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VIA HAND DELIVERY

June 21, 2010

RECEIVED

JUN 21 2010

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Case No. 2010-0146

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of the *Direct Testimony of B. Mitchell Martin on Behalf of Duke Energy Kentucky* being filed in the above referenced matter.

Please date-stamp the two copies of the letter and the filings and return to me in the enclosed envelope.

Sincerely,

Dianne B Kuhnell

Dianne B. Kuhnell
Senior Paralegal

cc: Dennis Howard

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
JUN 21 2010
PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
An Investigation of Natural Gas Retail Competition Programs	)	Case No. 2010-00146
	)	

DIRECT TESTIMONY OF

B. MITCHELL MARTIN ON BEHALF OF

DUKE ENERGY KENTUCKY

June 21, 2010

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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is B. Mitchell (Mitch) Martin. 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, an affiliate service company of Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company). I am the Manager of City Gate Operations within the Gas Operations Department of Duke Energy Corporation (Duke Energy) and its subsidiaries, which include Duke Energy Kentucky and Duke Energy Ohio, Inc (Duke Energy Ohio).

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER OF CITY GATE OPERATIONS?

A. I have responsibility for the operation of Duke Energy's gas transportation programs, including Duke Energy Ohio's Gas Customer Choice program and Duke Energy Kentucky's IT (Interruptible Transportation) and FT-L (Firm Transportation – Large) programs. I am responsible for billing of Duke Energy Ohio's and Duke Energy Kentucky's interruptible transportation customers and firm and interruptible pool operators, as well as administering of Duke Energy Ohio's and Duke Energy Kentucky's electronic bulletin board for suppliers and customers. I oversee the payment and booking of expenses included in Duke Energy Kentucky's Gas Cost Adjustment (GCA) and Duke Energy Ohio's Gas Cost Rider.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I received a Bachelor of Business Administration in Finance from the University of Cincinnati in 1991. I have also received training through courses in many related areas including energy efficiency, financial reengineering, operational reporting and analysis.

Q. PLEASE SUMMARIZE YOUR BUSINESS EXPERIENCE.

A. I have worked in the natural gas industry for approximately eight years. I joined Duke Energy's Gas Operations Department in 1991, and progressed through various positions within the Budgets and Business Analysis section and Gas Regulatory Affairs section. From 1997 to 2008, I served in various roles including Benefits Coordinator, Compensation Supervisor, and Accounts Receivable Supervisor. I became Manager of City Gate Operations in March of 2008.

Q. HAVE YOU EVER TESTIFIED BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION?

A. No.

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

A. The purpose of my testimony is to identify and discuss the Company's position on retail choice for natural gas service in Kentucky including the elements set forth in the Commission's Order initiating this proceeding as originally proposed by the General Assembly. Throughout my testimony, I will also discuss additional regulatory, customer, commercial and utility protections that must be in place in any retail natural gas customer choice program. I also address the Company's position regarding the Competitive Market Safeguards identified in the Kentucky Public Service Commission's (Commission) November 3, 2008, letter to the General Assembly.

II. RETAIL NATURAL GAS CHOICE

Q. DOES DUKE ENERGY KENTUCKY CURRENTLY OFFER CUSTOMERS A CHOICE IN WHO PROVIDES THEIR GAS COMMODITY SERVICE?

A. While Duke Energy Kentucky does not offer a choice of commodity suppliers to all customer rate classes, the Company does have a transportation program available for large non-residential customers (using at least 20,000 CCF per year) who take service under the Company's Firm Transportation Rate (Rate FT-L) and purchase their natural gas commodity from a competitive supplier. The Full Requirements Aggregation Service (Rate FRAS) allows gas suppliers to deliver to the Company, on an aggregated basis, those natural gas supplies that are needed to satisfy the requirements of the firm transportation customers that comprise the membership of the Supplier's pool. Rate FRAS sets forth the terms and conditions for the suppliers and the Company to follow to ensure customers continue to receive reliable service.

