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John J. Finnigan, Jr.
Associate General Counsel

February 15, 2007

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

Re: In the Matter of the Application of The Cincinnati Gas & Electric Company for an Increase in Rates and In the Matter of the Application of The Cincinnati Gas & Electric Company for Approval to Change Accounting Methods
Case Nos. 01-1228-GA-AIR and 01-1539-GA-AAM


Dear Sir or Madam:

Enclosed please find an original and twenty-two copies of the Application of Duke Energy Ohio, Inc. for an Increase in Gas Rates and for Approval to Change Accounting Methods. Also enclosed is an original and twenty-two copies of the testimony of Gary J. Hebbeler and William Don Wathen, Jr. Please docket both filings in the above-referenced cases.

Please date-stamp and return the two extra copies of each filing in the enclosed envelope.

Should you have any questions, please contact me at (513) 287-3601.

Very truly yours,


John J. Finnigan, Jr.

JJF/sew

Enclosure

cc: All attorneys of record (w/encl.)

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.
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BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
The Cincinnati Gas & Electric)	Case No. 01-1228-GA-AIR
Company for an Increase in Gas)	
Rates in Its Service Territory)	

In the Matter of the Application of)	
The Cincinnati Gas & Electric)	Case No. 01-1539-GA-AAM
Company for Approval to Change)	
Accounting Methods)	

APPLICATION OF
DUKE ENERGY OHIO, INC.
FOR AN INCREASE IN GAS RATES AND
FOR APPROVAL TO CHANGE ACCOUNTING METHODS

TO THE HONORABLE
THE PUBLIC UTILITIES COMMISSION OF OHIO:

1. Duke Energy Ohio, Inc. ("DE-Ohio," formerly known as "The Cincinnati Gas & Electric Company") is an Ohio corporation engaged in the business of supplying natural gas to approximately 425,000 customers in Southwestern Ohio, all of whom will be affected by this Application, and is a public utility as defined by R. C. 4905.02 and 4905.03.
2. This Application is made pursuant to R. C. 4909.18 and related sections of the Ohio Revised Code for authority to make changes and increases in gas rates applicable in incorporated communities and unincorporated territory within DE-Ohio's entire service area, which includes all or part of Adams, Brown, Butler, Clinton, Clermont, Hamilton, Montgomery, and Warren Counties in Ohio. The

gas rates that DE-Ohio seeks to change in its tariff, P.U.C.O. Gas No. 18, are as follows:

Rider AMRP, Accelerated Main Replacement Program Rider, Sheet No. 65.

3. The Notice of Intent to File was served on the mayor and legislative authority of each municipality affected by this Application on November 29, 2006, and filed with The Public Utilities Commission of Ohio ("Commission") on November 30, 2006, pursuant to R.C. 4909.43(B) and in compliance with the Commission's Standard Filing Requirements set forth in OAC 4901-7-1.
4. Pursuant to the Commission's Entry dated December 19, 2002 in this proceeding, the test year is the twelve-month period ending December 31, 2006, and the date certain for property valuation is December 31, 2006.
5. DE-Ohio estimates that the rate changes proposed herein, if granted in full and factoring in the applicable rate caps approved by the Commission, would increase gross revenues by \$6.6 million or 1.2% annually over the estimated test period gross revenues generated from providing service to customers.
6. DE-Ohio is filing this Application pursuant to the terms and conditions of a Stipulation and Recommendation filed with the Commission on April 17, 2002 in *In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Rates, Case No. 01-1228-GA-AIR*, and approved by the Commission in its Opinion and Order dated May 30, 2002. The Stipulation and Recommendation states:

6. CG&E will file an application annually, beginning November, 2002, with a pre-filing notice demonstrating the justness and reasonableness of the level of recovery of expenditures associated with the accelerated main replacement program (AMRP). The annual filing will support the adjustment to CG&E's revenue requirement for increases to Rider AMRP as set forth in this paragraph. The November pre-filing notice will consist of nine months of actual and three months of projected data, and will set the then-current calendar year as the test year, and will set December 31 of the applicable year as the date certain.

CG&E shall make its Application and file an update of full year actual data by February 28 of each year.

(Stipulation and Recommendation at 6-7)

7. DE-Ohio has filed with its Pre-Filing Notice, and incorporates herein by reference, as required by R.C. 4909.18 and the Commission's Standard Filing Requirements, the current Rider AMRP and the proposed new Rider AMRP. DE-Ohio also filed the following schedules with the Commission on or about November 30, 2006, in accordance with the Stipulation and Recommendation, and DE-Ohio incorporates such schedules by reference:

