FILE

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DE-OHIO EXHIBIT___

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

DIRECT TESTIMONY OF

WILLIAM DON WATHEN JR.

ON BEHALF OF

DUKE ENERGY OHIO

_____ Management policies, practices, and organization

__X__ Operating income

__X__ Rate Base

_____ Allocations

_____ Rate of return

__X__ Rates and tariffs

__X__ Other: Requested Regulatory Relief

August 8, 2008

230108

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Testimony addressing the determination of revenue requirements, various rate base and operating income items, and other requested regulatory relief.

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Don Wathen Jr. and 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 the Duke Energy Corporation (Duke Energy) affiliated companies as Director, Revenue Requirements.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I received Bachelor Degrees in Business and Chemical Engineering, and a Master of Business Administration Degree, all from the University of Kentucky. After completing graduate studies, I was employed by Kentucky Utilities Company as a planning analyst. In 1989, I began employment with the Indiana Utility Regulatory Commission 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. I was hired by Cinergy Services, Inc. in 1998, as an Economic and Financial Specialist in the Budgets and Forecasts Department. In 1999, I was promoted to the position of Manager, Financial Forecasts. In August 2003, I was named to my current position as Director of Revenue Requirements in the Rates Department.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I previously testified in a number of cases before this and other regulatory commissions.

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

A. I sponsor Schedules A-1, A-2, B-1, B-5, B-5.1, B-6, B-6.1, B-7, B-7.1, B-7.2, B-8, C-1, C-2, C-2.1, C-3, C-3.1 through C-3.23, C-5 through C-10, C-12.1 through C-13, and D-5. In addition, I will address certain test period operating income and rate base adjustments. I also sponsor Supplemental Filing Requirements (C)(7), (C)(8), and (C)(14). Finally, I will be proposing methodologies to be used a new rider being proposed by Duke Energy Ohio (DE-Ohio or Company), namely, the Distribution Rider (Rider DR).

II. <u>TEST PERIOD AND DATE CERTAIN</u>

Q. WHAT ARE THE TEST PERIOD AND DATE CERTAIN IN THIS PROCEEDING?

A. Pursuant to the Company's Motion to Set Test Period filed in this proceeding on June 25, 2008, which was approved by the Commission in its order on July 23, 2008, the test year consists of the twelve months ended December 31, 2008, and the date certain is March 31, 2008.

III. <u>SCHEDULES AND SUPPLEMENTAL FILING REQUIREMENTS SPONSORED BY WITNESS</u>

Q. PLEASE DESCRIBE SCHEDULE A-1.

A. Schedule A-1 is the overall financial summary of DE-Ohio's electric distribution operations. The data presented on Schedule A-1 shows that the Company will earn a 3.56% overall return for the test year and that an increase of $85.6 million over current electric distribution revenue is required to earn a reasonable rate of return on its electric distribution rate base at the Company's current cost of capital of 9.10%.

Q. PLEASE DESCRIBE SCHEDULE A-2.

A. Schedule A-2 is a calculation of mirrored Construction Work in Progress (CWIP) revenue surcredit rider. As indicated on this schedule, the Company has no mirrored CWIP revenue.

Q. PLEASE DESCRIBE SCHEDULE B-1.

A. Schedule B-1 is the jurisdictional rate base summary. The rate base components listed on this summary are supported by the various Section B schedules. The plant in service and reserve for accumulated depreciation were summarized from Schedules B-2 and B-3, sponsored by DE-Ohio witness Mr. Carl J. Council, Jr. The working capital and other items of rate base were summarized from Schedules B-5 and B-6, which I sponsor. The total jurisdictional rate base, as shown on this schedule, is $979,490,589 at the date certain, March 31, 2008.

Q. PLEASE DESCRIBE SCHEDULES B-5 AND B-5.1.

A. Schedule B-5 is a summary of allowance for working capital, which includes cash working capital, materials and supplies (M&S) and customer service deposits. Additional detail for all of these items is shown on Schedule B-5.1, including the average thirteen-month balance and the actual balance as of March 31, 2008, the date certain in this proceeding.

Q. HOW MUCH CASH WORKING CAPITAL ALLOWANCE IS BEING REQUESTED BY DE-OHIO IN THIS CASE?

A. DE-Ohio is not making a request for Cash Working Capital Allowance in this proceeding.

Q. IS THE COMPANY'S REQUEST FOR $0 CASH WORKING CAPITAL IN ITS RATE BASE A REASONABLE REQUEST?

A. It is. Although the Commission Staff often uses a lead/lag study to determine a utility's cash working capital, it has recognized that methods other than strict adherence to lead/lag studies can produce reasonable results for estimating cash working capital. A very recent example can be found in the Staff Report issued in the recent gas rate case involving Suburban Natural Gas Company (Suburban), Case No. 07-689-GA-AIR. In the report, the Staff made no mention of any requirement for Suburban to develop a lead/lag study. Instead, the Staff advocated the use of the "one-eighth method"[1] for estimating cash working capital (see Attachment WDW-1, which is an excerpt from the Staff Report in Case No. 07-689-GA-AIR, filed January 9, 2008). It should be noted that Suburban and DE-Ohio are subject to the same filing requirements under O.A.C. 4901-7-01 for "large" utilities.

Q. WHY HAS THE COMPANY INCLUDED NO CASH WORKING CAPITAL IN RATE BASE?

A. The question in determining the appropriate level of cash working capital to include in rate base is essentially one of reasonableness. Many jurisdictions consistently use a formula method, such as the one-eighth method discussed above, to estimate cash working capital. This method is accepted at the Federal Energy Regulatory Commission and by several other state regulators, including

[1] The "one-eighth" method, sometimes called the 45-day method, involves estimating cash working capital requirements by dividing a utility's annual non-fuel operating and maintenance expense by eight.

the Kentucky Public Service Commission, which regulates DE-Ohio's subsidiary company, Duke Energy Kentucky.

Admittedly, a lead/lag study is a more detailed approach but it is a costly and time consuming exercise, and it typically invites considerable dispute over the assumptions used to develop the study. In addition to these reasonable approaches of using the lead/lag study or the one-eighth method, the Company submits that its proposal to include $0 for its cash working capital allowance is well within the bounds of reasonableness, particularly in light of the Commission Staff's recent recommendations on this topic.

Q. DESCRIBE HOW YOU ESTIMATED THE BALANCE OF MATERIALS AND SUPPLIES TO INCLUDE ON SCHEDULES B-5 AND B-5.1.

A. The Company does not project changes in its other M&S balance as part of the budget process. Consequently, in order to reasonably estimate the monthly balance during the test period, the Company has reflected the actual average balance for the thirteen-months ended March 31, 2008. Using a thirteen month average is preferable to using the balance at any single point in time as an average eliminates the impact of any seasonal fluctuations, favorable or unfavorable, that may exist at any point in time. The process of allocating the M&S balance to electric distribution is described in Supplemental Filing Requirement (C)(14), which is discussed later in my testimony.

Q. PLEASE EXPLAIN WHY CUSTOMER SERVICE DEPOSITS ARE INCLUDED AS A SOURCE OF WORKING CAPITAL ON SCHEDULE B-5.

A. Customer service deposits represent funds held by the Company in advance of service. These funds are included on Schedule B-5 because they provide the Company with a source of capital. The Commission's rules (O.A.C. 4901-7-01) specifically identify this item as one to be included on Schedule B-5. It also prescribes that items included on Schedule B-5 are to be calculated on a thirteen-month average.

