

# LARGE FILING SEPARATOR SHEET

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**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke )  
Energy Ohio for Authority to Establish a )  
Standard Service Offer Pursuant to Section )  
4928.143, Revised Code, in the Form of ) Case No. 14-841-EL-SSO  
an Electric Security Plan, Accounting )  
Modifications and Tariffs for Generation )  
Service. )

In the Matter of the Application of Duke )  
Energy Ohio for Authority to Amend its ) Case No. 14-842-EL-ATA  
Certified Supplier Tariff, P.U.C.O. No. 20. )

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**DIRECT TESTIMONY OF**

**WILLIAM DON WATHEN JR.**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

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May 29, 2014

## TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION.....	1
II. OVERVIEW OF ELECTRIC SECURITY PLAN.....	3
A. DISTRIBUTION CAPITAL INVESTMENT RIDER.....	5
B. DISTRIBUTION STORM RIDER.....	8
C. PRICE STABILIZATION RIDER.....	10
III. CHANGES FROM CURRENT ESP .....	16
IV. BETTER IN THE AGGREGATE TEST.....	24
V. GOVERNMENTAL AGGREGATION.....	27
VI. CONCLUSION .....	31

## **I. INTRODUCTION**

1    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

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

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

10   **Q.    PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND**  
11       **PROFESSIONAL EXPERIENCE.**

12   A.    I received Bachelor Degrees in Business and Chemical Engineering, and a Master  
13        of Business Administration Degree, all from the University of Kentucky. After  
14        completing graduate studies, I was employed by Kentucky Utilities Company as a  
15        planning analyst. In 1989, I began employment with the Indiana Utility  
16        Regulatory Commission as a senior engineer. From 1992 until mid-1998, I was  
17        employed by SVBK Consulting Group, where I held several positions as a  
18        consultant focusing principally on utility rate matters. I was hired by Cinergy  
19        Services, Inc., in 1998, as an Economic and Financial Specialist in the Budgets  
20        and Forecasts Department. In 1999, I was promoted to the position of Manager,  
21        Financial Forecasts. In August 2003, I was named to the position of Director -

1 Rates. On December 1, 2009, I was promoted to my current position, now titled  
2 Director of Rates and Regulatory Strategy, Ohio and Kentucky.

3 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS DIRECTOR,**  
4 **RATES AND REGULATORY STRATEGY, OHIO AND KENTUCKY.**

5 A. In my current role, I am responsible for all state and federal rate matters involving  
6 Duke Energy Ohio and Duke Energy Kentucky, Inc.

7 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**  
8 **UTILITIES COMMISSION OF OHIO?**

9 A. Yes. I have presented testimony on numerous occasions before the Public Utilities  
10 Commission of Ohio (Commission) and various other state, local, and federal  
11 regulators.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**  
13 **PROCEEDINGS?**

14 A. The purpose of my testimony is to provide (1) an overview of the Company's  
15 proposed electric security plan (ESP); (2) an overview of certain proposed  
16 changes from the current ESP, including new distribution riders; (3) an analysis of  
17 the benefits of the proposed ESP relative to the results that could be expected if  
18 the Company filed for a market rate offer (MRO) under R.C. 4928.142; and (4) a  
19 discussion of how the proposed ESP advances state policy related to  
20 governmental aggregation.

## **II. OVERVIEW OF ELECTRIC SECURITY PLAN**

1   **Q.   PLEASE DESCRIBE THE PRIMARY COMPONENTS OF DUKE**  
2       **ENERGY OHIO'S PROPOSED ESP.**

3   **A.   The Company is proposing a three-year term for its next ESP, to begin on June 1,**  
4       **2015, and end on May 31, 2018. The proposed ESP extends certain components**  
5       **of Duke Energy Ohio's current ESP, either eliminates or refines other elements,**  
6       **and adds new provisions for enhancing the Company's distribution reliability.**

7           As provided for in R.C. 4928.143(B)(1), a standard service offer (SSO) in  
8       the form of an ESP must make provision for the supply and pricing of electric  
9       generation service. Thus, procurement of SSO supply is a fundamental component  
10      of the Company's proposed ESP. Consistent with the terms of its current ESP,  
11      Duke Energy Ohio will rely upon a competitive bidding process (CBP) plan for  
12      procuring the supply necessary to serve its SSO load. Company witness Robert J.  
13      Lee discusses the details more extensively in his testimony but, generally, the  
14      Company is proposing to continue its current procurement practice, which entails  
15      the use of competitive auctions.

16           The cost of the capacity and energy procured via the auctions must be  
17      converted into retail rates in a manner that, to the extent possible, creates no  
18      competitive advantage or disadvantage between the SSO price and market prices  
19      available to customers from competitive retail electric service (CRES) providers.  
20      Company witness James E. Ziolkowski provides testimony describing the  
21      proposed process to convert the winning wholesale auction prices into retail rates  
22      for each rate class and the significant measures being proposed to mitigate the

1 potential for creating customer incentives to migrate between the SSO and CRES  
2 offers.

