DUKE ENERGY OHIO EXHIBIT_____

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 12-1682-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 12-1683-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 12-1684-EL-AAM

SUPPLEMENTAL DIRECT TESTIMONY OF

WILLIAM DON WATHEN JR.

ON BEHALF OF

DUKE ENERGY OHIO, INC.

__________	Management policies, practices, and organization
__________	Operating income
__________	Rate Base
__________	Allocations
__________	Rate of return
____X____	Rates and tariffs
____X____	Other: Rate Case Drivers

February 19, 2013

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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Don Wathen Jr., and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services LLC (DEBS) as Director of Rates and Regulatory Strategy for Ohio and Kentucky. DEBS provides various administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. ARE YOU THE SAME WILLIAM DON WATHEN JR. WHO PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THESE PROCEEDINGS?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. My Supplemental Direct Testimony will describe and support several of the Company's objections to certain findings and recommendations contained in the Report by the Staff of the Public Utilities Commission of Ohio (Staff) issued in these proceedings on January 4, 2013 (Staff Report). The Company filed its objections to the Staff Report on February 4, 2013.

II. OBJECTIONS SPONSORED BY WITNESS

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 1.

A. The Company's first objection to the Staff Report is that the revenue increase proposed therein understates the revenue increase to which the Company is entitled. The Company fully supported its case for an increase in revenue in its initial Application with expert testimony and supporting schedules. As will be discussed further in my Supplemental Direct Testimony and in the Supplemental Direct Testimony and Direct Testimony of other Company witnesses, Duke Energy Ohio is willing to accept a number of the adjustments proposed by the Staff; however, Staff's overall revenue requirement calculation significantly understates the costs incurred by the Company to continue providing safe and reliable electric distribution service to its customers.

Many of Staff's recommended adjustments incorporate Staff-selected information that became available well after the filing of the Application in early July 2012. Staff's selectivity in this regard is inappropriate. At the time of the filing, Duke Energy Ohio's Application reflected a test year that the Public Utilities Commission of Ohio (Commission) found acceptable, and thus in compliance with Section 4909.15 of the Ohio Revised Code. The Company's test year included three months of actual data and nine months of budgeted data. In fact, the Commission issued its Entry in these proceedings on July 2, 2012, expressly approving the Company's proposed test year (calendar year 2012) and date certain (March 31, 2012). Then on August 29, 2012, the Commission issued another Entry, finding that the Application met the requirements of the

Commission's Standard Filing Requirements. Further, although I am not an attorney, budgeted data appears to be sufficient, under the plain language stated in R.C. 4909.15(C)(1): "the revenues and expenses of the utility shall be determined during a test period. The utility may propose a test period for this determination that is any twelve-month period beginning not more than six months prior to the date the application is filed and ending not more than nine months subsequent to that date." In other words, a utility must file <u>at least</u> six months of budgeted data in its test year. However, because of requirements concerning the pre-filing of notice of the application and the practical limits of preparing a case with historical data, utilities normally file applications with a test year with nine months of budgeted data. In these proceedings, the Company used actual operating income data for the period January 1, 2012, through March 31, 2012, and budgeted data for the period April 1, 2012, through December 31, 2012. For rate base valuation, the Company also used the latest date allowed (which is essentially also the latest practical date) for rate base valuation, of March 31, 2012.

Q. DO STAFF'S RECOMMENDED ADJUSTMENTS FOLLOW THE TEST YEAR PROPOSED BY THE COMPANY AND APPROVED BY THIS COMMISSION?

A. No, not consistently. Staff's recommendation replaces some but not all the Company's budgeted operating income data for April through December 2012 with *some* actual data learned well after the filing date. This is problematic on a number of fronts. First, and most importantly, and upon advice of counsel, there is no provision in the Standard Filing Requirements (O.A.C. 4901-7-01, Appendix

A) that expressly requires or permits for such adjustments. Secondly, even if such substitution of actual data for projected data were expressly stated, Staff has inconsistently performed the substitution of data in a manner that results in a biased outcome. More specifically, the selective substitution of data by Staff unfairly lowers the Company's overall revenue requirement. It is patently inequitable to only adjust some of the forecasted test year data to account for actual results, but not to adjust all of the forecasted data. The test year concept enacted by Ohio's legislature, using a combination of forecasted data and historic data with a date certain, is a sound concept and should be followed by the Commission. Otherwise, to accomplish Staff's objectives, the governing statute, R.C. 4909.15, should be changed to require that test year revenue requirement be based only historic test year actual expenses. It is an impossible expectation to require that expenses in a test year be based on only known and measurable changes when the statutory requirements for filing a rate case require the use of "forecasted" data. At this time, there is no justification for the partial and selective substitutions recommended by Staff.

