

FILE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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**DUKE ENERGY OHIO'S MOTION FOR APPROVAL TO CHANGE ACCOUNTING  
METHODS TO DEFER AND CREATE A REGULATORY ASSET FOR STORM  
RESTORATION COSTS INCURRED DURING THE TEST YEAR AND RECOVERY  
MECHANISM FOR STORM RESTORATION COSTS**

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1. Duke Energy Ohio (DE-Ohio or the Company) 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 motion, and is a public utility as defined by R.C. 4905.02 and R.C. 4905.03.
2. Pursuant to Section 4905.13, Revised Code, DE-Ohio moves the Commission for approval to change accounting methods to defer and create a regulatory asset for storm restoration operation and maintenance (O&M) costs incurred during the test year.
3. On or about July 25, 2008, DE-Ohio filed its applications in the above-styled proceedings (Applications) requesting, among other things, an increase in electric distribution rates with a forecasted test year including the twelve months ended December 31, 2008. DE-Ohio also requested tariff approval and approval to change

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accounting methods. The request for the change in accounting methods was assigned Case No. 08-711-EL-AAM. Specifically, DE-Ohio requested the Commission approve deferral of costs associated with its future electric distribution investments on an interim basis until such costs are reflected in retail rates. DE-Ohio proposed to implement a new distribution rider mechanism, Rider DR, to recover the deferred costs, as well as other electric distribution system investments such as SmartGrid.

4. As explained in the Prefiled Direct testimony of DE-Ohio Witness William Don Wathen Jr., the objective of Rider DR is the 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. Rider DR is limited to only those plant and O&M accounts that are specifically distribution or distribution-related, including investments associated with the Company's SmartGrid project. Incremental O&M expense would be limited to direct electric distribution expenses, Federal Energy Regulatory Commission (FERC) Accounts 580 through 598, and distribution-related administrative and general expense (A&G) accounts (FERC Accounts 901 through 910). All of this information is available in the FERC Form 1. The accounts covered by Rider DR, as proposed in the Applications, include most of the O&M accounts in which DE-Ohio records storm restoration expenses.
5. On July 31, 2008, DE-Ohio filed its Electric Security Plan, Case No. 08-920-EL-SSO, *et al.*, which, among other things requested approval of a new pricing formula as its standard service offer including a Distribution Rider - Infrastructure Modernization (Rider DR-IM) for the implementation of an advanced SmartGrid

technology and deferral of costs for future electric distribution investments. Rider DR-IM, as filed in Case No 08-920-EL-SSO, *et al.*, was similar to the mechanism requested in this proceeding, referred to as Rider DR.

6. On October 28, 2008, a Stipulation and Recommendation was filed in Case No. 08-920-EL-SSO which, among other things, established the Stipulating Parties' agreement to the creation of Rider DR-IM. The Commission approved the Stipulation and Recommendation in an Opinion and Order dated December 17, 2008, in Case No. 08-920-EL-SSO. As stipulated and approved by the Commission, Rider DR-IM allows DE-Ohio to obtain cost recovery for SmartGrid investments, DE-Ohio's Gas Furnace Program, and an Electronic Bulletin Board. The broader group of distribution O&M expenses and distribution plant investment was not approved for cost recovery under Rider DR-IM in Case No. 08-920-EL-SSO.
7. By the present motion, DE-Ohio does not seek to change the amount of the rate increase it applied for in Case No. 08-709-EL-AIR. In the present motion, DE-Ohio merely seeks additional authority to change accounting methods relating to storm restoration O&M costs and approval of a mechanism for the recovery of such costs, such as by narrowing the scope of proposed Rider DR as filed in these proceedings. Since recovery of SmartGrid investment was approved in Case No 08-920-EL-SSO through Rider DR-IM, these costs will no longer be included in the proposed Rider DR in the above-styled proceedings.
8. On September 14, 2008, a historic wind storm from the remnants of Hurricane Ike struck the entire Northern Kentucky and Greater Cincinnati areas, carrying hurricane force winds that included gusts in excess of 74 miles per hour. The unprecedented

winds brought widespread damage to trees and especially to DE-Ohio's electric delivery system including, but not limited to, poles, power lines, transformers, insulators, and other equipment.

The September 14, 2008, wind storm caused the largest documented electric outage in the history of DE-Ohio. The effects of the storm were felt throughout the Midwest including the states of Ohio, Indiana, and Kentucky. The magnitude of the storm in Ohio was such that on September 15, 2008, Governor Ted Strickland declared a state of emergency in the State of Ohio. Approximately 83% of DE-Ohio's customers were impacted by the outages caused by the storm and the Company documented approximately 822,000 sustained outages (greater than five minutes in length) due to the damage caused by Hurricane Ike. Despite the best and diligent efforts of DE-Ohio's employees, contractors, and colleagues from other utilities, service could not be fully restored to DE-Ohio's territory for several days. DE-Ohio used its best available resources to monitor Hurricane Ike but those resources were unable to predict the storm's strength and impact on its Greater Cincinnati service territory.

9. On September 14, 2008, DE-Ohio and its sister utilities, Duke Energy Kentucky, Inc., and Duke Energy Indiana, Inc., immediately began implementing their emergency plans to respond to the damage. With respect to the service territories of Duke Energy Kentucky and DE-Ohio, the storm affected every part of the 3,000-square-mile service area in Northern Kentucky and Southwest Ohio. More than 1,200 Duke Energy employees and contractors responded to the storm by assessing damage, preparing material for the field, assigning jobs to crews, removing damaged

vegetation, repairing down lines and equipment and providing support services. An additional 450 employees and contractors worked in the call centers taking customer calls, including 145 people from other departments who served as auxiliary call center representatives.