3 Significantly, these and other proposed changes allow the Company to  
4 continue its efforts toward diminishing barriers to shopping. Toward this end,  
5 Company witness Daniel L. Jones provides testimony regarding the Company's  
6 efforts to promote Ohio's competitive retail market.

7 In further recognition of Ohio's competitive retail electric market and  
8 consistent with a recent Commission recommendation,<sup>1</sup> Duke Energy Ohio  
9 intends to continue its current purchase of receivables program, and the  
10 concomitant uncollectible electric generation rider (Rider UE-GEN), substantially  
11 in their current form, at least through the end of the proposed ESP on May 31,  
12 2018.

13 **Q. IS THE COMPANY PROPOSING TO CREATE ANY NEW RIDERS AS**  
14 **PART OF ITS NEXT ESP?**

15 **A.** Yes. Another significant component of the Company's proposed ESP is the  
16 implementation of new riders. These include riders to enhance distribution service  
17 reliability and to enable timely recovery of costs incurred in responding to major  
18 storms, as well as a rider that would have the effect of providing stability and  
19 certainty in respect of retail electric service while supporting the Company's  
20 contractual interest in The Ohio Valley Electric Corporation (OVEC).

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<sup>1</sup> *In the Matter of the Commission's Investigation of Ohio's Retail Electric Service Market*, Case No. 12-3151-EL-COI, Finding and Order, at pg. 21 (March 26, 2014).

1 Q. DESCRIBE THE DISTRIBUTION RIDERS BEING PROPOSED IN THE  
2 NEXT ESP.

3 A. The Company is proposing to create three new riders, including two for  
4 distribution-related costs.

- 5 - Distribution Capital Investment Rider (Rider DCI)
- 6 - Distribution Storm Rider (Rider DSR)
- 7 - Price Stabilization Rider (Rider PSR)

A. Distribution Capital Investment Rider

8 Q. DESCRIBE THE DISTRIBUTION CAPITAL IMPROVEMENT RIDER.

9 A. Generally, Rider DCI is intended to allow the Company to timely recover the  
10 incremental revenue requirement on distribution-related capital investments. As  
11 Duke Energy Ohio witness Marc W. Arnold discusses in his testimony, the  
12 Company's current portfolio of infrastructure programs and level of spending are  
13 not sufficient to maintain the present level of service reliability and continue to  
14 meet our customers' evolving expectations. The pace of growth in rate base  
15 necessary to meet customer needs and expectations is expected to place  
16 significant financial constraints on the Company. Timely recovery of the  
17 incremental revenue requirement mitigates the financial impact associated with  
18 the capital spending the Company believes is needed to appropriately maintain  
19 and improve the distribution system.

20 This type of rider is familiar to the Commission as it has already approved  
21 similar riders for other electric distribution utilities (EDUs). Specifically, Rider  
22 DCI is designed to be similar to the riders already approved for FirstEnergy Corp.



1 EDUs<sup>2</sup> and for Ohio Power Company<sup>3</sup> as part of their respective ESPs, in that the  
2 recovery is limited to the incremental revenue requirement associated only with  
3 the investment in distribution plant and common and general plant allocable to  
4 distribution, as compared to the amounts included in base rates.

5 Modeling the Company's proposed Rider DCI after similar distribution  
6 capital riders already approved by the Commission is intended to mitigate any  
7 controversy over this proposed rider and to provide the Commission Staff with a  
8 common basis for review when auditing these riders across the companies. Duke  
9 Energy Ohio witness Peggy A. Laub provides testimony regarding the details of  
10 the rate calculations for Rider DCI and the proposed schedule for filing this rider.  
11 Company witness Arnold provides testimony detailing the Company's anticipated  
12 distribution capital investment, including costs and benefits associated with the  
13 plan.

14 **Q. IS IT APPROPRIATE TO INCLUDE A DISTRIBUTION CAPITAL**  
15 **IMPROVEMENT RIDER IN AN ESP?**

16 **A.** Yes. On advice of counsel, R.C. 4928.143(B)(2)(h) confirms that an ESP may  
17 include such a rider:

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<sup>2</sup> *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Case No. 10-388-EL-SSO, Opinion and Order, at pp. 11-12, 46(August 25, 2010)(approval of Delivery Capital Recovery Rider); see also, In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Case No. 12-1230-EL-SSO, Opinion and Order, at pp. 10-11, 57 (July 18, 2012)(approval to continue the Delivery Capital Recovery Rider).*

<sup>3</sup> *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Case No. 11-346-EL-SSO, et al., Opinion and Order, at p. 46-47 (August 8, 2012)(approval of Distribution Investment Rider).*

