FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Gas Rates.	)))	Case No. 07-589-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Rate Plan for its Gas Distribution Service.	))))	Case No. 07-590-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change Accounting Methods.	)))	Case No. 07-591-GA-AAM

DUKE ENERGY OHIO, INC.'S REPORT TO THE PUBLIC UTILITIES COMMISSION OF OHIO REGARDING FINDINGS OF THE NATURAL GAS COLLABORATIVE

On May 15, 2007, Duke Energy Ohio, Inc. (DE-Ohio) filed its Application to Increase Rates in this docket. On February 28, 2008, DE-Ohio reached a settlement with the Parties to the case and submitted a Stipulation and Recommendation to the Public Utilities Commission of Ohio (Commission) for its approval. On May 28, 2008, the Commission approved the Stipulation and Recommendation in its entirety. One element of the Stipulation and Recommendation was DE-Ohio's commitment to convene a working group or collaborative process, open to interested stakeholders, to explore implementing an auction to supply the standard service offer (SSO) to its natural gas customers. DE-Ohio agreed to report the findings of the working group to the Commission within one year. By agreement in the Stipulation, the report is to include the

facts and arguments that support and/or oppose implementation of an auction process. DE-Ohio further agreed to review whether the present allocation of 80% of the net revenues from DE-Ohio's Asset Management Agreement (AMA) should continue to flow only to Gas Cost Recover (GCR) customers, or should be changed to flow to both GCR and choice customers.

DE-Ohio convened meetings with the Commission Staff and Interested Parties[1] to discuss the above issues on July 17 and August 24, 2008. During the course of these meetings, Parties engaged in a free-ranging and open discussion of the issues and DE-Ohio is grateful to the participating Interested Parties for their valuable contribution to the discussions. Pursuant to its commitment in this case, DE-Ohio hereby submits its report to the Commission.

I. Introduction

The impetus for these discussions has been the evolving nature of the gas market place over recent years. Effective in March 2001, Amended H.B. 9 altered the existing policy of this State by allowing customers to choose their gas supplier. Thereafter, in 2001, competitive gas suppliers started to question the continuing need for DE-Ohio to remain as provider of last resort and to be subject to the GCR mechanism. These issues continue to be relevant and important concerns given the State's current economic downturn and the Commission's need to provide oversight of service quality, affordability and the economic viability of business interests providing regulated and non-regulated services to customers. The fundamental question presented here is whether a customer is better off under the current system, or under a system based on an auction process. Numerous theoretical arguments can be made for both systems, but an analysis

[1] All Parties who participated in this docket were invited to participate in the collaborative discussions.

of historic results confirms that the current system tends to provide a lower price to customers. Following is DE-Ohio's discussion concerning these issues.

II. Price Volatility and Other Customer Concerns

In order to inform and give shape to the inquiry, some of the Interested Parties provided a "White Paper" to the group during the course of these discussions. The White Paper provided a framework for the discussion and will now also give focus to DE-Ohio's report to the Commission. A copy of the White Paper is Attachment 1.

As a starting point, the White Paper refers to the economy of scale that a regional supply and capacity network would provide as its rationale for expecting an auction process to provide lower prices. However, DE-Ohio is already tapping into these economies of scale through the utilization of an AMA. The Asset Manager combines the interstate pipeline transportation, storage and supply contracts released from DE-Ohio with other contracts that it holds, either its own or through other AMAs, to extract value from the same economy of scale referred to in the White Paper. By sending out a Request for Proposal, DE-Ohio assures the highest possible AMA fee is realized with 80% being returned to the GCR customers. Thus, it is not necessary to implement an auction process to obtain lower prices.

In discussing the benefits of an auction process, the White Paper also recommends allowing the Commission, its Staff, the Office of the Ohio Consumers' Counsel and others to forgo the GCR audit process, thereby providing a cost savings. While DE-Ohio would agree that cost savings that ultimately inure to the benefit of Ohio customers are a desirable outcome, it is important to weigh more substantive concerns against the potential cost savings, which in this case would be fairly insignificant.

The White Paper then identifies the potential premium value that competitive suppliers are likely to factor into the price at which suppliers they are willing to serve the market. The White Paper posits that the premium paid by customers will ultimately be reflected in the suppliers' bidding price. As evidence of this premium, the White Paper references the discount that suppliers once provided in order to serve the Percentage of Income Payment Plan (PIPP) program, until the risk of pricing against the estimated gas cost (EGC) caused the suppliers to discontinue bidding and the PIPP customers to return to GCR service. However, in 2007, the process for acquiring a supplier to PIPP customers was changed so that the supplier could deliver a fixed daily amount at a discount to a set index rather than the EGC. The number of participants in this bidding process has continued to be low and the discounts offered have dwindled from approximately $0.006 per ccf in 2007 to $0.002 per ccf in 2009, with only two suppliers providing bids. Even when suppliers are not required to meet the estimated load of PIPP customers and do not have the risk associated with providing a discount to the EGC, the premium that only a few suppliers are willing to provide is very low.

