BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of a Distribution Decoupling Rider.	)))	Case No. 11-5905-EL-RDR

OHIO PARTNERS FOR AFFORDABLE ENERGY'S REPLY COMMENTS

Ohio Partners for Affordable Energy ("OPAE") hereby respectfully submits the following reply comments in this docket concerning the application of Duke Energy Ohio, Inc. ("Duke") to establish a decoupling rider. Duke's application was filed pursuant to the Stipulation and Recommendation and the Opinion and Order in Case No. 11-3549-EL-SSO. Herein, OPAE replies to comments filed on February 23, 2012 by the Office of the Ohio Consumers' Counsel ("OCC").

Duke opted for a decoupling approach that focuses on stabilizing distribution revenue on a per customer basis. Duke proposed adjusting the revenue requirement established in its last distribution rate case, Case No. 08-709-EL-AIR, for increases or decreases in the number of customers. Revenue would be calculated based on sales normalized for weather per the terms of the distribution rate case. Duke proposed to calculate over- or under-recovery on a monthly basis and accrue carrying charges based on its current weighted average cost of capital ("WACC").

There are several basic options associated with the design of a revenue decoupling mechanism. Duke proposed truing up revenue on a per customer basis. The alternative would be to true up to the revenue requirement of the last rate case and not adjust for the number of customers. Duke has also opted for a process of weather normalization, preferring to retain both the risk and reward associated with revenue variations caused by hotter or cooler weather. Given that this is a pilot program, the options chosen by Duke are reasonable. During the pilot, it will be possible to calculate what would have happened had Duke chosen different options.

The only portion of the application with which OPAE disagrees is the inclusion of carrying charges on the monthly over- or under-recovery. OPAE assumes that the charges would be applied symmetrically so customers would be credited with carrying charges in the event of over-recovery and Duke credited when there is an under-recovery. Nonetheless, OPAE recommends that no carrying charges be assessed during the pilot. The differences between the adjusted revenue requirement and actual recovery should not be of a scale to warrant carrying charges, particularly given that there is a working capital allowance already built into base rates which negates the impact of under-recovery. In addition, the lag time between the end of the year and the recovery or repayment is less than one year. Traditionally, carrying charges are not assessed in Ohio for when costs are recovered less than one year after they are incurred. Moreover, Duke's approved WACC of 9.1% is excessive for the purposes of this pilot program. Should the Commission opt to provide for carrying charges, the long-term cost of debt would be adequate. It is critical that the Commission keep utilities focused on earning revenue by providing utility service, not by acting as finance companies.

The Office of the Ohio Consumers' Counsel recommends a cap on the rider be established. OPAE agrees. We also observe that decoupling should only be permitted when it is based on regular rate cases so that the true-up is to a revenue requirement that reflects actual costs. OPAE recommends that a utility granted approval for a decoupling rider be required to submit its rates for review every three to five years. This will not be an issue in this pilot, but is a fundamental prerequisite for implementing a decoupling rider.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply Comments was served electronically upon the following persons identified below on this 22nd day of March 2012.

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