Q. DO YOU HAVE EXAMPLES OF THE ITEMS WHERE STAFF UPDATED FORECASTED DATA WITH ACTUAL DATA?

A. The objections to these specific issues are addressed in the testimony of other witnesses. Nevertheless, an overarching theme in the Company's objections is Staff's inconsistent and otherwise improper substitution of actual data for forecasted data. As described in its Staff Report, Staff updated the following test year operating income data with actual data, albeit with information that became available well after the Company could possibly have included it at the time of its filing. In each of the instances selected by the Staff, the adjustments served to reduce the Company's expenses and thus its overall revenue requirement, in complete isolation of any and all positive adjustments to recognize increases in the Company's expenses or revenue requirement:

- *Base revenue*: As discussed in the Supplemental Direct Testimony of James A. Riddle, Staff adjusted base revenue to reflect actual data through September 2012, using six more months of actual data than the Company could possibly have included in its test year.
- *Labor and Labor-related costs*: As discussed in the Supplemental Direct Testimony of Peggy A. Laub, Staff "annualized" the Company's test year labor expense by using actual data for a single pay period in August 2012. Notwithstanding all of the other labor and labor-related adjustments by Staff, to which the Company has objected, Staff's substitution of more contemporary actual data sets a standard that the Company cannot possibly meet given the constraints of the test year required limitations under standard filing requirements and R.C. 4909.15. At the time of the filing, the Company was able to use "actual" labor data for a full twelve-month period through April 2012 as its estimate of test year labor. The Company, therefore, complied with R.C. 4909.15 and fulfilled the objective of using the most contemporary data at the time of the filing.
- *Budget Adjustments*: As discussed in the Supplemental Direct

Testimony of Ms. Laub and Patricia W. Mullins, Staff selectively adjusted five individual cost items that are included in Duke Energy Ohio's test year expenses by using actual data through September 30, 2012. In doing so, Staff ignored the more than forty other accounts, not to mention the numerous sub-accounts, that also make up the Company's test year expenses. Again, the Company's test year expenses in the filing were based on actual data through the latest possible date it could rely on. Staff's substitution of actual for budgeted data for the limited number of accounts, to the exclusion of all other actual results during the test period, is unreasonable and unfair in that it establishes a standard for using selective and arbitrary actual data that no utility could ever meet under the guidelines established in R.C. 4909.15.

In addition to these items, Staff also adjusted property tax expense; however, for this adjustment, Staff only adjusted property tax expense to reflect changes in the average tax rates that were learned in September 2012. Although the rate base upon which those updated property assessment rates also changed throughout the year, making it also a "known and measurable" change, Staff unfairly elected only to adjust the updated property tax rate and not the underlying property to which the rate is applied. To the extent property-related adjustments are going to be made, the adjustment methodologies must be consistently applied. Otherwise unfair and biased results will occur.

Based upon Staff's inconsistent and arbitrary adjustments, there are now multiple test periods being used by Staff to derive its recommended revenue requirement for Company.

Q. DOES STAFF SUGGEST ANY RATIONALE FOR MAKING SUCH SELECTIVE ADJUSTMENTS?

A. For the revenue adjustment reflected in the Staff Report, Staff provided no rationale, nor did it acknowledge that it made any updates for actual results. The concept of adjusting for actual revenue and expenses, although not expressly stated under the statutes or Commission's rules, is not unreasonable insofar as it could make some sense to update the test year to reflect actual data. "Reasonableness," however, presumes such adjustments are fair, consistent, comprehensive, and complete. Staff's application of this concept of adjusting for actual expenses is unreasonable in that it updates only a few cost items for actual data but not all, although knowledge and measurability of <u>all</u> such cost items is available. If it is appropriate and allowed to update forecasted data used in the test year with actual data as it becomes available, then such adjustments must be fair, consistent, comprehensive, and complete. That is, Staff must adjust all operating income items rather than engage in selective and arbitrary adjustments intended to reduce the utility's ability to recover its costs and, consequently, undermine its ability to provide safe and reliable service.