A comparison of DE-Ohio's GCR with NYMEX closing prices shows that over the five calendar years of 2004-2008, the average GCR was equivalent to NYMEX plus $1.50 per mcf. Although Dominion East Ohio's (Dominion) original SSO compared favorably at NYMEX plus $1.44 per mcf, that price jumped to NYMEX plus $2.33 per mcf after the bidding for the second period. On April 1, 2009, Dominion's SSO changed again to NYMEX plus $1.40, based on their most recent auction. The initial SSO for Vectren Energy Delivery of Ohio (VEDO) also turned out higher than DE-Ohio's average GCR at NYMEX plus $2.35 per mcf.

Moreover, historical comparisons confirm that DE-Ohio's customers have financially benefited from its lower price. Dominion's GCR for the five years preceding its first SSO (October 2001 – September 2006) was equivalent to NYMEX plus $1.95 per mcf. And for the five years preceding its first SSO (September 2003 – August 2008) VEDO's GCR was equivalent to NYMEX plus $1.77 per mcf. Although the comparisons for Dominion are more varied, Vectren's current SSO is higher than the average GCR. Thus, it appears that customers have benefited from DE-Ohio's lower price over this period of time. See Attachment 2.

III. Demand Response

The Interested Parties' White Paper refers to a study conducted by the United States Government Accountability Office (GAO), which cites demand response programs as beneficial to customers. The GAO study notes that barriers to demand response include state regulations that shield customers from price fluctuations, a lack of equipment at customers' locations and customers' limited awareness about the program and benefits. The White Paper posits that an auction process would play a critical role in the introduction and expansion of a demand program. Although this may be true in some part, it is not a dispositive statement as there are concomitant concerns that should likewise be addressed. First, the fact that regulated customers are shielded from price fluctuation might be equally cited as a positive result of regulation rather than an argument in favor of the auction process. Second, DE-Ohio would agree that the lack of equipment at customer locations is a contributing factor to meager demand response for gas customers. DE-Ohio is deploying meters which will be capable of providing information regarding daily usage that should ultimately enhance customer ability to

monitor usage. Additionally, remotely controlled thermostats will provide an additional demand response capability at some time in the future. These advantages will be forthcoming regardless of whether DE-Ohio undertakes the auction. Thus, development of customer demand response is not dependent upon the auction process nor is it dependent upon volatile pricing. In fact, it is arguable that customers are motivated by concerns other than price in considering whether or not to curtail usage.

Although the GCR can be substantially different from a true "market price", this is mostly due to the amount of supply that was locked in with a fixed price through the hedging program and the amount of supply withdrawn from storage during the winter at summer prices. It can be argued that, since the price the customer ultimately pays includes the fixed price supply as well as the storage, the only difference between the GCR and the customer's "market price" is the Actual Adjustment (AA) portion of the GCR. Since adopting a monthly GCR, the adjustments have been rather small, averaging only $0.02 per ccf on an absolute basis or around 2% of the total GCR. It is unlikely that the demand response of the typical GCR customer is being influenced by such a small price differential.

IV. ALLOCATION OF ASSET MANAGEMENT REVENUES

The Asset Manager pays DE-Ohio an Asset Management Fee that is currently allocated 20% to the Company and 80% to GCR customers. One of the tasks set before the working group was to determine if a portion of the AMA fee should be credited to choice customers.

Since the assets that make up DE-Ohio's capacity portfolio - and through which the Asset Manager derives value - are the same assets used to provide service to GCR

customers, it would appear at first glance that the current allocation is equitable. However, since a portion of the storage assets are utilized to provide daily balancing service to choice customers, allocating a similar portion of the AMA fee to these customers is likewise reasonable.

Suppliers to the choice program have a choice of Firm Balancing Service (FBS) or Enhanced Firm Balancing Service (EFBS). Through the FBS charge, these suppliers compensate DE-Ohio, and ultimately the GCR customers, for the portion of storage utilized to provide daily balancing. Suppliers that elect EFBS pay a higher amount through a combination of a demand charge and a volumetric charge and, in return, have more flexibility to manage their nominations.

To determine an equitable sharing, an allocation factor was developed based on the demand charges for transportation, storage and peaking services. Storage demand charges were allocated to GCR and choice customers based on the estimated usage for each class of customer on a peak day. Other transportation charges were allocated 100% to GCR customers. This results in an allocation of the portion of the AMA fee that is returned to customers of 82% for GCR customers, 18% for choice customers. See Attachment 3.

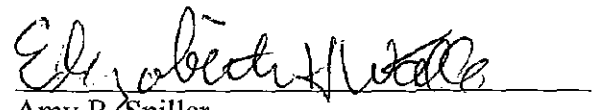
V. Conclusion

After careful consideration of the views of all the Interested Parties, including those of the Commission Staff, at this time DE-Ohio does not believe that it would be in the best interest of its customers to institute an auction process similar to that instituted by Dominion and Vectren. The current system works to provide customers with a stable and fair price while giving them the opportunity to purchase gas from another supplier if

they so choose. Currently 24% of customers (including PIPP customers) have switched to an alternate supplier, and there is an active market for any customers who choose to shop for a different pricing option.

DE-Ohio respectfully submits that the appropriate course of action at this juncture is to remain with the status quo and not initiate an auction to supply the SSO. DE-Ohio does agree and recommends that the allocation of revenues from the AMA should be adjusted to benefit all customers, including choice customers, as described above.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Report to the Commission was served on the following parties this 27th day of May, 2009 by regular U. S. Mail, overnight delivery or electronic delivery.

/s/ Elizabeth H. Watts

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Confidential – Settlement Discussion Document

DUKE ENERGY OHIO'S GAS WORKING GROUP

WHITE PAPER REGARDING AUCTIONS IN OHIO

Introduction

Several fundamental changes in the structure of the natural gas industry during the past several years has raised the question as to whether the Gas Cost Recovery ("GCR") mechanism designed in 1972 is still the optimal method of supplying commodity gas on a default basis for retail customers. The industry changes include the Federal Energy Regulatory Commission development of open access transmission with secondary delivery rights, the rise of NYMEX as a national gas market, transportation service for large customers and House Bill 9 which set up Choice programs and governmental aggregation for the little customers. Given the nature of the GCR and its prior period adjustments, it is difficult to make accurate historic price comparisons. While it will not be possible to measure the precise "economic benefit" of a wholesale auction price versus what would have been charged under the GCR process, a comparison of the two methods demonstrates why it is reasonable to conclude that an auction process will result in a lower price and cost savings for default customers when compared to the traditional GCR. Unlike 1972 when the local distribution company owned nearly all the gas in its system, today much of the gas in the local distribution system belongs to customer and with transmission and storage arranged by a competitive supplier. Further, as the amount controlled by the utility declines the economy of scale for providing the next increment of gas is more likely to be a supplier with a regional supply and capacity network. An auction seeks to tap that network to bring the default customer the lowest available cost of gas. In addition, a well structured wholesale auction that is based on a monthly formula tied to a widely known and credible index such as the NYMEX will send more efficient price signals to consumers and will, therefore, encourage the implementation of, and enhance the efficacy of, demand response efforts to mitigate cost and to promote conservation.

Auction Process

Under an auction approach, Suppliers would be accountable for delivering all gas necessary for default service at the awarded bid price. Suppliers would take assignment of the assets currently used by the Utility to provide this service. An audit of the specific transactions and utilization of these assets would no longer be necessary, resulting in a cost savings to the utility as well as the Commission, OCC and other third parties.

Suppliers are accustomed to taking acceptable risk and have developed acumen in managing daily purchase and sales decisions in a volatile market place. It is the ability

to retain the rewards flowing from efficient procurement and asset management that will pique Suppliers' interest in the bid auction. In fact, Suppliers place a premium value on assets such as capacity and storage, which help facilitate and make more efficient existing trading and retail operations. This premium value will, in effect, be transferred to consumers because this premium value for the assets will be factored into the price at which Suppliers are willing to serve the market. In other words, Suppliers will be paying for the right to serve this marketplace and the premium paid will be reflected and realized by consumers in the bidding price.

The value of serving a delivered market and the assets required to serve that market will be assigned a premium by Marketers. In particular, Suppliers will have access to other markets and will be able to use excess capacity on a daily basis to serve those other markets. Also, the storage management and the ability to time injections and withdraws are very valuable to Suppliers. Finally, having the certainty of a stable market and stable storage for a defined time period will allow Suppliers to make purchase commitments of various lengths, including longer time periods.

Evidence of premiums paid by Suppliers for serving markets.

The value of serving a delivered market and the use of the assets that are required to serve that market can be demonstrated by past experience in Ohio through the PIPP, government aggregation, customer acquisition, and third party supply management programs through both VEDO and Duke Energy Ohio.

The PIPP program is one example of Suppliers providing a discount in order to serve a market. Recently, the PIPP program has not attracted as many bidders due to the uncertainty of the choice program rules, as well as the requirement that PIPP program Suppliers beat the EGC. Many Suppliers have found that pricing against the EGC is too risky because of the legitimate concern that the rates will not reflect true market conditions. Unlike the Utility, Suppliers will not be able to collect any unrecovered cost due to a below market EGC. In other words, it is the risk in pricing against the EGC process itself that makes bidding on PIPP programs intolerably risky.

Government aggregation is another example of Suppliers placing a premium on serving a market. Many Government aggregation customers receive a discount to the Utility's rate despite the fact that many of the Government aggregators receive a management fee for putting together the aggregation.

Customer acquisition costs are another example of the premium Suppliers are willing to pay to serve a market. Currently, Suppliers spend money to acquire customers and utilize a variety of methods such as direct solicitation, direct mail, telephone enrollment, advertising, affinity relationship, sponsorship, or acquisition from other Suppliers. These marketing and acquisition costs are significant and demonstrate the premium Suppliers are willing to pay for the right to serve a market.

Finally, and perhaps most notably, the best example of a premium given to serve a market is demonstrated by the payment made to Duke and VEDO by the outsourced supply manager each utility has chosen. Parenthetically, the use of a third party supply manger demonstrates that, from a physical standpoint, the Utility does not have to be the default provider in order to assure reliability. However, a well-structured auction process approved by the Commission will result in the highest premium paid to manage those assets and, therefore, result in the lowest cost to consumers.

Demand Response

In a study conducted by the United State Government Accountability Office (GAO) and released in August, 2004, it was concluded that Demand-response programs benefit customers by improving the functioning of markets and enhancing reliability. The GAO also found "that while benefits from demand response are potentially large, three main barriers limit their introduction and expansion: (1) state regulations that shield consumers from price fluctuations, (2) a lack of equipment at customers' locations, and (3) customers' limited awareness about the programs and their benefits. Regarding prices, customers do not respond to price fluctuations because the retail prices they see do not reflect market conditions but are generally set by state regulations or laws."[1]

A direct benefit of the action process is that it would play a critical role in the introduction and expansion of a demand response program. Replacing the current GCR with a market based wholesale action directly eliminates the first barrier identified by the GAO. In addition, establishing the consumers' price on a fluctuating market based index will create the interest and opportunity for investment by both consumers and suppliers to purchase equipment for use at customers' locations, which was the second barrier sited by the GAO.

[1] www.gao.gov/cgi-bin/getrpt?GAO-04-844

Wholesale Auctions

Over the past several years, Ohio has developed wholesale auction processes behind two local distribution companies: Dominion East Ohio ("DEO") which serves primarily the Cleveland, Ohio area; and Vectren Energy Delivery of Ohio ("VEDO"), which primarily serves the Dayton, Ohio market. DEO began its auction process several years earlier than VEDO and held its first auction in 2006, and just completed its second auction in July, 2008. Below are some of the highlights of those auctions.

Assets

Although DEO initially requested that it be permitted to divest it self of all upstream assets at a point certain, basically releasing those assets back to the market while requiring suppliers to that market (both retail and those that would serve load through an auction bid process) and divest itself of the supplier of last resort role, the Public Utility Commission of Ohio determined that it was not yet prepared for the utility to take this step and required it to continue to hold assets to serve certain points, although approving the auction format. DEO was also required, at least for the near future, to continue to act, at least in part, as the supplier of last resort. However, that role was modified significantly with the understanding that at some point the PUCO may embrace a full exit of both the merchant function and the POLR role for the utility. As such, DEO continues to hold approximately 90% of a peak day in assets. With this system, the "assets follow the customers" on a monthly basis, with a base amount being released for the duration of an auction period, with the remainder re-evaluated on a monthly basis (specifically the on-system storage and those assets that serve constrained points) based upon customer migration. DEO retains assets sufficient to serve approximately 15% of its system peak day to provide system balancing to all classes of customers, including Choice, SSO (soon to be SCO customers) and traditional transportation. The costs associated with the assets retained by DEO for system balancing are paid for by all customers through their Migration Rider Part B.

POLR Responsibility

The POLR responsibility through the auction is now a shared responsibility. DEO utilizes the assets it retained for balancing (15% of a peak) to provide short term commodity service in the event of a supplier default, along with retaining the right to recall any and all assets assigned to the supplier (upstream capacity contracts, upstream storage, on system storage). The first DEO will look to the recalled capacity and storage to serve the defaulted load in the short term. If there are insufficient assets available from these sources, DEO will look to the balancing assets to supplement the delivery requirements. If this source is not sufficient, DEO will, again in the short term, go out to the market to obtain the commodity needed to serve the defaulted load for the duration of its POLR responsibility period (although with the recalled assets and balancing assets, in with OFOs being called, DEO believes that the need for this step is unlikely). During this period, if the supplier default is deemed a major supplier default, DEO will likely issue OFOs to assist in providing adequate supply to the system, to temporarily reduce the need

for operational balancing which will free up the balancing assets to provide commodity service during this period. DEO will stand ready to provide POLR service to customers for the remainder of the billing month in which the default occurs and for one additional billing month thereafter. DEO's POLR responsibility will effectively cease at the end of the next billing month following the date of default. Supply responsibility after that time will reside with the customer's new supplier, if one is selected, or with the SSO suppliers. In the event of default by an SSO supplier, the tranche(s) that it previously served will be allocated to non-defaulting suppliers in proportion to the number of tranches each was awarded. Suppliers will be paid the price established through the auction process.

SSO supplier responsibility for providing service to default load is part of the Auction process. Even during the POLR period, DEO will work with the SSO suppliers to see if there is a voluntary interest in immediately picking up all or a portion of the default load. Although not required during this period, the concept is that the parties will work together to serve the defaulted load on a voluntary basis. Once DEO's POLR responsibility ends (completion of the billing cycle in which the default occurs plus one billing cycle), the market is essentially responsible for supplying the entire defaulted load. Each SSO supplier is responsible to serve up to 150% of its initially awarded amount, so basically has the responsibility to serve 1.5 tranches for every tranche awarded. In the event of a default, DEO will first look for volunteers among the remaining SSO suppliers to take on the additional load at the auction price. If there are no takers, DEO can solicit outside parties to serve the defaulted load at the auction price. If there are no takers, the SSO suppliers will, after the end of the POLR period, assume the defaulted load up to 150% of the initial awarded tranche amount. If the default is in excess of the 150% and the additional load is not voluntarily assumed, DEO will work with the parties to have an auction for the unassigned portion, and the new price will established. No defaults have occurred in the SSO auction for DEO. In order to alleviate some of the risk associated with the SSO POLR responsibility, DEO and the SSO suppliers are permitted a certain amount of collateral. For the SSO suppliers, there is separate collateral that is posted by each SSO supplier, equal to approximately twenty-five cents per Mcf to be served.

Auction background

In the wholesale phase of the auction process, a couple of fundamental issues were considered in coming up with a process to resolve those issues. First, there was a desire that all customers to be served through the auction price would be served at the same price. There was a concern that if different prices were established that there would be a negative public sentiment regarding this outcome, with two neighbors potentially getting different prices. It was therefore determined that one price for all similarly situated customers should be established in this phase. A second concern was that if the PIP was separated from the sales load for purposes of establishing a price, although not prohibited, it may not be socially responsible to have a PIP price that is higher than the standard sales price. Therefore, for the SSO auction, PIP was included in the same auction as the standard sales customer. There was also discussion regarding whether the industrial and commercial customers should be auctioned separately, but given the

relative small number of customers and load, for the SSO it was determined to keep this group included in the single auction. A third consideration was that the price for the commodity be a nationally recognized and available index, as well as a market based price. For the reasons stated in the introduction to this paper, moving to a market based price was deemed a reasonable substitution for a reconcilable GCR. Therefore, for the commodity portion of the monthly price, the monthly closing NYMEX settlement price was determined to be the appropriate commodity proxy. The remaining amount to be established through the auction was, for the DEO auction, the price for a supplier to deliver the natural gas to from the supply areas to the utility city gate, with the final bid price to be a burner-tip all in price (excluding utility distribution costs, monthly utility administrative fees, etc.).

DEO Auction

The auction itself is a descending clock auction, wherein prequalified bidders are able to bid in a number of tranches that they are willing to serve at the auction round price. The prequalification is based upon an application process, financial review and creditworthiness assessment by the utility, followed by various documentation requirements and biding deposits. Based upon the review, qualified bidders are provided unsecured credit from $0 to an undisclosed amount. No bidder is permitted to win more than one-third of the total load, wherein the load is subdivided into twelve (12) tranches. A tranche winner in the SSO auction serves $1/12^{th}$ of the undivided sales load. In the DEO Phase I SSO auctions, both PIPP and the remaining sales customers (approximately 100,000 PIPP and 300,000 sales customers) were combined into one load of 12 tranches. DEO worked with the PUCO Staff to determine an initial starting price. Each round of the auction lasted for a predetermined duration and in each round, the price was reduced by a predetermined increment and disclosed only to those bidders that continued to bid tranche(s) in each round. As the price reduced each round, fewer tranches were bid until the total number of tranches bid equaled the total number of tranches to be awarded. In the first auction, the auction clearing price was $1.44 and the number of tranches awarded was 12, with the largest number of tranches awarded to a single supplier being 4 and the smallest being 1. The auction process contemplated end of auction scenarios, wherein various permutations of auction bids would result in various outcomes. In the second auction, the end of auction procedures was utilized and the number of tranches were adjusted to 14 to clear the auction at $2.33.

The DEO auction price results in a monthly variable, non-reconcilable market price to consumers that consists of the monthly closing NYMEX settlement price plus the auction adder, which is a burner tip price. The process required final Commission approval of the auction price, as well as a reservation of right by the Commission to reconsider the SSO altogether in certain circumstances. Both auctions were approved within 1 day of the auction closing.

VEDO auction

Many of the same basic premises detailed under the Auction Background, above, were adopted as reasonable for the VEDO auction process. For purposes of this paper, only some of the significant distinctions between the two processes will be discussed.

For VEDOs auction, POLR responsibility will only occur for approximately 3 days following a default as compared to the end of billing cycle plus one that is the case in the DEO auction. Although VEDO, as is the case with DEO, retains the right to recall assets in the event of a default, in contrast to DEO, VEDO is retaining no assets beyond the propane peaking service. In the VEDO process, all assets will follow the customers, and the system suppliers being the SSO and choice suppliers will provide system balancing for all customers, choice, sales and transportation. Although all of the assets are assigned to suppliers, a portion of the assets are not available on a daily basis for delivery, as those assets are to be reserved by the various suppliers for purposes of balancing the system. The amount varies based upon heating degree days, and was created by VEDO based upon a maximum miss analysis of anticipated consumption to actual consumption. It is contemplated that this portion of the program will remain open to revision as more information is gained through the process, so that the maximum amount of the assets can be available for daily use by the suppliers while retaining a reasonable amount for balancing purposes. Since VEDOs system is smaller than DEOs, the total number of tranches to be bid is 6 instead of 12, although the total amount of the system sales load that a winning supplier could serve would also be no greater than one-third of the load.

The VEDO auction was held August 19, 2008. There were 12 bidders and the Staff of the Commission found the closing price within the reasonable range and recommended approval. The Commission is scheduled to vote on approval tomorrow.

Retail Auctions

The retail auctions are contemplated as the second phase of the process. A retail auction is essentially the same as a wholesale auction, except that the winning bidder will, instead of having an undivided interest in serving a non-differentiated load, be provided a relationship with actual identified end-use sales customers. What this means is that a winning supplier in what has been coined a Standard Choice Offer (SCO) auction will be associated with specific customers, and that the relationship will be conveyed to the customers by including the suppliers name on the commodity bill. The creation of a retail relationship between the supplier and the end use customer is contemplated to have a discernable value to retail suppliers, distinct from the value proposition present in a whole sale auction. In order to differentiate the value of serving a wholesale load from that of serving a customer through a retail relationship, it was determined in the DEO auction to revise the auction process as follows:

PIP load will be separated from the remaining sales customers' load to proceed with two separate auctions. The first auction will be the PIP wholesale auction. In the wholesale auctions, prequalified bidders can include any supplier that is capable of supplying a wholesale load. The PIP wholesale auction will proceed with the same rules as described

above for the descending clock SSO auction. Once an auction clearing price is established, the auction closing price will be used as a barometer for the SCO auction that will follow.

In the SCO auction, which will include the remaining sales load (absent the PIP load); the auction will proceed as described above. If the auction price does not reach the PIP auction clearing price, the auction will close at that price and the sales customers will be served at the NYMEX closing plus auction price and there will be two prices, the lower of which will be for the PIP load. If, however, the SCO auction bidding process reaches a point where the SCO auction price during the auction reaches the PIP SSO auction closing price, the descending portion of the auction will end and an ascending clock phase bid will then occur. During the ascending clock portion of the auction, those suppliers that have tranches bid at the point the SSO and the SCO bid prices equal each other, will have an opportunity to bid into the auction an amount that they would be willing to pay into the system for the right to serve those customers at retail. The highest bids (which will also occur in ongoing rounds) where the number of tranches equals the amount needed to clear the auction equals, the auction will close. SCO customers in this auction process will be served at the bid price and the additional dollars that are bid into the auction in the ascending portion of the auction will be used to off-set costs assessed to customers through the Migration Rider Part B.

Duke Energy Ohio
Historic GCR Compared to NYMEX Closing Price
October 2002 - December 2008
$/MMBtu

	NYMEX	GCR			Equivalent "NYMEX Plus" Price		
	Settle Price	DE-Ohio	Dominion	VEDO	DE-Ohio	Dominion	VEDO
Oct-01	$1.830	$4.848	$6.171	$5.869	$3.018	$4.341	$4.039
Nov-01	$3.202	$4.848	$5.384	$5.301	$1.646	$2.182	$2.099
Dec-01	$2.316	$4.566	$5.384	$5.301	$2.250	$3.068	$2.985
Jan-02	$2.555	$4.566	$5.384	$5.301	$2.011	$2.829	$2.746
Feb-02	$2.006	$4.566	$4.086	$4.907	$2.560	$2.080	$2.901
Mar-02	$2.388	$2.962	$4.086	$4.907	$0.574	$1.698	$2.519
Apr-02	$3.472	$2.962	$4.086	$4.907	($0.510)	$0.614	$1.435
May-02	$3.319	$2.962	$3.476	$3.478	($0.357)	$0.157	$0.159
Jun-02	$3.420	$3.275	$3.476	$3.478	($0.145)	$0.056	$0.058
Jul-02	$3.278	$3.275	$3.476	$3.478	($0.003)	$0.198	$0.200
Aug-02	$2.976	$3.275	$5.013	$5.851	$0.299	$2.037	$2.875
Sep-02	$3.288	$3.992	$5.013	$5.851	$0.704	$1.725	$2.563
Oct-02	$3.686	$3.992	$5.013	$5.851	$0.306	$1.327	$2.165
Nov-02	$4.126	$3.992	$5.031	$5.167	($0.134)	$0.905	$1.041
Dec-02	$4.140	$4.558	$5.031	$5.167	$0.418	$0.891	$1.027
Jan-03	$4.988	$4.558	$5.212	$5.167	($0.430)	$0.224	$0.179
Feb-03	$5.660	$4.558	$5.212	$5.495	($1.102)	($0.448)	($0.165)
Mar-03	$9.133	$5.988	$5.212	$5.495	($3.145)	($3.921)	($3.638)
Apr-03	$5.146	$6.605	$7.052	$5.495	$1.459	$1.906	$0.349
May-03	$5.123	$6.605	$6.352	$7.820	$1.482	$1.229	$2.697
Jun-03	$5.945	$8.134	$6.352	$7.820	$2.189	$0.407	$1.875
Jul-03	$5.291	$8.134	$6.352	$7.820	$2.843	$1.061	$2.529
Aug-03	$4.693	$8.134	$8.578	$8.116	$3.441	$3.885	$3.423
Sep-03	$4.927	$7.368	$8.578	$8.116	$2.441	$3.651	$3.189
Oct-03	$4.430	$6.867	$8.578	$8.116	$2.437	$4.148	$3.686
Nov-03	$4.459	$7.017	$8.000	$6.927	$2.558	$3.541	$2.468
Dec-03	$4.860	$6.896	$8.000	$6.927	$2.036	$3.140	$2.067
Jan-04	$6.150	$7.787	$8.000	$6.927	$1.637	$1.850	$0.777
Feb-04	$5.775	$7.602	$7.891	$7.008	$1.827	$2.116	$1.233
Mar-04	$5.150	$7.015	$7.891	$6.740	$1.865	$2.741	$1.590
Apr-04	$5.365	$7.141	$7.891	$7.057	$1.776	$2.526	$1.692
May-04	$5.874	$7.572	$7.138	$7.876	$1.698	$1.264	$2.002
Jun-04	$6.680	$7.717	$7.138	$8.681	$1.037	$0.458	$2.001
Jul-04	$6.141	$7.273	$7.138	$8.569	$1.132	$0.997	$2.428
Aug-04	$6.048	$7.197	$8.351	$7.649	$1.149	$2.303	$1.601
Sep-04	$5.082	$6.598	$8.351	$7.715	$1.516	$3.269	$2.633
Oct-04	$5.723	$6.320	$8.351	$7.549	$0.597	$2.628	$1.826
Nov-04	$7.626	$8.294	$8.793	$7.792	$0.668	$1.167	$0.166
Dec-04	$7.976	$8.530	$9.325	$8.016	$0.554	$1.349	$0.040
Jan-05	$6.213	$7.812	$8.793	$7.792	$1.599	$2.580	$1.579
Feb-05	$6.288	$7.557	$9.085	$7.583	$1.269	$2.797	$1.295
Mar-05	$6.304	$7.470	$9.069	$7.543	$1.166	$2.765	$1.239
Apr-05	$7.323	$8.086	$9.917	$8.950	$0.763	$2.594	$1.627
May-05	$6.748	$8.307	$9.569	$9.492	$1.559	$2.821	$2.744
Jun-05	$6.123	$7.969	$8.897	$8.712	$1.846	$2.774	$2.589
Jul-05	$6.976	$8.213	$9.766	$9.482	$1.237	$2.790	$2.506
Aug-05	$7.647	$8.553	$10.148	$9.418	$0.906	$2.501	$1.771
Sep-05	$10.847	$9.336	$11.302	$10.477	($1.511)	$0.455	($0.370)
Oct-05	$13.907	$11.392	$13.220	$12.539	($2.515)	($0.687)	($1.368)
Nov-05	$13.832	$12.175	$13.779	$11.356	($1.657)	($0.053)	($2.476)

Duke Energy Ohio
Historic GCR Compared to NYMEX Closing Price
October 2002 - December 2008
$/MMBtu

	NYMEX	GCR			Equivalent "NYMEX Plus" Price		
	Settle Price	DE-Ohio	Dominion	VEDO	DE-Ohio	Dominion	VEDO
Dec-05	$11.180	$11.684	$13.024	$11.452	$0.504	$1.844	$0.272
Jan-06	$11.431	$11.611	$13.279	$11.275	$0.180	$1.848	($0.156)
Feb-06	$8.400	$10.047	$12.504	$9.954	$1.647	$4.104	$1.554
Mar-06	$7.112	$9.401	$11.074	$9.756	$2.289	$3.962	$2.644
Apr-06	$7.233	$8.884	$9.716	$9.586	$1.651	$2.483	$2.353
May-06	$7.198	$9.511	$10.934	$8.857	$2.313	$3.736	$1.659
Jun-06	$5.925	$9.133	$9.152	$8.998	$3.208	$3.227	$3.073
Jul-06	$5.887	$8.615	$9.859	$9.022	$2.728	$3.972	$3.135
Aug-06	$7.042	$8.536	$9.102	$8.875	$1.494	$2.060	$1.833
Sep-06	$6.816	$9.452	$9.901	$9.037	$2.636	$3.085	$2.221
Oct-06	$4.201	$8.642		$8.181	$4.441		$3.980
Nov-06	$7.153	$8.424		$8.423	$1.271		$1.270
Dec-06	$8.318	$9.571		$9.005	$1.253		$0.687
Jan-07	$5.838	$9.585		$8.832	$3.747		$2.994
Feb-07	$6.917	$9.183		$8.301	$2.266		$1.384
Mar-07	$7.547	$9.300		$8.626	$1.753		$1.079
Apr-07	$7.558	$8.462		$8.642	$0.904		$1.084
May-07	$7.508	$8.727		$9.064	$1.219		$1.556
Jun-07	$7.591	$9.615		$9.875	$2.024		$2.284
Jul-07	$6.929	$9.863		$9.886	$2.934		$2.957
Aug-07	$6.110	$8.714		$9.816	$2.604		$3.706
Sep-07	$5.430	$8.223		$9.470	$2.793		$4.040
Oct-07	$6.423	$7.838		$9.177	$1.415		$2.754
Nov-07	$7.269	$8.775		$9.321	$1.506		$2.052
Dec-07	$7.203	$9.283		$9.318	$2.080		$2.115
Jan-08	$7.172	$9.044		$9.032	$1.872		$1.860
Feb-08	$7.996	$9.564		$9.353	$1.568		$1.357
Mar-08	$8.930	$9.802		$9.635	$0.872		$0.705
Apr-08	$9.578	$11.323		$11.424	$1.745		$1.846
May-08	$11.280	$10.889		$12.083	($0.391)		$0.803
Jun-08	$11.916	$11.012		$13.230	($0.904)		$1.314
Jul-08	$13.105	$11.873		$14.077	($1.232)		$0.972
Aug-08	$9.217	$13.399		$13.757	$4.182		$4.540
Sep-08	$8.394	$11.202			$2.808		
Oct-08	$7.724	$10.006			$2.282		
Nov-08	$6.469	$9.867			$3.398		
Dec-08	$6.888	$9.810			$2.922		

5 Year Average

Calendar years 2004 - 2008	**$1.502**		
October 2002 - September 2006 (5 years prior to Dominion's SSO)	$1.127	**$1.954**	
September 2003 - August 2008 (5 years prior to VEDO's SSO)	$1.469		**$1.774**

Duke Energy Ohio
Allocation of Asset Manager Payment to Choice Customers
November 1, 2008 - October 31, 2009
Based on Demand Charges

	GCR	FT/RFT	Total
Peak Day Design	565,373	267,498	832,871
	68%	32%	
Storage Demand Charges			
TGT Unnominated NNS	1,073,713	508,012	$1,581,725
TCO FSS Seasonal Contract Quanitity	2,183,736	1,033,203	$3,216,939
TCO FSS Maximum Daily Quantity	2,657,895	1,257,544	$3,915,439
TCO SST Winter	3,494,770	1,653,500	$5,148,270
TCO SST Summer	1,747,385	826,750	$2,574,135
Total Storage Related Demand Charges	**$11,157,500**	**$5,279,009**	**$16,436,509**
All Other Demand Charges			
TGT Firm Transportation (FT)	$404,625	0	$404,625
TGT Firm Transportation (FT) Gulf South	$4,471,980	0	$4,471,980
TGT Short Term Firm (STF)	$245,375	0	$245,375
TGT Nominated Winter NNS	$395,431	0	$395,431
TGT Nominated Summer NNS	$704,023	0	$704,023
TGT Nominated April NNS	$334,450	0	$334,450
TGT Nominated October NNS	$405,906	0	$405,906
CGT Firm Transportation - Winter (FTS-1)	$2,362,115	0	$2,362,115
CGT Firm Transportation - Summer (FTS-1)	$2,174,752	0	$2,174,752
CGT Firm Transportation - Winter (FTS-2)	$364,818	0	$364,818
CGT Firm Transportation - Summer (FTS-2)	$363,818	0	$363,818
Tennessee Pipeline (FT-A)	$436,111	0	$436,111
KO Firm Transportation	$713,031	0	$713,031
Peaking Service	$215,550	0	$215,550
Total Other Demand Charges	**$13,591,985**	**$0**	**$13,591,985**
Total Demand Charges	**$24,749,485**	**$5,279,009**	**$30,028,494**
	82%	**18%**	