Q. PLEASE BRIEFLY DESCRIBE DUKE ENERGY KENTUCKY'S GENERAL POSITION REGARDING CUSTOMER CHOICE FOR RETAIL NATURAL GAS SERVICE.

A. Duke Energy Kentucky supports a utility's ability to choose to design and implement a customer choice program for retail natural gas service based upon the utility's own operating circumstances, if the utility believes such a program is in the best interests of both the company and its customers. However, Duke Energy Kentucky does not believe the Commonwealth of Kentucky should implement a mandatory state-wide retail natural gas choice program because the circumstances in each utility's service area are different.

Q. PLEASE EXPLAIN WHY THE COMMONWEALTH OF KENTUCKY SHOULD NOT IMPLEMENT A MANDATORY STATE WIDE RETAIL NATURAL GAS CHOICE PROGRAM.

A. First, the Company is not aware of any empirical study that proves retail competition results in lower prices for customers. Retail choice is about choice - the ability of a customer to decide who will supply the natural gas commodity. Presently, Kentucky's regulated natural gas utilities' actual cost of gas flows through the GCA with no markup. While some utilities, like Duke Energy Kentucky, do engage in some method of hedging and procure supply contracts with varying lengths of terms to mitigate volatility of natural gas prices, for the most part, Kentucky gas customers are paying for gas at market prices adjusted either monthly or quarterly depending upon the utility. The only clear benefit through choice is the fact that suppliers can offer pricing alternatives other than the utility's direct pass through of actual cost of natural gas. Intuitively, suppliers will not set their price, in the long run, at a level that is below market. There must be some margin in the commodity price offered to cover the supplier's fixed- and short-run marginal costs, marketing costs, billing costs and profit. There is absolutely no guarantee that retail customer choice will result in lower prices for gas commodity service for customers. Suppliers must earn a profit on the commodity service they provide, otherwise there is no incentive for them to be in the market. This is compared to Duke Energy Kentucky, a regulated utility that earns $0.00 on the sale of natural gas commodity through the GCA. The only guarantee for customers in a retail choice program is the ability to choose a gas supplier. Duke Energy Kentucky does not dispute that some customers may be willing to pay more for gas in exchange for the right to choose a supplier and to lock in a fixed commodity price for a period of time. As such, a retail choice plan could be a viable alternative if the incumbent natural gas utility and its customers believe such a program is in their best interests.

Second, because Kentucky's natural gas utilities are not identical, there needs to be sufficient flexibility in a utility's ability to design and implement any type of service offering, including retail customer choice programs. A comprehensive and mandatory state-wide program would likely be very rigid and would likely impose greater costs upon Kentucky customers as each utility would have to conform its unique operations to a standard program that may not be operationally feasible. If the utility itself decides a retail choice program is in the best interests of the company and its customers, the utility should be able to present such a plan to the Commission for its review, approval and oversight.

For example, Duke Energy Kentucky's parent company, Duke Energy Ohio operates in a retail choice state for both electricity and natural gas. In order to keep its utility operations running efficiently and at a reasonable cost, if Duke Energy Kentucky were to someday choose to implement a retail program, the Company would desire that it closely match the program in Ohio. The similarity would be important due to the proximity of the two service territories, the interconnection of the Ohio and Kentucky natural gas delivery systems and the manner in which Duke Energy provides gas supply planning, metering, billing, call center, customer education and other specific services for its Ohio and Kentucky gas utility operations. Similar programs would allow the Company to implement a program in Kentucky in the most cost effective manner by taking advantage of the experience, best practices, controls and operations already in place within Duke Energy. Duke Energy Kentucky recognizes that its preferred approach may not be the preferred methodology for all other gas utilities in the Commonwealth. Accordingly, Commission must allow any retail program to be designed by the utility, which is in the best position to determine the operational parameters necessary to employ a successful and cost-effective program.