Q. WHY DO YOU QUESTION THE APPROPRIATENESS OF SUCH ADJUSTMENTS TO THE TEST YEAR REVENUE REQUIREMENTS?

A. As I previously stated, R.C. 4909.15(C)(1) provides the requirement for a utility to base its rates upon a test year that incorporates some level of actual and some level of forecasted data. The test period proposed by the Company included three months of actual data and nine months of budgeted data and was approved by the Commission. The Company did not propose a test year comprised of more than three months of actual data and, as I suggested above, practically could not have proposed a test year with more actual data. Yet Staff is seeking to use essentially its own hybrid test year, or essentially multiple test years, with adjustments to select expense and revenue items reflecting inconsistent uses of actual information.

Q. IS STAFF'S ADJUSTMENT CONSISTENT IN THESE PROCEEDINGS?

A. No. Nor is it consistent with its prior positions. Staff has explained in a previous case that, in its opinion, the "process in a rate case is that projected data is filed and this *projected data is replaced by actual data as it becomes available*." Staff further states that the "standard filing requirements only contemplate replacement of forecasts with actual data." (Staff's Post-Hearing Brief in Case No. 07-551-EL-AIR, *et al*., page 17). Unfortunately, Staff's reference to the Commission's Standard Filing Requirements, which are contained in O.A.C. 4901-7, does not support the position that projected data in the test year should be replaced with actual data. There is no explicit provision in the standard filing requirements that requires, for the purpose of setting rates, the replacement of projected data with actual data. The only reference to the notion of substituting actual data for forecasted data is Chapter II(5)(d) of the Standard Filing Requirements that refers to the projected test year data.

> "Projected test year data" - to comply with the statutory requirements regarding the test year, the utility may use estimated

> valuation data and up to twelve months of estimated operating income data in its application. However, if estimated valuation data and/or more than nine months of estimated operating income data is provided in the application, the utility must provide, within two months of the date of filing, actual valuation data and operating income statements which include no less than three months of actual data. The utility must also explain any material differences between the estimated and actual data. (Emphasis added.)

Importantly, even this provision does not apply to the filing made by Duke Energy Ohio as its test year operating income data was not based on more than nine months of estimated data and its rate base valuation is based on actual, rather than projected, data. Consequently, nothing in the Standard Filing Requirements expressly requires, supports, or compels Staff to update forecasted data in the Company's test year for actual data.

Q. ARE THERE ANY OTHER PROBLEMS WITH CONTINUALLY UPDATING THE TEST YEAR WITH ACTUAL DATA?

A. Yes. Besides the fact that there is no provision in the Commission's rules that allows such substitution, there is also the problem with creating a moving target. The timing of filing, reviewing, and executing a rate case is a function not only of the requirements established in the Revised Code and the Ohio Administrative Code, but it is also a function of how quickly the Staff conducts its review and issues a report of its findings. A company files its case using a test period for establishing a revenue requirement that necessarily includes a combination of forecasted and actual data. In recent rate cases involving other major electric and gas utilities, Staff has used actual data to make substitutions based on actual data all the way up to the end of the test period (see, for example, Staff Reports in

Case Nos. 11-351-EL-AIR and 11-352-EL-AIR). Again, it is arguable whether such substitution of forecasted data with actual data is even allowed but, at least in these recent cases, Staff adjustment apparently applied to all operating and maintenance expenses rather than just a select few.

In its Staff Report in these proceedings, Staff's use of actual data ranged from: (1) adjustments based upon 2011 actual expenses for one type of labor expense: (2) using the original three months of actual data included in the Company's Application for many adjustments; (3) using nine months of actual data for updating (albeit incorrectly) base revenue; (4) updating a select few expense items. Staff chose yet a different date on the calendar, a single pay period in August 2012, to (again, incorrectly) update the Company's proposed direct labor expense.

