BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates.	)))	Case No. 12-1685-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 12-1686-GA-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of an Alternative Rate Plan for Gas Distribution Service.	))))	Case No. 12-1687-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 12-1688-GA-AAM

CORRECTED STIPULATION AND RECOMMENDATION

Ohio Administrative Code (O.A.C.), Section 4901-1-30, provides that any two or more parties to a proceeding before the Public Utilities Commission of Ohio (Commission) may enter into a written stipulation covering the issues presented in that proceeding. This Stipulation and Recommendation (Stipulation) sets forth the understanding of Duke Energy Ohio, Inc. (Duke Energy Ohio or the Company), the Office of the Ohio Consumers' Counsel (OCC), the Commission Staff (Staff),[1] Ohio Partners for Affordable Energy (OPAE), Stand Energy Corporation, Interstate Gas Supply, Inc., the City of Cincinnati, The Greater Cincinnati Health

[1] The Staff of the Public Utilities Commission of Ohio will be considered a party for the purpose of entering into this Stipulation pursuant to Ohio Administrative Code Sections 4901-1-10(C) and 4901-1-30.

Council, Cincinnati Bell Telephone Company LLC, The Kroger Co., Direct Energy Services, LLC and Direct Energy Business, LLC, Ohio Manufacturers' Association, and People Working Cooperatively, Inc. (PWC), each of whom is a Signatory Party, and together constitute the Signatory Parties or Parties. The Signatory Parties recommend that the Commission approve and adopt, as part of its Opinion and Order, this Stipulation that resolves all of the issues[2] in the above-captioned proceedings.

This Stipulation is a product of lengthy, serious, arm's-length bargaining among the Signatory Parties with diverse interests, who are all capable, knowledgeable parties, which negotiations were undertaken by the Signatory Parties to settle these proceedings and is not intended to reflect the views or proposals that any individual party may have advanced acting unilaterally. This Stipulation was negotiated among all parties to these proceedings. The Signatory Parties agree that this Stipulation is in the best interests of the public, and urge the Commission to adopt it.

This Stipulation is supported by adequate data and information. As a package, the Stipulation benefits customers and the public interest; represents a reasonable resolution of all issues in these proceedings, violates no regulatory principle or practice, and complies with and promotes the policies and requirements of the Ohio Revised Code. While this Stipulation is not binding on the Commission, it is entitled to careful consideration by the Commission, where, as here, it is sponsored by parties representing a wide range of interests.

[2] This Stipulation does not resolve the issue involving manufactured gas plant-related remediation costs which will be resolved by the Commission's order upon litigation in these proceedings.

Except for purposes of enforcement of the terms of this Stipulation, this Stipulation, the information and data contained therein or attached, and any Commission rulings adopting it, shall not be cited as precedent in any future proceeding for or against any Signatory Party or the Commission itself. The circumstances of this case are unique to it, and thus imputing the terms of this Stipulation into any other case undermines the willingness of the parties to compromise that is a necessary element of negotiating settlements in Commission proceedings. The Signatory Parties' agreement to this Stipulation, in its entirety, shall not be interpreted in a future proceeding before this Commission as their agreement to only an isolated provision of this Stipulation, or to any position, argument or recommendation contained in the record of these proceedings or otherwise presented in these proceedings. More specifically, no specific element or item contained in or supporting this Stipulation shall be construed or applied to attribute the results set forth in this Stipulation as the results that any Signatory Party might support or seek, but for this Stipulation in these proceedings or in any other proceeding. The Stipulation is a recognition that each Signatory Party disagrees with individual aspects of the Stipulation, but believes that the Stipulation has value as a whole. This Stipulation is a reasonable compromise involving a balancing of competing positions and it does not necessarily reflect the position that one or more of the Signatory Parties would have taken if these issues had been fully litigated.

This Stipulation is expressly conditioned upon its adoption by the Commission in its entirety and without material modification. If the Commission rejects or materially modifies all or any part of this Stipulation,[3] each and every Signatory Party shall have the right, within thirty days of issuance of the Commission's Order, to file an application for rehearing or to terminate

[3] Each Signatory Party has the right, at its sole discretion, to determine what constitutes a "material" change for the purposes of that Party terminating and withdrawing from the Stipulation.

and withdraw from the Stipulation by filing a notice with the Commission. The Signatory Parties agree they will not oppose or argue against any other Signatory Party's notice of termination or application for rehearing that seeks to uphold the original, unmodified Stipulation. If, upon rehearing, the Commission does not adopt the Stipulation in its entirety and without material modification, any Signatory Party may terminate and withdraw from the Stipulation. Termination and withdrawal from the Stipulation shall be accomplished by filing a notice with the Commission, including service to all Signatory Parties in these proceedings, within thirty days of the Commission's Order or ruling on rehearing that does not adopt the Stipulation in its entirety and without material modification. In that event, other Signatory Parties to this Stipulation agree to not oppose the termination and withdrawal from the Stipulation by any other Signatory Party. Upon the filing of a notice of termination and withdrawal by a Signatory Party, the Stipulation shall immediately become null and void.