Q. SHOULD THERE BE SOME MINIMUM CRITERIA OR GUIDELINES FOR RETAIL CUSTOMER CHOICE PROGRAMS FOR A UTILITY TO INCLUDE IN ITS PROGRAM?

A. Yes. As I stated above, utilities need flexibility to design a retail choice program that suits their unique operations. This need for flexibility must be balanced with the fact that the Commission needs to ensure that any retail choice program proposed by a utility contains fair, just and reasonable protections for customers, the utility and the marketers who wish to participate. To assist the Commission with oversight and to assist utilities in program design, there should be common criteria or guidelines allowing sufficient flexibility that each program developer can use to construct a cost-effective and successful retail choice program. Such guidelines will ensure the Commission has all necessary authority to oversee the utility's proposed choice program.

Q. PLEASE BRIEFLY DESCRIBE WHAT CRITERIA SHOULD BE INCLUDED IN THE MINIMUM STANDARDS OR GUIDELINES FOR RETAIL CHOICE PROGRAM DEVELOPMENT.

A. The minimum standards should touch on many of the elements set forth by the General Assembly and listed in the Commission's Order initiating this investigation. The criteria to be addressed in those minimum standards should include:

- A description of the Commission's role in the competitive marketplace;
- A general policy regarding the obligation to serve customers of both the competitive retail gas provider and the utility;
- A designation of the utility as the supplier of last resort in the event of supplier default;
- Alternative commodity procurement or pricing options;
- A policy of non-discriminatory access for customers to retail gas services;
- A code of conduct for marketers of retail gas services including utility affiliates with protections for customer information and data;

- Billing guidelines which include options for utility consolidated billing and dual billing for customers and the option for utility purchase of receivables at a reasonable discount rate based upon the utility's carrying costs and collection experience;
- Payment priority for the utility such that regulated charges are allocated first dollars paid by a customer;
- Certification process for competitive suppliers at the Commission and a registration process that includes bonding or parental guarantees with the utility;
- Recovery of a utility's transition costs from customers;
- Recovery of a utility's stranded costs;
- Recovery of a utility's uncollectibles including purchased receivables;
- Authority for only the utility to disconnect for non-payment of a competitive supplier's portion of the bill;
- Necessary steps to maintain system integrity; and
- Access to pipeline storage capacity.

Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S POSITION REGARDING THE COMMISSION'S ROLE IN THE COMPETITIVE MARKET PLACE.

A. Duke Energy Kentucky believes the Commission should maintain all of its current authority over utilities and maintain its role in consumer protection. The Commission already has the authority to approve a fair, just and reasonable retail gas customer choice program, as evidenced by Columbia Gas of Kentucky's ongoing pilot. The Commission should maintain this authority, with sufficient flexibility, to review and approve programs proposed by natural gas utilities that are customized to fit the unique characteristics of the utility's operations and customer base. The Commission should have regulatory oversight over a competitive supplier wishing to participate in a utility's program to ensure there are adequate protections for Kentucky's consumer base, the jurisdictional utilities, and competing competitive suppliers. The Commission must be able to certify all competitive suppliers wishing to operate in Kentucky based upon a finding of financial, technical and managerial expertise. Competitive suppliers should be required to renew their certificates with the Commission every two years. Competitive suppliers should be required to maintain official corporate information on file with the Commission. The competitive suppliers must also be subject to the consumer complaint process, provide annual reports to the Commission and pay a fair portion of the Commission's annual assessments.

The Commission must also be allowed to assess penalties against the competitive supplier if the supplier fails to: (1) abide by the contractual terms with the customer or the utility; or (2) follow any rules established by the Commission, whether for safety, billing, reporting, general practices, etc. The potential penalty should include the authority to revoke, suspend, modify, limit or condition the certification and should include the authority to assess a monetary penalty payable to the General Fund as with penalties assessed against regulated utilities.

Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S POSITION REGARDING THE OBLIGATION TO SERVE CUSTOMERS IN THE COMPETITIVE MARKETPLACE.