10. Duke Energy Kentucky and DE-Ohio worked together to retain approximately 1,230 employees and contractors from other utilities, in other states, to assist in the restoration effort for Kentucky and Ohio customers. This included approximately 570 employees and contractors from Duke Energy Carolinas. Many of the contractors were preparing to go to Texas and Louisiana to assist with hurricane restoration there but were diverted to the Northern Kentucky and Greater Cincinnati areas. Employees and contractors from six other utilities from as far away as Virginia assisted with the restoration effort. The non-Duke crews first arrived September 15, 2008, the day after the wind storm hit.
11. The storm restoration efforts resulting from Hurricane Ike were significant and unprecedented, both in magnitude of damage repair and total cost. The costs DE-Ohio has incurred as part of the restoration have significantly exceeded the Company's average annual storm-related costs. DE-Ohio estimates that its Hurricane Ike-related expenses will be approximately \$31 million, of which \$30 million is O&M and \$1 million is for capital-related expenses. These costs are based upon both actual and estimated costs incurred to date and reasonable estimates of contingencies. Although the Company is still receiving invoices for costs incurred for storm restoration, we remain confident that the \$31 million estimate is reasonable. The costs DE-Ohio seeks to defer are the amount of 2008 storm restoration costs that

exceed the Company's storm-related costs included in the test year revenue requirement in the current case.

12. DE-Ohio asks the Commission for permission to accumulate as a regulatory asset and to defer for future recovery in appropriate accounts, the actual O&M costs incurred as a result of the September 14, 2008, wind storm caused by Hurricane Ike. Until fully recovered, DE-Ohio will apply a carrying charge, based upon its most recently approved average cost of long-term debt. The measures DE-Ohio took to restore service, and the costs related thereto, were reasonable and prudent and should therefore be recoverable as a necessary cost of providing service to DE-Ohio's customers.
13. The actual storm restoration costs occurred within DE-Ohio's projected test year in the above-styled proceedings, the twelve months ended December 31, 2008. These costs are includable in any adjustments for the test year under O.A.C. 4901-7-01 Appx. A.
14. DE-Ohio proposes to recover these deferred storm restoration costs and carrying charges in the following manner:
  - i. So as not to impact the revenue requirement increase requested in Case No. 08-709-EL-AIR, or to cause any additional rate impact to customers' base distribution rates, DE-Ohio requests approval to narrow the scope of the Rider DR as proposed in its Application from "all incremental investment in electric distribution plant, and recovery of incremental electric distribution expenses" to just those incremental O&M expenses and carrying charges related to storm

damage. Consistent with the procedure set forth in the Company's Applications, DE-Ohio will apply for approval of recovery of the actual storm costs and carrying charges in a future application to set and adjust Rider DR. All interested parties will have an opportunity for a hearing through the due process afforded by the Commission through such a proceeding. DE-Ohio proposes that the scope of such proceeding be limited to a review of the reasonableness of the calculation of the amount to be recovered, as DE-Ohio seeks approval to recover documented storm costs as part of these proceedings. The inclusion of these costs in Rider DR is consistent with DE-Ohio's Application filed in these proceedings. As noted above, the proposed Rider DR already includes most of the O&M accounts in which the storm restoration costs would be recorded as expenses. The first proposed Rider DR to be filed in 2009 would thus include in its revenue requirement calculation an amortization of these storm-related costs and carrying charges over three years. The initial level of Rider DR to be approved in these proceedings would be zero and, therefore, the rates to customers to be approved in these proceedings will not be impacted by this change to Rider DR. To avoid any confusion in the naming convention of DE-Ohio's other riders, the Company proposes to change the name of Rider DR to Rider "DR-IKE."

- ii. Alternatively, since these costs fall within the current test year, upon issuance of the Staff's Report in these proceedings and taking into consideration any adjustments recommended by Staff, DE-Ohio will make the appropriate test year adjustment to amortize the restoration costs over three years for recovery in

a manner similar to rate case expense, providing the adjustment for storm costs along with proposed carrying charges does not result in a net increase to the Company's revenue requirement to a level above that set forth in its July 25, 2008, Application.

15. DE-Ohio will file supplemental testimony supporting the proposed recovery method following the issuance of the Staff's report of investigation.
16. If the Commission approves DE-Ohio's requested regulatory asset treatment of its September 14, 2008, wind storm-related costs and carrying charges under any of the options listed in paragraph 14, DE-Ohio will make the following journal entries for Hurricane Ike-related costs:

Debit 182.3 Other Regulatory Assets

Credit 58X Distribution Operation Expense  
59X Distribution Maintenance Expense  
9XX Administrative & General Expense  
408 Payroll Taxes

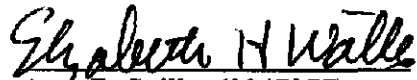
17. The accounting treatment and proposed method of recovery requested herein related to the September 14, 2008, wind storm will only have a minimal impact on customers' bills. By deferring these costs plus carrying charges for later recovery as part of Rider DR or another rider, DE-Ohio's base rates will not be impacted as a result of the storm restoration.
18. Consistent with Statements of Financial Standards (SFAS) No. 71, granting such treatment in this case will allow DE-Ohio to make appropriate adjustments to its



books of account for the regulatory asset and prevent DE-Ohio from having to record extraordinary storm costs as expenses on its books.

WHEREFORE, DE-Ohio respectfully requests the Commission approve for deferral and recovery through an amortization over three years under Rider DR or one of the other methods suggested herein, actual O&M storm restoration costs and carrying charges incurred resulting from storm restoration efforts.

Respectfully Submitted



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**CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing was served via ordinary mail on the following parties this 22nd day of December 2008.

  
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