

FILE

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of the Application of)	
Duke Energy Ohio, Inc. for an)	Case No. 08-709-EL-AIR
Increase in Electric Distribution Rates)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Tariff)	Case No. 08-710-EL-ATA
Approval)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 08-711-EL-AAM
To Change Accounting Methods)	

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APPLICATION OF DUKE ENERGY OHIO, INC.

TO THE HONORABLE
PUBLIC UTILITIES COMMISSION OF OHIO:

1. Duke Energy Ohio, Inc. (DE-Ohio) is an Ohio corporation engaged in the business of supplying electric generation, transmission and distribution service to approximately 690,000 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 R.C. 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 electric distribution rates applicable in incorporated communities and unincorporated territory within DE-Ohio's entire service area, which includes all or part of Brown, Butler, Clermont, Clinton, Hamilton, Highland, Preble, Montgomery,

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and Warren Counties in Ohio. The electric distribution rates that DE-Ohio seeks to change in its tariff, P.U.C.O. Electric No. 19, are as follows:

1. Customer's and Company's Installations, Sheet No. 23
2. Billing and Payment, Sheet No. 25
3. Rate RS, Residential Service, Sheet No. 30;
4. Rate ORH, Optional Residential Service with Electrical Space Heating,
Sheet No. 31;
5. Rate HEC, Home Energy Check-Up Service Program, Sheet No. 32;
6. Rate TD, Optional Time-of-Day Rate, Sheet No. 33;
7. Rate CUR, Common Use Residential Service, Sheet No. 34;
8. Rate RS3P, Residential Three-Phase Service, Sheet No. 35;
9. Rate DS, Service at Secondary Distribution Voltage, Sheet No. 40;
10. Rate GS-FL, Optional Unmetered for Small Fixed Loads, Sheet No. 41;
11. Rate EH, Optional Rate for Electric Space Heating, Sheet No. 42;
12. Rate DM, Secondary Distribution Service-Small, Sheet No. 43;
13. Rate DP, Service at Primary Distribution Voltage, Sheet No. 44;
14. Rate SFL-ADPL, Optional Unmetered Rate for Small Fixed Loads
Attached Directly to Company's Power Lines, Sheet No. 46;
15. Rate TS, Service at Transmission Voltage, Sheet No. 50;
16. Rider RSS, Rate Stabilization Surcredit Rider, Sheet No. 59.3;
17. Rate SL, Street Lighting Service, Sheet No. 60;
18. Rate TL, Traffic Lightings Service, Sheet No. 61;
19. Rate OL, Outdoor Lighting Service, Sheet No. 62;

20. Rate NSU, Street Lighting Service for Non-Standard Units,
Sheet No. 63;
21. Rate NSP, Private Outdoor Lighting for Non-Standard Units,
Sheet No. 64;
22. Rate SC, Street Lighting Service - Customer Owned, Sheet No. 65;
23. Rate SE, Street Lighting Service Equivalent, Sheet No. 66;
24. Rate UOLS, Unmetered Outdoor Lighting Service, Sheet No. 67;
25. Rider BR, Brownfield Redevelopment Rider, Sheet No. 77;
26. Rider TES, Thermal Energy Storage Rider, Sheet No. 78;
27. Rider RGR, Residential Generation Rider, Sheet No. 80;
28. Rider AG, Optional Alternative Generation Rider, Sheet No. 89
29. Rate RTP, Real Time Pricing, Sheet No. 90;
30. Rider ED, Economic Development, Sheet No. 100;
31. Rider UR, Urban Redevelopment Rider, Sheet No. 101;
32. Rider MSR-E, Merger Savings Credit Rider- Electric,
Sheet No. 103; and
33. Rate PA, Pole Attachment Tariffs, Sheet No. 1.5;

DE-Ohio also proposes the following new tariff schedules:

Rider DR, Distribution Rider, Sheet No. 70, to recover the costs related to investment in electric distribution reliability. This new tariff will also include cost recovery related to electric distribution for DE-Ohio's Smart Grid infrastructure modernization project, which would apply to all customers.

RIDER DIR, Development Incentive Rider, Sheet No. 71, consists of three economic development programs designed to encourage development and/or redevelopment within DE-Ohio's service territory. This rider consolidated DE-Ohio's existing programs: 1) Rider BR, Brownfield Redevelopment; 2) Rider ED, Economic Development; and 3) Rider UR, Urban Redevelopment into a single tariff offering.

3. DE-Ohio requests that the rates established in this proceeding be effective on April 1, 2009, for all of its customers.

4. The Notice of Intent to file was served upon the Commission and the mayors and legislative authorities of each municipality affected by this Application on June 25, 2008, pursuant to R.C. 4909.43(B) and in compliance with the Commission's Standard Filing Requirements set forth in OAC 4901-7-1.

