rate design for Rate IT, auto approval of the rate, cessation of the rate
21 case depreciation offset, and new rate caps for Rider CEP. The schedules provided
22 in this application related to Case No. 22-0507-GA-AIR are for informational
23 purposes only and will need to be revised with the final rate of return, cost of debt,

1 and other relevant inputs that have yet to be finalized in the case. The Company
2 will submit final schedules after an order in Case No. 22-0507-GA-AIR is received.

3 **Q. PLEASE DESCRIBE HOW THE RIDER CEP REVENUE REQUIREMENT**
4 **IS CALCULATED.**

5 A. As outlined on Schedule 1, the Rider CEP Revenue Requirement comprises an
6 annualized return on rate base (Line 21) and the recovery of annualized operating
7 expenses (Line 25). The revenue requirement also includes a revenue reconciliation
8 adjustment (Line 27) which is necessary to true-up any over or under recovery of
9 previously authorized revenue requirements. The CEP rate base includes net plant
10 in service and the CEP deferral regulatory asset offset by Accumulated Deferred
11 Income Taxes (ADIT). Annualized operating expenses include amortization of the
12 CEP deferral regulatory asset, annualized depreciation expense, and annualized
13 property taxes.

14 **Q. PLEASE EXPLAIN HOW NET PLANT IN SERVICE HAS BEEN**
15 **CALCULATED.**

16 A. As outlined on Schedule 1, net plant in-service includes gross capital investments
17 placed in service since December 31, 2012, through December 31, 2022, adjusted
18 for retirements and offset by accumulated depreciation, adjusted for retirements, on
19 those investments. The Company has also reduced plant in-service for the
20 depreciation that has occurred on existing assets in rate base since December 31,
21 2012, through December 31, 2022 (2012 Rate Case Depreciation Offset on Line 5).
22 The details of plant in-service can be found on Schedule 4. The details of

1 accumulated depreciation can be found on Schedule 5. The Company's calculation
2 of the 2012 Rate Case Depreciation Offset is shown on Schedule 11.

3 **Q. PLEASE DESCRIBE HOW THE DEPRECIATION OFFSET HAS BEEN**
4 **CALCULATED.**

5 A. The Company's depreciation offset is calculated by summing the total natural gas
6 depreciation expense from the Company's FERC Form 2 filings for each year of
7 2013 through 2022, and then subtracting the following:

- 8 (1) Rider AMRP depreciation expense,
- 9 (2) Rider AU depreciation expense,
- 10 (3) Rider CEP depreciation expense,
- 11 (4) Common Plant Gas depreciation expense, and
- 12 (5) Production depreciation expense.

13 The sum total, with those exclusions above, equals the 2012 Rate Case Depreciation
14 Offset.

15 **Q. HAS THE COMPANY INCORPORATED ALL OF THE ADJUSTMENTS**
16 **AND RECOMMENDATIONS FROM THE AUDIT REPORT IN CASE NO.**
17 **22-0618-GA-RDR?**

18 A. Yes, the Company has incorporated all of the adjustments and recommendations
19 from the audit report as approved in Case No. 22-0618-GA-RDR.

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

22 A. The CEP deferral regulatory asset includes deferred depreciation expense, property
23 tax expense, and post-in-service carrying costs related to the capital additions made

1 since December 31, 2012, through December 31, 2022. Additionally, the Company
2 has included an offset for incremental revenue the Company has earned that is
3 attributed to the investments being recovered in this rider. Deferred depreciation
4 expenses are outlined on Schedule 5. Deferred post-in-service carrying costs are
5 outlined on Schedule 6. Deferred property tax expenses are outlined on Schedule
6 7. The incremental revenue offset calculation is shown on Schedule 8.

7 **Q. WERE THESE DEFERRED EXPENSES CALCULATED IN**
8 **ACCORDANCE WITH PROVISIONS OF THE COMMISSION'S OPINION**
9 **AND ORDER ISSUED IN CASE NO. 19-0791-GA-ALT?**

10 A. Yes. The CEP deferral regulatory asset was calculated using the formulas
11 proposed, and approved by Stipulation, in the Company's application in Case No.
12 19-0791-GA-ALT, which were originally established in Case Nos. 13-2417-GA-
13 UNC and 13-2418-GA-AAM.