1 Provisions regarding the utility's distribution service, including,  
2 without limitation and notwithstanding any provision of Title  
3 XLIX of the Revised Code to the contrary, provisions regarding  
4 single issue ratemaking, a revenue decoupling mechanism or any  
5 other incentive ratemaking, and provisions regarding distribution  
6 infrastructure and modernization incentives for the electric  
7 distribution utility. The latter may include a long-term energy  
8 delivery infrastructure modernization plan for that utility or any  
9 plan providing for the utility's recovery of costs, including lost  
10 revenue, shared savings, and avoided costs, and a just and  
11 reasonable rate of return on such infrastructure modernization. As  
12 part of its determination as to whether to allow in an electric  
13 distribution utility's electric security plan inclusion of any  
14 provision described in division (B)(2)(h) of this section, the  
15 commission shall examine the reliability of the electric distribution  
16 utility's distribution system and ensure that customers' and the  
17 electric distribution utility's expectations are aligned and that the  
18 electric distribution utility is placing sufficient emphasis on and  
19 dedicating sufficient resources to the reliability of its distribution  
20 system.

21 The Company's Application includes testimony regarding the reliability of the  
22 system and testimony discussing the emphasis Duke Energy Ohio places on  
23 ensuring reliable distribution. This is an expectation that in no uncertain terms is  
24 aligned between the Company and its electric distribution customers.

25 **Q. WHAT ARE THE BENEFITS OF SUCH A RIDER?**

26 A. The benefits of a rider, such as Rider DCI, are shared by the customer and the  
27 Company. Reasonable assurance of timely recovery of distribution capital  
28 investment provides the utility with the ability to maintain its financial integrity  
29 while making appropriate investments to ensure that its customers get the benefit  
30 of continued safe, efficient, and reliable service that they expect from their  
31 distribution company. Additionally, this rider provides for gradual increases in  
32 customer rates to recover the revenue requirement associated with capital  
33 investment as opposed to less timely and less gradual recovery, such as what

1 could be expected with pancaked rate cases, has a much greater potential to result  
2 in more changes in rates that are more abrupt and, most likely, of greater  
3 magnitude. As a general tenet, customers tend to favor stability and predictability  
4 in the prices the prices they can expect to pay for electric service.

**B. Distribution Storm Rider**

5 **Q. WHY IS THE COMPANY PROPOSING TO IMPLEMENT A**  
6 **DISTRIBUTION STORM RIDER?**

7 **A.** The first priority for the Company during a major storm event is restoring power  
8 and maintaining the system, as safely and as efficiently as possible. Maintaining  
9 credit worthiness and general financial integrity is essential to ensuring Duke  
10 Energy Ohio's ability to meet those important goals. Undoubtedly, restoration  
11 costs for severe storms can have a significant impact on any utility's financial  
12 condition. Duke Energy Ohio's base distribution rates were set at a level that  
13 include an expected level of storm costs<sup>4</sup> but, by their very nature, actual costs  
14 associated with storm restoration cannot be predicted. The amounts included in  
15 base rates are typically predicated upon historical averages. But from one year to  
16 the next, the amount an EDU spends on storm costs can deviate significantly from  
17 the "average" amount included in base rates.

18 As evidenced by Duke Energy Ohio's experience with Hurricane Ike,

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<sup>4</sup> *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in its Electric Distribution Rates*, Case No. 12-1682-EL-AIR, *et al.*, Opinion and Order, at pg. 7 (May 1, 2013). ("[R]evenue requirement...includes \$4.4 million for recovery of costs incurred during major storms...")

1 major storms can have a significant adverse financial impact on an EDU.  
2 Approving the Company's request to implement the deferral authority and cost  
3 recovery mechanism for incremental restoration costs associated with major  
4 storms will serve to mitigate the potential financial stress the Company may  
5 endure from a major storm event.

6 As Company witness Laub discusses further in her testimony, Duke  
7 Energy Ohio's proposal related to storm costs is to initially track the annual costs  
8 related to major storms and either credit or debit a regulatory asset for the amount  
9 the annual storm cost exceeds a threshold amount already included in base rates.  
10 In years when storm costs are below the amounts included in base rates, there  
11 would be a credit to the regulatory asset deferral and when storm costs are higher  
12 than the base amount, there would be a debit. Only when, or if, the regulatory  
13 asset exceeds the threshold amount would the Company seek to invoke the  
14 proposed Rider DSR. At the time of the next rate case, the Company may seek to  
15 amortize the credit or debit balance of the regulatory asset for recovery in base  
16 rates or may seek to continue the deferral and tracker mechanism.