A. In the current regulated environment, regulated utilities have an obligation to serve customers located within boundaries of their defined service territories. In a competitive market, where customers may choose who is supplying the natural gas commodity, customers will still rely upon the utility to provide safe and reliable natural gas delivery. Moreover, customers should not bear the risk of a lack of a commodity source should their chosen supplier leave the market for any reason. The natural gas utility must act as the supplier of last resort to assure there is an adequate and reliable source of natural gas supply. The supplier of last resort, also referred to as provider of last resort (POLR), is a guarantee to all customers in the utility's service territory that gas service will continue to be available no matter what. The POLR acts as a safety net to ensure that customers will have access to natural gas regardless of supplier availability. POLR service will impose costs upon the utility providing the service and the Commission should continue to grant the utility cost recovery of all POLR-related costs with a reasonable return where applicable, including but not limited to, maintaining gas supply and capacity, necessary overhead, and any hedging or storage costs.

Q. PLEASE FURTHER EXPLAIN THE NEED FOR A PROVIDER OF LAST RESORT AND HOW IT COULD OPERATE.

A. A utility that chooses to submit a retail choice program to the Commission for approval should acknowledge the POLR obligation to serve and include a plan to satisfy that obligation. As I briefly mentioned above, the POLR acts as a safety net to customers to ensure that there is always an available supply of natural gas should the customer and their chosen marketer be unable to meet its supply commitment. There are a number of situations that could arise causing a customer to need or want to return to the utility supply. The marketer could simply choose to stop service in Kentucky, default financially or the customer could simply choose not to shop for a supply.

The utility's POLR obligation may be satisfied in any number of ways such as through a price structure approved by the Commission or by the utility maintaining a defined reserve margin or through an alternative commodity procurement procedure such as an auction. Because the utility must stand by ready to serve the customer at any possible given moment, even in the dead of winter, the POLR obligation will impose costs upon the utility. Those costs could fluctuate greatly during the year. Therefore, as part of any proposed choice program approved by the Commission, the utility must be able to recover those costs through a non-bypassable variable rate adjustment mechanism such as the GCA.

Q. PLEASE DISCUSS ALTERNATIVE COMMODITY PROCUREMENT OR PRICING OPTIONS.

A. Current regulation in Kentucky provides for low cost, reduced volatility pricing by the utility essentially at market prices adjusted either monthly or quarterly depending upon the utility. However, if the utility and its customers determine that there is a need for alternative procurement or pricing options, the utility should not be prohibited from proposing alternative options for customers, including fixed price or "NYMEX Plus" pricing options.

Q. PLEASE EXPLAIN DUKE ENERGY KENTUCKY'S POSITION REGARDING CUSTOMER ACCESS TO THE NATURAL GAS SUPPLIER AND SERVICES OFFERED.

A. Duke Energy Kentucky firmly believes that if a marketer wants to participate in a utility's proposed program, they must meet certain minimum customer access criteria. Competitive suppliers should be required to offer non-discriminatory access to their products and services. While the Company believes that suppliers should be able to design prices and programs to suit their business operations, they should not be permitted to simply "cherry pick" particular customers to the exclusion of other similarly situated customers. This sort of consumer access protection could be incorporated into a code of conduct in a fashion similar to the various rules contained in the Kentucky Administrative Regulations applicable to utilities.

Q. WHAT IS THE COMPANY'S POSITION WITH RESPECT TO A CODE OF CONDUCT FOR BOTH MARKETERS AND AFFILIATES OF UTILITES WHO SEEK TO PARTICIPATE IN A CHOICE PROGRAM?

A. As I mentioned previously, Duke Energy Kentucky believes that there should be a code of conduct applicable to all suppliers who wish to participate in any utility-proposed retail natural gas choice program. Such a code of conduct would serve as a consumer protection device from deceptive marketing or unfair business practices of any retail supplier. Kentucky law already has a code of conduct for utilities and their affiliates to ensure there is no unreasonable competitive advantage given to a company simply because of the nature of an affiliation with a utility.