The randomness and inconsistency of Staff's use and interpretation of actual data is surprising given its own stated disdain for creating moving targets with actual data. In its Post-Hearing Brief filed in the FirstEnergy (FE) Operating Companies' most recent electric distribution rate case, Staff criticized and opposed FE's attempt to use a "date certain" other than what was provided for in the statutes and Commission's rules. In responding to FE's proposal to use valuations for certain rate base items other than the statutorily allowed date certain, Staff stated:

> [T]he FE companies advocate using year-end or other, non-date certain values for assets. As noted, this is not permissible by statute. In addition to being good law, it is also good sense. The date certain is called that because it needs to be just that, certain. Rate base varies day in and day out. The only way it can be evaluated in a meaningful way is to take a snapshot. That is, to

> look at the values at a specific date. The FE companies would violate this concept and make it a date uncertain. They would apply selective adjustments when it is advantageous to do so. There is no end to this. If it is proper for the FE companies, it is proper for the intervenors. Everyone will argue valuations on whatever date helps their goals in the case. Consistency and thorough analysis will be lost in the Babel of competing values on various disjointed dates. (Staff's Post Hearing Brief in Case No. 07-551-EL-AIR, *et al*., page 4.)

This insightful reasoning has apparently been dismissed when it comes to Staff itself making adjustments to non-rate base items. Staff's observations in the FE proceeding are just as applicable to adjustments for non-rate base items as they are for rate base items. The statutes and the Commission's rules provide for a test year including the amount of actual and budgeted data that should be the basis for establishing the Company's revenue requirement. Staff should have no more right to randomly choose multiple and alternative bases for its revenue requirement calculation than the Company or any intervenor. By ignoring the test year data already filed in the case and substituting it with actual data at varying dates throughout the test year, Staff is engaging in the very action it deemed inappropriate in the FE case. Staff is inviting all intervenors to seek out the combination of actual and budgeted data that will most suit its case.

In this case, for example, Staff makes a number of adjustments to substitute actual data for budgeted data but, other than through Objections, the Company has little ability to challenge the Staff's sources, its assumptions, or its analyses. Staff is not required to defend its analysis until it files its own testimony shortly before the hearing.

Q. IN SUMMARY, ARE YOU SUGGESTING THAT THE COMMISSION

NOT ADJUST THE TEST YEAR DATA FOR KNOWN AND MEASURABLE CHANGES THAT OCCURRED AFTER THE COMPANY FILED ITS APPLICATION?

A. No. The Company is not suggesting that the Commission should never make such adjustments to "normalize" or "smooth out" costs or revenue items in the test year. Duke Energy Ohio recognizes the Commission has typically made adjustments based on information (*i.e.*, actual data) learned well after the date for which actual data was provided in a case. However, such adjustments must be done consistently, fairly, completely, and uniformly. Adjustments cannot be fairly made without considering <u>all</u> new information learned throughout the test year.

As an example, Staff may see that the actual amount for one expense item is ten percent lower than the amount included in the test year and make an adjustment because it believes actual history has proven the budgeted amount to be overstated. It is possible that every other expense goes <u>up</u> by one percent such that, even combined with the one significantly lower expense, the total expenses are higher or are the same as the amount originally included in the test year. If Staff just adjusts the one expense item that is conspicuously lower than the budget but fails to adjust the other items that are not as conspicuously higher, Staff will have unquestionably undermined the Company's ability to recover its cost of providing utility service, not to mention the opportunity to earn a fair rate of return.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 2.

A. Duke Energy Ohio objects to Staff's exclusion of materials and supplies from the Company's rate base valuation. Staff offers no assessment of the reasonableness or prudency of the amounts reported by the Company for materials and supplies as of March 31, 2012. Instead, Staff dismisses the Company's investment in materials and supplies because it inappropriately ties any investment in materials and supplies to a utility's cash working capital needs determined through a lead/lag study. Staff's adjustment to eliminate materials and supplies simply because the Company did not perform a lead/lag study is contrary to the plain language of R.C. Section 4909.15(A)(1) and the Commission's own rules, O.A.C. Rule 4901-7-01, Appendix A. In fact, there is no requirement that a lead/lag study is necessary for materials and supplies.

