

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. 09-1097-GA-AAM
Deferral for AMRP Camera Inspection Costs.)

FINDING AND ORDER

The Commission finds:

- (1) Duke Energy Ohio, Inc. (Duke 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 natural gas company as defined in Section 4905.03(A)(6), Revised Code, and a public utility under Section 4905.02, Revised Code, and, as such, is subject to the jurisdiction of the Public Utilities Commission of Ohio (Commission).
- (2) By Opinion and Order in Case No. 08-1250-GA-UNC issued on April 29, 2009, *In the Matter of the Application of Duke Energy Ohio for an Adjustment to Rider AMRP Rates (08-1250)*, the Commission approved a Stipulation and Recommendation (Stipulation) filed by the parties that provided that the parties would not oppose Duke filing an application for creation of a regulatory asset and accounting deferral for costs not to exceed \$5 million, including carrying charges,¹ for camera inspections of "high priority installations" for Accelerated Mains Replacement Program (AMRP) installations that occurred between April 2001 and May 2006. The Stipulation further provided that the Commission's Staff (Staff) and the Office of the Ohio Consumers' Counsel (OCC) expressly reserved the right to review the reasonableness and prudence of the deferred camera inspection costs in a future base rate proceeding and that Duke would bear the burden of proof regarding such costs.
- (3) On November 13, 2009, Duke filed an Application requesting authority to create a regulatory asset and accounting deferral

¹ Pursuant to the Stipulation, the carrying charges shall be the average cost of debt rate approved in the Company's last gas base rate case, which was an annual rate of 5.87 percent. See Case No. 07-589-GA-AIR, et al. *In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Gas Rates*.

for the costs it incurred for camera inspections of certain AMRP installations prior to May 2006. In its Application, Duke states that, with Commission approval,² it instituted its AMRP in 2002 to accelerate replacement of cast iron and bare steel mains in order to improve the safety and reliability of its natural gas distribution system. Duke states that it relies on the records of other utilities to determine the location of underground facilities in order to design its AMRP installation plan. According to Duke, because many local sewer districts do not maintain accurate records regarding the location and depth of their sewer mains and laterals, in certain instances, inaccuracies in these records have caused some AMRP installations to breach sewer lines. Duke explains that, beginning in May 2006, it started performing camera inspections as part of its AMRP installation; therefore, after May 2006, camera inspections were included in the scope of work of the contractors performing the AMRP installations and, thus, the costs of camera inspections after May 2006 are included in the current AMRP costs. Furthermore, Duke explains that Duke and Staff agreed in 08-1250 that "the camera inspections of AMRP installations made prior to May 2006 are important and necessary." Duke states that the purpose of the camera inspections prior to May 2006 is to ensure that AMRP installations between April 2001 and May 2006 that have a higher propensity for breaches due to the location and depth of sewer facilities in relation to the street have not breached sewer lines. Duke maintains that the camera inspection costs for installations prior to May 2006 were not anticipated and were not included in the AMRP costs. Therefore, Duke states that it filed this Application requesting authorization to defer the costs associated with camera inspections of AMRP installations prior to May 2006, not to exceed a total of \$5 million, including carrying charges, at a rate equal to Duke's average cost of debt.

- (4) According to the Application, the actual and projected camera inspection costs for installations prior to May 2006 that Duke is seeking to defer are:

² 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 at 4-5, 8, 12 (May 30, 2002).

<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	\$ 5,051,094 (plus carrying costs, total not to exceed \$5 million)

- (5) In its Application, Duke proposes to record camera inspection expenses that have already been booked as a debit to a unique subaccount of Account 182 and credits to Accounts 874, 708, and 926. Future expenses for camera expenses will be recorded directly in the unique subaccount of Account 182. Carrying costs will be debited to Account 182 and credited to Account 432. Duke also proposes that, if the Commission grants the Application, it will recover the regulatory asset from customers in its next base rate case where the regulatory asset will be amortized to Account 874 over a recovery period to be determined by the Commission in that case.
- (6) Upon consideration of the Application, the Commission finds it prudent to reiterate the cautionary notice that accompanied our approval of the Stipulation terms regarding deferral of the camera inspection expenses. In our Opinion and Order in 08-1250, we stated that, "... our approval of the stipulation submitted by the parties should not be construed to imply that we believe that the expenses associated with such a request for deferral would be found to be reasonable and that they would be appropriate for recovery from the ratepayers." Further, in accordance with the Stipulation in 08-1250, Duke shall bear the burden of proof regarding the reasonableness and prudence of the deferred camera inspection expenses in a future base rate proceeding and shall fully cooperate with the Staff and OCC's investigation of such expenses. With these requirements in place, the Commission finds that the Application comports with the Stipulation approved in 08-1250, is reasonable and should, therefore, be approved.

It is, therefore,

ORDERED, That the request of Duke for authority to create a regulatory asset and accounting deferral of expenses associated with camera inspections of certain AMRP installations installed between April 2001 and May 2006 be approved. It is, further,

ORDERED, That the total deferral for the principal amount of camera inspection expenses plus carrying costs not exceed \$5 million. It is, further,

ORDERED, That the carrying costs for the approved deferral shall be at an annual rate of 5.87 percent, representing the cost of debt rate approved in Duke's last base rate case, Case No. 07-589-GA-AIR. It is, further,

ORDERED, That nothing in this finding and order shall be binding upon this Commission in any further proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

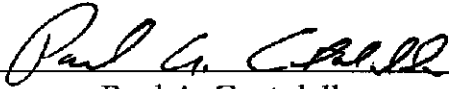
ORDERED, That a copy of this finding and order be served upon all parties of record.

ORDERED, That copies of this finding and order be served upon all other parties of record.

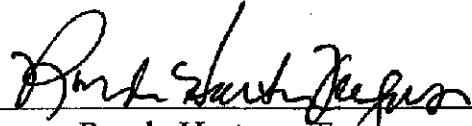
THE PUBLIC UTILITIES COMMISSION OF OHIO



Alan R. Schriber, Chairman



Paul A. Centolella



Ronda Hartman Fergus



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Entered in the Journal

MAR 24 2010



Renee J. Jenkins

Secretary