Q. WHAT AREAS SHOULD BE ADDRESSED IN A COMPETITIVE RETAIL NATURAL GAS SERVICE SUPPLIER CODE OF CONDUCT?

A. There are many areas that should be addressed in a supplier code of conduct, including rules to prevent unfair, misleading, or deceptive practices. Ohio Administrative Code Chapter 4901:1-29 provides an example of the types of regulations that should be included. For instance, there should be clear rules regarding marketing, solicitation and advertising of services, including a clear list of what information should be included in any advertisement for services, such as clear disclosures of prices, terms and conditions. There should be guidelines for administration of contracts and provisions outlining the customer's rights and supplier interaction with customers. Suppliers should be prohibited from switching customers without their written consent and should be prohibited from physically disconnecting service or threatening to disconnect service to customers for non-payment of supplier charges, contract termination by customer, or any other reason. Suppliers should be required to retain records to verify compliance with all rules and regulations, cooperate with the utility and the Commission to investigate and resolve disputes and customer complaints, and provide requested information to the Commission immediately upon request.

Utilities should not be required to address customer issues that solely involve the competitive supplier's provision of service. Therefore, suppliers, like all utilities operating in the Commonwealth, should ensure customers have reasonable access to its service representatives to make inquiries and complaints, discuss charges on customer bills, terminate competitive service and transact any pertinent business. Telephone access should be toll free and afford customers prompt response times during normal business hours. There should also be a 24 hour automated telephone message instructing callers to report any service interruptions or natural gas emergencies to the incumbent natural gas company. Suppliers should be required to provide copies of all advertising to the Commission upon request.

There should be clear rules and regulations for customer enrollment whereby the supplier is required to coordinate with the utility in accordance with the procedures designed as part of the utilities approved choice program. Suppliers should be prohibited from misrepresenting their affiliation with a gas utility, governmental body or consumer group. Customers should be able to rescind their enrollment within seven days if they choose to remain with the utility. All enrollments should be written and a customer should be required to sign a contract.

A supplier must be prohibited from transferring a certificate to operate as a marketer without prior Commission approval. There must be prohibitions from abandoning or terminating contracts with a utility or a customer without providing at least 60 days notice to the Commission and the Commission must grant approval.

Suppliers must be required to post their rates for the various customer classes with the Commission and make them available to the utility. Suppliers should be required to clearly list and advertise all price offerings. The specifics and parameters of all offers should be easily understood.

Q. PLEASE EXPLAIN DUKE ENERGY KENTUCKY'S POSITION ON BILLING IN THE COMPETITVE MARKET.

A. A utility should offer billing options to suppliers that include "rate-ready" utility consolidated billing and dual billing. "Rate-ready" utility consolidated billing allows the supplier to provide monthly rates according to pricing arrangements agreed upon between the supplier and customer, and to which the utility attaches rate codes for billing purposes. The customer receives one bill from the utility that indicates the name of the supplier and contains both the regulated utility and competitive supplier charges. The supplier should pay a reasonable fee to the utility for this billing service. With dual billing, the customer will receive two bills - the utility will bill and collect for the regulated utility charges and the supplier is responsible for billing and collecting the competitive gas supply charges, including any past due amounts related to the competitive charges. The supplier should pay the utility for any billing system changes required to support any other billing options requested by the supplier.

Duke Energy Kentucky believes that there needs to be a clear payment priority between regulated and competitive charges on customer bills, especially if the utility is providing customers with a consolidated bill. The regulated charges should always receive priority over a competitive charge, including in the case of arrearages. If a customer makes a partial payment, the payment should be applied first to utility charges in arrears, then to utility current charges, then to supplier charges in arrears, and then to supplier current charges.

The utility should have flexibility to include the purchase of supplier receivables in its choice program if it chooses to do so. Utilities should be able to purchase the receivables at some reasonable discount rate based upon the utility's carrying costs and collection experience. The utility should not be harmed by the purchase of receivables, especially since the supplier is the only beneficiary of such a service since both the risk and collection/credit functions are transferred from the supplier to the utility. In addition, utilities should be permitted the flexibility to recover any uncollectible expenses incurred either from suppliers or through a discrete adjustment mechanism such as the mechanism used for POLR cost recovery.

Q. PLEASE DESCRIBE THE CERTIFICATION PROCESS FOR COMPETITVE SUPPLIERS THAT SHOULD BE INSTITUTED FOR ANY CUSTOMER CHOICE PROGRAM.

A. The Commission should have a standard process for certification of competitive gas suppliers to operate in Kentucky. The application forms provided by the Commission should provide for sufficient information to enable the Commission to assess the supplier's managerial, financial, and technical capability to provide the service it intends to offer, its ability to provide reasonable financial assurances sufficient to protect regulated sales service customers and natural gas companies from default, and its ability to comply with commission rules or orders. The information should include: 1) ownership and organizational descriptions; 2) managerial experience and capabilities and prior regulatory or judicial actions; 3) balance sheets, credit ratings, and other relevant financial information; 4) technical ability and experience in nominating, scheduling, and providing natural gas to retail customers; 5) proof of a Kentucky office and an employee in this state; and 6) statements as to whether the applicant has ever been terminated from any choice program; if applicant's certification has ever been revoked or suspended; or if applicant has ever been in default for failure to deliver.

Competitive suppliers must demonstrate adequate financial responsibility in order to participate in a utility's gas choice program. The cost of gas can be volatile. Competitive suppliers who commit to serve customers at a fixed cost but fail to hedge the cost of their gas supply may be at risk for loss if the cost of gas increases significantly.

Q. SHOULD THERE ALSO BE A REGISTRATION PROCESS FOR COMPETITIVE SUPPLIERS WITH THE UTILITY TO PARTICIPATE IN THE UTILITY'S RETAIL CHOICE PROGRAM?

A. Yes. There should be a registration process that is uniform for all suppliers. The supplier must be required to provide financial information to the utility so that the utility may assess the best method to cover its financial exposure to the supplier's operations. The utility should be allowed to require the supplier to provide a parental guarantee, letter of credit, cash deposit, or other evidence of financial security in the event of abandonment. The method of calculating the utility's financial exposure to the supplier should be included as part of the utility's plan and approved by the Commission so there is a clear and transparent process that is fairly administered.

Q. PLEASE DESCRIBE THE TYPES OF TRANSITION COSTS AND STRANDED COSTS UTILITIES WILL LIKELY INCUR IN IMPLEMENTING A RETAIL CHOICE PROGRAM.

A. There will be transition costs for any utility seeking to implement a retail customer choice program. This would include, but is not limited to, billing system upgrades and other system development and information technology (IT) related costs, program roll out expenses, incremental regulatory and administrative expenses, personnel costs such as training for call center employees, and educational advertising and communication expenses incurred to establish and promote retail competition in its service territory. There needs to be clear guidance from the Commission in its minimum standards or guidelines that reasonably incurred transition costs could be recovered by the utility implementing the choice program. Any transition costs incurred directly as a result of a particular competitive supplier, for example, billing system changes for particular pricing schemes, should be borne by that supplier. More general transition costs such as personnel training that have benefits accruing to choice customers should be borne by suppliers and/or choice customers.

Similarly, there will be stranded costs that should be recoverable. Customers that decide to switch to a competitive supplier should continue to pay the true-up portion of the utility's GCA for some period of time after switching since the over- or under- recovery was accumulated while the Company was purchasing gas on behalf of the customer. To mitigate stranded costs, suppliers should be required to accept released interstate pipeline capacity on a recallable basis from the utility that was acquired to serve their customers' load. The utility should establish a mechanism to assign this stranded capacity to suppliers in its choice program proposal.

Q. PLEASE DESCRIBE THE TREATMENT OF UNCOLLECTIBLES IN A COMPETITIVE PROGRAM.

A. Recovery of uncollectible expense (*i.e.* bad debt) is an issue that needs to be addressed. If the competitive supplier is billing on its own and the utility is not purchasing the supplier's receivables, then recovery of an uncollectible expense for the gas commodity by the utility should not be an issue for the gas distribution company. If, however, a utility is purchasing the receivables from the supplier and in turn bills the customer on a consolidated bill for that commodity service, then the utility should be able to recover any associated uncollectible expense through a rate adjustment mechanism or a direct charge back to suppliers. The utility should not face the risk of loss on the commodity portion of an uncollectible expense simply because the utility offers a billing service as a convenience to customers and suppliers.

Q. SHOULD COMPETITIVE SUPPLIERS BE ABLE TO DISCONNECT CUSTOMERS FOR NONPAYMENT?

A. No. The utility should be the only entity to physically disconnect a customer's gas service for non-payment, or for any other reason. Disconnection by the utility, which is experienced in disconnection activities, ensures that appropriate work and safety procedures are followed. If the utility is purchasing the receivables of the supplier and including the competitive charges on the utility's consolidated bill, the receivable should be treated as a utility receivable, and the utility should be permitted to disconnect customers for non-payment of the competitive charges in the same manner as the regulated charges. If the utility is not purchasing the receivables of the supplier, that supplier should "drop" the non-paying customer out of the supplier's customer pool, at which time the customer will return to the utility for commodity service.

Q. PLEASE DESCRIBE ANY STEPS THAT ARE NECESSARY TO MAINTAIN SYSTEM INTEGRITY.

A. Again, the utility that proposes a choice program should address system integrity as part of the plan filed for Commission approval. Reasonable provisions could include mandatory interstate pipeline capacity assignments to suppliers subject to recall by the utility, cash out charges for supplier under- and over deliveries and non-compliance with Operational Flow Orders, and collateral requirements to help meet system supply needs. The utility may specify the amount of gas that the supplier must deliver for the next gas day, based upon the load profiles of customers being served by the supplier, in order to reliably meet system loads. The utility should have reasonable assurance, from any supplier intending to deliver gas into the utility's delivery system, that they have adequate firm interstate pipeline capacity contracts. In other words, suppliers must demonstrate that they hold sufficient firm capacity to assure delivery of supply for their customers to the utility's city gate. The utility also needs to have the right to direct suppliers to deliver a portion of their supply on various pipelines to maintain system pressures.

Q. PLEASE EXPLAIN HOW THE COMMISSION SHOULD HANDLE ACCESS TO PIPELINE STORAGE CAPACITY IN A RETAIL MARKET.

A. Since each utility is in a unique position relative to on-system as well as pipeline storage, the Commission should not set a rigid, state-wide standard for handling access to pipeline storage capacity. The utility should not be required to assign pipeline or storage capacity to suppliers, especially if the utility is functioning as the POLR. The utility should address provisions for handling daily and monthly supplier balancing issues in its choice program proposal, but the mechanics of how that works should be left up to the individual utility. If a supplier desires pipeline storage capacity in addition to any balancing services provided to suppliers by the utility, then that supplier should arrange for their own storage capacity.

III. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

VERIFICATION

State of Ohio)

) **SS:**

County of Hamilton)

The undersigned, B. Mitchell Martin, being duly sworn, deposes and says that he is the Manager of City Gate Operations within the Gas Operations Department of Duke Energy Business Services, LLC., that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

B. Mitchell Martin

B. Mitchell Martin, Affiant

Subscribed and sworn to before me by B. MITCHELL MARTIN on this 21st day of JUNE, 2010.

Adele M. Dockery

NOTARY PUBLIC

ADELE M. DOCKERY
Notary Public, State of Ohio
My Commission Expires 01-05-2014

My Commission Expires: 1/5/2014