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

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

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

20 A. Deferred expenses, such as deferred depreciation, deferred property taxes, and
21 deferred post-in-service carrying costs, are amortized over the life of the underlying
22 assets using the 2.25% composite depreciation rate authorized in Case No. 19-0791-
23 GA-ALT. Amortization of CEP deferral regulatory assets is calculated based on

1 the cumulative deferral balance less amortization of previously approved deferral
2 regulatory assets for which deferral has ceased.

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

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

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

10 A. Duke Energy Ohio will allocate costs between customer classes utilizing the
11 allocation percentages from its last natural gas base rate case, Case No. 12-1685-
12 GA-AIR, *et al.* Next, the allocated revenue requirement will be converted to a
13 monthly fixed charge based on the number of customer bills for the twelve months
14 ended December 31, 2022.

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

16 A. Schedule 13 provides the reconciliation of costs recoverable and estimated costs
17 recovered, and the methodology and calculation of that reconciliation related to the
18 revenue requirements in Case Nos. 19-0791-GA-ALT, 21-0618-GA-RDR, and 22-
19 0618-GA-RDR. The Company has included the under-recovered balance of 1.0
20 million dollars as an adjustment to the revenue requirement in Schedule 1, Line 27.

21 **Q. PLEASE DESCRIBE THE CONTENTS OF NEW SCHEDULE 14.**

22 A. Schedule 14 provides the reconciliation of CEP ending balances on Schedule 1
23 Revenue Requirement Calculation from the prior CEP case (Case No. 22-0618-

GA-RDR) to beginning balances in the underlying CEP case. Any adjustments or differences to prior ending balances are quantified and explained on the schedule. Schedule 14 was included per Recommendation #1 from the Blue Ridge Consulting Services, Inc. audit report as approved by the Commission on July 27, 2022, in Case No. 21-0618-GA-RDR.

Q. PLEASE DESCRIBE THE CONTENTS OF THE NEW SCHEDULES, ATTACHED AS SCHEDULES 1 THROUGH 14 (22-507), AS A RESULT OF PENDING CASE NO. 22-0507-GA-AIR.

A. In previous filings, Schedules 5a and 5b calculated the deferred depreciation regulatory asset for Schedule 1, Line 9 and was used to calculate a portion of the depreciation expense for Schedule 1, Line 4. It is necessary to separate these schedules moving forward because of Case No. 22-0507-GA-AIR. The date certain of that case is March 31, 2022, and the depreciation expense for the year should be calculated only on assets after April 1, 2022, however the deferred depreciation expense will need to be calculated on all plant in service in 2022, including the first three months (January through March) of 2022. Without these changes, the regulatory asset for 2022 would be understated as deferred depreciation should be calculated on the entire balance until those assets are included in rates. Therefore, deferred depreciation should include all 2022 assets up through and until the earlier of the implementation of new base rates in Case No. 22-0507-GA-AIR or the implementation of new Rider CEP rates in November 2023.

1 **Q. PLEASE DESCRIBE THE IMPACT OF CASE NO. 22-0507-GA-AIR ON**
2 **PISCC.**

3 A. PISCC should be treated the same as deferred depreciation, as described above, and
4 calculated on all 2022 assets until the earlier of the implementation of new base
5 rates in Case No. 22-0507-GA-AIR or the implementation of new Rider CEP rates
6 in November 2023. If it is not calculated in this manner, the regulatory asset would
7 likewise be understated.

8 **Q. PLEASE DESCRIBE ANY SIGNIFICANT ADJUSTMENTS THAT THE**
9 **COMPANY MADE TO PRIOR CEP ENDING BALANCES FROM CASE**
10 **NO. 22-0618-GA-RDR.**

11 A. Schedule 14 does not contain any significant adjustments to prior CEP ending
12 balances. However, the Company did identify four minor adjustments, including
13 two rounding adjustments, that resulted in a \$5,211 reduction to Net Rate Base on
14 Line 19. Note that one of the corrections for fully amortized intangible assets was
15 already reflected in the Blue Ridge active model but was not incorporated into the
16 Company's CEP schedules until the instant filing. Correction of this issue resulted
17 in a \$1,326 increase in Regulatory Assets on Line 10.