17 **Q. IS THERE SUPPORT FOR SUCH A RIDER IN OHIO?**

18 A. Yes. The Commission has approved a similar rider in an ESP approved for Ohio  
19 Power Company.<sup>5</sup> Also, in a recent case involving The Dayton Power & Light

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<sup>5</sup> *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Case No. 11-346-EL-SSO, et al., Opinion and Order, at pp. 68-69(August 8, 2012)(approval of Storm Damage Recovery Mechanism).*

1 Company (DP&L),<sup>6</sup> the Commission Staff recommended that, in its next base rate  
2 case, DP&L “apply for a tracker and a baseline level of expenses for repairs  
3 related to major storms for inclusion in base rates.”<sup>7</sup> The Commission’s approval  
4 of such a mechanism and the ultimate recovery of storm costs pursuant to the  
5 mechanism are an indication that it recognizes the fact that storm costs are  
6 volatile and may negatively impact an EDU’s financial condition. The Company  
7 believes that approval of its proposed DSR will be a positive step in ensuring its  
8 ongoing financial integrity and the benefit of continued safe and reliable service  
9 for its customers.

**C. Price Stabilization Rider**

10 **Q. WHAT IS OVEC AND HOW DOES IT RELATE TO DUKE ENERGY**  
11 **OHIO?**

12 **A.** Duke Energy Ohio, along with twelve other entities (Sponsoring Companies),  
13 owns stock in OVEC. The Company’s share of the investment is currently 9  
14 percent. OVEC, created in the 1950s, is a corporation that was created to provide  
15 power for uranium enrichment facilities located near Portsmouth, Ohio. OVEC  
16 owns two coal-fired generating units with a combined nameplate capacity of

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<sup>6</sup> *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service Restoration Costs*, Case No. 12-3062-EL-RDR, *et al.*, Staff Audit Report, at pg. 8 filed on( January 3, 2014). (“In the Company’s next base rate case, Staff recommends that the Company apply for a tracker and a baseline level of expenses for repairs related to major storms for inclusion in base rates. Then each subsequent yearly request for recovery would be net of the baseline amount.”).

<sup>7</sup> *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover Certain Storm-Related Service Restoration Costs*, Case No. 12-3062-EL-RDR, *et al.*, Staff Audit Report, at pg. 8(January 3, 2014). (“In the Company’s next base rate case, Staff recommends that the Company apply for a tracker and a baseline level of expenses for repairs related to major storms for inclusion in base rates. Then each subsequent yearly request for recovery would be net of the baseline amount.”)

1 nearly 2,400 megawatts. The Department of Energy (DOE) was the primary  
2 consumer of the power from OVEC until 2003, when the DOE canceled the  
3 contract making the output of OVEC's generation available to OVEC's owners.  
4 Duke Energy Ohio's current commitment to OVEC extends through June 30,  
5 2040. Duke Energy Ohio's share of the capacity and energy from OVEC is equal  
6 to its 9 percent equity interest. OVEC's fixed and variable cost associated with its  
7 two generating assets are allocated to the Sponsoring Companies based on their  
8 respective equity interests.

9 **Q. IS DUKE ENERGY OHIO REQUIRED TO TRANSFER ITS EQUITY**  
10 **INTEREST IN OVEC AS PART OF ANY PRIOR COMMITMENT?**

11 A. No. The Stipulation and Recommendation that was approved by the Commission  
12 establishing the current ESP provided that all of Duke Energy Ohio's directly  
13 owned generation was to be transferred by the end of 2014, but did not address  
14 contractual entitlements. OVEC's two generation assets are not directly owned by  
15 Duke Energy Ohio; consequently, the Company has no obligation to transfer its  
16 equity interest in OVEC to an affiliate as part of the broader transfer of directly  
17 owned assets.

18 **Q. DESCRIBE THE COMPANY'S PROPOSAL WITH RESPECT TO OVEC.**

19 A. The Company is offering the economic value of its share of the capacity and  
20 energy from OVEC to its retail customers for the duration of Duke Energy Ohio's  
21 entitlement. The Company is proposing to sell one hundred percent of its share of  
22 OVEC's energy and capacity into the wholesale market. The difference between

1 the revenue generated from such sales and the costs allocated from OVEC to  
2 Duke Energy Ohio would be flowed through to customers.

3 **Q. IS THE COMPANY'S PROPOSAL AN OFFER OF GENERATION**  
4 **SERVICE TO RETAIL CUSTOMERS?**

5 A. No. The capacity and energy available from OVEC will not displace any of the  
6 capacity and energy procured for SSO service and will not displace any of  
7 capacity and energy provided by CRES providers. It is simply a financial  
8 arrangement intended to act as a hedge against price volatility that exists in the  
9 PJM Interconnection, L.L.C., (PJM) power markets. Thus, the Company's  
10 proposal does not contravene the Commission's objective to transition Ohio to a  
11 competitive retail market construct.

12 **Q. ASSUMING THE COMMISSION APPROVED THE COMPANY'S**  
13 **PROPOSAL REGARDING OVEC, DOES THAT MEAN THE COMPANY**  
14 **IS DOUBLE RECOVERING CAPACITY OR ENERGY CHARGES?**

15 A. Duke Energy Ohio will collect no revenue from any retail customer for generation  
16 service except for generation service provided by SSO auction winners. All of the  
17 revenue collected for the generation service provided by SSO auction winners is  
18 passed through to those suppliers. As I indicated earlier, none of Duke Energy  
19 Ohio's share of OVEC's capacity and energy will be used to displace any SSO  
20 service and no physical capacity or energy from OVEC will be delivered to any  
21 retail customer; consequently, there can be no double recovery. Retail customers  
22 taking service from SSO auction winners or from CRES providers will pay once,  
23 and only once, for the capacity and energy underlying their generation service.

1 Q. IS THERE A REGULATED RETURN ASSOCIATED WITH DUKE  
2 ENERGY OHIO'S INVESTMENT IN OVEC?

3 A. Although OVEC does include return on investment in the calculation of the fixed  
4 costs it allocates to its Sponsoring Companies, Duke Energy Ohio does not earn a  
5 regulated return on the equity owns in OVEC. For its investment in OVEC, Duke  
6 Energy Ohio is entitled to capacity and energy that it can sell into the wholesale  
7 market but Duke Energy Ohio has no guaranteed return.

8 Q. IS IT CORRECT THAT THE COMPANY IS PROPOSING THIS  
9 HEDGING ARRANGEMENT PERSIST BEYOND THE TERM OF THE  
10 ESP BEING PROPOSED?

11 A. Yes. Not unlike other riders established in prior ESPs (*e.g.*, the Alternative  
12 Energy Recovery Rider), this rider would remain in place beyond the May 31,  
13 2018, end date being proposed in the proposed ESP.

14 Q. WHAT ARE THE BENEFITS OF THE COMPANY'S PROPOSAL  
15 REGARDING OVEC?

16 A. The Company's proposal with respect to OVEC has three primary benefits. First,  
17 the output from OVEC will be used, to the benefit of customers, as a long-term  
18 hedge (or insurance) against the volatility of future market prices. As I indicated  
19 above, Duke Energy Ohio will sell its contractual entitlement to OVEC's energy  
20 and capacity into the PJM markets and, after deducting all allocated costs from  
21 OVEC, will record either a gain or a loss on the sale of that generation. In  
22 quarterly filings with the Commission, gains or losses will be assigned to the  
23 retail load on a non-bypassable basis, allocated based on energy, creating a hedge



1 against volatility in market prices. At times of very low prices, there may be a  
2 charge flowing through to customers as the output of OVEC will have less value  
3 vis-à-vis market prices. But when market prices are very high, such as the prices  
4 seen in PJM during the recent polar vortex, the profits from OVEC would serve to  
5 benefit customers by reducing overall rates. In either case, the effect is to temper  
6 the volatility of prices customers will see for the generation rates, thereby having  
7 the effect of adding stability and certainty with regard to the overall price of retail  
8 electric service.

9 Duke Energy Ohio's costs for its share of OVEC are relatively stable as it  
10 is allocated a share of fixed costs, which are generally very stable, and variable  
11 costs, which are mostly fuel. Certainly when compared to the volatility in the PJM  
12 capacity and energy markets, the costs associated with OVEC are relatively  
13 stable. Consider the January 2014 polar vortex. Although the market prices in  
14 PJM exceeded \$1,000 per MWh, OVEC's underlying variable costs were  
15 essentially the contracted-for cost of fuel. And the polar vortex confirms that most  
16 of Duke Energy Ohio's customers are subject to varying degrees of volatility in  
17 the price of capacity and energy whether they take service under the SSO or from  
18 CRES providers. Indeed, as a result of the polar vortex, it has become apparent  
19 that CRES contracts may contain provisions to allow for the flow through of  
20 incremental costs associated with drastic market price increases. It is the stability  
21 and predictability associated with OVEC's costs that will serve to benefit Duke  
22 Energy Ohio's retail customers.

1           At times of high market prices, customers will be negatively impacted by  
2           those market conditions; coincidentally, it is during those times of high prices  
3           when the value of the Company's share of OVEC capacity and energy sold in the  
4           wholesale market increases. Allowing customers to receive all of this benefit  
5           serves to mitigate the impact of overall high market prices.

6           Second, the OVEC proposal is competitively neutral. As Duke Energy  
7           Ohio's entitlement share of the energy and capacity from the OVEC generating  
8           stations will continue to be sold into the wholesale markets, this proposal will not  
9           impact the competitive retail electric market that is active in Duke Energy Ohio's  
10          service territory. In other words, no CRES provider is impacted in any way by the  
11          approval of this rider. The proposal would also be neutral in terms of wholesale  
12          competition as no wholesale supplier will benefit or be harmed from this  
13          proposal. As of the effective date of the proposed ESP, Duke Energy Ohio will  
14          have no generation business of its own. As such, there cannot be any subsidy  
15          between its non-competitive electric business and its generation business.

16          Finally, the OVEC generating stations reflect actual "steel in the ground."  
17          And as we observed during the recent polar vortex, plants such as these were on  
18          line, providing reliable service, at a time when other generation resources were  
19          not. The continued access to the benefit of the reliable power available from the  
20          OVEC generating assets is positive for Ohio.

21   **Q.   PLEASE PROVIDE MORE DETAILS ON HOW RIDER PSR WILL**  
22   **WORK.**

1 A. On a quarterly basis, Duke Energy Ohio will file a projection of the revenue  
2 expected from selling its share of the output from OVEC into the PJM markets  
3 and the expenses it expects to be billed from OVEC. The difference between the  
4 expected revenue and expected cost for that upcoming quarter will be divided by  
5 the projected kWh sales for the same quarter to calculate a "\$/kWh" rate  
6 applicable to all customers. Customers taking service above distribution voltage  
7 levels will have slightly lower prices to account for the lower line losses at their  
8 service level. As actual data is available, the rider would be trued up to ensure that  
9 there is no over- or under-recovery.

### III. CHANGES FROM CURRENT ESP

10 Q. THE COMPANY IS INTENDING TO PERPETUATE A CBP PLAN IN ITS  
11 PROPOSED ESP. IS IT SIMILARLY SEEKING TO CONTINUE ALL OF  
12 THE RIDERS OR ARRANGEMENTS APPROVED IN THE CONTEXT  
13 OF ITS CURRENT ESP?

14 A. No. The Company is not proposing to continue all tariffs or arrangements  
15 approved in the context of its current ESP.

16 Q. WHY NOT?

17 A. The Company's current ESP was the product of a near unanimous and  
18 uncontested settlement, arrived at through a series of compromises. Indeed, the  
19 signatory parties to the Stipulation and Recommendation agreed that it was a  
20 "reasonable compromise that balances diverse and competing interests and does  
21 not necessarily reflect the position that any one or more of the Parties would have

1 taken had these issues been fully litigated.”<sup>8</sup> As a result of the compromises made  
2 in the settlement, the Company’s current ESP includes several non-market-based  
3 incentives that have the potential to influence customer behavior for reasons other  
4 than purely competitive forces. But these incentives are not conducive to the  
5 continued development of a healthy and vital competitive retail market and thus  
6 run afoul of the Commission’s expectations, as evident from its investigation into  
7 the competitive retail electric services market and the ESPs under which Ohio’s  
8 other EDUs are operating. Further, Duke Energy Ohio is fully at market in terms  
9 of its SSO supply procurement. As such, it is appropriate to eliminate artificial  
10 enhancements to customer choice through the modification of certain tariffs and  
11 termination of other tariffs and arrangements.

12 **Q. PLEASE DISCUSS THE CHANGES TO THE MANNER IN WHICH**  
13 **COSTS RELATED TO SSO LOAD ARE ALLOCATED AMONG THE**  
14 **RATE CLASSES AND ANY CHANGES IN THE RATE DESIGN FOR**  
15 **SUCH RECOVERY.**

16 **A.** As discussed above, the Company intends to continue using competitive  
17 procurements for its SSO supply under the proposed ESP. The Company also  
18 proposes to continue recovering the costs associated with SSO service from retail  
19 customers via the same riders currently being used. The Retail Capacity Rider  
20 (Rider RC) and the Retail Energy Rider (Rider RE) will continue to be the means

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<sup>8</sup> *In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service, Case No. 11-3549-EL-SSO, et al., Stipulation and Recommendation, at pg. 2 (October 24, 2011).*

1 of recovering the underlying capacity, energy, and other supply costs,  
2 respectively, related to procurements in the SSO auctions. Similarly, the existing  
3 Supplier Cost Reconciliation Rider (Rider SCR) will continue as the means of  
4 truing up the difference between the invoiced cost of SSO service and the revenue  
5 collected by Duke Energy Ohio through Rider RC and Rider RE. As is currently  
6 the case, Rider SCR will also continue to recover the costs of conducting the  
7 auctions, as well as costs associated with any audits, consultants, or other  
8 incremental costs incurred by or billed to the Company to procure the SSO  
9 service.

10 However, the Company is proposing to make changes to the manner in  
11 which capacity costs are allocated in the calculation of Rider RC and to change  
12 the rate design for both Rider RC and Rider RE. The change in the allocation  
13 factor used for allocating the cost of the underlying capacity in the SSO auction  
14 price is intended to reflect the manner in which such costs are actually incurred.  
15 To that end, the Company is proposing to use the "5 coincident peak" (5 CP)  
16 method. The current method used to allocate capacity costs is not the 5 CP;  
17 instead, the agreed-to method was just one component of a much broader  
18 settlement reached in the prior ESP. The current allocation method is reasonable  
19 when combined with all of the provisions of the approved Stipulation and  
20 Recommendation; however, the Company believes that, strictly following cost  
21 causation principles, customers should be charged for costs in a manner that  
22 reflects how such costs are actually incurred. All of the capacity that will be used  
23 to serve retail load during the term of the proposed ESP will ultimately be

1 acquired from PJM. The charges for capacity billed by PJM to meet the total load  
2 obligation is essentially based on the Company's load at the time of PJM's five  
3 highest system hourly peaks. Consequently, the most equitable method for  
4 allocating capacity cost is to base the allocation on how much each customer class  
5 contributes to those five PJM coincident peaks. In other words, the Company  
6 intends to match the costs to the cost causers – a fundamental principle in  
7 ratemaking.

8 In addition to the intended change in allocation methodology, the  
9 Company is also proposing to make certain rate design changes. For certain  
10 customers, the current rate design for Rider RC includes demand charges and  
11 energy charges; however, the Company is proposing to modify Rider RC so that  
12 all demand charges are removed and recovery for all generation-related charges  
13 for all SSO customers would then be based only on kWh consumption. For Rider  
14 RE, the changes are also intended to better align SSO rates with the reality of a  
15 purely competitive market for retail generation service.

16 Company witness Ziolkowski provides a full description and illustration  
17 of how Riders RC and RE will be calculated in the proposed ESP based on SSO  
18 auction results. Mr. Ziolkowski's testimony also explains how the Company's  
19 modification to the rate design for Rider RC will continue to recognize the  
20 benefits associated with higher customer load factors.

21 **Q. WHY IS THE COMPANY PROPOSING TO MAKE THESE CHANGES?**

22 **A.** To the extent practicable, a purely competitive market must be free of influences  
23 over customer choices between potential suppliers that are not based exclusively

1 on market forces. The winners of the SSO auctions are competing for load just the  
2 same as the CRES providers. In order to protect the interests of both the SSO  
3 auction winners and CRES providers, rates for SSO service should, to the extent  
4 possible, be designed in such a way that SSO rates are priced as competitively as  
5 possible with competing offers customers may see from CRES providers. CRES  
6 providers pay PJM for capacity based on factors influenced by PJM's 5 CP  
7 method; therefore, SSO costs should be allocated to customer classes in the same  
8 manner to avoid a disparity between SSO rates and CRES offers. Similarly, the  
9 easiest and most common way for customers in all classes to compare a CRES  
10 offer to the SSO rate is on a "\$/kWh" basis. The existing combination of demand  
11 and energy charges makes that comparison difficult and it has the potential to  
12 make SSO prices disproportionately high for very low load factor customers. Mr.  
13 Ziolkowski explains how the Company's proposed rate design will improve price  
14 transparency and comparability for customers and recognize the benefit of higher  
15 load factors even with rates based exclusively on "per kWh" charges.

16 **Q. DOES THE COMPANY'S PROPOSED CHANGE ADVANCE STATE**  
17 **POLICY GOALS?**

18 **A.** Absolutely. Section 4928.02(B) of the Ohio Revised Code (RC) establishes the  
19 following state policy goal:

20 Ensure the availability of unbundled and comparable retail electric  
21 service that provides consumers with the supplier, price, terms,  
22 conditions, and quality options they elect to meet their respect  
23 needs.

24 It is in all stakeholders' interests to ensure that SSO service be as competitively  
25 priced as possible when compared to potential CRES offers. To do otherwise

1 would put the Commission in the unenviable position of creating a competitive  
2 disadvantage for the competitive wholesale suppliers providing SSO service, as  
3 compared to CRES providers, thereby undermining the objective of promoting  
4 and advancing competition.

5 It is important to reiterate that the Company ultimately has no economic  
6 interest in whether its retail customers take generation service via the SSO or via  
7 CRES providers; however, Duke Energy Ohio believes it would be a detriment to  
8 competition to consciously create an advantage or disadvantage for either the SSO  
9 auction winners or the CRES providers.

10 **Q. IS THE COMPANY PROPOSING TO CONTINUE ITS LOAD FACTOR**  
11 **ADJUSTMENT RIDER?**

12 **A.** No. The Company is proposing to eliminate the Load Factor Adjustment Rider  
13 (Rider LFA) effective June 1, 2015, subject only to a true up, as discussed by Mr.  
14 Ziolkowski. The true-up ensures that the customer and the utility are ultimately  
15 made whole by this rider, which was approved as part of the overall stipulation  
16 reached in the current ESP and is revenue-neutral to the Company. Once the rider  
17 is trued up, the Company proposes to eliminate it from its tariff schedule.

