

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke )  
Energy Ohio, Inc., for Administration of the )  
Significantly Excessive Earnings Test under ) Case No. 17-932- EL-UNC  
Section 4928.143(F), Revised Code, and Rule )  
4901:1-35-10, Ohio Administrative Code. )

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**DIRECT TESTIMONY OF**

**LISA D. STEINKUHL**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

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April 13, 2017

## **TABLE OF CONTENTS**

|   | <b><u>PAGES</u></b> |
|---|---------------------|
| <b>I. INTRODUCTION AND PURPOSE .....</b>        | <b>1</b>            |
| <b>II. BACKGROUND .....</b>                     | <b>2</b>            |
| <b>III. COMMISSION'S SEET GUIDELINES .....</b>  | <b>4</b>            |
| <b>IV. SCHEDULES SPONSORED BY WITNESS .....</b> | <b>10</b>           |
| <b>V. CONCLUSION .....</b>                      | <b>12</b>           |

### **Attachments:**

LDS-1: Return Earned on Average Electric Common Equity

LDS-2: Adjusted Net Income as of December 31, 2016

LDS-3: Summary of Net Income Eliminations

LDS-4: Average Electric Common Stock Equity

LDS-5: Net Plant Allocation Factor

LDS-6: Summary of Assumptions

LDS-7: Performance Benchmarks

**I. INTRODUCTION AND PURPOSE**

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

2   A.   My name is Lisa D. Steinkuhl. My business address is 139 East Fourth Street,  
3       Cincinnati, Ohio 45202.

4   **Q.   BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5   A.   I am employed as Rates & Regulatory Strategy Manager by Duke Energy  
6       Business Services LLC, an affiliate service company of Duke Energy Ohio, Inc.,  
7       (Duke Energy Ohio or Company).

8   **Q.   PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**  
9       **QUALIFICATIONS.**

10  A.   I received a Bachelor Degree in Mathematics from Western Kentucky University  
11       in Bowling Green, Kentucky. After completing my Bachelor Degree, I received a  
12       Post Baccalaureate Certificate in Professional Accountancy from the University  
13       of Southern Indiana in Evansville, Indiana. I became a Certified Public  
14       Accountant (CPA) in the State of Ohio in 1993.

15  **Q.   PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

16  A.   After receiving my Post Baccalaureate Certificate in 1988, I was employed by  
17       small public accounting firms. I was hired by Cinergy Services, Inc., the  
18       predecessor to Duke Energy Business Services LLC, in 1996, as a tax accountant.  
19       I held various positions with Cinergy Services, Inc., including responsibilities in  
20       Regulated Business Financial Operations, Commercial Business Asset  
21       Management, and Budgets and Forecasts. I joined the Rates Department in April  
22       2006 as a Lead Rates Analyst and have held my current position as Rates &

1 Regulatory Strategy Manager since January 2014.

2 **Q. PLEASE DESCRIBE YOUR DUTIES AS RATES & REGULATORY**  
3 **STRATEGY MANAGER.**

4 A. As Rates & Regulatory Strategy Manager, I am responsible for the preparation of  
5 financial and accounting data used in retail rate filings and various other rate  
6 recovery mechanisms for Duke Energy Ohio and its subsidiary, Duke Energy  
7 Kentucky, Inc.

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

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
12 **PROCEEDING?**

13 A. I will first provide a brief overview of the Significantly Excessive Earnings Test  
14 (SEET) and then I will discuss the SEET calculation of Duke Energy Ohio and the  
15 attachments supporting the calculation.

## **II. BACKGROUND**

16 **Q. WHY IS IT NECESSARY FOR DUKE ENERGY OHIO TO SHOW THAT**  
17 **IT DOES NOT HAVE SIGNIFICANTLY EXCESSIVE EARNINGS?**

18 A. Pursuant to R.C. 4928.143(F), the Commission is required to evaluate the  
19 earnings of each electric distribution utility's approved ESP to determine whether  
20 the adjustments in the ESP result in significantly excessive earnings. R.C.  
21 4928.143(E) addresses the issue of significantly excessive earnings in the context  
22 of an ESP having a term longer than three years.

1 Duke Energy Ohio is currently providing a standard service offer (SSO) of  
2 competitive retail electric services pursuant to an ESP that was approved by the  
3 Commission on April 2, 2015. The terms of the ESP are set forth in the  
4 Commission's Opinion and Order in Case No. 14-841-EL-SSO (ESP Order).

5 **Q. DID THE ESP ORDER THAT THE COMMISSION ISSUED ON APRIL 2,**  
6 **2015, ADDRESS THE ADMINISTRATION OF THE SEET TO DUKE**  
7 **ENERGY OHIO?**

8 A. Yes. With regard to calculation parameters, the ESP Order did not disagree with  
9 the methodology proposed by Duke Energy Ohio and used in its prior SEET  
10 proceedings. That methodology provides as follows:

- 11 • Net income as shown on page 117, column (c), line (78) of  
12 the [FERC] Form 1, adjusted for the following, if  
13 necessary:
- 14 • Eliminate all impacts related to the purchase accounting  
15 recorded pursuant to the Duke Energy/Cinergy merger.
- 16 • Eliminate all impacts of refunds to customers pursuant to  
17 R.C. 4928.143(F).
- 18 • Eliminate all impacts of mark-to-market accounting.
- 19 • Eliminate all impacts of material, non-recurring  
20 gains/losses, including, but not limited to, the sale or  
21 disposition of assets.
- 22 • Eliminate all impacts of material, non-recurring revenue or  
23 expenses.