Q. HOW DID YOU DERIVE THE FIGURE SHOWN ON SCHEDULES B-5 AND B-5.1 FOR CUSTOMER SERVICE DEPOSITS?

A. The estimate of customer service deposits to be included in Schedule B-5 reflects the actual thirteen-month average balance for the period ended March 31, 2008, allocated to electric operations based on the ratio of electric customers to total gas and electric retail customers.

Q. DID YOU MAKE ANY FURTHER ADJUSTMENTS TO REFLECT THE APPROPRIATE LEVEL OF CUSTOMER DEPOSITS TO DEDUCT FROM DE-OHIO'S ELECTRIC DISTRIBUTION RATE BASE?

A. Yes. Because this case only relates to the Company's electric distribution business, we included only the portion of customer deposits attributable to the electric distribution business. This methodology is consistent with the method approved in our prior case (Case No. 05-59-EL-AIR) and was also supported by the Staff in the recent case involving First Energy Corp.'s electric distribution operations (Case No. 07-551-EL-AIR).

Q. PLEASE DESCRIBE SCHEDULE B-6.

A. Schedule B-6 is a summary of other rate base items including any adjustments to these balances as contained on Schedule B-6.1. The items include: customer advances for construction, post-retirement benefits, accumulated deferred investment tax credits, accumulated deferred income taxes, and other rate base adjustments. The investment tax credit balances for the 6% and the 10% credits are non-jurisdictional pursuant to the normalization requirements of the Internal Revenue Code.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR POST-RETIREMENT LIFE INSURANCE AND HEALTH INSURANCE BENEFITS INCLUDED ON SCHEDULE B-6 AS A REDUCTION IN RATE BASE.

A. In prior proceedings, the Commission has allowed the Company to internally fund its post-retirement life insurance and health insurance benefits. Accordingly, the amount included on Schedule B-6 represents cumulative expense recovery included in rates, net of benefits paid.

Q. PLEASE DESCRIBE SCHEDULE B-6.1.

A. Schedule B-6.1 summarizes the adjustments to the various other rate base item balances contained on Schedule B-6. Certain balances are eliminated or adjusted to reflect the ratemaking treatment of these or related items in this filing.

Q. PLEASE DESCRIBE SCHEDULE B-7.

A. Schedule B-7 is a summary of the jurisdictional allocation factors used in the development of the revenue requirement. Prior to deregulation of the generation business and the associated unbundling of electric utility services, the distinction "jurisdictional" and "non-jurisdictional" costs was more associated with retail versus wholesale costs. With unbundling, the only "jurisdictional" costs, *i.e.*, costs regulated by the Commission, are distribution costs and there are no "jurisdictional" wholesale distribution customers. Therefore, the allocation factors shown are those used to allocate certain costs between distribution and other electric functions (*i.e.*, transmission and generation).

Q. PLEASE DESCRIBE SCHEDULES B-7.1 AND B-7.2.

A. Schedule B-7.1 provides statistics used to develop the jurisdictional allocation factors shown on Schedule B-7. The requirement for Schedule B-7.2 is to provide an explanation of changes to allocation factors since the prior case.

Q. PLEASE DESCRIBE SCHEDULE B-8.

A. Schedule B-8 is titled "Reserve Capacity Discussion." DE-Ohio requested a waiver from this standard filing requirement because it relates to generation information. The Commission granted this waiver request by the entry dated July 23, 2008.

Q. PLEASE DESCRIBE SCHEDULE C-1.

A. Schedule C-1 sets forth the Company's jurisdictional *pro forma* income statement for the twelve months ending December 31, 2008, at both the current and proposed rates, and assumes that the total amount of the requested increase calculated on Schedule A-1 is authorized in this proceeding. The current adjusted operating results for the test year were summarized from Schedule C-2. Test year revenue at the proposed rates was developed by adding the increase in revenue as set forth on Schedule E-4 to the adjusted operating revenues. The *pro forma* results (column C) were developed by calculating the operating income effect of the requested increase (column B) and adding these amounts to the adjusted revenue and expense (column A). If the full increase were to be authorized, the resulting rate of return would be 9.10%, which is the Company's proposed rate of return.

Q. PLEASE DESCRIBE SCHEDULE C-2.

A. Schedule C-2 shows the Company's jurisdictional adjusted electric operating income associated with its distribution operations for the test year at current rates. This schedule includes unadjusted jurisdictional revenue and expense amounts from Schedule C-2.1, and a summary of the adjustments per Schedule C-3.

Q. PLEASE DESCRIBE SCHEDULE C-2.1.

A. Schedule C-2.1 lists the unadjusted test period operating revenue and expenses, by account. These amounts were derived from the Company's financial records and are summarized and carried forward to Schedule C-2. Also shown on Schedule C-2.1 is the jurisdictional allocation of each cost to electric distribution.

Q. PLEASE DESCRIBE SCHEDULE C-3 AND THE ADJUSTMENTS SHOWN ON SCHEDULES C-3.1 THROUGH C-3.23.

A. Schedule C-3 is a summary of the jurisdictional adjustments to operating revenues and expenses set forth on Schedules C-3.1 through C-3.23. The effect of each adjustment on Net Operating Income is shown on Line 43. The cumulative impact of the adjustments is summarized on Schedule C-3, page 1 of 4, and carried forward to Schedule C-2.

Q. WHY ARE ADJUSTMENTS TO TEST YEAR ACTUAL AND BUDGET INFORMATION NECESSARY?

A. These adjustments are required to reflect the representative ongoing level of revenues and expenses that the Company would experience in a normal year. Some adjustments are required to even out or eliminate the impacts of journal entries made to the actual book accounting data that comprise the first three months in our test year. Other adjustments are to reflect the level of revenue and expenses that would have occurred had all known prospective changes been in effect during the test year.

The test year adjustments ensure that prevailing revenues and expenses are properly included in the determination of an ongoing level of rates. We must reflect a proper level of cost in order to give the Company a reasonable opportunity to earn its authorized return. Not capturing these adjustments and reflecting them in the Company's test year would impair the Company's ability to earn a fair rate of return on its electric distribution operations or could result in the Company over-recovering its costs.

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO OPERATING INCOME.

A. Schedule C-3.1 adjusts test period revenue and expense in order to: (1) annualize revenue; (2) eliminate "unbilled" revenue; (3) eliminate Rider TCR revenue; (4) reflect the impact of a proposed change to certain pole attachment fees; and (5) include in the test year revenue attributable to two special contracts. The federal income tax effects of this adjustment are shown on Schedule C-3. The combined jurisdictional adjustment is a net $10,964,586 decrease in operating revenue.

Q. PLEASE EXPLAIN WHY YOU ANNUALIZE REVENUE.

A. Because the test year includes three months of actual data, it is necessary to make certain adjustments to ensure that the revenue included in the test year is representative of the annual level the Company can expect from its ongoing operations. Also, the methodology employed by the Company to budget revenue for the nine months used in the test year is based on averages to simplify the budgeting process. The revenue by Rate Code as developed on Schedule E-4, applying currently approved rates to test year sales, is a more precise method for determining the test year revenue and is the level that should be used in this proceeding.

Q. WHY DID THE COMPANY ELIMINATE UNBILLED REVENUE AND EXPENSE?

A. The Company eliminated the estimated unbilled revenue and expense from its operating results to be consistent with the revenue and volume computations contained on Schedule E-4. The revenue and volume amounts on Schedule E-4 are based on adjusted test year billing statistics and do not reflect estimated unbilled sales.