Prior to the filing of such a notice, the Signatory Party wishing to terminate agrees to work in good faith with the other Signatory Parties to achieve an outcome that substantially satisfies the intent of the Stipulation and, if a new agreement is reached that includes the Signatory Party wishing to terminate, then the new agreement shall be filed for Commission review and approval. If the discussions to achieve an outcome that substantially satisfies the intent of the Stipulation are unsuccessful in reaching a new agreement that includes all Signatory Parties to the present Stipulation, the Commission will convene an evidentiary hearing such that the Signatory Parties will be afforded the opportunity to present evidence through witnesses and cross-examination, present rebuttal testimony, and brief all issues that the Commission shall decide based upon the record and briefs as if this Stipulation had never been executed.

WHEREAS, all of the related issues and concerns raised by the Parties have been addressed in the substantive provisions of this Stipulation and reflect, as a result of such discussions and compromises by the Parties, an overall reasonable resolution of all such issues;

WHEREAS, this Stipulation is the product of discussions and negotiations of the Parties and is not intended to reflect the views or proposals that any individual Party may have advanced acting unilaterally;

WHEREAS, this Stipulation represents an accommodation of the diverse interests represented by the Parties and is entitled to careful consideration by the Commission;

WHEREAS, this Stipulation represents a serious compromise of complex issues; and

WHEREAS, the Parties believe that the agreements herein represent a fair and reasonable resolution to the issues raised in the case concerning Duke Energy Ohio's Application in these proceedings;

NOW THEREFORE, the Parties stipulate, agree, and recommend that the Commission make the following findings and issue its Opinion and Order in these proceedings adopting and approving this Stipulation in accordance with the following:

1. Revenue Requirement

The Parties agree that the amount to be recovered from Duke Energy Ohio's base distribution rates is $241,326,770, which reflects a $0 increase in the sum of annualized revenues from current base rates. The $241,326,770 also includes the annualized revenues from Rider AMRP (Accelerated Main Replacement Program) and Rider AU (Advanced Utility) effective at the time of the filing (See Stipulation Attachment 1). Upon approval of the new rates in these proceedings, Rider AMRP and Rider AU will be reset to recognize recovery of investment through the date certain (March 31, 2012) in base rates.

2. Return on Equity

The Parties agree that Duke Energy Ohio's actual capital structure of 53.3% equity and 46.7% debt and a return on equity (ROE) of 9.84% shall be established by the Commission in these proceedings. The ROE agreed upon in this Stipulation shall not be used as precedent in any future gas proceeding except for the purpose of determining the revenue requirement for collection from customers in proceedings addressing the Company's SmartGrid Rider, currently known as Rider AU, and its accelerated main replacement program under Rider AMRP. The Company shall use 5.32% as its cost of debt as established in these proceedings for determining carrying charges for future gas deferral requests until the cost of debt rate is reset as part of the resolution of Duke Energy Ohio's next gas distribution rate case proceeding. Duke Energy Ohio shall bear the burden of proof with respect to any future ROE request not otherwise provided for in this Stipulation.

3. Depreciation

The Parties agree that Duke Energy Ohio shall use the depreciation rates as reflected in the Staff Report of Investigation, Schedule B-3.2, on page 110, submitted by the Staff of the Public Utilities Commission of Ohio in these proceedings on January 4, 2013.

4. Accelerated Main Replacement Program

The Parties agree that the incremental increase to the Accelerated Main Replacement Program (AMRP) for residential customers will be capped at $1.00 annually on a cumulative basis. When rates become effective as a result of these cases, the Company's AMRP rates shall be capped at $1.00 per customer per month, as supported in the Company's currently filed AMRP Case Nos. 12-3028-GA-RDR and 12-3029-GA-ATA. The cap for recovery from residential customers beginning in 2014 shall be capped at $2.00 per customer per month. In 2015, recovery from residential customers shall be capped at $3.00 per customer per month. And in 2016, the cap on recovery from residential customers shall be $4.00 per customer per month. The Rider AMRP revenue requirement calculation will include amortization of the Company's deferred camera work expense, approved in Case No. 09-1097-GA-AAM, over a five-year period and will also include expenses related to ongoing camera work related to the AMRP activity during the period 2001 through 2006. The Company may seek recovery from customers of the unamortized balance of the deferred camera work, via an existing or newly proposed rider, prior to, but not after, the expiration of the five-year amortization period.