Q. DOES THE PLAIN LANGUAGE OF OHIO'S RATEMAKING STATUTES OR THE COMMISSION'S RULES SUPPORT A POSITION THAT INCLUSION OF MATERIALS AND SUPPLIES IS CONDITIONED UPON A UTILITY INCLUDING A LEAD/LAG STUDY FOR CASH WORKING CAPITAL?

A. Not at all. Although I am not a lawyer, I have more than twenty years extensive experience in utility ratemaking and in my capacity as Director of Rates and Regulatory Strategy for Ohio, I am familiar with the ratemaking statutes and rules in Ohio. It is very clear what the utility is allowed to include in rate base for materials and supplies, and for cash working capital. R.C. 4909.15(A)(1) provides in relevant part, as follows:

> (1) The valuation as of the date certain of the property of the public utility used and useful or, with respect to a natural gas company,

> projected to be used and useful as of the date certain, in rendering the public utility service for which rates are to be fixed and determined. The valuation so determined shall be the total value as set forth in division (C)(8) of section 4909.05 of the Revised Code, and a reasonable allowance for *materials and supplies and cash working capital* as determined by the commission.
> (*Emphasis added).*

Contrary to Staff's position that there is some inexorable nexus between a Company's investment in materials and supplies and its investment in cash working capital necessitating a lead/lag study, the Revised Code is unambiguous – these are two different rate base items. Nothing in that statute suggests that a utility should be deprived of a return on its investment in materials and supplies if it does not perform a lead/lag study and asks for no return on *cash* working capital. The statute plainly states that the valuation of the utility's investment for rate base purposes "shall" include a "reasonable allowance" for (1) materials and supplies *and* (2) cash working capital.

If the statute was not clear enough, the Commission's own rules, and specifically O.A.C. 4901-7-01 Appendix A, further support the position that materials and supplies is a distinct rate base item from cash working capital.

> (E) Working Capital
>
> (1) Allowance for working capital (Schedule B-5)
>
> Provide a summary schedule showing the calculation of working capital included in the proposed rate base. Show each individual component and describe the methodology used to calculate each component. An allowance for cash working capital shall be supported by a recent lead-lag study. The recent lead-lag study must accurately represent conditions during the test period. A lead-lag study is defined as a procedure for determining the weighted average of the days for which investors or customers supply cash working capital to operate the utility.

(2) Miscellaneous working capital items (Schedule B-5.1)

> Provide, the test year average (thirteen months), and the date certain balances of items specified on Schedule B-5.1, if applicable, and reflected in the computation shown on Schedule B-5. Allocate the average and date certain balances to the jurisdiction using appropriate allocation factors.
>
> The information to be provided on this schedule for each item may be in a summary form, provided that the detail and calculation be included in working papers. These working papers shall be keyed to the appropriate item on the schedule and made available to the commission staff as specified in the "General Instructions," paragraphs (A)(8), and (C)(7) in Chapter II of this appendix.

Section (E)(1) confirms that a request for a *cash* working capital allowance must be supported by a lead/lag study. The Company acknowledges this rule; it is not seeking *cash working capital* and it did not develop or file a lead/lag study. It is equally clear that any determination regarding an allowance for cash working capital is independent of determinations regarding materials and supplies. There is no controlling language that requires a lead/lag study for an allowance for materials and supplies. If the Legislature intended for an allowance for materials and supplies to be conditioned upon a utility filing a lead/lag study, it would have said as much in the statute. Similarly, if the Commission interpreted the statute to create such a limitation, it could just as easily have approved language in O.A.C. 4901-7-1 to do that. Neither the rules nor the statutes expressly exclude materials and supplies from the Company's rate base valuation unless a lead/lag study is performed.

Q. DOES THE POSSIBILITY THAT THE CASH WORKING CAPITAL COULD BE NEGATIVE HAVE ANY BEARING ON THE AMOUNT MATERIALS AND SUPPLIES THAT SHOULD BE REFLECTED IN THE

COMPANY'S RATE BASE?