Q. PLEASE DESCRIBE THE OTHER ADJUSTMENTS INCLUDED IN THE FILING.

A. Schedule C-3.2 eliminates Demand Side Management/Energy Efficiency revenue and expense levels from the test year since these amounts are recovered from customers through a separate rider. This jurisdictional adjustment results in a decrease in revenue of $19,238,882 and a decrease in operating and maintenance (O&M) expense of $10,552,012.

Schedule C-3.3 adjusts operating income for the estimated cost of presenting this case. The Company proposes to defer this expense and amortize it over a three-year period. The Company also proposes to eliminate the amortization of rate case expense approved in Case No. 05-59-EL-AIR that is included in the test year. The rate case expense approved in that case will be fully amortized before the new rates go into effect; consequently, we made an additional adjustment to eliminate existing rate case expense amortization from the test period. The three-year amortization period reflects the approximate time we expect between rate cases and is consistent with the Staff's recommendation in the most recently filed electric distribution rate case, Case No. 07-551-EL-AIR, involving the First Energy Companies. A copy of the relevant pages of the Staff Reports in that case is attached as Attachment WDW-2 to this testimony supporting the three-year amortization period. The net jurisdictional adjustment results in a decrease in annual operating expenses of $90,475.

Schedule C-3.4 adjusts operating income to reflect the annualization of the Company's payroll costs based on the number of full-time, part-time, and temporary employees, and their respective rates of pay in effect at May 1, 2008. This schedule details the calculation of DE-Ohio's direct labor as well as labor allocated to DE-Ohio from the service company and other affiliated companies, consistent with the service agreements previously filed with the Commission and consistent with the methodology approved in the Company's prior retail rate cases.

Specifically, as detailed on work paper WPC-3.4b through WPC-3.4i, the annualized straight-time labor for DE-Ohio employees is calculated, by employee classification, by multiplying the number of employees times the annual hours worked to arrive at the number of straight-time hours worked. The hours are then multiplied by an average hourly rate to arrive at the total straight-time labor dollars. Overtime is then added based on percentages derived from actual data for the twelve months ended December 31, 2007, to arrive at total labor. Total labor is then multiplied by an electric O&M expense percentage, also derived from actual data for the twelve months ended December 31, 2007, to calculate the electric O&M labor expense. The calculation is similar for labor expense allocated from the service and affiliated companies. The only difference is that the service company/affiliate total labor expense is multiplied by a percentage derived from actual data for the twelve months ended December 31, 2007, to allocate to DE-Ohio its proportionate share of labor before the electric O&M expense percentages are applied. This jurisdictional adjustment to salaries and wages represents a decrease in expenses of $5,409,871.

Schedule C-3.5 adjusts operating income to annualize depreciation expense based on the utility plant included in rate base and the depreciation accrual rates proposed in this proceeding. Annualized depreciation expense is calculated on Schedule B-3.2, and is sponsored by Mr. Council. This jurisdictional adjustment results in an increase in depreciation expense of $7,979,420.

Schedule C-3.6 adjusts operating income to include, as an operating expense, interest computed at 5% per annum on the thirteen-month average of distribution business's share electric operations customer service deposits. This jurisdictional adjustment results in an increase in O&M expense of $177,590.

Schedule C-3.7 adjusts operating income to eliminate test year revenue and expense related to the existing Distribution Reliability Investment Rider (Rider DRI) approved in the prior case, Case No. 05-59-EL-AIR. The adjustment results in a $7,072,470 decrease in operating revenue and a corresponding decrease in amortization expenses.

Schedule C-3.8 adjusts operating income to annualize property tax expense based on the Ohio Average Property Tax Rate for 2007 (per $1,000 of valuation) and the estimated valuation percentages on date certain plant. Also included in this computation is the property tax on the average electric distribution M&S balance. This jurisdictional adjustment to property tax expense results in a decrease in taxes other than income taxes of $567,398.

Schedule C-3.9 is an adjustment to eliminate from the test year, non-jurisdictional operating expenses that were allocated to DE-Ohio from Duke Energy Shared Services, Inc. This adjustment results in decrease in O&M expense of $84,870.

Schedule C-3.10 adjusts operating income to reflect interest expense deductible for federal income tax purposes. The *pro forma* tax deduction is based on the embedded weighted cost of long-term debt of 2.69% as shown on Schedule D-1A. This adjustment reflects federal income tax at 35% on the interest cost included in the cost of capital. The adjustment has been determined by multiplying the weighted cost of long-term debt and the jurisdictional rate base, as indicated on Schedule B-1. Also included as a part of this adjustment is the elimination of interest-related tax Schedule M items and deferred taxes. This jurisdictional adjustment results in a $667,709 decrease in income tax expense.

Schedule C-3.11 is an adjustment to eliminate, consistent with past Commission precedent, a portion of the Company's Edison Electric Institute dues that are not traditionally approved for recovery in retail rates by the Commission. This adjustment also adds to expense an amount of the dues that was inappropriately allocated to gas operations. The net effect of this adjustment decreases O&M expense by $80,108.

Schedule C-3.12 adjusts operating income to eliminate the Ohio Excise Tax Rider ("kWh tax") revenues and expenses from the test year. This jurisdictional adjustment results in a decrease in revenue of $73,173,261 and a decrease in taxes other than income taxes of $73,128,969.

Schedule C-3.13 adjusts operating income to eliminate the "non-business" expenses related to the Hartwell Recreation Center. These costs were summarized from Schedule B-2.5 and have been allocated to electric operations. This adjustment is similar to the adjustment performed in prior cases and adopted by the Commission. This jurisdictional adjustment results in a $32,901 decrease in O&M expense and a decrease in taxes other than income taxes of $10.

Schedule C-3.14 adjusts operating income to eliminate non-jurisdictional expenses from the test year. Included in unadjusted test year expense are club dues, amortization of wholesale merger expense, and advertising expenses that are not recoverable in electric distribution rates. The Company proposes to eliminate these charges through a jurisdictional adjustment that decreases O&M expense by $95,962.

Schedule C-3.15 adjusts operating income to annualize the Commission and Ohio Consumers' Counsel annual assessments to the latest known levels. This jurisdictional adjustment results in a $124,473 decrease in O&M expense.

Schedule C-3.16 adjusts operating income to annualize uncollectible expense based on the adjusted base revenue shown on Schedule C-2, less interdepartmental revenue times the uncollectible expense factor shown on Schedule C-10. This adjustment is consistent with the methodology used in prior proceedings. This jurisdictional adjustment results in a $22,958,114 decrease in O&M expense.

Schedule C-3.17 adjusts operating income to annualize pension and benefits expense based on annualized labor expense, as determined on Schedule C-3.4, and the budgeted loading rate. This jurisdictional adjustment is similar to the adjustment performed in prior cases and adopted by this Commission and results in a decrease in O&M expenses of $3,849,322.

Schedule C-3.18 adjusts regulatory asset amortization approved in Case No. 05-59-EL-AIR to (1) eliminate amortization of disconnect moratorium expenses that will cease in 2008, and (2) adjust the amortization of the gain on the sale of the Lattice Towers that is being credited to customers over a three-year period. The Company is simply proposing to take the remaining amount of the gain on the sale of the towers, which is the total amount of the gain less the amount that has already been amortized, and amortize it over three years. Details are provided on work paper WPC-3.18a. This jurisdictional adjustment results in a net increase in O&M expense of $201,326.

