BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Natural Gas Rates.	)))	Case No. 22-507-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of an Alternative Form of Regulation.	)))	Case No. 22-508-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 22-509-GA-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 22-510-GA-AAM

TESTIMONY IN RESPONSE TO OBJECTIONS TO THE STAFF REPORT OF

DAVID M. LIPTHRATT

RATES AND ANALYSIS DEPARTMENT
ACCOUNTING & FINANCE DIVISION

STAFF EXHIBIT ___

May 17, 2023

1. Q. Please state your name and business address.

A. My name is David M. Lipthratt. My address is 180 East Broad Street, Columbus, Ohio, 43215-3793.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utilities Commission of Ohio (the Commission or PUCO) as a Public Utilities Administrator within the Rates and Analysis Department.

3. Q. Please briefly describe your educational and professional background.

A. I earned a Bachelor of Arts degree that included a major in Political Science and a minor in History from the University of Georgia. Subsequently, I earned a Masters in Public Administration degree with a focus on public budgeting and finance and policy analysis from the University of Georgia. In addition, I earned a post-baccalaureate Certificate of Accounting Concentration at Columbus State Community College. I am a Certified Public Accountant (Ohio License # CPA.48876). Moreover, I have attended various seminars and rate case training programs sponsored by this Commission, professional trade organizations, and the utility industry community.

4. Q. Please describe your work experience.

A. I have previously served as a Budget/Management Analyst for the Ohio Office of Budget and Management and a Fiscal Officer for the Ohio Department of Commerce. In each of these roles I have been responsible for various accounting and financial-related tasks and responsibilities.

5. Q. Have you testified in previous cases at the PUCO?

A. Yes.

6. Q. What was your responsibility in this case?

A. I was the case team leader and oversaw Staff's review of the Application.

7. Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the following Ohio Consumers Counsel's (OCC) objections: 1 – 5, 7, 13, and 22 – 26.

OCC Objection 1

8. Q. OCC objects to the recommended revenue increase on Schedule A-1 as it claims the revenue increase is unjust and unreasonable due to the use of inappropriate and incorrect rate base, operating expenses, and rate of return, as detailed below in OCC's Objections. Please respond.

A. Given the components of the Stipulation and Recommendation (Stipulation) filed in this case, Staff believes the stipulated revenue requirement is reasonable. After reviewing all parties' objections, Staff made several corrections resulting in a stipulated revenue increase of $31,689,742, which Staff deems to be reasonable.

9. Q. Explain the adjustments made from the Staff Report of Investigation to arrive at the stipulated revenue requirement.

A. Embedded within the stipulated revenue requirement are the following adjustments to the Staff Report of Investigation:

- The Stipulation reflects an additional $2,132,937 in capitalized financial incentives.[1]
- The Stipulation reflects an additional $147,995 of allocated jurisdictional plant-in-service associated with fitness center expenditures as the Staff Report erroneously removed the expenditures twice.
- The Stipulation reflects an additional $4,199 in depreciation expense, which is a flow-through effect from the fitness center adjustment described above.

[1] The Signatory Parties agree to the Company crediting customers for the amount of capitalized financial incentives through Rider CEP on a going forward basis.

- The Stipulation reflects an additional $2,124 in property tax expense, which is also a flow-through effect from the fitness center adjustment described above.
- The Stipulation reflects an additional $171,117 in miscellaneous expense, which addresses a double-counting error in the Staff Report.
- The Stipulation reflects an additional $511,183 in 15 labor related test year operating expenses.
- The Stipulation reflects an additional $36,955 of the amortized balance of the Integrity Management Program deferral as there was an error in the Staff Report in applying Staff's adjustment to the amortization period.
- The Stipulation reflects several changes to miscellaneous revenues.
  - The result of the three following changes result in $9,130 being removed from miscellaneous revenues and included in base rates:
    - The Reconnection Service shall be $70, whereas the Staff Report recommended $60, and the Application proposed $100.
    - The Field Collection charge shall be eliminated; whereas the Staff Report recommended $30, and Application proposed $50.

- The Meter Pulse Service for installation of meter pulse equipment shall be $1,000 and the replacement of the Meter Index shall be $730. The Applicant proposed $1,000 for the installation of the meter pulse equipment and $750 for the replacement of the Meter Index. The Staff Report accepted the $1,000 for installation of the meter plus equipment and recommended $730 for the replacement of the Meter Index.