- (a) Schedule 1. Annualized Revenue Requirement
- (b) Schedules 2-A and 2-B, Plant Additions by Month
- (c) Schedules 3-A and 3-B, Cost of Removal by Month
- (d) Schedules 4-A and 4-B, Original Cost Retired by Month
- (e) Schedules 5-A and 5-B, Provision for Depreciation
- (f) Schedules 6-A1, 6-B1, 6-A2 and 6-B, Net Regulatory Asset – Post In-Service Carrying Cost
- (g) Schedules 7-A and 7-B, Net Deferred Tax Balance – PISCC
- (h) Schedules 8-A, 8-B, 8-C and 8-D, Deferred Taxes on Liberalized Depreciation
- (i) Schedules 9-A and 9-B, Annualized Depreciation Associated With Additions
- (j) Schedules 10-A and 10-B, Annualized Reduction in Depreciation For Retirements
- (k) Schedules 11-A and 11-B, Annualized Amortization of PISCC
- (l) Schedule 12, Meter Relocation Expenses

- (m) Schedule 13, Customer Owned Service Line Expense
- (n) Schedules 14-A and 14-B, Annualized Property Tax Expense Calculation
- (o) Schedule 15, Gas Maintenance Accounts Savings
- (p) Schedule 16, Cap Calculation By Rate Class
- (q) Schedule 17, Aged Survivors of Mains and Services As of December 31, 2006, and
- (r) Schedule 18, Calculation of Depreciation Expense and Accumulated Depreciation.

8. At the time of filing this Application, no municipal corporation has in effect any ordinance or franchise that does, or will, regulate the rates or charges to any customer affected by this Application.

WHEREFORE, since the rates, prices, charges and other provisions in the current rate schedules do not yield just and reasonable compensation to DE-Ohio for supplying gas service to the customers to which they are applicable, do not yield a just and reasonable return to DE-Ohio on the value of the property used for furnishing gas service to such customers, and result in the taking of DE-Ohio's property for public use without compensation and without due process of law, DE-Ohio respectfully prays that your Honorable Commission:


- (a) Accept this Application for filing;
- (b) Find that this Application and the schedules incorporated by reference herein, are in accordance with R. C. 4909.18 and the Rules of the Commission;
- (c) Find that the current rates, prices and charges for gas service are unjust, unreasonable and insufficient to yield reasonable compensation to DE-Ohio for the gas service rendered;
- (d) Find that the proposed rates, prices, and charges are just and reasonable based upon the test period for the twelve months ending December 31,

2006 and approve such schedules in the form tendered herewith or incorporated by reference herein;

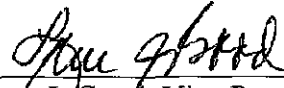
- (e) Find that DE-Ohio is in compliance with R. C. 4905.35;
- (f) Approve the proposed notice for newspaper publication attached hereto as Attachment A or, in the alternative, make a finding that no newspaper publication is required, because DE-Ohio published newspaper notification of all proposed Rider AMRP increases when it filed the original application in this proceeding;
- (g) Approve DE-Ohio's Application for Approval to Change Accounting Methods consistent with proposed Rider AMRP; and
- (h) Fix the date on or after which deliveries made are subject to the proposed rates.

Respectfully submitted,

Duke Energy Ohio, Inc.



Sandra P. Meyer, President

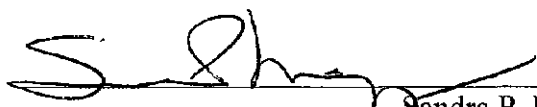
A handwritten signature in cursive script, appearing to read "Lynn J. Good".

Lynn J. Good, Vice President and Treasurer

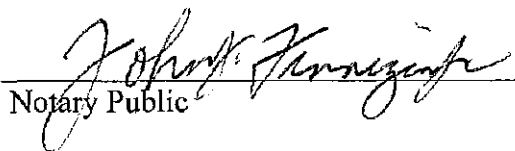
VERIFICATION

STATE OF OHIO)
) ss:
COUNTY OF HAMILTON)

I, SANDRA P. MEYER, President of Duke Energy Ohio, Inc., being first duly sworn, hereby verify that the information contained in this Application is true and correct to the best of my knowledge and belief.


Sandra P. Meyer

Sworn to and subscribed in my presence this 15th day of February, 2007.


Notary Public

JOHN J. DUNNIGAN, JR., Attorney at Law
NOTARY PUBLIC, STATE OF OHIO
My commission has no expiration
date, Section 147.03 O.R.C.



VERIFICATION

STATE OF NORTH CAROLINA)
) ss:
COUNTY OF MECKLENBURG)

I, LYNN J. GOOD, Vice President and Treasurer of Duke Energy Ohio, Inc.,
being first duly sworn, hereby verify that the information contained in this Application is
true and correct to the best of my knowledge and belief.

Lynn J. Good

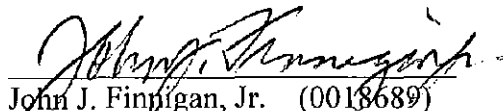
Sworn to and subscribed in my presence this 8th day of February, 2007.

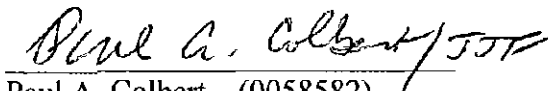
Bonnie B. Williams
Notary Public

Company Official to be contacted
Regarding the Application:

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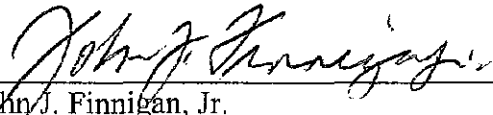
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CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that a copy of the foregoing Application was served on the following parties of record by first class, U.S. mail, postage prepaid this 15th day of February, 2007.



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Assistant Attorney General
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ATTACHMENT A
PROPOSED NOTICE FOR NEWSPAPER PUBLICATION

Please take notice that, pursuant to Ohio Revised Code Section 4909.18, Duke Energy Ohio, Inc. ("DE-Ohio") has filed an application with the Public Utilities Commission of Ohio ("Commission") for an increase in its gas rates. The purpose of the application is to allow DE-Ohio to recover the costs it incurred in 2006 related to its Accelerated Main Replacement Program ("AMRP"). Under the AMRP, DE-Ohio is replacing cast iron and bare steel gas mains and service lines on an accelerated basis, in order to improve the safety and reliability of its distribution system. The Commission approved the AMRP in an order dated May 30, 2002 in Case No. 01-1228-GA-AIR.

DE-Ohio estimates that the rate changes proposed herein, if granted in full, would increase gross revenues by \$6.6 million or 1.2% annually over the estimated test period gross revenues generated from providing service to customers. The average percentage increase that a typical residential customer will bear should the increase be granted in full is 0.7% based on December 2006 billings. The proposed AMRP charges applicable to DE-Ohio tariffed gas rates are as follows: Rate RS -- \$5.80 per month; Rate RFT --\$5.80 per month; Rate GS -- \$30.44 per month; Rate FT -- \$30.44 per month; and, Rate IT -- \$0.03 per Mcf.

Any person, firm, corporation, or association may file, pursuant to Ohio Revised Code Section 4909.19, an objection to such increase that may allege that such application contains proposals that are unjust and discriminatory or unreasonable.

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
The Cincinnati Gas & Electric)	Case No. 01-1228-GA-AIR
Company for an Increase in Rates)	
 In the Matter of the Application of)	
The Cincinnati Gas & Electric)	Case No. 01-1539-GA-AAM
Company for Approval to Change)	
Accounting Methods)	

DIRECT TESTIMONY OF

GARY J. HEBBELER

ON BEHALF OF

DUKE ENERGY OHIO, INC.

☒ Management policies, practices, and organization
☐ Operating income
☐ Rate base
☐ Allocations
☐ Rate of return
☐ Rates and tariffs
☒ Other (Cast Iron/Bare Steel Main Replacement Program)

DIRECT TESTIMONY OF

GARY J. HEBBELER

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DIRECT TESTIMONY OF GARY J. HEBBELER

I. INTRODUCTION AND PURPOSE

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

2 A. My name is Gary J. Hebbeler. 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 by Duke Energy Ohio, Inc. ("DE-Ohio," formerly known as The
6 Cincinnati Gas & Electric Company ("CG&E"), as General Manager, Gas
7 Engineering.

8 **Q. WHAT DUTIES AND RESPONSIBILITIES DO YOU HAVE IN YOUR**
9 **CURRENT POSITION?**

10 A. As General Manager, Gas Engineering, I manage the engineering activities,
11 contractor construction management and the capital expenditures for Gas
12 Operations in the DE-Ohio gas system.

13 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

14 A. I am a graduate of the University of Kentucky where I obtained my Bachelor of
15 Science in Civil Engineering. In 1994, I obtained my licensure as a Professional
16 Engineer in the Commonwealth of Kentucky and by reciprocity later in the State
17 of Ohio.

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

19 A. I began working for CG&E in 1987 as an engineer in the Gas Engineering
20 Department. My experience includes acting as project engineer. In that capacity
21 I have analyzed plans, designed gas mains and water lines; coordinated projects

GARY J. HEBBELER DIRECT

1 with governmental agencies and consulting firms; monitored pipe calculations;
2 stress calculations on buried pipes; evaluation of stresses on exposed pipelines
3 and company paving standards and designs. I worked for CG&E, and later for
4 Cinergy Services, Inc. ("Cinergy Services"), an affiliate of CG&E through 1998.
5 I worked as Vice President for Michels Concrete Construction, Inc. during 1998
6 and returned to Cinergy's Gas Engineering Department in 1999. In 2000, I was
7 promoted to Manager of Contractor Construction. My experience includes
8 managing the construction activities for the replacement of cast iron/bare steel
9 program, street improvements and a portion of gas only main extensions in the
10 Cinergy gas system. In 2002, I was promoted to Manager of Gas Engineering. In
11 2006, I was promoted to my current position of General Manager of Gas
12 Engineering.

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

15 A. The purpose of my testimony is to explain the construction and management
16 practices of DE-Ohio as they relate to the Accelerated Main Replacement
17 Program ("AMRP") for construction activity during calendar year 2006.

II. DESCRIPTION OF AMRP

18 **Q. PLEASE GENERALLY DESCRIBE THE AMRP.**

19 A. The AMRP is designed to replace the cast iron and bare steel mains and metallic
20 service lines on DE-Ohio's distribution system on an accelerated basis. DE-Ohio
21 initiated this program in mid-2001. Cast iron and bare steel pipe is more
22 susceptible to leaks and breaks than other types of pipe. Prior to this program,

GARY J. HEBBELER DIRECT

1 DE-Ohio was replacing these mains on a schedule that would have taken DE-
2 Ohio over 70 years to complete. The service lines were customer-owned and
3 customers generally only replaced the services when they leaked. Under the
4 AMRP, DE-Ohio replaces the mains and replaces the metallic service lines. DE-
5 Ohio projects the AMRP to be completed by 2015. In an Opinion and Order
6 dated May 30, 2002 in this proceeding, the Commission approved an annually-
7 adjusted cost recovery mechanism for the AMRP costs, known as Rider AMRP,
8 Sheet No. 65.

9 **Q. PLEASE DESCRIBE THE PROGRESS DE-OHIO HAS MADE IN**
10 **INSTALLING NEW MAIN AND SERVICE LINES SINCE INITIATING**
11 **THE AMRP.**

12 A. Prior to commencing the AMRP, DE-Ohio had approximately 1,200 miles of cast
13 iron and bare steel main in service. Under the AMRP, DE-Ohio has replaced
14 approximately 529.3 miles of main through the end of 2006.

15 **Q. PLEASE EXPLAIN HOW DE-OHIO SELECTS WHICH MAINS TO**
16 **REPLACE THROUGH THE AMRP.**

17 A. DE-Ohio selects which mains to replace by using three general methodologies:
18 (1) Cast Iron and Bare Steel Main Replacement module work; (2) the Cast Iron
19 Maintenance Optimization System (CIMOS)® and Bare Steel Maintenance
20 Optimization System (BSMOS)®; and (3) the street improvement program.

21 **Q. PLEASE EXPLAIN HOW DE-OHIO SELECTS WHICH MAINS TO**
22 **REPLACE FOR CAST IRON AND BARE STEEL MAIN REPLACEMENT**
23 **MODULE WORK.**

GARY J. HEBBELER DIRECT

1 A. Based on the operating history of the various types of cast iron and bare steel
2 pipe, DE-Ohio established the following prioritization for replacing the cast iron
3 and bare steel mains: (1) cast iron intermediate pressure main with mechanical
4 joints, installed after 1947; (2) bare steel standard pressure main; (3) cast iron
5 intermediate pressure main with mechanical joints, installed in or before 1947; (4)
6 cast iron medium pressure main; (5) bare steel intermediate pressure, medium
7 pressure and 60-pound pressure main and feeder lines; (6) cast iron intermediate
8 pressure main with bell and spigot joints, installed after 1947; (7) cast iron
9 intermediate pressure main with bell and spigot joints, installed in or before 1947;
10 (8) cast iron standard pressure main with mechanical joints; and (9) cast iron
11 standard pressure main with bell and spigot joints. In the Cast Iron and Bare Steel
12 Main Replacement module work, DE-Ohio uses these replacement priorities to
13 design a "module," which is a grouping of cast iron and/or bare steel main
14 between two and five miles in total length, and located within the same
15 geographic area. Approximately 91% of the cast iron and bare steel main that
16 DE-Ohio replaced under the AMRP in 2006 was done through such module work.

17 There are two principal benefits to using this module approach. First, DE-
18 Ohio is able to replace the cast iron and bare steel mains in a systematic manner
19 where the specific types of main with the highest propensity for breaks and leaks
20 are replaced at the earliest point in time. Second, this approach tends to keep
21 costs low by capturing economies of scale, by using lower-cost directional drilling
22 techniques and by avoiding frequent and costly re-mobilizing of construction
23 equipment and work crews.

GARY J. HEBBELER DIRECT

1 **Q. PLEASE EXPLAIN HOW DE-OHIO SELECTS WHICH MAINS TO**
2 **REPLACE USING THE CAST IRON MAINTENANCE OPTIMIZATION**
3 **SYSTEM (“CIMOS”)® AND BARE STEEL MAINTENANCE**
4 **OPTIMIZATION SYSTEM (“BSMOS”)® METHODOLOGIES.**

5 A. CIMOS® and BSMOS® are two computer software programs that DE-Ohio
6 utilizes to help determine whether a specific segment of cast iron or bare steel
7 main should be replaced, based on the probability that future leaks will occur on
8 that segment of main. The models use a variety of factors to determine the
9 probability of future leaks, such as break history, pending leaks, type of material,
10 year installed, pipe diameter, operating pressure, earth loading and soil type.

11 In 2006, approximately 6% of the AMRP work was identified using the
12 CIMOS® and BSMOS® programs. The benefit of using this approach is that it
13 enables DE-Ohio to replace individual segments of cast iron and bare steel main
14 that have a high propensity for future breaks and leaks, based on consideration of
15 numerous factors relating to the particular circumstances under which the main
16 was originally installed and is currently operating.

17 **Q. PLEASE EXPLAIN HOW DE-OHIO SELECTS WHICH MAINS TO**
18 **REPLACE USING THE STREET IMPROVEMENT PROGRAM.**

19 A. At various times during the year, local governments will notify DE-Ohio that they
20 intend to perform street improvements that require DE-Ohio to re-locate its gas
21 mains. When this occurs and when the main is cast iron or bare steel, DE-Ohio
22 will replace the main. In 2006, approximately 3% of the AMRP work was
23 performed through street improvement projects. The benefit of using this

GARY J. HEBBELER DIRECT

1 approach is that it avoids duplicating costs that DE-Ohio would otherwise incur if
2 DE-Ohio were to simply re-locate the existing main to accommodate the current
3 street improvement project, then return at a later date to replace the main.

4 **Q. DID DE-OHIO CONDUCT THE AMRP CONSTRUCTION IN 2006 AT A**
5 **REASONABLE COST?**

6 A. Yes. The management policies that DE-Ohio followed to select which mains to
7 replace, as discussed above, allowed DE-Ohio to perform the work at a reasonable
8 cost, based on the costs incurred for the program in 2006, which are only
9 available on a preliminary basis. DE-Ohio will provide the full twelve months
10 actual cost information through the end of 2006 in its filing in February.

11 **Q DID THE AMRP PRODUCE ANY SIGNIFICANT BENEFITS FOR**
12 **CUSTOMERS IN 2006?**

13 A. Yes. DE-Ohio has replaced a significant amount of cast iron and bare steel main
14 as a result of the program, as discussed above. The leak rate for cast iron and bare
15 steel main is approximately 1.3 leaks per mile versus a leak rate of approximately
16 0.05 leaks per mile for plastic and coated steel main. DE-Ohio prioritized the
17 replacement projects so as to replace mains that had the greatest potential for
18 resulting in reportable incidents. This has resulted in a lower incidence of leaks.
19 This lower number of leaks results not only in maintenance savings but also in
20 less gas purchased by DE-Ohio customers than would have occurred without the
21 AMRP. DE-Ohio passes through the maintenance savings to customers via a net
22 reduction in approved maintenance costs in the AMRP's annual revenue
23 requirement mechanism, as discussed in more detail in the testimony of DE-Ohio

GARY J. HEBBELER DIRECT

1 witness Mr. William Don Wathen, Jr. Reductions in gas purchases are
2 automatically passed on to customers through the GCR mechanism (for sales
3 customers) or through reduced gross-up of city-gate deliveries (for transportation
4 customers).

III. ITEMS FROM PREVIOUS AMRP STIPULATIONS

5 **Q. AT PARAGRAPH 6 OF THE 2004 AMRP STIPULATION, DE-OHIO**
6 **AGREED TO COMPETITIVELY BID AT LEAST 80% OF THE WORK**
7 **FOR THE AMRP PROGRAM. HOW MUCH OF THE WORK WAS**
8 **COMPETITIVELY BID IN 2006?**

9 A. Of the work performed by contractors, over 97% was competitively bid based on
10 construction costs incurred through December 31, 2006.

11 **Q. AT PARAGRAPH 7 OF THE 2004 AMRP STIPULATION, DE-OHIO**
12 **COMMITTED TO USE UNIT-BASED PRICES FOR THE AMRP**
13 **PROGRAM, EXCEPT IN SITUATIONS OUTLINED IN THE**
14 **STIPULATION. DID DE-OHIO FOLLOW THIS PRACTICE IN 2006?**

15 A. Yes, DE-Ohio used unit-based prices for the contracts and paid contractors the
16 unit-based prices specified in the contracts, except for the types of situations
17 outlined in the stipulation: (a.) in the case of unanticipated conditions, such as
18 unusual field conditions not contemplated by the parties; (b.) where a
19 governmental entity imposed additional construction requirements for work
20 within the right-of-way; (c.) where a greater number of units was required for the
21 actual work versus the number of units contemplated in the plan drawings; or (d.)
22 for certain types of construction activities where DE-Ohio determined that it

GARY J. HEBBELER DIRECT

1 would result in lower costs for the contractor to perform the work under other
2 price methods such as on a time and materials basis.

3 **Q. DE-OHIO STATED AT PARAGRAPH 8 OF THE 2004 AMRP**
4 **STIPULATION THAT IT WOULD ONLY AWARD AMRP WORK TO**
5 **ANY AFFILIATE IF IT WAS ECONOMIC TO DO SO, AND THAT IT**
6 **WOULD REPORT THE FOLLOWING INFORMATION ON ANY DE-**
7 **OHIO-AFFILIATED AMRP CONTRACTOR: THE NAME OF THE**
8 **CONTRACTOR; THE COSTS PAID TO THE AFFILIATE AND AN**
9 **EXPLANATION WHY SUCH WORK WAS AWARDED TO THE**
10 **AFFILIATE. WHAT INFORMATION DOES DE-OHIO HAVE TO**
11 **REPORT FOR THE 2006 AMRP?**

12 A. Effective July 1, 2006, DE-Ohio sold its interest in Miller Pipeline Corporation
13 ("Miller Pipeline") to Vectren Corporation. As a result, Miller Pipeline is no
14 longer an affiliate of DE-Ohio. However, at the time the jobs were awarded to
15 Miller Pipeline, Miller Pipeline was an affiliate of DE-Ohio. All jobs awarded to
16 Miller Pipeline for 2006 were competitively bid. Miller Pipeline was awarded
17 these jobs because they were the lowest and best bidder. In 2006, for the 2006
18 AMRP Construction Program, DE-Ohio paid Miller Pipeline \$10,649,970.76.

19 In addition, during a portion of 2006, Reliant Services, LLC ("Reliant
20 Services") was an affiliate of DE-Ohio providing locating services related to the
21 AMRP in 2006. Reliant Services provided these services to DE-Ohio at cost
22 pursuant to the terms of the utility-non-utility service agreement, as approved by
23 the SEC, FERC and the Commission. In 2006, for the 2006 AMRP Construction

GARY J. HEBBELER DIRECT

1 Program, DE-Ohio paid Reliant Services \$19,272.50. Effective October 30, 2006,
2 Central Locating Services ("CLS") began providing all locating services to DE-
3 Ohio. CLS is not an affiliate of DE-Ohio.

4 **Q. AT PARAGRAPH 9 OF THE 2004 AMRP STIPULATION, DE-OHIO**
5 **AGREED TO REPORT THE NUMBER OF CUSTOMER SERVICE**
6 **LINES REPLACED, INCLUDING THE NUMBER OF SERVICE LINES**
7 **REPLACED OVER 70-FEET LONG. WHAT INFORMATION DOES DE-**
8 **OHIO HAVE TO REPORT FOR THE 2006 AMRP?**

9 A. In 2006, 7,564 customer service lines were replaced, which includes 153 customer
10 service lines over 70 feet long.

11 **Q. AT PARAGRAPH 11 OF THE 2004 AMRP STIPULATION, DE-OHIO**
12 **AGREED TO EXPLAIN WHY IT SELECTED THE AREAS SCHEDULED**
13 **FOR MODULE WORK UNDER THE AMRP IN 2006, INCLUDING THE**
14 **REASONS WHY DE-OHIO SELECTED EACH AREA, BASED ON**
15 **SAFETY, RELIABILITY AND PERMITTING CONSIDERATIONS.**
16 **PLEASE EXPLAIN HOW DE-OHIO SELECTED THE MODULES FOR**
17 **THE AMRP FOR 2006 BASED ON THESE CONSIDERATIONS.**

18 A. The module work is divided into nine categories ranked from the highest potential
19 for reportable incidents first. We also consider system integrity, permit
20 requirements, and public safety. System integrity is taken into account when a
21 large portion of a system is under construction. We evaluate system integrity
22 factors such as location of tie-ins, flow, system pressures and the time of year the
23 tie-ins will be performed. Permitting agencies require an orderly construction

GARY J. HEBBELER DIRECT

1 methodology so an entire municipality will not be directly affected causing
2 hardship throughout for municipal residents and employees. Finally, flow of
3 traffic must be considered for the traveling public. Two of the modules
4 constructed in 2006 were in the priority one category. Two of the modules were
5 constructed as a result of street improvements, where scheduling with the
6 communities ahead of the road work was essential. The remaining modules were
7 in the priority seven, eight or nine category, which spread the work over more of
8 the system to reduce the hardship on particular communities. This enabled DE-
9 Ohio to address safety considerations, maintain system integrity, abide by
10 permitting requirements and maintain safety to the traveling public for all
11 construction activities.

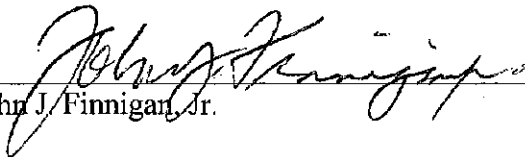
12 **Q. DOES THIS COMPLETE YOUR DIRECT PRE-FILED TESTIMONY?**

13 **A. Yes.**

GARY J. HEBBELER DIRECT

CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that a copy of the foregoing Direct Testimony of Gary J. Hebbeler was served on the following parties of record by first class, U.S. Mail, postage prepaid this 15th day of February, 2006.


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Assistant Attorney General
Public Utilities Commission of Ohio
180 East Broad Street, 9th Floor
Columbus, OH 43215

GARY J. HEBBELER DIRECT

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)
The Cincinnati Gas & Electric)
Company for an Increase in Rates)

Case No. 01-1228-GA-AIR

In the Matter of the Application of)
The Cincinnati Gas & Electric)
Company for Approval to Change)
Accounting Methods)

Case No. 01-1539-GA-AAM

DIRECT TESTIMONY OF

WILLIAM DON WATHEN, JR.

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____ Management policies, practices, and organization

 x Operating income

_____ Rate base

 x Allocations

 x Rate of return

_____ Rates and tariffs

_____ Other (Cast Iron/Bare Steel Main Replacement Program)

DIRECT TESTIMONY OF
WILLIAM DON WATHEN, JR.

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DIRECT TESTIMONY OF WILLIAM DON WATHEN, JR.

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Don Wathen, Jr. 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 Shared Services, Inc., ("Duke Energy") as Director of Revenue Requirements.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I received Bachelor Degrees in Business and Chemical Engineering in 1985 and 1986, respectively, and a Master of Business Administration Degree in 1988, all from the University of Kentucky.

After completing graduate studies, I was employed by Kentucky Utilities Company as a planning analyst. Later in 1989, I began employment with the Indiana Utility Regulatory Commission ("IURC") as a senior engineer. From 1992 until mid-1998, I was employed by SVBK Consulting Group where I held several positions as a consultant focusing principally on utility rate matters. Since 1998, I have been employed with Duke Energy (formerly Cinergy Services, Inc.), and have held positions in Budgets and Forecasts, Project Management, and, since August of 2003, as Director of Revenue Requirements in the Rate Department.

Q. PLEASE SUMMARIZE YOUR DUTIES AS DIRECTOR OF REVENUE REQUIREMENTS.

WILLIAM DON WATHEN, JR. DIRECT

A. As Director of Revenue Requirements, I am responsible for the preparation of financial and accounting data used in the Company's wholesale and retail rate filings, petitions for changes in fuel and gas cost adjustment factors, and various other rate recovery mechanisms.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I have previously testified in several cases before this Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will explain the schedules filed by Duke Energy Ohio, Inc. ("DE-Ohio") in this proceeding on November 30, 2006; provide explanations of updates to certain schedules; and support the reasonableness of DE-Ohio's request for revised Rider AMRP rates.

II. EXPLANATION OF SCHEDULES

Q. PLEASE EXPLAIN SCHEDULE 1.

A. Schedule 1 provides the annualized revenue requirement for DE-Ohio's revised Rider AMRP rates, based on the Net Rate Base of the AMRP at December 31, 2005, nine months actual data for January 2006 through September 2006, and projected data for the remaining three months of 2006. The information on this schedule is supported in Schedules 2 through 15.

Q. PLEASE EXPLAIN SCHEDULES 2-A AND 2-B.

A. Schedules 2-A and 2-B provide the balance of plant additions at December 31, 2005, actual plant additions by month through September 30, 2006, and projected plant additions for the remaining three months of 2006 to calculate the estimated balance at December 31, 2006.

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Q. PLEASE EXPLAIN SCHEDULES 3-A AND 3-B.

A. Schedules 3-A and 3-B provide the balance of cost of removal at December 31, 2005, actual cost of removal by month through September 30, 2006, and projected cost of removal for the remaining three months of 2006 to calculate the estimated balance at December 31, 2006.

Q. PLEASE EXPLAIN SCHEDULES 4-A AND 4-B.

A. Schedules 4-A and 4-B provide the balance of original cost retired at December 31, 2005, actual original cost retired by month through September 30, 2006, and projected original cost retired for the remaining three months of 2006 to calculate the estimated balance at December 31, 2006.

Q. PLEASE EXPLAIN SCHEDULES 5-A AND 5-B.

A. Schedules 5-A and 5-B provide the balance of provision for depreciation at December 31, 2005, actual provision for depreciation through September 30, 2006, and projected provision for depreciation for the remaining three months of 2006 to calculate the estimated balance at December 31, 2006.

Q. PLEASE EXPLAIN SCHEDULES 6-A1, 6-A2, 6-B1, AND 6-B2.

A. Schedules 6-A1, 6-A2, 6-B1, and 6-B2 provide the balance of Post In-Service Carrying Costs ("PISCC") regulatory asset at December 31, 2005, the PISCC activity by month through September 30, 2006, and projected PISCC for the remaining three months of 2006 to calculate the estimated balance at December 31, 2006. These schedules also provide the balance of PISCC amortization at December 31, 2005, actual PISCC amortization through September 30, 2006, and projected PISCC amortization for the remaining three months of 2006 to calculate

WILLIAM DON WATHEN, JR. DIRECT

the estimated balance at December 31, 2006. Additionally, the Net PISCC Regulatory Asset for the periods is provided.

Q. PLEASE EXPLAIN SCHEDULES 7-A AND 7-B.

A. Schedules 7-A and 7-B provide the balance of PISCC net deferred tax at December 31, 2005, the actual PISCC net deferred tax activity and balance through September 30, 2006, and the projected PISCC net deferred tax activity and balance for the remaining three months of 2006.

Q. PLEASE EXPLAIN SCHEDULES 8-A, 8-B, 8-C, and 8-D.

A. Schedules 8-A, 8-B, 8-C, and 8-D provide the calculation of deferred taxes on liberalized depreciation for vintage years 2001 through 2005, actual deferred taxes for vintage 2006 through September 30, 2006, and a projection of deferred taxes on liberalized depreciation for vintage 2006 for the remaining three months of 2006 to calculate the estimated balance at December 31, 2006. These deferred taxes are calculated only on the plant in-service added through the AMRP since its inception.

Q. PLEASE EXPLAIN SCHEDULES 9-A AND 9-B.

A. Schedules 9-A and 9-B provide the calculation by month of the annualized depreciation expense associated with additions, based on actual AMRP additions from the beginning of the program through September 30, 2006, and on projected additions for the remaining three months of 2006.

Q. PLEASE EXPLAIN SCHEDULES 10-A AND 10-B.

A. Schedules 10-A and 10-B provide the calculation by month of the annualized reduction in depreciation expense associated with retirements based on actual

WILLIAM DON WATHEN, JR. DIRECT

AMRP retirements from the beginning of the program through September 30, 2006, and on projected retirements for the remaining three months of 2006.

Q. PLEASE EXPLAIN SCHEDULE 11-A AND 11-B.

A. Schedules 11-A and 11-B provide a calculation of the annualized amortization of the PISCC accrued from the beginning of the program through September 30, 2006, and projected for the remaining three months of 2006. The PISCC Regulatory Assets by account are in agreement with those provided on Schedules 6-A1, 6-A2, 6-B1, and 6-B2.

Q. PLEASE EXPLAIN SCHEDULE 12.

A. Schedule 12 provides actual meter relocation expenses from January through September 2006, and projected meter relocation expenses for the remaining three months of 2006.

Q. PLEASE EXPLAIN SCHEDULE 13.

A. Schedule 13 provides actual customer-owned service line expenses from January through September 2006, and projected customer-owned service line expenses for the remaining three months of 2006.

Q. PLEASE EXPLAIN SCHEDULES 14-A AND 14-B.

A. Schedules 14-A and 14-B provide the calculation of the annualized property tax expense based on actual additions and retirements to plant in-service from the beginning of the program through September 30, 2006, and the projected additions and retirements to plant in-service for the remaining three months of 2006. This calculation follows the process used in DE-Ohio's Annual Report to

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the Ohio Department of Taxation to determine the Net Property Valuation and uses the latest known average property tax rate per \$1,000 of valuation.

Q. PLEASE EXPLAIN SCHEDULE 15.

A. Schedule 15 provides a calculation of the actual savings related to gas maintenance expense accounts through September 30, 2006, and the projected savings for the remaining three months of 2006, measured against the gas maintenance expense allowed in base rates as approved by the Commission in Case No. 01-1228-GA-AIR. Integrity Management Program expense has been removed from the gas maintenance expenses. The Integrity Management Program started after base rates were set in this proceeding, and is unrelated to the AMRP program. Removing the Integrity Management Program expense provides a better measure of DE-Ohio's actual maintenance savings attributable to the AMRP program.

Q. PLEASE EXPLAIN SCHEDULE 16.

A. Schedule 16 provides an estimate of the Rider AMRP charge by rate class using base revenue (excluding Gas Costs and AMRP Rider revenue) for the twelve months ended October 2006; the number of customer bills for the ten months actual and two months projected 2006; Mcf Sales to Interruptible Transportation customers for ten months actual and two months projected 2006; and the annualized revenue requirement as calculated on Schedule 1. The Rate Cap for 2006 by Rate Class determined in accordance with the Stipulation and Recommendation is also presented.

Q. PLEASE EXPLAIN SCHEDULE 17.

WILLIAM DON WATHEN, JR. DIRECT

A. Schedule 17 provides the aged survivors of mains and services as of September 30, 2006.

Q. PLEASE EXPLAIN SCHEDULE 18.

A. Schedule 18 provides a reconciliation of the Accumulated Depreciation Balance for all mains and services by account from December 31, 2005, to September 30, 2006. The information is provided for AMRP plant and non-AMRP plant and the activity is segregated between Depreciation Expense and Adjustments Due to Retirement or Replacement.

III. REASONABLENESS OF REQUESTED INCREASE

Q. ARE YOU FAMILIAR WITH THE STIPULATION AND RECOMMENDATION FILED WITH THE COMMISSION ON APRIL 17, 2002, AND APPROVED BY THE COMMISSION IN ITS OPINION AND ORDER ON MAY 10, 2002, IN THIS PROCEEDING?

A. Yes.

Q. HAVE YOU REVIEWED DE-OHIO'S APPLICATION IN THIS PROCEEDING?

A. Yes.

Q. DO YOU HAVE AN OPINION REGARDING WHETHER DE-OHIO'S REQUEST FOR NEW RIDER AMRP RATES IS REASONABLE?

A. Yes.

Q. PLEASE STATE YOUR OPINION.

A. DE-Ohio's rate request is fair and reasonable. I believe that the costs of service are properly allocated to customer classes, and the rate design was properly

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performed in accordance with the terms and conditions of the Stipulation and Recommendation. The proposed Rider AMRP rates are within the rate caps established in the Stipulation and Recommendation. Further, the Rider AMRP rates reflect a flow-through to customers of an estimated savings of approximately \$2.6 million in maintenance expenses due to replacement of cast iron and bare steel mains and services.

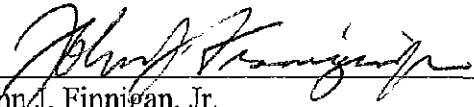
Q. DOES THIS CONCLUDE YOUR DIRECT PRE-FILED TESTIMONY?

A. Yes.

WILLIAM DON WATHEN, JR. DIRECT

CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that a copy of the foregoing Direct Testimony of William Don Wathen, Jr. was served on the following parties of record by first class, U.S. mail, postage prepaid this 15th day of February, 2007.



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