5. DE-Ohio proposes a test year consisting of the twelve-month period ending December 31, 2008, and a date certain for property valuation of March 31, 2008.

6. DE-Ohio estimates that the rate changes proposed herein, if granted in full, would increase gross revenues by \$86 million or 4.8% annually over the test period gross revenues generated from providing electric distribution service to customers.

7. One of DE-Ohio's primary reasons for filing this Application is to generate sufficient revenues for DE-Ohio to pay its distribution-related operating expenses, to service its debt, and to provide an adequate rate of return on its property used and useful in the rendition of electric distribution service to its customers. DE-Ohio's current rates, authorized by the Commission in Case No. 05-59-EL-AIR, *et al.*, are based on a date certain of September 30, 2004, and on an accounting test year of the twelve months ended June 30, 2005. Since the date certain in the prior case, the investment in property used and useful in the rendition of electric distribution service to

the customers affected by this Application has materially increased. As a result, the current rates are projected to provide a 3.56% rate of return for the proposed test period. This is substantially below the 8.24% return found reasonable for DE-Ohio by this Commission in DE-Ohio's last electric distribution rate proceeding. The Company submits that an overall return of 9.10%, which includes an 11% return on equity, is fair and reasonable.

8. DE-Ohio's other primary reason for filing this Application is to establish the Distribution Rider (Rider DR) and the Development Incentive Rider (Rider DIR). DE-Ohio will support Riders DIR and DR in testimony to be filed in this proceeding. DE-Ohio believes a more progressive regulatory treatment of distribution reliability investment is necessary in light of the ever increasing costs to maintain and enhance electric distribution system reliability. Additionally, DE-Ohio proposes its "SmartGrid" (formerly referred to as "Utility of the Future") electric metering infrastructure modernization initiative to be included in Rider DR, which will provide a foundation for modernization of the electric distribution system to benefit consumers and to facilitate compliance with recently enacted S.B. 221 requirements for demand reduction and energy efficiency. Rider DIR is intended to be a consolidation of DE-Ohio's existing economic development Riders into a single tariff offering for ease of administration.

9. DE-Ohio proposes Rider DR and Rider DIR in its standard rate application under R.C. 4909.18 in order to maximize flexibility in ratemaking treatment.

10. DE-Ohio requests Commission approval of accounting treatment to defer costs associated with its future electric distribution investments on an interim basis until such costs are reflected in retail rates through the proposed ratemaking mechanism Rider DR.

11. DE-Ohio has attached to this Application, as required by R.C. 4909.18 and the Commission's Standard Filing Requirements, the following:

- (a) Schedule A-1, which provides certain financial data for the proposed test year and date certain; and Schedule A-2, which reports that DE-Ohio does not propose a mirrored construction work in progress (CWIP) revenue surcredit rider in this proceeding;
- (b) Schedules B-1 through B-9, which report DE-Ohio's property used and useful in rendering electric distribution service to those customers affected by this Application, as provided in R.C. 4909.05;
- (c) Schedules C-1 through C-13, which contain:
 - (i) detailed schedules of DE-Ohio's receipts, revenues and incomes from all sources, DE-Ohio's operating costs and other expenditures, and certain adjustments which DE-Ohio deems applicable; and
 - (ii) a statement of the income and expense anticipated under this Application;
- (d) Schedules D-1 through D-5, which, in conjunction with the schedules mentioned in paragraph 11(a) above, contain a statement of DE-Ohio's financial condition summarizing assets, liabilities, and net worth;
- (d) Schedule E-1, which sets forth DE-Ohio's proposed tariff schedules, which are scored to indicate changes from the current tariff schedules;
- (e) Schedule E-2, which sets forth DE-Ohio's current tariff schedules that are proposed to be changed, and which are scored to indicate the provisions to be changed;

- (f) Schedules E-3 through E-5, which set forth DE-Ohio's cost-of-service study, the rationale for tariff changes, the class and schedule revenue summary and the typical bill comparison; revenue summary at current and proposed rates, and typical bill comparisons;
- (f) Schedule F, which sets forth the projected financial data for the twelve-month period beginning one month after the Application date with and without the proposed rate increase;
- (g) Schedules S-1 and S-2, which provide certain capital expenditure and revenue requirement information;
- (h) Schedule S-3, which is a proposed notice for newspaper publication, fully disclosing the substance of the Application and the specific requirements of R.C. 4909.18 (E); and
- (i) Schedule S-4.1, which is an executive summary of the Company's corporate process, and Schedule S-4.2, which provides management policies and practices.