Except as modified herein, the revenue requirement calculation and procedural timelines for Rider AMRP will be the same as was approved in prior proceedings; however, the cost of capital shall be calculated using the debt and equity established in paragraph 2 of this stipulation.

5. Rider AU

As recommended in the Staff Report, the Company will continue recovering costs associated with deployment of SmartGrid for its gas distribution business. To the extent practicable, the Company will file Rider AU contemporaneous with its annual filings for the electric SmartGrid (Rider DR-IM). Consistent with recommendations made in the Staff Report at page 76, the Company will include in its Rider AU revenue requirement and not in base rates, amounts related to recover Deferred Grid Modernizaton, Operation and Maintenance (O&M) Expense and Carrying Costs, Incremental O&M Savings and Gas Furnace Program Incentive Payments and Administrative Expenses.

6. Manufactured Gas Plant Environmental Remediation

The Parties agree that the Company may establish a rider, subject to the terms of this Stipulation and subject to Commission authorization after hearing from the Parties in litigation, for recovery of any Commission-approved costs associated with the Company's environmental remediation of manufactured gas plants (MGP). The Parties agree to litigate their positions at the evidentiary hearing in the above-captioned proceedings, for resolution by the Commission in its order in these cases. The Staff agrees to litigate its positions as stated in the Staff Report of Investigation on the MGP issues, subject to the usual caveat to allow for correction of errors (if any) or updated information. Any recovery of costs from customers for environmental remediation of the Company's manufactured gas plants shall be allocated among classes as follows:

RS/RFT/RSLI	68.26%
GS/FT Small	7.76%
GS/FT Large	21.68%
IT	2.30%

7. Residential Rate Design

Duke Energy Ohio agrees to submit a cost of service study in its next natural gas general base rate proceeding that separates its residential class into a heating class and a non-heating class.

8. Reconnection Charge

Duke Energy Ohio agrees to withdraw its request for approval of a change to its Reconnection Tariff, meaning that the Reconnection Charge will remain at the current amount.

9. Accelerated Service Replacement Program

Duke Energy Ohio agrees to withdraw its request for approval of an Accelerated Service Replacement Program (ASRP). Duke Energy Ohio agrees that if the Company proposes an ASRP or similar program in the future, its proposal shall ensure that rates for such a program will not go into effect before January 1, 2016.

10. Facilities Relocation – Mass Transportation Rider (Rider FRT)

The Parties agree to the recommendation of the Staff and OCC that Rider FRT not be approved in these proceedings.

11. Rider X (Line Extension Rider)

The Company's proposed changes to Rider X in its Application in these cases to use a Net Present Value (NPV) analysis to determine whether the customer will contribute to the costs of construction or will receive the facility extension free of charge shall be approved. In addition, Duke Energy Ohio will include all volumetric base distribution revenues and fixed monthly charge revenues in the determination of whether the customer will contribute to the cost of construction or will receive the facility free of charge. For purposes of applying its NPV analysis, Duke Energy Ohio will use 5.32% as the discount rate and, for residential customers, it will assume a term of no less than ten (10) years.

12. Right-of-Way Tariff Language

Duke Energy Ohio shall modify its proposed right-of-way tariff to read as follows:

The customer, without reimbursement, shall furnish all necessary rights of way upon or across property owned or controlled by the customer for any and all of the Company's facilities that are necessary or incidental to the supplying of service to the customer, or to continue service to the customer.

The customer, without reimbursement, will make or procure conveyance to the Company, all necessary rights of way upon or across property owned or controlled by the customer along dedicated streets and roads, satisfactory to the Company, for the Company's lines or extensions thereof necessary or maintenance incidental to the supplying of service to customers beyond the customer's property, in the form of Grant or instrument customarily used by the Company for these facilities.

Where the Company seeks access to the customer's property not along dedicated streets and roads for the purpose of supplying or maintaining service to customers beyond the customer's property, the Company will endeavor to negotiate such right of way through an agreement that is acceptable to both the Company and the customer, including with compensation to the customer. Notwithstanding the foregoing, the Company and its customers maintain all their rights under the law with respect to the Company acquiring necessary rights of way in the provision of service to its customers.

13. **People Working Cooperatively Weatherization Funding**

Duke Energy Ohio agrees to provide PWC $350,000 per year through shareholder contributions to be used for low-income weatherization in Duke Energy Ohio's service territory. The funds will be made available to PWC as agreed in either these proceedings or in settlement of the Company's electric distribution case, Case No. 12-1682-EL-AIR, but not in both. PWC may elect, at its discretion, to use the funds in whole or in part for either electric or natural gas weatherization programs. This annual shareholder funding is in addition to the $1,795,000 that is currently being collected and that will continue to be collected from customers through Duke Energy Ohio's base gas distribution rates for PWC's weatherization program and all such collections from customers and funding of PWC shall remain in place until the effective date of the rates in Duke Energy Ohio's next gas distribution base rate case.