A. No. Again, the Commission's rules and the Ohio Revised Code are unambiguous. A lead/lag study is only required if the Company is asking for an "allowance" for *cash* *working capital*. The only logical inference that can be drawn from this term is that it would be a positive number – it is equally inconceivable that a Company would "ask" for a negative allowance for a discreet rate base item, such as cash working capital. The term allowance implies that it is a positive number. In either event, a lead/lag study is only required for cash working capital and not for materials and supplies.

Q. WHAT IS THE COMPANY'S RECOMMENDATION REGARDING MATERIALS AND SUPPLIES?

A. The Company recommends that the Commission ignore Staff's suggestion to exclude materials and supplies from its rate base valuation. Materials and supplies represent a known and measurable expense that the Company incurs.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 15.

A. Duke Energy Ohio objects to Staff's failure to address the Company's request to create a tracker mechanism for storm costs. Nowhere in the Staff Report is there any discussion of the Company's proposal with respect to tracking storm costs.

Q. HAS THE COMPANY MODIFIED ITS REQUEST FOR THE STORM COST DEFERRAL?

A. No. The Company maintains its request to modify its accounting methods to establish a regulatory asset to track actual annual storm costs above or below a base line established in these proceedings. The Company's proposal is similar to other storm cost tracking proposals approved by the Commission for other utilities and it is a reasonable mechanism to allow the Company to avoid earnings volatility due to the costs that are inherently unpredictable. It is a common process in utility ratemaking to allow utilities to track individual cost items that fluctuate significantly and that can have significant earnings impacts on utilities' earnings. For example, utilities have historically been allowed to automatically pass through other volatile costs, such as fuel costs for electric generation and natural gas costs.

The accounting authority the Company is seeking should have a minimal impact on customers' rates because, on average, the storm costs should be approximately the amount included in base rates as the expense is "normalized" along with all other expenses to reflect "normal" or "expected" expenses. Occasionally, there are events that one cannot predict where costs are significantly outside any expectation. If storm costs average out to be about equal to the amount included in base rates, then the impact of this deferral will be minimal as the amortization of the storm cost regulatory asset that would exist at the time of the next rate case would be nominal, possibly even negative. In the event storm costs are much higher than in base rates, the ability to defer and amortize the costs will help mitigate the impact on customers' bills by the Company being able to amortize the recovery over a period longer than one year. Ensuring that the Company is allowed to fully recover its cost of storm restoration also promotes the Company's ability to maintain a safe and reliable utility infrastructure.

As indicated earlier, the Commission has approved similar proposals for other utilities and Duke Energy Ohio is simply seeking regulatory treatment consistent with that which has been approved for these other utilities for the same issue.

III. CONCLUSION

Q. ARE YOU OFFERING ANY LEGAL OPINIONS AS TO HOW THE OHIO REVISED CODE OR OHIO ADMINISTRATIVE CODE APPLIES?

A. No. I am not a lawyer and, therefore, am not offering any legal opinion. I am, however, an expert in utility ratemaking. In my position, I am required to interpret the rules as the apply to any application the Company makes for a rate case as my role in the Company is to oversee many of the technical aspects of our rate case development and prosecution. Therefore, my discussion about the requirements of the Ohio Revised Code and the Ohio Administrative Code reflects only my interpretation as an expert in utility ratemaking for the last twenty-four years.

Q. DO YOU HAVE AN OPINION REGARDING WHETHER DUKE ENERGY OHIO'S RATE REQUEST IS REASONABLE?

A. Yes.

Q. PLEASE STATE YOUR OPINION.

A. Duke Energy Ohio's rate request is fair and reasonable. The date certain in Duke Energy Ohio's last rate case was March 31, 2008, and the date certain for this case is March 31, 2012. Despite the four years of inflationary pressures and substantial continuing capital investment in its distribution system, Duke Energy

Ohio is requesting an overall increase in rates that will result in an approximate 5.1 percent over the total electric rates that customers now pay. Through aggressive cost management practices, the Company has been able to hold its increase request to a reasonable level.

Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes.