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June 28, 2012

Public Utilities Commission of Ohio
ATTN: Docketing Division
11th Floor
180 East Broad Street
Columbus, Ohio 43215-3793

RE: *In the Matter of the Application of Duke Energy Ohio, Inc., to Set Its Fuel and Reserve Capacity Reconciliation Rider, Rider RECON*
Case No. 12-0817-EL-RDR

Docketing Division:

On June 26, 2012, the Commission Staff issued its Review and Recommendations with respect to Duke Energy Ohio, Inc.,'s (Duke Energy Ohio or Company) proposed adjustment to the Rider RECON for billings in the third quarter of 2012. For the reasons set forth herein, the Company respectfully disagrees with Staff's recommendation to implement the rider on a service-rendered basis rather than a bills-rendered basis, as the rider was initially contemplated and as the Commission approved in establishing the initial rate for Rider RECON in its March 28, 2012, Order in this docket.

As discussed more fully below, Duke Energy Ohio submits that the recommendation to implement the updated Rider RECON rates on a service-rendered basis is: (1) inconsistent with the framework established for the rider; (2) likely to result in further delay for recovering costs included in the rider; and (3) administratively burdensome.

Framework for the Rider

Rider RECON is a component of the stipulation approved by the Commission on November 22, 2011, in the Company's most recent electric security plan proceeding, filed under Case No. 11-3549-EL-SSO, *et al*. The process for filing Rider RECON and the timing of recovery were detailed in the Supplemental Testimony of William Don Wathen Jr., filed on October 24, 2011, in that case. Therein, Mr. Wathen expressly stated that Rider RECON would be implemented on a bills-rendered basis. (See Case No. 11-3549-EL-SSO, *et al.*, Supplemental Direct Testimony of William Don Wathen Jr., at page 27.)

Implementation of Rider RECON on a bills-rendered basis is consistent with the manner in which the Company has historically billed for those costs that now relate to said rider. More specifically, the underlying costs being recovered in Rider RECON relate to the Company's fuel and purchased power rider (Rider PTC-FPP) and its system reliability tracker (Rider SRA-SRT). These riders, which took effect on January 1, 2005, and terminated on December 31, 2011, were, without exception, implemented each quarter on a bills-rendered basis. Furthermore, the proposed billing methodology was suggested, in part, to enable a clean break once recovery under Rider RECON was complete. Finally, as the dollars collected would be the same, regardless of the billing methodology employed, it did not seem reasonable to deviate, for purposes of this short-term rider, from a well-established billing methodology and invite implementation challenges.

On February 29, 2012, Duke Energy Ohio filed its application to set the initial rate for Rider RECON. Thereafter, the Commission approved the rider, authorizing collection on a bills-rendered basis.

Further Delay in Full Recovery

Notwithstanding any remaining reconciliation of the rider that may be necessary at the end of the third quarter, Rider RECON is scheduled to expire on September 30, 2012. Pursuant to the approved stipulation in Case No. 11-3549-EL-SSO, *et al.*, said rider shall expire no later than two quarters following the audit process in respect of Duke Energy Ohio's expired Rider PTC-FPP. Requiring the Company to implement the charges for the last quarter of this rider's existence will mean that the customers will continue to be charged for this rider, on a pro rata basis, through at least the last billing cycle of October 2012. In other words, customers will continue to pay for the charges under Rider RECON for an additional month.

The sum total of the costs to be recovered is exactly the same, regardless of the billing mechanism employed. But applying the charges on a service-rendered basis, as compared to a bills-rendered basis, results in the unnecessary perpetuation of this rider.

Administratively Burdensome

A combination of factors makes implementing this rider on a service-rendered basis problematic. First, a number of significant programming changes will be required to the Company's billing system to pro rate the bills on a service-rendered basis. Further, on July 1, 2012, Duke Energy Corporation and Progress Energy are expected to officially consummate their merger. The initial phase of the merger will tax the programming capabilities of the organization. Consequently, the challenge of even implementing the service-rendered billing methodology is complicated by the competing demands likely to be made on the resources that are needed to implement this billing change. As such, the best estimate for enabling a change in the billing methodology is mid-July 2012.

Although perhaps not substantial, the impact of such a delay is that the Company will be virtually assured of under-recovering the balance of Rider RECON to be collected in the third quarter of 2012 as there will be no incremental recovery for at least two of the thirteen weeks in the period.

Again, all of the required programming work that would be needed to allow for billing on a service-rendered basis would yield a result that ultimately is no different than if the recovery were to remain on a bills-rendered basis. The same amount of dollars will be recovered in either instance, from essentially the same customers.

For the reasons discussed herein, Duke Energy Ohio respectfully requests that the Commission disregard the Staff's request to implement Rider RECON on a service-rendered basis and, instead, implement the rider on a bills-rendered basis as initially proposed and approved.

Should you have any questions or comments regarding this matter, please do not hesitate to contact me.

Very truly yours,

Amy B. Spiller

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cc: William Don Wathen Jr.