14. **Ohio Partners for Affordable Energy Fuel Fund**

The Parties hereby recommend to the Commission and seek the Commission's approval in continuing the waiver granted to Duke, in Case No. 08-1285-GA-WVR, to allow distribution of fuel fund dollars as requested in that waiver application so long as the refund dollars are available. In seeking approval of the continuation of that waiver, the Parties also recommend that the eligibility requirements be changed from 175%-200% of poverty level to from 0% to 200% of poverty level for pipeline refund dollars.

15. Economic Development

Duke Energy Ohio hereby withdraws its request made in these proceedings for authorization of ratepayer funding for an economic development fund via the proposed rider ED (Economic Development).

16. Supplier Rate Codes

Duke Energy Ohio shall make available to competitive retail natural gas suppliers (Suppliers) up to 80 rate codes per Supplier to be provided under the Company's current fee structure as set forth in Duke Rate SAC, PUCO Gas No. 18, Sheet No. 45.2, meaning that 25 rate codes will be provided at no charge and any rate codes above 25 used by a Supplier will be provided at a cost of $30 per rate code per month. Duke shall make these additional rate codes (up to 80) available to Suppliers within 60 calendar days of the Commission's Opinion and Order in this case.

Duke Energy Ohio shall enter into good faith negotiations with Suppliers to: (1) determine ways in which the Supplier could help streamline rate code processing to lessen or avoid costs associated with additional incremental rate codes above 80 and (2) to the extent necessary, establish Supplier paid fee structure to compensate the Company for its incremental costs for processing additional incremental rate codes above 80. The Company shall not charge through distribution rates or any other recovery mechanism the incremental cost of making additional rate codes available to Suppliers to Duke Energy Ohio's customers.[4] Duke Energy Ohio shall also work with Suppliers to complete, within 12 months of the date of the Opinion and Order in these proceedings, a plan for a permanent billing system modification to replace the current rate code per month fee structure if such permanent billing system modifications are more economical than long-term continuation of the per rate code per month structure. Upon mutual agreement that permanent billing system modifications are more economical, Duke Energy Ohio and Suppliers shall work in good faith to agree upon the details of implementing and Suppliers paying for the permanent billing system modification including a reasonable time frame for completion. The Company shall not charge through distribution rates or any other recovery mechanism the cost of any such billing system modification to Duke Energy Ohio's customers.[5]

17. Tariffs

Duke Energy Ohio shall file applicable compliance tariffs within fourteen days of the submission of this Stipulation and Recommendation to the Commission. The compliance tariffs shall include the tariff language filed with the Application, as amended by the Staff Report and this Stipulation. All work papers supporting the tariffs shall be provided to interested Parties upon request. Interested Parties will review and comment within ten days of receipt of the proposed tariffs.

[4] This provision does not, and is not intended to, inhibit or preclude Suppliers from recovering such costs from their customers through the Supplier's rates and has no effect on Duke's collection of such charges on behalf of Suppliers or the purchase of receivables from Suppliers.

[5] This provision does not, and is not intended to, inhibit or preclude Suppliers from recovering such costs from their customers through the Supplier's rates and has no effect on Duke's collection of such charges on behalf of Suppliers or the purchase of receivables from Suppliers.

18. Waiver of Standard Filing Requirement

The Parties agree that in light of the fact that the Parties have reached agreement on the issues, the Company does not need to provide a comparison of twelve months actual income statement to the partially forecasted income statement as required by the Standard Filing Requirements (Appendix A, Section 5 (d)), page 11 of 194.

19. Natural Gas Vehicle (NGV) Tariff, Rate Gas Generation Interruptible Transportation (GGIT) and All Other Tariffs in These Proceedings

Duke Energy Ohio’s proposed tariffs Rate NGV and GGIT shall be filed for Commission approval. Both shall be administered in a competitively neutral manner. Except as set forth herein or as otherwise modified by the Staff Report in these proceedings, all textual changes to Duke Energy Ohio’s tariffs as proposed in these proceedings shall be filed for Commission approval as set forth in paragraph 17, above.

20. Staff Report Resolves Other Issues.

The Parties agree that the Staff Report resolves the remaining issues not addressed in this Stipulation and Recommendation with one exception as follows:

a. The Company will not submit a facilities-based cost of service study in its next gas distribution base rate case.

IN WITNESS THEREOF, the undersigned Parties agree to this Stipulation as of this 24th day of April, 2013. The undersigned Parties respectfully request the Commission to issue its Opinion and Order approving and adopting this Stipulation.

On Behalf of Staff of the Public Utilities Commission of Ohio

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