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November 13, 2009

## VIA MESSENGER DELIVERY

Ms. Renee Jenkins  
Chief, Docketing Division  
Public Utilities Commission of Ohio  
180 E. Broad Street, 13<sup>th</sup> Floor  
Columbus, Ohio 43215

RECEIVED-DOCKETING DIV.  
2009 NOV 13 PM 4:38  
PUCO

Re: Application Of Duke Energy Ohio, Inc. For Approval To Create A Regulatory Asset And For An Accounting Deferral Regarding Camera Inspection Costs Incurred In Connection With Its Accelerated Main Replacement Program

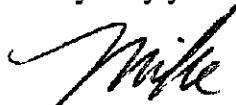
Dear Ms. Jenkins:

Enclosed please find an original and ten copies of an Application by Duke Energy Ohio, Inc. for approval to create a regulatory asset and for an accounting deferral regarding camera inspection costs incurred in connection with its accelerated main replacement program prior to May 2006.

Please accept the original and nine copies of this document for filing in the above identified matters. I would appreciate the return of a time stamped copy via the individual who delivers the same to you.

As always, please call me if you have any questions concerning this filing. Thank you.

Very truly yours,



Michael D. Dortch

Enclosures

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

IN THE MATTER OF THE APPLICATION OF	)	
DUKE ENERGY OHIO, INC. FOR APPROVAL OF	)	
A REGULATORY ASSET AND ACCOUNTING	)	Case No. 09- <u>1097</u> -GA-AAM
DEFERRAL FOR AMRP CAMERA INSPECTION	)	
COSTS	)	

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**APPLICATION OF DUKE ENERGY OHIO, INC. FOR APPROVAL TO CREATE A  
REGULATORY ASSET AND FOR AN ACCOUNTING DEFERRAL REGARDING  
CAMERA INSPECTION COSTS INCURRED IN CONNECTION WITH ITS  
ACCELERATED MAIN REPLACEMENT PROGRAM PRIOR TO MAY 2006**

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Duke Energy Ohio, Inc. (Duke Energy Ohio or Company) is an Ohio corporation engaged in the business of supplying natural gas to approximately 425,000 consumers in southwestern Ohio and is a public utility as defined by Sections 4905.02 and 4905.03 of the Ohio Revised Code. Duke Energy Ohio presently comes before the Public Utilities Commission of Ohio (Commission) requesting approval of a regulatory asset and accounting deferral for the costs it incurred for camera inspections of Accelerated Main Replacement Program (AMRP) installations prior to May of 2006. The Company's proposed deferral plan is attached as Exhibit 1.

With Commission approval,<sup>1</sup> Duke Energy Ohio instituted the AMRP in 2002 to accelerate its replacement rate of cast iron and bare steel mains in order to improve the safety

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<sup>1</sup> *In the Matter of the Application of The Cincinnati Gas & Electric Company for Approval to Change Accounting Methods*, Case no. 01-1539-GA-AAM, Opinion and Order dated May 30, 2002, pp. 4-5, 8 and 12.

and reliability of its natural gas distribution system. In Case No. 07-589-GA-AIR, et al., the Commission approved Duke Energy Ohio's request to continue its AMRP program.

As part of its AMRP installation, Duke Energy Ohio relies upon the records of other utilities to determine the location of underground facilities, which the Company then uses to design its installation plan. Through experience, the Company has learned that many local sewer districts do not maintain accurate records of the location and depths of their systems and the sewer laterals. Despite Duke Energy Ohio's best efforts to properly install its gas mains, the inaccurate sewer records and field markings by sewer districts have caused some AMRP installations to breach sewer lines.

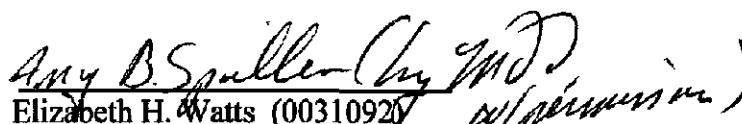
Beginning in May 2006, Duke Energy Ohio started performing underground camera inspections as part of its AMRP installation. Going forward, therefore, the camera inspections are included within the contractor scope of work and the AMRP costs. Because the inaccuracy of sewer district records and the issues therein were not known or contemplated as part of the prior installations, however, the Company has undertaken the initiative to inspect those prior installations that have a high propensity for sewer breaches based upon premises structure elevation and main line sewer location and depth in relation to the street. The inspections for prior installations have resulted in additional costs, not previously included as part of the AMRP.

Pursuant to the Stipulation filed and approved in Case No. 08-1250-GA-UNC, Duke and staff agreed "that the camera inspections of AMRP installations made prior to May 2006 are important and necessary." Although OCC did not agree with that sentence, the stipulating parties agreed that Duke Energy Ohio should and would seek regulatory authority to defer the

costs associated with camera inspections of AMRP installations prior to May 2006, not to exceed a total of \$5 million (\$5,000,000.00) inclusive of carrying charges at a rate equal to the Company's average cost of debt. The Parties to the Stipulation further agreed not to oppose the Company's application for a deferral of those expenses.<sup>2</sup>

Pursuant to the foregoing, Duke Energy Ohio respectfully requests that the Commission approve the proposed AMRP regulatory asset and accounting deferral as filed herein as Exhibit

1. Respectfully submitted,

  
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<sup>2</sup> OCC and the Commission Staff expressly reserved the right (and will be given the opportunity) to review and contest the reasonableness and prudence of the deferred camera inspection costs DE-Ohio proposes to recover in a future gas base rate proceeding and to recommend that any such costs not be collected from customers.

**DUKE ENERGY OHIO, INC.****Proposed Deferral Plan**

In accordance with the Opinion and Order in Case No. 08-1250-GA-UNC approving the Stipulation and Recommendation agreed to by the Parties to that case, Duke Energy Ohio, Inc. (Duke Energy Ohio or Company) proposes to defer the remedial camera inspection expenses incurred to date and to be incurred through 2013 in connection with its April 2001 through May 2006 Accelerated Main Replacement Program (AMRP), high priority installations. The Company plans to defer the principal amount of camera inspection expenses and carrying charges at the cost of debt rate approved in the Company's last gas base rate case (5.87% from Case No. 07-589-GA-AIR), for costs of the camera inspection of "high priority installations" from the prior AMRP installations that occurred between April 2001 through May 2006. The Company seeks Commission authority to create a regulatory asset and accounting deferral not to exceed \$5 million and proposes this deferral for recovery in a future gas base rate proceeding.

The actual and projected camera inspection costs to be deferred by year are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$1,603,775
2009	846,006
2010	750,000
2011	750,000
2012	750,000
2013	<u>351,313</u>
Total	<u>\$5,051,094</u> (plus carrying costs, total not to exceed \$5 million)

Camera inspection expenses previously booked will be debited to a unique subaccount of Account 182 and credited to Accounts 874, 408 and 926. Future expenses for camera inspections will be recorded directly in the unique subaccount of Account 182. Carrying costs will be debited to Account 182 and credited to Account 432.

If the Company receives approval to recover this regulatory asset from customers in its next gas base rate case, the regulatory asset will be amortized to Account 874 over the recovery period determined by the Commission in that case.