Schedule C-3.19 amortizes a portion of the merger savings already provided to customers in 2006. As DE-Ohio witness Mr. Paul G. Smith discusses in his direct testimony, the Company is proposing to ensure that it is made whole on its prior agreement regarding the sharing of merger savings between customer and shareholder. The regulatory asset he proposes to create will be amortized over the same period as rate case expense - three years. This jurisdictional adjustment results in a net increase in O&M expense of $6,836,400.

Schedule C-3.20 is marked as "Reserved for Future Use", which indicates that no adjustments have been made on this schedule.

Schedule C-3.21 adjusts federal and state income tax expense to reflect a 100% phase-out of the Ohio Franchise Tax and a 100% phase-in of the Commercial Activities Tax. This jurisdictional adjustment results in a net decrease in income tax expense of $209,356.

Schedule C-3.22 adjusts operating income to annualize payroll taxes based on annualized salaries and wages as of May 1, 2008, as determined on Schedule C-3.4. This adjustment includes payments for Social Security under the Federal Insurance Contributions Act for both Old Age Survivors and Disability Insurance and for Medicare tax at the current tax rates. The percent of wages taxable used in this calculation represents the actual 2007 level. This jurisdictional adjustment results in a decrease in taxes other than income expense of $842,513.

Schedule C-3.23 adjusts operating income to annualize unemployment taxes based on annualized salaries and wages as of May 1, 2008, as determined on Schedule C-3.4. This adjustment includes federal and state unemployment taxes. The tax rates and taxable bases used for each tax represent the latest known information at the time this case was prepared. This jurisdictional adjustment results in a decrease in taxes other than income tax expense of $28,193.

Q. PLEASE DESCRIBE SCHEDULES C-5, C-6, AND C-7.

A. Schedule C-5 is entitled "Social and Service Club Dues." No costs are reflected in this case for employee social or service clubs membership dues. Schedule C-6 entitled "Charitable Contributions" indicates that there are no charitable contributions charged to jurisdictional electric operating expenses. Schedule C-7 provides detail, by account, of test year Customer Service and Informational Expense, Sales Expense, and General Advertising Expense.

Q. PLEASE DESCRIBE SCHEDULE C-8.

A. Schedule C-8 sets forth the estimated expense of presenting this case. The top half of this schedule compares the expenses estimated to be incurred in this proceeding versus the expenses for the Company's prior two rate cases. The Company proposes to defer this expense and amortize it over a three-year period. This amount is included in test year operating expense through the adjustment contained in Schedule C-3.3.

Q. PLEASE DESCRIBE SCHEDULE C-9.

A. Schedule C-9 contains a summary of all payroll costs and related benefits and taxes included in O&M expense for the test year. The adjustments made to labor expense, pension and benefits expense, FICA taxes, and unemployment taxes from Schedules C-3.4, C-3.17, C-3.22, and C-3.23 were also included on this schedule to arrive at the total adjusted payroll cost.

Q. PLEASE DESCRIBE SCHEDULE C-9.1.

A. Schedule C-9.1 is the Total Company Payroll Analysis for the most recent five years. Page 1 summarizes the total Company payroll information while pages 2 through 4 reflect the same information for the various employee classifications.

Q. PLEASE DESCRIBE SCHEDULE C-10.

A. Schedule C-10 sets forth the calculation of the gross revenue conversion factor. The revenue conversion factor is used on Schedule A-1, Line 7 to compute the revenue deficiency.

Q. WHAT ITEMS ARE INCLUDED IN THIS REVENUE CONVERSION FACTOR?

A. The revenue conversion factor includes the City of Cincinnati Franchise Tax, the Commercial Activities Tax, the Commission and Ohio Consumers' Counsel assessments, municipal income taxes, and federal income taxes. The rates used represent either the latest known rates or statutory rates. Also included in this factor is an uncollectible account factor of 1.677%. The conversion factor does not include any state income tax rate since it is being phased out by and replaced by the Commercial Activities Tax as discussed further in the direct testimony of DE-Ohio witness Mr. Keith G. Butler.

Q. PLEASE DESCRIBE SCHEDULES C-12.1, C-12.2, C-12.3, AND C-12.4.

A. Schedules C-12.1 through C-12.4 set out the electric sales statistics for the total company and the jurisdictional revenues in this proceeding. The years 2003 through 2007 are based on actual data. The test year twelve months ending December 31, 2008, reflects three months actual and nine months projected data. Years 2009 through 2013 are projected and provide information from the Company's electric sales forecast.

Q. PLEASE DESCRIBE SCHEDULE C-13.

A. Schedule C-13 is an analysis of the reserve for uncollectible accounts for the most recent three calendar years and the test year. Shown on this schedule is the beginning reserve balance, the current year provision, recoveries, charge-offs, and ending balances. The ratio of net write-offs and the ratio of uncollectible expenses are also computed. Beginning in February 2002, DE-Ohio's receivables have been sold to Cinergy Receivables Company LLC. The reserve that existed at that time has been reversed over time and no additional reserves are necessary; therefore, the balance is $0.

Q. PLEASE DESCRIBE SCHEDULE D-5.

A. Schedule D-5 contains comparative financial data for the years 1998 through 2007 and the test year ending December 31, 2008. This information was obtained from various departments throughout the Company.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(7).

A. Supplemental Filing Requirement (C)(7) requires the filing of working papers supporting the schedules provided in the Application. The electronic worksheet files are supplied on compact disc as part of the Application. A list of these electronic files is provided as Supplemental Filing Requirement (C)(7).

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(8).

A. Supplemental Filing Requirement (C)(8) is a worksheet showing, by FERC account, monthly test year data, which agrees with Schedule C-2.1, Column 1. Taxes Other Than Income Taxes are itemized and totaled.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(14).

A. The information provided in response to Supplemental Filing Requirement (C)(14) describes the calculation of the M&S component listed on Schedule B-5.1. Supplemental Filing Requirement (C)(14)(a) asks for the computation of the M&S used for construction, additions, and extensions. The percentage of M&S applicable to new construction is developed on Supplemental Filing Requirement (C)(14)(c). Supplemental Filing Requirement (C)(14)(b), page 1, lists the monthly balances of M&S by function, and page 2, lists the balances by account. The Company does not maintain its inventory in such a way that it can list the balances by function. The functional balances were estimated using a percentage developed on Supplemental Filing Requirement (C)(14)(c), which also lists monthly withdrawals by function.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(23).

A. Supplemental Filing Requirement (C)(23) requests information regarding the Fuel Stock component of working capital listed on Schedule B-5.1. DE-Ohio requested a waiver of this Supplemental Filing Requirement as it relates to generation, which is not part of this proceeding. The Commission granted this waiver by the entry dated July 23, 2008.

Q. WHAT INFORMATION DID YOU RECEIVE FROM OTHER DE-OHIO WITNESSES IN THIS PROCEEDING?

A. I received Plant in Service data from Mr. Council, which he presented on Schedules B-2 through B-4.2 and B-6.2. I received accumulated deferred investment tax credit and accumulated deferred income tax balance information from Mr. Butler, which I used on Schedule B-6. I also received the federal income tax rate, Ohio property tax valuation notice, and average Ohio property tax rate from Mr. Butler. I received cost of capital information from Mr. De May, which he presented on Schedule D-1. This schedule also includes the recommended rate of return on common equity proposed by DE-Ohio witness Dr. Roger Morin.

IV. <u>DISTRIBUTION RIDER</u>

Q. PLEASE DESCRIBE THE DISTRIBUTION RIDER BEING PROPOSED BY THE COMPANY IN THIS PROCEEDING?

A. As DE-Ohio witness Mr. James E. Mehring discusses in his direct testimony, the expectation for the next few years is that the Company will make substantial investments in its distribution system.

The Distribution Rider (Rider DR) is intended to balance the needs of the Company to maintain its financial stability and its commitment to shareholders, with the needs of its customers to minimize costs and provide safe, reliable, and efficient service. Rider DR is loosely modeled after the Company's Rider AMRP (Accelerated Main Replacement Program) for gas service. The objective is timely recovery of a return of and on incremental investment in electric distribution plant and recovery of incremental electric distribution expenses, net of any benefit derived from growth in the number of customers. The rider will be charged on a "per bill" basis to all customers based on the cost of service study approved in this case.

Q. WHAT TYPES OF COSTS WOULD BE INCLUDED IN RIDER DR?

A. Rider DR will be limited to only those plant and O&M accounts that are specifically distribution or distribution-related, including investments associated with the SmartGrid project. All of the information will be auditable and much of the information will be readily available in the Company's Form 1 filed with the Federal Energy Regulatory Commission (FERC). (The same information is filed in the Company's annual reports to the Commission.)

For incremental net plant, Rider DR would be based on the year-end electric distribution plant original cost net of accumulated depreciation and will not include any construction work in progress (CWIP). Electric distribution plant original cost and accumulated depreciation is provided in the Form 1. Net plant will also include DE-Ohio's electric distribution share of hardware and software development (collectively, information technology or IT) costs included in plant accounts other than electric distribution plant accounts. The adjustments to be included in the calculation of electric distribution rate base are for accumulated deferred income taxes (ADITs) associated with electric distribution plant (account 282), 3% and 4% Accumulated Deferred Investment Tax Credit (ADITC) on electric distribution plant, ADIT on uncollectible accounts, and the balance of Regulatory Assets – Meters being requested in Case No. 08-711-EL-AAM.

Although detailed information on ADITs and ADITC is not publicly available, it is readily available from the Company and will be included in the proposed annual filings.

Incremental operation and maintenance expense would be limited to direct electric distribution expenses, FERC Accounts 580 through 598, and distribution-related Administrative and General Expense (A&G) accounts, FERC Accounts 901 through 910. The eligible direct distribution O&M expenses include such costs as vegetation management and meter expenses. The distribution-related A&G accounts include such costs as call center and customer billing expenses. All of this information is available in the Form 1.

Finally, we propose to include depreciation expense on electric distribution plant (also available in the Form 1), property taxes on electric distribution plant, and allocated IT costs. Property taxes are not reported in the Form 1 on a distribution-only basis but the information is estimable and will be included in the annual filings.

The return on the incremental electric distribution rate base will be the overall pre-tax weighted-average cost of capital established in this proceeding. Unlike the Rider AMRP, however, we are not proposing to recover any post-in-service costs (*e.g.*, depreciation, carrying costs, etc.).

Attachment WDW-3 is an illustration of the Rider providing estimated calculations for years 2009 through 2011.

Q. HOW DOES DE-OHIO PROPOSE TO ADJUST RIDER DR?

A. DE-Ohio proposes to make an annual filing seeking approval to recover the Rider

DR revenue requirement, including investments related to the SmartGrid project. DE-Ohio proposes to make an annual pre-filing on or before November 30 using nine months of actual data and three months of estimated data of Rider DR costs/benefits for the current calendar year. DE-Ohio will update the filing by February 28 with an application and twelve months of actual data for Rider DR costs/benefits. DE-Ohio will use its best efforts to resolve any stakeholder objections by April 1, and DE-Ohio requests that, if any Commission hearing is required to resolve stakeholder objections, that such hearing be held in early April, such that the new Rider DR rates can be implemented with the May billing cycle.

In addition, DE-Ohio commits that it will file a deployment plan with the Commission by August 1 annually, setting forth the SmartGrid deployment activities and other distribution investments that DE-Ohio plans to make during the following calendar year. DE-Ohio will include the expected costs, how the customer benefits for SmartGrid will be calculated, and the rate impacts. Absent any Commission ruling to the contrary by October 1 each year, DE-Ohio requests that such expenditures be presumed to be prudent such that, if any stakeholder seeks to assert in a subsequent Rider DR proceeding or a subsequent general rate proceeding that such expenditures were imprudent, then that stakeholder shall bear the burden of proof the expenditures were imprudent and should be disallowed.

Finally, DE-Ohio recognizes that, in modern times, technologies occasionally become obsolete within a short time frame – as seen with personal computers, cellular phones and music formats, to name a few examples. If, therefore, some unexpected change occurs in technology, customer needs or DE-Ohio's business operations occurs, such that DE-Ohio determines that all or part of the SmartGrid project should be suspended or abandoned, then DE-Ohio requests that it be permitted to recover such costs, even though the costs might not meet the Commission's traditional "used and useful" standard for cost recovery, as long as the costs were subject to Commission review and approval as part of DE-Ohio's annual deployment plan.

Q. ARE THERE ANY SPECIAL CIRCUMSTANCES RELATED TO THE SMARTGRID PROJECT THAT NEED TO BE ADDRESSED FOR DEVELOPING RATES?

A. There is an issue with the treatment of costs for the existing meters that will be replaced as part of the SmartGrid project.

Q. PLEASE EXPLAIN.

A. A cornerstone feature of the SmartGrid project is the replacement of existing meters that have limited technological capabilities, with much more advanced "smart" meters. As discussed by DE-Ohio witness Todd W. Arnold, the Company plans to begin switching out existing meters with advanced meters before year-end 2008 and to have all of the meters completely switched out within the next few years. The issue is that the existing meters have book value remaining to be recovered after they have been replaced.

Generally Accepted Accounting Principles require that these costs be removed from plant in-service and accumulated depreciation as retired. The

Company is proposing to establish a regulatory asset to ensure full recovery of the investment in existing meters replaced as part of the SmartGrid in a manner, which will have the least economic impact to customers.

Q. HOW WILL THE REGULATORY ASSET BE DETERMINED?

A. In the current case, the Commission will approve in rates some level of annual depreciation on existing meters. As these meters are replaced, the net book value of the meters retired plus the depreciation expense on the balance of existing meters less the depreciation expense allowed in rates will be the amount of activity booked to the Regulatory Asset. As the existing meters are being retired, the Regulatory Asset will generally increase. Thereafter, the Regulatory Asset will begin decreasing. Any remaining balance will be included in the Company's next electric base rate case.

The ultimate effect of this regulatory asset treatment is that remaining book value of the existing meters will be expensed over the same period as if they were never replaced. Attachment WDW-4 provides an illustration of how the Regulatory Asset will be calculated.

Q. WILL THIS REGULATORY ASSET AMORTIZATION BE REFLECTED IN RIDER DR?

A. Yes. The sum of the actual depreciation on existing meters and the amortization expense on the regulatory asset, described above, will essentially equal the dollar amount of depreciation expense proposed in this case for existing meters. The combined expense will continue at this fixed amount and will be included in Rider DR until the balance of the regulatory asset is $0. Similarly, the unamortized balance of the regulatory asset, combined with the net plant of the unretired meters and ADITs, will be included in the rate base component of Rider DR.

V. CONCLUSION

Q. WERE ALL OF THE SCHEDULES AND SUPPLEMENTAL FILING REQUIREMENTS YOU SPONSOR PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes.

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

A. Yes.

The Public Utilities
Commission of Ohio

A report by the Staff of the Public Utilities Commission of Ohio

Suburban Natural Gas Company

Case No. 07-689-GA-AIR

Depreciation Reserve

The Applicant maintains depreciation reserve, by account, on a total company basis. In order to determine if the Applicant's booked reserve for depreciation is proper and adequate, the Staff generally finds it useful to compare the booked reserve with a calculated theoretical reserve as a guide to whether past accrual rate calculations have been appropriate. The Staff compared the Applicant's total company booked reserve level with a calculated theoretical reserve based on December 31, 2006 plant balances and the Staff's recommended accrual rates discussed below. The Staff determined that the overall booked reserve is in close agreement with the theoretical reserve calculation. The Staff is of the opinion that the jurisdictional reserve, as adjusted by the Staff on Schedule B-3, is reasonable and recommends its use for purposes of this proceeding. The Staff adjusted the Applicant's depreciation reserve to exclude reserve associated with the adjustments as discussed in the Plant in Service section. These adjustments are summarized on Schedule B-3.1

Depreciation Accrual Rates and Depreciation Expense

The Applicant's current depreciation accrual rates were prescribed by this Commission in Case No. 05-1246-GA-AAM. The Staff is of the opinion that the current accrual rates are proper and adequate for use in this proceeding.

The Staff's calculation of depreciation expense, based on the jurisdictional plant in service balances at date certain and the Staff recommended accrual rates discussed above, is shown on Schedule B-3.2.

Construction Work In Progress (CWIP)

The Applicant did not request an allowance for construction work in progress in this case and none is recommended by the Staff as indicated on Schedule B-4.

Working Capital

The working capital allowance is based upon the formula approach, which has been approved by the Commission in previous cases. Under this method, the revenue/expense lag dollars of working capital represents one-eighth of adjusted operation and maintenance expense. The materials and supplies component reflects the test year thirteen-month average balance of materials and supplies held for normal operations and maintenance. One-fourth of adjusted taxes other than income taxes (excluding FICA and the .75% portion of Ohio Gross Receipts Tax) and current federal income taxes are used to partially offset working capital.

FILE

The Public Utilities
Commission of Ohio

A report by the Staff of the Public Utilities Commission of Ohio

FirstEnergy
Ohio Edison Company

Case Nos. 07-551-EL-AIR
07-552-EL-ATA
07-553-EL-AAM
07-554-EL-UNC

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Reclassification of Interest on Customers' Deposits

Consistent with the treatment of customers' deposits as an offset to the Applicant's rate base, the Staff reclassified the associated interest expense to operating expenses. The Staff's adjustment is on Schedule C-3.16.

Rate Case Expense

The Staff used the Applicant's estimated rate case expense of $447,000 for this proceeding, for all three operating companies and the service Company. The Staff amortized the expense over a three-year period. The Staff's adjustment can be found on C-3.17.

The Staff recommends that the Commission review the Applicant's revised estimate of rate case expense which should be submitted as a late filed exhibit before making a final determination of the appropriate level of rate case expense for use in this proceeding.

Forfeited Discounts Revenue

The Staff adjusted test year forfeited discounts revenues to reflect the Staff's adjustment to operating revenues. Staff's adjustments are shown on Schedule C-3.18.

Ohio Edison Company
Case No. 07-551-EL-AIR
Rate Case Expense Adjustment
For the Twelve Months Ended February 29, 2008

Schedule C-3.18
Page 1 of 1

Data: 3 Months Actual & 9 Months Estimated
Reference No(s).: Applicant's Schedules C-8 & WPC-8, and Staff's Text

	Purpose and Description	Total Adjustment	Allocation Factor	Jurisdictional Amount
	To adjust test year expense to reflect estimates of incremental costs associated with filing Case No. 07-551-EL-AIR. (Not in budget)			
1	Adjustment to O&M Expense	$447,000		
2	Amortization Period - Years	3		
3	Net Adjustment to O&M Expense (1 / 2)	$149,000	100.00000%	$149,000

Duke Energy Ohio
Rider DR-IM
Overall Revenue Requirement for Direct Distribution

Line No.	Components of Revenue Requirement	Base Year 12 ME 12/31/08 [a]	Projected 2009	Projected 2010	Projected 2011
1	Return on Rate Base	$114,381,640	$122,227,423	$129,251,311	$134,026,441
2	Distribution O&M (FERC Accts 580-910)	96,547,613	101,472,542	100,240,468	98,126,913
3	Depreciation Expense (Distribution-only)	42,561,724	47,320,489	49,631,923	51,593,043
4	Property Tax Expense (Distribution-only)	55,492,506	59,196,287	62,087,811	64,541,104
5	Total Direct Distribution Revenue Requirement	$308,983,483	$330,216,741	$341,211,513	$348,287,502
6	Difference from Base (Excludes customer growth impact)		$21,233,257	$32,228,030	$39,304,018
7	Load Growth Revenue		($3,265,598)	($6,155,079)	($8,942,314)
8	Total Revenue from Rider (from line 27 on Rate Calcs Schedule)		$17,967,659	$26,072,951	$30,361,704

Notes: [a] Based on data as filed in the Company's pending electric distribution rate case, Case No. 08-709-EL-AIR.

Assumptions:

	2009	2010	2011
Composite Depreciation Rate (% of Gross Plant) *(Note: Will update Plant Detail schedule annually and use annualized depreciation)*	2.59%	2.59%	2.59%
Average Property Tax Rate (Valuation % * Average Tax Rate) *(Note: Will update valuation % and average tax rate annually.)*	3.24%	3.24%	3.24%

Duke Energy Ohio
Rider DR-IM
Incremental O&M vs. Base Year

Line No.	Distribution O&M	Test Year 08-709-EL-AIR [a]	Projected 2009	Projected 2010	Projected 2011
1	Account 580 - Supervision	$1,749,151	$1,950,444	$2,008,957	$2,069,226
2	Account 581 - Load Dispatching	1,748,837	1,898,678	1,953,578	2,012,185
3	Account 582 - Station Expenses	1,785,649	1,831,456	1,886,399	1,942,991
4	Account 583 - Overhead Line Expenses	1,248,397	1,074,128	1,106,352	1,139,542
5	Account 584 - Underground Line Expenses	607,438	655,016	674,667	694,907
6	Account 585 - Street Lighting & Signal System Expenses	302,824	315,018	324,468	334,202
7	Account 586 - Meter Expenses	1,331,360	1,596,553	1,644,450	1,693,783
8	Account 587 - Customer Installation Expenses	2,255,765	2,286,998	2,355,608	2,426,276
9	Account 588 - Miscellaneous Expenses	4,834,197	11,158,125	7,312,869	3,472,255
10	Account 589 - Rents	-			
11	Account 590 - Maintenance Supervision & Engineering	1,773,399	1,893,540	1,950,346	2,008,856
12	Account 591 - Maintenance of Structures	442,242	440,431	453,644	467,253
13	Account 592 - Maintenance of Station Equipment	2,474,567	2,716,114	2,797,597	2,881,525
14	Account 593 - Maintenance of Overhead Lines	21,709,094	17,272,623	17,940,802	18,629,026
15	Account 594 - Maintenance of Underground Lines	3,188,432	2,903,916	2,991,034	3,080,765
16	Account 595 - Maintenance of Line Transformers	819,933	921,186	948,822	977,286
17	Account 596 - Maintenance Street Lighting & Signal Systems	423,755	427,859	440,695	453,916
18	Account 597 - Maintenance Meters	772,984	846,428	871,821	897,975
19	Account 598 - Maintenance of Misc Distribution Plant	511,424	654,134	673,758	693,971
20	**Customer Accounts Expense**				
21	Account 901 Suervision	63,437	55,735	57,407	59,130
22	Account 902 Meter Reading Expenses	5,394,428	5,876,212	6,052,498	6,234,073
23	Account 903 Customer Records & Collection Expenses	16,360,035	18,128,428	18,642,281	19,171,549
24	Account 904 Uncollectible Accounts [a]	19,932,174	18,838,305	19,203,490	18,598,825
25	Account 905 Miscellaneous Customer Accounts Expense	46	-	-	-
26	**Customer Service & Informational Expenses**				
27	Account 907 Supervision	-			
28	Account 908 Customer Assistance Expenses	2,377,965	2,399,494	2,471,098	2,545,231
29	Account 909 Informational and Instructional Expenses	3,393			
30	Account 910 Misc Customer Service & Informational Expenses	4,436,687	5,333,722	5,477,828	5,642,163
31	**Total Base Year Distribution-Related O&M**	$96,547,613	101,472,542	100,240,468	98,126,913
32	Total Distribution-Related O&M for Comparison		101,472,542	100,240,468	98,126,913
33	Incremental Distribution O&M		$4,924,929	$3,692,855	$1,579,300

[a] Per Schedule C-2.1 from the Company's Standard Filing Requirements filed with its Application in Case No. 08-709-EL-AIR.

[b] The Company is proposing to track uncollectible accounts associated with all retail revenue. Therefore, Account 904 is shown at the total amount and not the amount included in the test year for the test year which was only for uncollectibles allocated to distribution service.

Duke Energy Ohio
Rider DR-IM
Incremental Rate Base vs. Base Year

Line No.	Distribution Plant	08-709-EL-AIR March 31, 2008	Projected 2009	Projected 2010	Projected 2011
1	Original Cost	$1,644,636,777	$1,827,045,899	$1,916,290,465	$1,992,009,391
2	Accumulated Depreciation	(559,545,652)	(693,987,858)	(737,647,732)	(782,726,067)
3	Net Plant	$1,085,091,125	$1,133,058,041	$1,178,642,733	$1,209,283,324
4	Deductions from Distribution Rate Base [a]	($196,344,890)	($196,344,890)	($196,344,890)	($196,344,890)
5	Reg Asset - Meters	-	12,994,872	21,985,851	28,448,057
6	Total Distribution Rate Base for Comparison	$888,746,235	$949,708,023	$1,004,283,694	$1,041,386,491
7	Pre-Tax ROR (08-709-EL-AIR)	12.87%	12.87%	12.87%	12.87%
8	Calculated Pre-Tax Return (L6 * L7)	$114,381,640	$122,227,423	$129,251,311	$134,026,441
9	Incremental Return on Rate Base		$7,845,782	$14,869,671	$19,644,801

Notes: (a) For purposes of illustration, deductions from rate base are assumed to be unchanged over the period and include:
- Investment Tax Credits - 3% and 4%
- Accumulated deferred income (ADIT) taxes related to distribution and SmartGrid implementation, and ADITs related to uncollectible accounts.

Duke Energy Ohio
Rider DR-IM
Calculation of Rider Rate

Line No.	Distribution Revenue Requirement	07-709-EL-AIR Proposed Revenue	07-709-EL-AIR Percent Of Total	07-709-EL-AIR Number of Bills	Allocation of Base DR Rev Req	Rider DR Base per Bill	Proposed Revenue	Bills	Dist Rev Req per Bill	Rider per Bill	Incremental Revenue
							Calculated Distribution Rev Req Per Bill – Projected 2009 Revenue Requirement [a]				
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Total Change in Revenue Requirements										
2	Allocation of Revenue Requirement from Prior Case										
3	Residential (RS, RS3P & CUR)	$219,714,712	55.41%	7,542,387	$171,204,967	$22.70	$182,970,123	7,621,822	$24.01	$1.31	$9,954,100
4	Optional Heating Service (ORH)	150,774	0.04%	2,445	117,414	48.02	125,482	2,471	50.78	2.76	6,825
5	Optional Time-of-Day (TD)	9,072	0.00%	228	7,107	31.17	7,595	230	33.02	1.85	426
6	Total Residential	$219,874,558	55.45%	7,545,060	$171,329,488		$183,103,200	7,624,523			$9,961,350
7	Secondary Distribution (DS)	$117,666,242	29.67%	270,289	91,687,141	$339.22	$97,987,855	273,135	$358.75	$19.53	$5,334,619
8	Secondary Distribution (DS RTP)	212,460	0.05%	381	165,616	434.69	176,986	385	459.73	25.04	9,640
9	Unmetered Small Fixed Loads (GSFL)	588,784	0.15%	3,358	458,840	136.64	490,372	3,393	144.53	7.89	26,754
10	Electric Space Heating (EH)	1,614,420	0.41%	5,160	1,257,672	243.77	1,344,312	5,214	257.83	14.06	73,293
11	Secondary Distribution Service - Small (DM)	16,259,178	4.10%	504,867	12,669,250	25.09	13,539,877	510,204	26.54	1.45	738,775
12	Primary Distribution (DP)	29,830,126	7.52%	3,583	23,244,209	6,487.36	24,841,545	3,621	6,860.41	373.05	1,350,814
13	Primary Distribution (DP RTP)	3,059,666	0.77%	173	2,384,117	13,781.02	2,547,962	175	14,559.73	778.71	136,274
14	Total Distribution	$169,230,676	42.68%	787,831	$131,867,044		$140,928,909	796,126			$7,670,170
15	Transmission Voltage (TS)	$104,200	0.03%	581	81,263	$139.87	$86,847	587	$147.95	$8.08	$4,744
16	Transmission Voltage (TS RTP)	15,600	0.00%	48	12,050	251.05	12,878	49	262.82	11.77	577
17	Total Transmission Voltage	$119,800	0.03%	629	$93,313		$99,725	636			$5,320
18	Street Lighting (SL)	$4,328,344	1.09%	494,541	3,372,864	$6.82	$3,604,646	499,749	$7.21	$0.39	$196,401
19	Traffic Lighting (TL)	164,489	0.04%	403,626	128,228	0.32	137,040	408,079	0.34	0.02	6,529
20	Outdoor Lighting (OL)	1,718,211	0.43%	224,516	1,338,825	5.96	1,430,829	226,881	6.31	0.35	78,726
21	Non-Standard Street Lighting (NSU)	128,678	0.03%	22,889	100,420	4.39	107,320	23,130	4.64	0.25	5,783
22	Non Standard Private Outdoor Lighting (NSP)	246,216	0.06%	27,519	191,879	6.97	205,065	27,809	7.37	0.40	11,235
23	Street Lighting - Customer Owned (SC)	374,317	0.09%	254,052	291,660	1.15	311,725	256,728	1.21	0.06	16,431
24	Street Lighting - Overhead Equivalent (SE)	345,054	0.09%	77,032	268,816	3.49	287,289	77,843	3.69	0.20	15,646
25	Unmetered Outdoor Lighting (UOLS)	1,323	0.00%	3,653	927	0.25	991	3,691	0.27	0.02	86
26	Total Lighting	$7,306,632	1.84%	1,508,028	$5,693,639		$6,084,905	1,523,910			$330,819
27	Total Retail	$396,531,866	100.0000%	9,841,548	$308,983,483		$330,216,741				$17,967,659

[a] Per Schedule E-4, page 1, as filed in Case No. 08-709-EL-AIR
[b] Percent of total in column (a).
[c] Per Schedule E-4, page 1, as filed in Case No. 08-709-EL-AIR.
[d] Total from column (a) times column (c).
[e] Column (d) ÷ column (c).
[f] Total revenue for applicable year times column (b).
[g] Projected customer growth (see bottom of page) times prior year's customer bills.
[h] Column (f) ÷ column (g).
[i] Column (h) - column (e). Rate is billed beginning in the year following the year for the revenue requirement is calculated.
[j] Column (i) * column (g).

Assumptions	2009	2010	2011
Projected year-over-year customer growth rates (per B&F Forecast)			
Residential	1.05%	0.93%	0.89%
Commercial & Industrial	1.22%	0.98%	0.93%

Duke Energy Ohio
Rider DR-IM
Calculation of Rider Rate

		Calculated Distribution Rev Req Per Bill									
		Projected 2010 Revenue Requirement (a)					Projected 2011 Revenue Requirement (a)				
Line No.	Distribution Revenue Requirement	Proposed Revenue	Bills (c)	Dist Rev Req per Bill	Rider per Bill (b)	Incremental Revenue	Proposed Revenue	Bills (c)	Dist Rev Req per Bill	Rider per Bill (b)	Incremental Revenue
1	Total Change in Revenue Requirements										
2	Allocation of Revenue Requirement from Prior Case										
3	Residential (RS, RS3P & CUR)	$189,062,230	7,892,652	$24.58	$1.88	$14,462,186	$192,982,971	7,760,907	$24.87	$2.17	$16,841,168
4	Optional Heating Service (ORH)	129,660	2,494	51.99	3.97	9,901	132,349	2,516	52.60	4.58	11,523
5	Optional Time-of-Day (TD)	7,848	232	33.83	2.66	617	8,011	234	34.24	3.07	718
6	Total Residential	$189,199,738	7,895,378			$14,472,704	$193,123,331	7,763,657			$16,853,410
7	Secondary Distribution (DS)	$101,250,422	275,674	$367.28	$28.06	$7,735,412	$103,350,137	278,120	$371.60	$32.36	$9,005,526
8	Secondary Distribution (DS RTP)	182,889	389	470.16	35.46	13,794	186,682	392	476.23	41.54	16,284
9	Unmetered Small Fixed Loads (GSFL)	506,699	3,425	147.94	11.30	38,703	517,207	3,455	149.70	13.06	45,122
10	Electric Space Heating (EH)	1,389,072	5,262	263.98	20.21	106,345	1,417,876	5,309	267.07	23.30	123,700
11	Secondary Distribution Service - Small (DM)	13,990,696	514,945	27.17	2.08	1,071,086	14,280,832	519,514	27.49	2.40	1,246,834
12	Primary Distribution (DP)	25,668,660	3,655	7,022.89	535.53	1,957,362	26,200,972	3,687	7,106.31	618.95	2,282,069
13	Primary Distribution (DP RTP)	2,632,788	177	14,874.51	1,093.49	193,548	2,687,386	179	15,013.33	1,232.31	220,563
14	Total Distribution	$145,621,226	803,527			$11,116,249	$148,641,094	810,656			$12,940,117
15	Transmission Voltage (TS)	$89,739	592	$151.59	$11.72	$6,938	$91,600	597	$153.43	$13.56	$8,095
16	Transmission Voltage (TS RTP)	13,307	49	271.57	20.52	1,005	13,583	49	277.20	26.15	1,281
17	Total Transmission Voltage	$103,046	641			$7,944	$105,183	646			$9,377
18	Street Lighting (SL)	$3,724,665	504,393	$7.38	$0.56	$282,460	$3,801,906	508,868	$7.47	$0.65	$330,764
19	Traffic Lighting (TL)	141,603	411,871	0.34	0.02	8,237	144,539	416,626	0.35	0.03	12,466
20	Outdoor Lighting (OL)	1,478,469	228,989	6.46	0.50	114,495	1,509,130	231,021	6.53	0.57	131,682
21	Non-Standard Street Lighting (NSU)	110,894	23,345	4.75	0.36	8,404	113,193	23,552	4.81	0.42	9,892
22	Non Standard Private Outdoor Lighting (NSP)	211,892	28,067	7.55	0.58	16,279	216,287	28,316	7.64	0.67	18,972
23	Street Lighting - Customer Owned (SC)	322,104	259,114	1.24	0.09	23,320	328,783	261,413	1.26	0.11	28,756
24	Street Lighting - Overhead Equivalent (SE)	296,854	78,566	3.78	0.29	22,784	303,010	79,263	3.82	0.33	26,157
25	Unmetered Outdoor Lighting (UOLS)	1,024	3,725	0.27	0.02	75	1,045	3,758	0.28	0.03	113
26	Total Lighting	$6,287,505	1,538,070			$476,054	$6,417,893	1,551,716			$568,800
27	Total Retail	$341,211,513				$26,072,951	$348,287,502				$30,381,704

Duke Energy Ohio
Distribution Reliability Rider
Reg Asset Accumulation and Amortization

	Balance 3/31/08	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/09
Original Cost	77,688,906	(19,422,227)				58,266,679
Accum. Depreciation	(19,808,948)	19,422,227	(10,325,827) (a)		(12,994,872)	(23,707,420)
Net Book Value	57,879,958					34,559,259
Regulatory Asset		14,469,990	10,325,827	(11,800,945) (a)	12,994,872	12,994,872

	Balance 12/31/09	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/10
Original Cost	58,266,679	(19,422,226)				38,844,453
Accum. Depreciation	(23,707,420)	19,422,226	(4,214,623)		(8,990,979)	(17,490,796)
Net Book Value	34,559,259					21,353,657
Regulatory Asset	12,994,872	11,519,753	4,214,623	(6,743,397)	8,990,979	21,985,851

	Balance 12/31/10	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/11
Original Cost	38,844,453	(19,422,227)				19,422,226
Accum. Depreciation	(17,490,796)	19,422,227	(2,528,774)		(6,462,206)	(7,059,549)
Net Book Value	21,353,657					12,362,677
Regulatory Asset	21,985,851	10,676,829	2,528,774	(6,743,397)	6,462,206	28,448,057

	Balance 12/31/11	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/12
Original Cost	19,422,226	(19,422,226)				0
Accum. Depreciation	(7,059,549)	19,422,226	(842,925)		(11,519,752)	0
Net Book Value	12,362,677					0
Regulatory Asset	28,448,057	12,362,677	842,925	(6,743,397)	11,519,752 (b)	39,967,809

	Balance 12/31/12	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/13
Regulatory Asset	39,967,809			(6,743,397)	(6,743,397)	33,224,412

	Balance 12/31/13	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/14
Regulatory Asset	33,224,412			(6,743,397)	(6,743,397)	26,481,015

	Balance 12/31/14	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/15
Regulatory Asset	26,481,015			(6,743,397)	(6,743,397)	19,737,618

	Balance 12/31/15	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/16
Regulatory Asset	19,737,618			(6,743,397)	(6,743,397)	12,994,221

	Balance 12/31/16	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/17
Regulatory Asset	12,994,221			(6,743,397)	(6,743,397)	6,250,824

	Balance 12/31/17	Plant Retired	Depreciation Expense	Depreciation in Rates	Reg Asset Activity	Balance 12/31/18
Regulatory Asset	6,250,824			(6,250,824)	(6,250,824)	0

(a) Depreciation Expense and Depreciation in Rates for 21 months, from date certain to 12/31/2009.
(b) Reg Asset Activity in 2012 includes balance of Accum. Depreciation at 12/31/2012.