- The result of the three following changes result in $102,121 not being included in base rates:
  - The $4 Switching Fee has been eliminated and is now $0 resulting in an adjustment of $83,691.
  - Rate Codes were modified resulting in an adjustment of $18,330.
  - The Customer Information List was adjusted resulting in a $100 adjustment.

OCC Objection 2

10. Q. OCC objects to the inclusion of bad debts as part of the revenue requirement factor-up as the uncollectible expenses will not materialize, if at all, until several months beyond the test year. Further, OCC states that it

has not been established that the increased revenues from this rate case will result in increased uncollectible expense. Please respond.

A. The gross up is intended to account for the collection cost and time value of money associated with bad debt, which is not collected through the uncollectible expense rider (Rider UE-G). The gross up of the revenue requirement is to account for the proportional increase to uncollectible expense that comes with the increase in revenues. The gross up of the uncollectible expense is similar to federal income taxes and is intended to set the going forward uncollectible expense based off the Commission's approved adjustment of revenues.

OCC Objection 3

11. Q. OCC objects to Staff's recommended treatment of rate case expense. OCC asserts Staff should have recommended that consumers be compensated for the rate case expense collected from consumers in excess of what has been incurred by Duke if the time between rate cases exceeds five years. Delaying a rate case beyond this period, OCC argues, would allow Duke to collect these costs from consumers on the basis of an outdated and potentially inflated rate of return. Please respond.

A. A company's revenues and expenses are expected to increase or decrease over time; it is not expected that revenues and most types of expenses mirror the test year or remain constant. However, in Ohio there is not a truing up of these components in subsequent base distribution rate cases. Base distribution rates are established from annualized and normalized test year expenses. Rate case expense is included in the test year expenses and Staff avers that it should be treated consistently to other types of expenses in that it is not isolated and trued up between distribution rate cases. For this reason, Staff avers that this treatment is not unreasonable. Staff would note that the amortization of rate case expense in this case is five years, which coincides with when the rates for Rider CEP goes to zero, unless the Company files an application for new base rates.

OCC Objection 4

12. Q. OCC objects that Staff should have reduced the stranded investment at retirement for the rate of return that consumers were paying for the operation of propane facilities. Please respond.

A. Staff's treatment of the propane facilities is consistent with the Stipulation and Opinion and Order in Case No. 21-1035-GA-AAM. The way in which the net book value was established was determined in that case.

OCC Objection 5

13. Q. OCC objects that the Staff erred in recommending a ten-year amortization period for charging consumers for the deferred asset from the propane plant retirement. The ten-year amortization period, OCC argues, is too short for

this asset and, because of it, consumers will pay higher, unreasonable rates. Please respond.

A. The stipulation in Case No. 21-1035-GA-AAM, which the Commission adopted, required an amortization period of no less than ten years. Staff attempted to align the customers who would have benefited from the caverns with the recovery. The longer the amortization period the more likely customers that never used the caverns would pay for them. Additionally, Staff attempted to strike a balance amongst all interests as there are no carrying charges on the recovery of the regulatory asset. The ten-year amortization complies with the Commission order in Case No. 21-1035-GA-AAM and for all the reasons state, Staff avers a ten-year amortization period to be reasonable.

OCC Objection 7

14. Q. OCC supports the position of Staff that no amortization of Customer Connect costs should be allowed in this case since Duke failed to request deferral accounting treatment for those expenses. However, in the event that the expenses are allowed for collection from consumers in this rate case, OCC recommends that the PUCO amortize those expenses and all investment associated with Customer Connect over a period no shorter than 15 years. Please respond.

A. Staff notes that the Stipulation includes no recovery of the Customer Connect costs making an objection on amortization moot. Staff has not recommended an amortization period should the Commission grant recovery authority in this proceeding.

OCC Objection 13

15. Q OCC supports the interest expense deduction adjustment proposed by Duke and the PUCO Staff. However, OCC argues that due to changes in the rate of return as recommended by OCC, the interest deductible adjustment will change. OCC argues the interest expense deductible adjustment must be consistent with the rate of return recommended by OCC. Please respond.

A. As a result of the Stipulation, the interest expense was updated to reflect the flow-through effects on income tax expenses. Please refer to Exhibit A. which reflects the flow-through effects on income tax expenses.

OCC Objection 22

16. Q. OCC objects to the Staff Report because it fails to recommend that the capital expenditure rider (Rider CEP) should include an O&M savings offset. Please respond.

A. Staff finds an O&M offset is not necessary for Rider CEP. Staff avers that a base distribution rate case is the appropriate place to recognize expense recovery not associated with the CEP, whether increases or decreases.

OCC Objection 23

17. Q OCC alleges that Duke's description of the automatic approval process for annual CEP charge cases is vague and undefined. Therefore, OCC objects that Staff's acceptance of an undefined process could potentially harm consumers. Please respond.

A. Staff recommends the automatic approval process be consistent with the process of other companies' riders in which rates are automatically approved. The standard process for automatic rate adjustments allows for due process and true ups that may produce immediate reimbursements.

OCC Objection 24

18. Q. OCC objects that PUCO Staff's proposed $1.50 per month residential rate cap on annual increases to Duke's CEP charge is too high to protect consumers. OCC argues that Staff should have recommended a CEP charge rate cap of no more than $1.00 per month. Please respond.

A. While the Company requested an annual rate cap of $3.00 in 2022 and $5.00 per year thereafter, which cumulatively would have resulted in $28, the Staff Report recommended a cumulative increase of $9.00, which Staff found to be reasonable. The Stipulation resulted in an average annual rate cap of $1.59, which is $9.53 on a cumulative basis. Given the terms of the Stipulation, Staff finds the $9.53 to be reasonable.

OCC Objection 25

19. Q. OCC objects to the discontinuance of the depreciation offset for calculating the CEP charge. OCC states that the depreciation offset recognizes the decline in legacy plant that is included in rate base used to set base rates. If the depreciation offset is not included as component to the CEP charge, OCC argues that Duke will enjoy enhanced profits while collecting rates through the CEP charge outside of a general rate case for investment placed into service. Please respond.

A. The company filed a rate case, therefore depreciation is balanced with plant investment. Staff supports no depreciation offset at this time. However, the depreciation expense level recovered in base rates is more significant the longer a company stays out from setting new distribution rates resulting in a depreciation offset being necessary or prudent.

OCC Objection 26

20. Q. OCC states that the Staff failed to account for the overall impact of Duke's application, including additional increasing charges, on residential consumers. OCC argues that PUCO Staff issued a recommended rate increase even though Duke's application was missing critical information and that the application is unjust and unreasonable to residential customers. Accordingly, OCC objects that the PUCO Staff should have recommended

that Duke's application be rejected and recommended that Duke file a new rate case application. Please respond.

A. The Commission's October 19, 2022, Entry found that Duke's application for an increase in rates and application for an alternative rate plan meets the requirements of R.C. 4909.17 to 4909.19, the standard filing requirements contained in Ohio Adm.Code 4901-7, and Ohio Adm.Code 4901:1-19-06. In addition, Staff was able to request any additional information from the Company that it deemed appropriate in order to carry out its investigation into this matter. Staff found the Application filed by Duke as modified by the Staff Report and Stipulation to be just and reasonable.

21. Q. Does this conclude your testimony?

A. Yes. However, I reserve the right to submit supplemental testimony as new information subsequently becomes available.

Exhibit A

DUKE ENERGY OHIO, INC.
CASE NO. 22-507-GA-AIR
INTEREST EXPENSE DEDUCTIBLE
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2022

WORK PAPER REFERENCE NO(S).:
WPC-3.10a, SCHEDULE B-1, SCHEDULE D-1

SCHEDULE C-3.10
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PURPOSE and DESCRIPTION		AMOUNT
PURPOSE and DESCRIPTION: To reflect federal income taxes at 21% due to interest deductible for tax purposes being based on rate base at March 31, 2022 as shown on Schedule B-1 and the weighted cost of debt of 1.94% as shown on Schedule D-1.		
Total		$ (1,110,954)
Jurisdictional allocation percentage		100%
Jurisdictional amount	To Sch C-3 Summary <---	$ (1,110,954)

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the **Testimony in Response to Objections to The Staff Report of David M. Lipthratt, Rates and Analysis Department, Accounting & Finance Division** has been served upon the below-named counsel via electronic mail, this 17th day of May, 2023.

/s/ *Robert Eubanks*
Robert Eubanks

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