- 1           •       Eliminate all impacts of parent, affiliated, or subsidiary  
2                       companies and, to the extent reasonably feasible and  
3                       prudently justified in the opinion of Duke Energy Ohio,  
4                       eliminate the impacts of its natural gas distribution  
5                       business.

6       The adjusted net income will be divided by Common Equity to determine the  
7       resulting return on equity. Certain adjustments will be made to Common Equity.

- 8           •       Common Equity used in the calculation will be the  
9                       beginning and ending average common equity of Duke  
10                      Energy Ohio on a stand-alone basis.
- 11          •       Equity will be adjusted to eliminate the acquisition  
12                      premium recorded to equity pursuant to the Duke  
13                      Energy/Cinergy merger.
- 14          •       Eliminate the cumulative effect of the Net Income  
15                      adjustments.

16   **Q.   DOES THE ESP ORDER DEFINE “SIGNIFICANTLY EXCESSIVE**  
17   **EARNINGS”?**

18   A.   No. Pursuant to the ESP Order, the threshold for significantly excessive earnings  
19       will be determined with the context of this case for calendar year 2016.

### **III.       COMMISSION’S SEET GUIDELINES**

20   **Q.   WHAT GUIDELINES DID THE COMPANY FOLLOW WHEN**  
21   **PREPARING ITS 2016 SEET FILING?**

22   A.   The Company has followed the guidelines found in the relevant provision of the

1           ESP Order.  Additionally, the Company has incorporated into its SEET the  
2           Commission's recommendations from Case No. 09-786-EL-UNC (SEET Case).<sup>1</sup>

3   **Q.   PLEASE IDENTIFY THE ADDITIONAL RECOMMENDATIONS OF**  
4   **THE COMMISSION IN THE SEET CASE.**

5   A.    The Commission's orders in that case generally defer to each company's specific  
6           situation.

7                   As I discuss further below, the Commission directed utilities to: (1) base  
8           average equity balances on the average of the balances at the beginning and at the  
9           end of the year;<sup>2</sup> (2) adjust out all impacts from affiliates and other services (*e.g.*,  
10          natural gas distribution);<sup>3</sup> and (3) address deferrals and other certain factors.<sup>4</sup>

11 **Q.   DID THE COMPANY HAVE ANY ESP-RELATED DEFERRALS IN 2016**  
12 **THAT IMPACTED EARNINGS?**

13 A.    No.

14 **Q.   WILL YOU DESCRIBE THE OTHER INFORMATION THAT THE**  
15 **COMMISSION DIRECTED COMPANIES TO PROVIDE AS PART OF**  
16 **THEIR SEET REVIEWS?**

17 A.    On page 29 of its June 30, 2010, Order, the Commission provided a list of factors  
18          it identified as worthy of its consideration in any SEET review.  The listed factors  
19          include the following:

20          •       the electric utility's most recently authorized return on equity,

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<sup>1</sup> *In the Matter of the Investigation into the Development of the Significantly Excessive Earnings Test Pursuant to Amended Substitute Senate Bill 221 for Electric Utilities*, Case No. 09-786-EL-UNC.

<sup>2</sup> *Id.*, Entry on Rehearing, at pg. 6 (Aug. 25, 2010).

<sup>3</sup> *Id.*, Finding and Order, at pg. 12 (June 30, 2010).

<sup>4</sup> *Id.*

- 1           •       the electric utility's risk, including:
- 2                   ○       whether the electric utility owns generation;
- 3                   ○       whether the ESP includes a fuel and purchased power
- 4                           adjustment or similar adjustments;
- 5                   ○       the rate design and extent to which the electric utility
- 6                           remains subject to weather and economic risk;
- 7                   ○       capital commitments and future capital requirements;
- 8                   ○       indicators of management performance and benchmarks to
- 9                           other utilities;
- 10                  ○       innovation and industry leadership with respect to meeting
- 11                           industry challenges to maintain and improve the
- 12                           competitiveness of Ohio's economy, including research and
- 13                           development expenditures, investments in advanced
- 14                           technology, and innovative practices; and
- 15                  ○       the extent to which the electric utility has advanced state
- 16                           policy.

17   **Q.     WHAT IS THE COMPANY'S MOST RECENTLY APPROVED RETURN**  
18       **ON COMMON EQUITY?**

19   A.     The Company's most recently approved return on common equity is 9.84 percent  
20       for its jurisdictional electric distribution service in Ohio.<sup>5</sup>

21   **Q.     DOES THE COMPANY HAVE A MECHANISM FOR RECOVERY OF**

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<sup>5</sup> *In the Matter of the Application of Duke Energy Ohio for an Increase in Electric Distribution Rates*, Case No. 12-1682-EL-AIR, *et al.*, Stipulation and Recommendation, at pg. 6 (April 2, 2013), and Opinion and Order, at pg. 6 (May 1, 2013).



1           **PURCHASED POWER EXPENSES?**

2       A.     Yes. The Company procured 100 percent of the generation services provided to  
3           its SSO load in 2016 through an auction process approved in the ESP Order. The  
4           Company recovers the cost of this competitively procured power via riders. Duke  
5           Energy Ohio makes no profit or loss on power that is procured via the auction  
6           process and is ultimately delivered to its SSO customers.

7       **Q.     DESCRIBE THE COMPANY'S RATE DESIGN.**

8       A.     The Company's rate design for noncompetitive service has been essentially the  
9           same since its unbundled rates became effective on January 1, 2001. The  
10          Stipulation in Case No. 11-3549-EL-SSO eliminated some riders that existed at  
11          the end of 2011 and added certain new riders for competitive retail services. As a  
12          result, there were new rates for competitive retail services based on allocation  
13          methods and rate design processes that were approved by the Commission in that  
14          case. The 2014 ESP Order further eliminated some riders for competitive service  
15          and modified the design of some riders. Depending on the rate class, some  
16          customers may have energy-based rates, demand-based rates, or a combination of  
17          both. All customers have some form of a customer charge and some non-  
18          residential customers have demand ratchets intended to encourage efficient use of  
19          resources. For customers who shop, it is not possible for the Company to know  
20          the essentially infinite number of rate design options that may be offered by their  
21          competitive retail electric service providers.

22       **Q.     DESCRIBE THE EXTENT TO WHICH WEATHER AND ECONOMIC**  
23       **RISKS IMPACT THE COMPANY.**

1 A. As part of the Stipulation in Case No. 11-3549-EL-SSO, Duke Energy Ohio  
2 agreed to file an application to implement a decoupling mechanism for its non-  
3 demand-metered customers. The Commission approved the Company's  
4 subsequent application toward that end in early 2012, and the Company began  
5 accruing a deferral related to the decoupling mechanism. The decoupling  
6 mechanism excludes all demand-metered sales but mitigates the impact of certain  
7 sales losses, particularly due to compliance with Ohio's energy efficiency  
8 mandates. I should note that the approved decoupling mechanism is based on  
9 weather-normalized sales; consequently, the Company is still exposed to weather-  
10 related earnings risks. The administration of the SEET expressly contemplates  
11 that the impacts of Duke Energy Ohio's natural gas are to be eliminated. As such,  
12 Duke Energy Ohio does not address, in this proceeding, the weather risks relevant  
13 to its natural gas operations.

14 **Q. WILL YOU ADDRESS THE CAPITAL COMMITMENTS AND CAPITAL**  
15 **REQUIREMENTS?**

16 A. As stated in the Company's April 13, 2017, Application filed contemporaneously  
17 with my testimony in this case, the current ESP expires on May 31, 2018. The  
18 capital budget requirements for the future, committed, electric investments in  
19 Ohio are \$355 million for 2017 and \$422 million for 2018.

20 **Q. ARE YOU SPONSORING ANY INFORMATION REGARDING**  
21 **MANAGEMENT PERFORMANCE AND BENCHMARKS TO OTHER**  
22 **UTILITIES?**

23 A. Yes. First, it is important to realize that there is no data that compares the Duke

1 Energy Ohio operating company to its peers. As such, and in an effort to address  
2 the Commission's prior directive, reference is made to the information that does  
3 exist, on a corporate-wide basis. Attachment LDS-7 is a summary of how Duke  
4 Energy Corporation's returns compare to some of its peers. The data represented  
5 in this chart represents a comparison of total shareholder return (TSR), which is  
6 defined as the sum of dividends and share appreciation divided by a starting price.  
7 In this attachment, the first set of numbers shows the TSR for stocks from January  
8 1, 2014, through December 31, 2016. The second set of numbers shows the TSR  
9 for stocks purchased from January 1, 2015, through December 31, 2016. The  
10 third set of numbers shows the TSR for stocks purchased from January 1, 2016,  
11 through December 31, 2016.

12 **Q. HAS THE COMPANY BEEN INNOVATIVE IN ADVANCING STATE**  
13 **POLICY?**

14 A. Yes. Duke Energy Ohio is the first utility in Ohio to deploy smart meters across  
15 its entire service territory. Additionally, the Company has installed and/or  
16 automated with two-way communications capabilities over 1,152 system devices  
17 inside substations and over 6,723 system devices on distribution circuits. Duke  
18 Energy Ohio's self-healing teams have saved many millions of customer outage  
19 minutes annually. As a state leader in deployment of the smart grid, Duke Energy  
20 Ohio plans to participate in the Commission's "PowerForward" program to share  
21 its expertise and to work with interested stakeholders to enhance further  
22 innovation.

**IV. SCHEDULES SPONSORED BY WITNESS**

1   **Q.   PLEASE DESCRIBE ATTACHMENT LDS-1.**

2   A.   Attachment LDS-1 is a schedule showing that the Company's return earned on  
3       average electric common equity for the year ended December 31, 2016, is 8.08  
4       percent.

5   **Q.   PLEASE DESCRIBE ATTACHMENT LDS-2.**

6   A.   Attachment LDS-2 is a schedule showing the calculation of the Company's  
7       adjusted electric net income for the calendar year 2016. The source of the utility  
8       operating income for the twelve months ended December 31, 2016, is the  
9       Company's 2016 FERC Form 1 report, pages 114 to 117. Continuing the  
10      methodology used in prior SEET proceedings, which methodology was approved  
11      in the ESP Order, purchase accounting recorded as a result of the Duke  
12      Energy/Cinergy merger, all impacts of refunds to customers pursuant to R.C.  
13      4928.143(F), all impacts of mark-to-market accounting, all impacts of material,  
14      non-recurring gains/losses, all impacts of material, non-recurring revenue or  
15      expenses, and all impacts of the natural gas business were eliminated. As shown  
16      on the attachment, no refunds were returned to customers during the twelve  
17      months ended December 31, 2016. Equity in earnings of subsidiary companies  
18      was also eliminated so that the return earned on average common equity would be  
19      on a Duke Energy Ohio stand-alone basis.

20   **Q.   PLEASE DESCRIBE ATTACHMENT LDS-3.**

21   A.   Attachment LDS-3 is a summary of the items eliminated from net income. The  
22      schedule shows, by Company account, the impact on net income of eliminating

1 purchase accounting, mark-to-market accounting, non-recurring gains and/or  
2 losses, material non-recurring revenues and expenses, and the equity in earnings  
3 of subsidiary companies.

4 **Q. PLEASE DESCRIBE ATTACHMENT LDS-4.**

5 A. Attachment LDS-4 is an exhibit showing the calculation of the Company's  
6 average electric common stock equity as of December 31, 2016. The attachment  
7 shows the common stock equity balances for December 31, 2015, and December  
8 31, 2016, and the calculation of the average electric common equity balance as of  
9 December 31, 2016, to be used in determining if Duke Energy Ohio has  
10 significantly excessive earnings. Pursuant to the ESP Order, the following items  
11 were eliminated in calculating the ending balance for each calendar year: (1)  
12 impacts of purchase accounting recorded pursuant to the Duke Energy/Cinergy  
13 merger; (2) all impacts of mark-to-market accounting; and (3) all impacts of  
14 material, non-recurring gains and/or losses.

15 **Q. PLEASE DESCRIBE ATTACHMENT LDS-5.**

16 A. Attachment LDS-5 is a schedule showing the calculation of a net plant allocation  
17 factor used to allocate total average common equity to electric operations. The  
18 gas and electric plant data is from the Company's 2015 and 2016 FERC Form 1,  
19 pages 200-201. The schedule shows that, based on net plant, 62.11 percent of the  
20 Company's 2016 common equity should be allocated to electric operations.

21 **Q. PLEASE DESCRIBE ATTACHMENT LDS-6.**

22 A. Attachment LDS-6 is a summary of assumptions used in this filing, most of which  
23 are from Attachment PAL-2 in Peggy A. Laub's testimony in Case No. 14-841-

1 EL-SSO. I have discussed all of the other relevant assumptions in my testimony.

2 **Q. PLEASE DESCRIBE ATTACHMENT LDS-7.**

3 A. Attachment LDS-7 is a summary showing Duke Energy Corporation's TSR in  
4 comparison to some of its peer companies in the Philadelphia Utility Index.

**V. CONCLUSION**

5 **Q. DOES DUKE ENERGY OHIO HAVE SIGNIFICANTLY EXCESSIVE**  
6 **EARNINGS THAT WOULD REQUIRE A REFUND TO CUSTOMERS?**

7 A. No. As shown on Attachment LDS-1, Duke Energy Ohio's return earned on  
8 average electric common equity is 8.08 percent. Since the return on average  
9 electric common equity is substantially less than the Company's approved 9.84  
10 percent rate of return, the Company does not have significantly excess earnings  
11 and, therefore, no refund to customers is warranted.

12 **Q. WERE ATTACHMENTS LDS-1, LDS-2, LDS-3, LDS-4, LDS-5, LDS-6 AND**  
13 **LDS-7 PREPARED BY YOU OR UNDER YOUR SUPERVISION?**

14 A. Yes.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 A. Yes.

Duke Energy Ohio, Inc.  
Significantly Excessive Earnings Test  
Case No. 17-932-EL-UNC  
December 31, 2016

Attachment LDS-1  
Page 1 of 1

| <u>Description</u>                               | <u>Source</u> | <u>Amount</u> |
|--|---------------|---------------|
| <b>Including Non-SSO Sales and ESP Deferrals</b> |               |               |
| Adjusted Electric Net Income                     | LDS-2         | 69,235,970    |
| Average Electric Common Equity                   | LDS-4         | 856,799,025   |
| Return Earned on Average Electric Common Equity  |               | <u>8.08%</u>  |

| 12 Months Ended December 31, 2016                           |                                    |               |               |               | Eliminations        |                |                              |                         |                                    |                               |                    |                            |
|---|------------------------------------|---------------|---------------|---------------|---------------------|----------------|------------------------------|-------------------------|------------------------------------|-------------------------------|--------------------|----------------------------|
| Description   | Account Level Desc                 | Account Level | Total         | Electric      | Purchase Accounting | Mark-to-Market | Non-Recurring Gains / Losses | Non-Recurring Rev / Exp | Equity in Earnings of Subsidiaries | Amounts Refunded to Customers | Total Eliminations | Adjusted December 31, 2016 |
| Utility Operating Income                                    |                                    |               |               |               |                     |                |                              |                         |                                    |                               |                    |                            |
| Operating Revenues  | F_UTIL_OP_REV                      | Level 6       | 1,510,039,945 | 1,093,254,621 |                     |                |                              |                         |                                    |                               | 0                  | 1,093,254,621              |
| Operation Expenses  | F_OP_EXP                           | Level 8       | 722,143,068   | 563,984,940   |                     |                |                              | (916,847)               |                                    |                               | (916,847)          | 563,068,093                |
| Maintenance Expenses  | F_MAINT_EXP                        | Level 8       | 64,361,764    | 58,108,085    |                     |                |                              | 0                       |                                    |                               | 0                  | 58,108,085                 |
| Depreciation Expense  | F_DEPR_EXP                         | Level 8       | 117,380,574   | 71,778,187    |                     |                |                              | (1,519,606)             |                                    |                               | (1,519,606)        | 70,258,581                 |
| Depreciation Expense for Asset Retirement Costs             | F_DEPR_EXP_ARO                     | Level 8       | 0             | 0             |                     |                |                              |                         |                                    |                               | 0                  | 0                          |
| Amort. & Depl. Of Utility Plant                             | F_AMORT_DEPL_UT_PLNT               | Level 8       | 16,037,097    | 11,457,911    |                     |                |                              |                         |                                    |                               | 0                  | 11,457,911                 |
| Amort. Of Utility Plant Acquisition Adj.                    | F_AMORT_UTIL_PLT_ADJ               | Level 8       | 0             | 0             |                     |                |                              |                         |                                    |                               | 0                  | 0                          |
| Regulatory Debits   | FERC 407                           | FERC          | 69,018,312    | 46,280,605    |                     |                |                              |                         |                                    |                               | 0                  | 46,280,605                 |
| Less: Regulatory Credits                                    | Acct 407407, 407315, 407907        | Account       | (7,236,952)   | (7,131,646)   |                     |                |                              |                         |                                    |                               | 0                  | (7,131,646)                |
| Taxes Other Than Income Taxes                               | F_TAX_OTH_INC_TAX                  | Level 8       | 244,322,085   | 190,515,958   |                     |                |                              |                         |                                    |                               | 0                  | 190,515,958                |
| Income Taxes - Federal                                      | F_INC_TAX_FED                      | Level 8       | 5,196,280     | (28,024,233)  |                     | 0              |                              | 19,344,737              |                                    | 0                             | 19,344,737         | (8,679,496)                |
| Income Taxes - Other  | F_INC_TAX_OTH                      | Level 8       | (11,023,987)  | (10,804,457)  |                     |                |                              | 0                       |                                    |                               | 0                  | (10,804,457)               |
| Provision For Deferred Income Taxes                         | F_PROV_DEF_INC_TAX                 | Level 9       | 216,357,743   | 172,204,893   |                     |                |                              |                         |                                    |                               | 0                  | 172,204,893                |
| Provision For Deferred Income Taxes - Credit                | F_DEF_INC_TAX_CR                   | Level 9       | (149,147,518) | (108,877,734) |                     |                |                              |                         |                                    |                               | 0                  | (108,877,734)              |
| Investment Tax Credit Adj - Net                             | F_INV_TAX_CR_ADJ                   | Level 8       | (433,557)     | (231,467)     |                     |                |                              |                         |                                    |                               | 0                  | (231,467)                  |
| Gains From Disp Of Allow - Credit                           | F_GAINS_DISP_ALLOW                 | Level 8       | 0             | 0             |                     |                |                              |                         |                                    |                               | 0                  | 0                          |
| Accretion Expense   | F_ACCRETION_EXP                    | Level 8       | 0             | 0             |                     |                |                              |                         |                                    |                               | 0                  | 0                          |
| Total Utility Operating Expenses                            |                                    |               | 1,286,974,909 | 959,261,042   | 0                   | 0              | 0                            | 16,908,284              | 0                                  | 0                             | 16,908,284         | 976,169,326                |
| Net Utility Operating Income                                |                                    |               | 223,065,036   | 133,993,579   | 0                   | 0              | 0                            | (16,908,284)            | 0                                  | 0                             | (16,908,284)       | 117,085,295                |
| Other Income  |                                    |               |               |               |                     |                |                              |                         |                                    |                               |                    |                            |
| Revenues From Merchandising, Jobbing and Contract Work      | F_MERCH_JOB_REV                    | Level 7       | 1,297,507     | 1,298,769     |                     |                |                              |                         |                                    |                               | 0                  | 1,298,769                  |
| Less: Costs & Exp of Merchandising, Jobbing & Contract Work | F_MERCH_JOB_EXP                    | Level 7       | 2,110,991     | 2,115,597     |                     |                |                              |                         |                                    |                               | 0                  | 2,115,597                  |
| Revenues From Nonutility Operations                         | F_TOT_EXP_NON_UTL_OP - Acct 417007 | Level 8       | 65,638        | 61,423        |                     |                |                              |                         |                                    |                               | 0                  | 61,423                     |
| Less: Expenses of Nonutility Operations                     | F_TOT_EXP_NON_UTL_OP - Acct 417320 | Level 8       | 89,144        | 88,809        |                     |                |                              |                         |                                    |                               | 0                  | 88,809                     |
| Non-operating Rental Income                                 | F_NON_OP_RENTAL_INC                | Level 8       | (266,845)     | (164,042)     |                     |                |                              |                         |                                    |                               | 0                  | (164,042)                  |
| Equity in Earnings of Subsidiary Companies                  |                                    |               | 77,413,651    | 68,343,411    |                     |                |                              |                         | (68,343,411)                       |                               | (68,343,411)       | 0                          |
| Interest and Dividend Income                                | F_INT_INC                          | Level 7       | 3,577,344     | 2,286,246     |                     |                |                              |                         |                                    |                               | 0                  | 2,286,246                  |
| AFUDC   | F_AFUDC                            | Level 7       | 4,645,340     | 3,673,050     |                     |                |                              |                         |                                    |                               | 0                  | 3,673,050                  |
| Miscellaneous Non-operating Income                          | F_MISC_NON_OP_INC                  | Level 8       | (769,867)     | (1,348,335)   |                     | 0              |                              |                         |                                    |                               | 0                  | (1,348,335)                |
| Gain on Disposition of Property                             | F_GAIN_DISP_PROP                   | Level 8       | 843,392       | 643,042       |                     |                | (643,042)                    |                         |                                    |                               | (643,042)          | 0                          |
| Total Other Income  |                                    |               | 84,606,025    | 72,589,158    | 0                   | 0              | (643,042)                    | 0                       | (68,343,411)                       | 0                             | (68,986,453)       | 3,602,705                  |
| Other Income Deductions                                     |                                    |               |               |               |                     |                |                              |                         |                                    |                               |                    |                            |
| Loss on Disposition of Property                             | F_LOSS_DISP_PROP                   |               | 108,015       | 108,015       |                     |                | (108,015)                    |                         |                                    |                               | (108,015)          | 0                          |
| Misc. Amortization  | F_MISC_AMORT                       | Level 8       | 0             | 0             |                     |                |                              |                         |                                    |                               | 0                  | 0                          |
| Donations   | F_DONATIONS                        | Level 8       | 1,221,441     | 920,683       |                     |                |                              |                         |                                    |                               | 0                  | 920,683                    |
| Life Insurance  | F_LIFE_INS                         | Level 8       | 0             | 0             |                     |                |                              |                         |                                    |                               | 0                  | 0                          |
| Penalties   | F_PENALTIES                        | Level 8       | 0             | 0             |                     |                |                              |                         |                                    |                               | 0                  | 0                          |
| Civic, Political & Related Activities                       | F_EXP_CIVIC_POL                    | Level 8       | 1,689,681     | 1,006,430     |                     |                |                              |                         |                                    |                               | 0                  | 1,006,430                  |
| Other Deductions  | F_OTH_DED                          | Level 8       | 5,133,446     | 1,820,577     |                     | 0              | 0                            | 0                       |                                    |                               | 0                  | 1,820,577                  |
| Total Other Income Deductions                               |                                    |               | 8,152,583     | 3,855,705     | 0                   | 0              | (108,015)                    | 0                       | 0                                  | 0                             | (108,015)          | 3,747,690                  |
| Total Taxes On Other Income and Deductions                  | F_TAX_OTH_INC_DED                  | Level 6       | 2,620,316     | 1,131,410     | (13,706)            | 0              | (189,191)                    |                         | 0                                  | 0                             | (202,897)          | 928,513                    |
| Net Other Income and Deductions                             |                                    |               | 73,833,126    | 67,602,043    | 13,706              | 0              | (345,836)                    | 0                       | (68,343,411)                       | 0                             | (68,675,541)       | (1,073,498)                |
| Net Interest Charges  | F_NET_INTEREST_CHGS                | Level 4       | 68,428,290    | 46,737,067    | 38,760              |                |                              | 0                       |                                    |                               | 38,760             | 46,775,827                 |
| Net Income  |                                    |               | 228,469,872   | 154,858,555   | (25,054)            | 0              | (345,836)                    | (16,908,284)            | (68,343,411)                       | 0                             | (85,622,585)       | 69,235,970                 |



| <u>Account ID CB</u>                                     | <u>Account Long Descr CB</u>               | <u>Account Level 6 Node Name</u> | <u>12 months<br/>Ended<br/>12/31/2016</u> | <u>Elimination</u>  | <u>Income<br/>Tax Effect</u> | <u>Impact on<br/>Net Income</u> |
|--|--|----------------------------------|---|---------------------|------------------------------|---------------------------------|
| <b><u>Purchase Accounting</u></b>                        |  |                                  |   |                     |                              |                                 |
| 428200   | Amort_Debt_Disc_Pur_Acctg_Adj              |                                  | 393,492                                   | (393,492)           |                              |                                 |
| 429200   | Amort_Debt_Prem_Pur_Acctg_Adj              |                                  | <u>(432,252)</u>                          | <u>432,252</u>      |                              |                                 |
|  |  |                                  | <u>(38,760)</u>                           | <u>38,760</u>       | <u>(13,706)</u>              | <u>(25,054)</u>                 |
|  | Total Purchase Accounting Adjustment       |                                  | <u>(38,760)</u>                           | <u>38,760</u>       | <u>(13,706)</u>              | <u>(25,054)</u>                 |
| <b><u>Mark-to-Market</u></b>                             |  |                                  |   |                     |                              |                                 |
| 421530   | Power Trading MTM Gains                    | REVENUE                          | 0   | 0                   |                              |                                 |
| 421631   | MTM Unreal Gains - EA                      | FUEL                             | <u>0</u>                                  | <u>0</u>            |                              |                                 |
|  | <b>Other Income</b>                        |                                  | <u>0</u>                                  | <u>0</u>            | <u>0</u>                     | <u>0</u>                        |
| 426531   | MTM Unreal Loss-Reserve                    | REVENUE                          | 0   | 0                   |                              |                                 |
| 426631   | MTM Unreal Losses - EA's                   | FUEL                             | <u>0</u>                                  | <u>0</u>            |                              |                                 |
|  | <b>Other Income Deductions</b>             |                                  | <u>0</u>                                  | <u>0</u>            | <u>0</u>                     | <u>0</u>                        |
|  | Net Other Income and Deductions            |                                  | <u>0</u>                                  | <u>0</u>            | <u>0</u>                     | <u>0</u>                        |
|  | Total Mark-to-Market                       |                                  | <u>0</u>                                  | <u>0</u>            | <u>0</u>                     | <u>0</u>                        |
| <b><u>Non-Recurring Gains / Losses</u></b>               |  |                                  |   |                     |                              |                                 |
| 421100   | Gain On Disposal Of Property               | GAIN_LOSS_UTL_ASSETS             | 643,042                                   | (643,042)           | 227,387                      | (415,655)                       |
| 421200   | Loss On Disposal Of Property               | GAIN_LOSS_UTL_ASSETS             | 108,015                                   | (108,015)           | 38,196                       | 69,819                          |
| 426510   | Other                                      | F_TOT_OTH_INC_DED                | 0   | 0                   | 0                            | 0                               |
| 426513   | Other Deductions - Impairments             |                                  | 0   | 0                   | 0                            | 0                               |
| 426551   | Impairment & other related charges         | TTL_OTH_INC_&_EXP                | 0   | 0                   | 0                            | 0                               |
| 426553   | PP&E IMPAIRMENT                            | TTL_OTH_INC_&_EXP                | 0   | 0                   | 0                            | 0                               |
| 426554   | Impairment of Goodwill                     | TTL_OTH_INC_&_EXP                | <u>0</u>                                  | <u>0</u>            | <u>0</u>                     | <u>0</u>                        |
|  | Total Non-Recurring Gains / Losses         |                                  | <u>535,027</u>                            | <u>(535,027)</u>    | <u>(189,191)</u>             | <u>(345,836)</u>                |
| <b><u>Non-Recurring Revenue / Expense</u></b>            |  |                                  |   |                     |                              |                                 |
| CTA - Various  | Operation Expenses                         |                                  | 916,847                                   | (916,847)           | 324,207                      | 592,640                         |
| CTA - 935100   | Maintenance Expenses                       |                                  | 0   | 0                   | 0                            | 0                               |
| CTA - 404200   | Depreciation Expense                       |                                  | 1,519,606                                 | (1,519,606)         | 537,349                      | 982,257                         |
| CTA - Various  | Income Taxes & Other Taxes                 |                                  | 0   | 0                   | 0                            | 0                               |
| CTA - Various  | Other Deductions                           |                                  | 0   | 0                   | 0                            | 0                               |
| CTA - 431900   | Net Interest Charges                       |                                  | 0   | 0                   | 0                            | 0                               |
| Def Tax Basis  | Deferred Tax                               |                                  | <u>0</u>                                  | <u>0</u>            | <u>18,483,181</u>            | <u>(18,483,181)</u>             |
|  | Total Non-Recurring Revenue / Expense      |                                  | <u>2,436,453</u>                          | <u>(2,436,453)</u>  | <u>19,344,737</u>            | <u>(16,908,284)</u>             |
| <b><u>Equity in Earnings of Subsidiary Companies</u></b> |  |                                  |   |                     |                              |                                 |
| 418.1  | Equity in Earnings of Subsidiary Companies |                                  | <u>68,343,411</u>                         | <u>(68,343,411)</u> |                              | <u>(68,343,411)</u>             |
|  | Total Eliminations                         |                                  | <u>71,276,131</u>                         | <u>(71,276,131)</u> | <u>19,141,840</u>            | <u>(85,622,585)</u>             |

Duke Energy Ohio, Inc.  
Significantly Excessive Earnings Test  
Average Common Stock Equity  
December 31, 2016

| Description  | December 31, 2015       |                      |                                  |                         |                         | December 31, 2016       |                        |                                  |                                    |                         | Average<br>Common<br>Equity |
|--|-------------------------|----------------------|----------------------------------|-------------------------|-------------------------|-------------------------|------------------------|----------------------------------|------------------------------------|-------------------------|-----------------------------|
|  | Balance at<br>12-31-15  | Other<br>Adjustments | Remove Equity<br>in Subsidiaries | Goodwill                | Adjusted<br>12-31-15    | Balance at<br>12-31-16  | Other<br>Adjustments'  | Remove Equity<br>in Subsidiaries | Goodwill & Remove<br>Non-Regulated | Adjusted<br>12-31-16    |                             |
| Common Stock Equity  |                         |                      |                                  |                         |                         |                         |                        |                                  |                                    |                         |                             |
| 201000 Common Stock  | 762,136,231             |                      |                                  |                         | 762,136,231             | 762,136,231             |                        |                                  |                                    | 762,136,231             |                             |
| 207001 Premium on capital stock                              | 0                       |                      |                                  |                         | 0                       | 0                       |                        |                                  |                                    | 0                       |                             |
| 208000 Donat Recvd From Stkhld                               | 28,950,000              |                      |                                  |                         | 28,950,000              | 28,950,000              |                        |                                  |                                    | 28,950,000              |                             |
| 208001 Donat Recvd From Duke                                 | 1,462,336,840           |                      |                                  |                         | 1,462,336,840           | 1,462,336,840           |                        |                                  |                                    | 1,462,336,840           |                             |
| 208010 Donat Recvd From Stkhld Tax                           | 15,641,578              |                      |                                  |                         | 15,641,578              | 15,641,578              |                        |                                  |                                    | 15,641,578              |                             |
| 210020 Gain on Redemption of Capital                         | 0                       |                      |                                  |                         | 0                       | 0                       |                        |                                  |                                    | 0                       |                             |
| 211003 Misc Paid in Capital                                  | (1,955,982,307)         |                      |                                  |                         | (1,955,982,307)         | (1,955,982,307)         |                        |                                  |                                    | (1,955,982,307)         |                             |
| 211004 Miscellaneous Paid in Capital Purch Acctg             | 943,842,010             |                      |                                  | (746,918,647)           | 196,923,363             | 943,842,010             |                        |                                  | (746,918,647)                      | 196,923,363             |                             |
| 0211008 Misc PIC Pushdown Adj RE                             | 1,667,546,493           |                      |                                  |                         | 1,667,546,493           | 1,642,546,493           |                        |                                  |                                    | 1,642,546,493           |                             |
| 211005 Miscellaneous Paid in Capital Pre-Merger Equity       | 557,581,098             |                      |                                  |                         | 557,581,098             | 557,581,098             |                        |                                  |                                    | 557,581,098             |                             |
| 211007 Misc PIC Premerg RE for Div                           | 0                       |                      |                                  |                         | 0                       | 0                       |                        |                                  |                                    | 0                       |                             |
| 211110 PIC - Sharesaver                                      | 0                       |                      |                                  |                         | 0                       | 0                       |                        |                                  |                                    | 0                       |                             |
| 214010 Common stock equity inter-company                     | 0                       |                      |                                  |                         | 0                       | 0                       |                        |                                  |                                    | 0                       |                             |
| 216000 Unappropriated RE Bal                                 | 226,871,106             |                      | (908,809,161)                    | (2)                     | (681,938,055)           | 397,382,727             |                        | (645,701,441)                    |                                    | (248,318,714)           |                             |
| 216100 Unapp Ret Erngs-Curr Yr Net Income                    | (914,348,641)           | 40,272,787           |                                  | (1)                     | (874,075,854)           | (847,216,306)           | (17,279,174)           |                                  |                                    | (864,495,480)           |                             |
| 438000 Dividends Declared on Common Stock                    | 0                       |                      |                                  |                         | 0                       | 0                       |                        |                                  | 0                                  | 0                       |                             |
| Accum other comprehensive income (loss)                      | 4                       |                      |                                  |                         | 4                       | 0                       |                        |                                  |                                    | 0                       |                             |
| Total Common Stock Equity                                    | <u>\$ 2,794,574,412</u> | <u>\$ 40,272,787</u> | <u>\$ (908,809,161)</u>          | <u>\$ (746,918,647)</u> | <u>\$ 1,179,119,391</u> | <u>\$ 3,007,218,364</u> | <u>\$ (17,279,174)</u> | <u>\$ (645,701,441)</u>          | <u>\$ (746,918,647)</u>            | <u>\$ 1,597,319,102</u> |                             |
| Allocation to Duke Energy Ohio Electric <sup>(2)</sup>       |                         |                      |                                  |                         | 61.19%                  |                         |                        |                                  |                                    | 62.11%                  |                             |
| Average Common Equity Allocated to Duke Energy Ohio Electric |                         |                      |                                  |                         | <u>\$ 721,503,155</u>   |                         |                        |                                  |                                    | <u>\$ 992,094,894</u>   | <u>\$ 856,799,025</u>       |

<sup>(1)</sup> LDS-3 income adjustments

<sup>(2)</sup> Source: Attachment LDS-5.

Duke Energy Ohio, Inc.  
Significantly Excessive Earnings Test  
Net Plant Allocation Factor  
December 31, 2016

Attachment LDS-5  
1 of 1

|                                    | 2016 | Duke Energy Ohio, Inc. |                      |                      |
|------------------------------------|------|------------------------|----------------------|----------------------|
| <u>Description</u>                 |      | <u>Gas</u>             | <u>Electric</u>      | <u>Total</u>         |
| Gross Plant (Line 13)              |      | 2,048,722,041          | 3,507,202,613        | 5,555,924,654        |
| Accumulated Depreciation (Line 33) |      | 575,768,498            | 1,092,348,193        | 1,668,116,691        |
| Net Plant                          |      | <u>1,472,953,543</u>   | <u>2,414,854,420</u> | <u>3,887,807,963</u> |
| Allocation Percentage              |      | 37.89%                 | 62.11%               | 100.00%              |

Source of Data per Order in Case No. 14-841-EL-SSO:

- 1 Source of data is actual data from FERC Form 1 for the calendar year at issue.

Adjustments to Net Income per Order in Case No. 14-841-EL-SSO:

- 2 Eliminate all impacts related to the purchase accounting recorded pursuant to the Duke Energy / Cinergy Corp. Merger.
- 3 Eliminate all impacts of refunds to customers pursuant to R.C. 4928.143(F)
- 4 Eliminate all impacts of mark-to-market accounting.
- 5 Eliminate all impacts of material, non-recurring gains / losses, including, but not limited to, the sale or disposition of assets.
- 6 Eliminate all impacts of material, non-recurring revenue or expenses.
- 7 Eliminate all impacts of parent, affiliated, or subsidiary companies and, to the extent reasonably feasible and prudently justified in the opinion of Duke Energy Ohio, eliminate the impacts of its natural gas distribution business.

Adjustments to Common Equity per Order in Case No. 14-841-EL-SSO:

- 8 Common Equity used in the calculation will be the beginning and ending average common equity of Duke Energy Ohio on a stand-alone basis (i.e., equity associated with subsidiaries will be excluded and common equity will be allocated between gas and electric service to the extent practicable).
- 9 Eliminate the acquisition premium recorded to equity pursuant to the Duke / Cinergy Corp. merger.
- 10 Eliminate the cumulative effect of the Net Income adjustments.

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|                       | <u>Duke</u> | <u>Rank</u> | <u>Percentile Rank</u> |
|-----------------------|-------------|-------------|------------------------|
| From January 2014 to: |             |             |                        |
| Mar-14                | 4.3%        | 15          | 26.3%                  |
| Jun-14                | 9.9%        | 17          | 15.7%                  |
| Sep-14                | 12.0%       | 11          | 47.3%                  |
| Dec-14                | 26.4%       | 13          | 36.8%                  |
| Mar-15                | 17.3%       | 13          | 36.8%                  |
| Jun-15                | 9.0%        | 15          | 26.3%                  |
| Sep-15                | 12.3%       | 14          | 31.5%                  |
| Dec-15                | 12.8%       | 14          | 31.5%                  |
| Mar-16                | 28.8%       | 15          | 26.3%                  |
| Jun-16                | 38.4%       | 15          | 26.3%                  |
| Sep-16                | 30.5%       | 15          | 22.2%                  |
| Dec-16                | 28.0%       | 16          | 16.6%                  |
| From January 2015 to: |             |             |                        |
| Mar-15                | -7.2%       | 14          | 31.5%                  |
| Jun-15                | -13.7%      | 14          | 31.5%                  |
| Sep-15                | -11.2%      | 14          | 31.5%                  |
| Dec-15                | -10.8%      | 14          | 31.5%                  |
| Mar-16                | 1.9%        | 14          | 31.5%                  |
| Jun-16                | 9.5%        | 14          | 31.5%                  |
| Sep-16                | 3.2%        | 14          | 27.7%                  |
| Dec-16                | 1.3%        | 16          | 16.6%                  |
| From January 2015 to: |             |             |                        |
| Mar-16                | 13.5%       | 14          | 31.5%                  |
| Jun-16                | 20.1%       | 10          | 52.6%                  |
| Sep-16                | 19.3%       | 12          | 38.8%                  |
| Dec-16                | 14.3%       | 14          | 27.7%                  |

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