12. Concurrent with the filing of this Application, DE-Ohio is providing the Utilities Department, Office of Rate Case Management, four copies of the Supplemental Information required by OAC 4901-7-01, Appendix A, Chapter II(C) (Volume 7 through Volume 10).

13. DE-Ohio notes that the Commission has granted a waiver on July 23, 2008, to DE-Ohio with respect to the following filing requirements¹:

- (a) Certain Integrated Resource Planning (IRP) information contained in OAC 4901-7-01, Appendix A, Chapter II, Section I, including but not limited to

¹ *In the Matter of the Application DE-Ohio, Inc for an Increase in Electric Distribution Rates, Case No. 08-709-EL-*

Schedule S-4.2, as well as detailed information regarding the costs in rate base and operating income related to any supply side or demand side projects or programs from DE-Ohio's latest Commission-approved IRP.

(b) Certain standard filing requirements to the extent they call for generation or fuel-related information:

- i. Schedule S2 Capital Expenditures (Generation-related);
- ii. Schedule S2.1- Mix of generation, mix of fuel;
- iii. Schedule B-8 Generation data;
- iv. Schedule D-5, page 4 of 4, Rate of Return Measures, Other Financial and Operating Data- Mix of fuel;
- v. Supplemental Information, Chapter II (C)(23) - fuel stock component listed in Schedule B-5.1;
- vi. Supplemental Information, Chapter II (C)(28) - Copy of yearly kWh generated by unit or by installation and purchased power received and delivered by type of transaction for the test year; and
- vii. Supplemental Information, Chapter II (C)(29) - Monthly expense data by accounts for fuel in accounts 501, 518, and 547, and purchased power in account 555.

(c) Total system maps as required under Appendix A, Chapter II(C)(13).

(d) Income tax returns as required by Appendix A, Chapter II (C)(37) and (44).

14. 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 electric distribution 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 electric distribution 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 this Honorable Commission:

- (a) Accept this Application for filing;
- (b) Find that this Application and the attached Schedules filed herewith and incorporated herein, are in accordance with R.C. 4909.18 and the Rules of the Commission;
- (c) Approve the Form of Notice in Schedule S-3 filed herewith;
- (d) Find that the current rates, prices and charges for electric distribution service are unjust, unreasonable and insufficient to yield reasonable compensation to DE-Ohio for the electric distribution service rendered;
- (e) Find that the proposed rates, prices, and charges are just and reasonable based upon the test period for the twelve months ending December 31, 2008 and approve such schedules in the form tendered herewith;
- (f) Find that DE-Ohio is in compliance with R.C. 4905.35;
- (g) Approve DE-Ohio's Application for Approval to Change Accounting

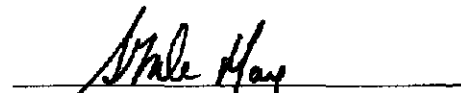
Methods consistent with the Commission's approval of DE-Ohio's proposed deferrals and its proposed Riders DR and DIR.

- (j) Fix the date on or after which applicable services provided to all customers are subject to the proposed rates at April 1, 2009.

Respectfully submitted,

DUKE ENERGY OHIO, INC.

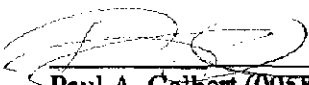

Sandra P. Meyer, President


Stephen G. De May, Treasurer

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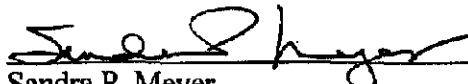
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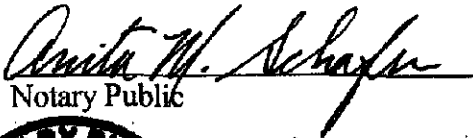
VERIFICATION

STATE OF OHIO)
)
COUNTY OF HAMILTON)

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


Sandra P. Meyer

Sworn to and subscribed in my presence this 22nd day of July 2008.


Notary Public



ANITA M. SCHAFER
Notary Public, State of Ohio
My Commission Expires
November 4, 2009

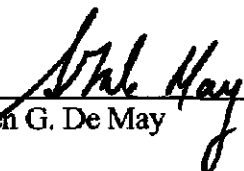
VERIFICATION

STATE OF NORTH CAROLINA)

)

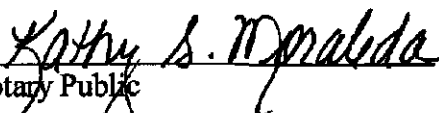
COUNTY OF MECKLENBURG)

I, Stephen G. De May, Vice President and Treasurer of Duke Energy Corporation 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, information and belief.



Stephen G. De May

Sworn to and subscribed in my presence this 22nd day of July 2008.



Notary Public
My Commission expires 12/13/08.

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 29th day of July 2008.



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