18 **Q. WHAT ARE THE ESTIMATED MONTHLY RIDER CEP RATES**
19 **PROJECTED TO BE INCLUDED IN NOVEMBER 2023 BILLS?**

20 A. As outlined on Schedule 1, commencing with November 2023 bills, the Company
21 projects that the monthly Rider CEP rate for residential customers (Rate RS) will
22 be approximately \$11.31 per monthly bill prior to reconciliation and \$11.46 per
23 monthly bill after reconciliation. The monthly rate for small general service

1 customers (Rate GS-S) and small firm transportation customers (Rate FT-S) is
2 projected to be \$22.23 per monthly bill prior to reconciliation and \$22.53 per
3 monthly bill after reconciliation. The monthly rate for large general service
4 customers (Rate GS-L) and large firm transportation customers (Rate FT-L) is
5 expected to be \$128.67 per monthly bill prior to reconciliation and \$130.37 per
6 monthly bill after reconciliation. For interruptible transportation customers (Rate
7 IT), the monthly rate is expected to be approximately \$3,216.47 per monthly bill
8 prior to reconciliation and \$3,258.96 per monthly bill after reconciliation.

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

11 A. Yes. The Company excluded 294.1 million dollars of assets from investment year
12 2022, as outlined in Schedule 4, Line 12.

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

14 A. Attachment A includes copies of the existing, redlined, and proposed tariff
15 amendments to Sheet No. 84.02, P.U.C.O. Gas No. 18 for the November 2023
16 adjustments. Attachment B provides a comparison of typical bills for each rate
17 schedule between currently approved Rider CEP rates and proposed Rider CEP
18 rates reflecting the November 2023 adjustments.

IV. REASONABLENESS OF RIDER CEP RATES

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

21 A. A residential customer using 100 CCF of natural gas can expect their bill to
22 decrease by approximately 0.3 percent in November of 2023 as compared to

1 currently approved Rider CEP rates, as a result of the proposed rate decrease for
2 Rider CEP.

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

5 A. For investment year 2022 included in the annual update filing made by the
6 Company, the Company agreed to a cap on residential customer rates of \$11.31, or
7 an increase of no more than \$1.00 from the previous year's residential Rider CEP
8 rate of \$10.31. Schedule 1 outlines this calculation for the year 2022. As shown on
9 Line 43 of Schedule 1, the rate impact as of December 31, 2022, is \$11.31 prior to the
10 revenue reconciliation adjustment and \$11.46 after consideration of the previously
11 approved revenue requirement that was not collected from customers. This represents
12 a rate increase of \$1.00 per monthly bill prior to reconciliation and a rate decrease of
13 \$0.27 per monthly bill after reconciliation related to 2022 investments as compared to
14 the current Rider CEP residential rate of \$10.31 (prior to reconciliation) in Case No.
15 22-0618-GA-RDR.

16 **Q. PLEASE EXPLAIN WHY THE RIDER CEP RESIDENTIAL RATE**
17 **DECREASED, COMPARED TO THE PRIOR CEP CASE, AFTER THE**
18 **REVENUE RECONCILIATION ADJUSTMENT.**

19 A. As shown on Line 43 of Schedule 1, the proposed Rider CEP rate for residential
20 customers as of December 31, 2022, is \$11.46 after incorporating the revenue
21 requirement that was not collected from customers. This proposed rate reflects an
22 increase of only \$0.15 above the \$11.31 cap for 2022 investments. In contrast, the
23 Rider CEP rate for residential customers as of December 31, 2021, was \$11.82,

1 which is \$1.51 greater than the \$10.31 cap for that case. This higher rate was due
2 to the large under-recovered balance of 10.3 million dollars (SCH 13) as an adjustment
3 to the revenue requirement for 2021 investments in Case No. 22-0618-GA-RDR.

4 **Q. DO YOU BELIEVE THE PROPOSED RATES ARE REASONABLE AND**
5 **PRUDENT?**

6 A. I do. I have reviewed the capital investment balances and the CEP deferral
7 regulatory asset as it relates to the proposed rates, ensuring they are within the
8 authorized annual caps, as well as for consistency with the Company's accounting
9 procedures and to ensure that the assets included in the CEP deferral regulatory
10 asset were not double counted as part of any other cost-recovery mechanism. I
11 believe that the Company's proposed Rider CEP rates are reasonable and prudent.

V. CONCLUSION

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

14 A. Yes.

15 **Q. WERE THE ATTACHMENTS AND SCHEDULES TO THE**
16 **APPLICATION PREPARED BY YOU OR UNDER YOUR DIRECTION**
17 **AND CONTROL?**

18 A. Yes.

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

20 A. Yes.

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Case No(s). 23-0618-GA-RDR

Summary: Testimony Direct Testimony of Jay P. Brown on behalf of Duke Energy Ohio, Inc. electronically filed by Mrs. Minna Sunderman on behalf of Duke Energy Ohio, Inc. and D'Ascenzo, Rocco and Akhbari, Elyse.