18 **Q. WHY IS THE COMPANY PROPOSING TO ELIMINATE THIS RIDER?**

19 **A.** As I discussed earlier, the Company believes that the price customers pay for all  
20 generation-related costs should be established by market forces. Customers with  
21 higher load factors should be rewarded by appropriate CRES offers or in the form  
22 of lower SSO rates, as Duke Energy Ohio is proposing with the changes to the  
23 rate design for Rider RC. Rider LFA was one of several provisions agreed to as



1 part of an overall settlement in the current ESP.<sup>9</sup> Standing alone, however, Rider  
2 LFA represents a non-market-based influence on the usage behavior for all  
3 demand-metered customers' bills and, therefore, undermines the desired objective  
4 of having market influences alone determine the cost of competitive generation  
5 service.

6 **Q. ARE THERE ANY OTHER MAJOR RATE-RELATED PROVISIONS OF**  
7 **THE CURRENT ESP THAT ARE BEING ELIMINATED IN THE**  
8 **PROPOSED ESP?**

9 A. Yes. Again, as part of an overall settlement, the Company agreed to offer  
10 transmission voltage customers with loads in excess of 10 MW the opportunity to  
11 participate in a demand response program. That program offered customers an  
12 opportunity to receive an above-market credit by allowing Duke Energy Ohio the  
13 ability to use interruptible load in the Company's Fixed Resource Requirement  
14 (FRR) plan. The cost of the program is being recovered via the Economic  
15 Competitiveness Fund Rider (Rider DR-ECF).

16 Because the Company's current status as an FRR entity expires effective  
17 June 1, 2015, it will no longer need the demand resources potentially available  
18 under this program for its FRR obligations and the rationale for this program will  
19 no longer be valid. Furthermore, elimination of this arrangement helps to ensure  
20 that only competitive forces are at work in establishing competitive generation  
21 charges for customers, which is consistent with the continued development of a

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<sup>9</sup> Id. at pg. 22.

1 truly competitive retail electric market. The value of participating in the PJM  
2 capacity markets and the willingness of customers to participate in the related  
3 demand response programs should be determined only with regard to competitive  
4 market forces and not by non-market-based incentives.

5 **Q. IS THERE ANY REASON FOR CUSTOMERS PARTICIPATING IN THIS**  
6 **PROGRAM TO ASSUME THAT IT WOULD EXTEND BEYOND MAY**  
7 **31, 2015?**

8 A. Admittedly, it is difficult to speculate on what an individual customer's  
9 expectations would be but the fact of the matter is that this program has a sunset  
10 provision. It is not implausible that a customer would have some desire that this  
11 program persist beyond May 31, 2015, but any plans made with respect to  
12 participating or not participating in PJM's demand response market for periods  
13 beyond May 31, 2015, could only be characterized as speculative as the sunset  
14 provision on the program in the current ESP inarguably expires on May 31, 2015.

15 **Q. WILL THERE BE A NEED TO TRUE UP RIDER DR-ECF?**

16 A. It is likely that there will be an over- or under-recovery of costs included in Rider  
17 DR-ECF as of May 31, 2015. Consequently, the Company will need to do a final  
18 true up of this rider after the current ESP expires on May 31, 2015. Once that true  
19 up is complete, Duke Energy Ohio proposes to eliminate Rider DR-ECF as  
20 obsolete.

21 **Q. WITH THE PROPOSAL TO ELIMINATE DEMAND CHARGES UNDER**  
22 **RIDER RC AND TO ELIMINATE RIDER LFA, WILL THERE BE ANY**  
23 **DEMAND CHARGES ON SSO CUSTOMERS' BILLS?**

1 A. Yes. Those customers who are currently billed for transmission and distribution  
2 services based, at least in part, upon their monthly demand will continue to be  
3 billed on demand<sup>10</sup> for these charges. The Company is not proposing any changes  
4 to rate design, or its existing demand ratchet provisions, for those two components  
5 of electric service. However, with the changes being proposed here, there will no  
6 longer be any demand charges for any SSO-related service from Duke Energy  
7 Ohio. All charges for SSO service will be reflected on customers' bills in terms of  
8 a rate per kilowatt-hour. Whether customers of CRES providers pay demand-  
9 based generation charges will depend upon the contracts agreed to by these  
10 parties.

#### IV. BETTER IN THE AGGREGATE TEST

11 Q. IS THE COMPANY'S PROPOSED ESP MORE FAVORABLE, IN THE  
12 AGGREGATE, THAN THE EXPECTED RESULTS THAT WOULD  
13 OTHERWISE APPLY UNDER SECTION 4928.142 OF THE REVISED  
14 CODE?

15 A. Yes. In the aggregate, the Company's proposed ESP is more favorable than the  
16 expected results of an MRO under R.C. 4928.142. Although the cost of generation  
17 service to customers under the proposed ESP is necessarily equal to the cost of  
18 generation service under an MRO, the totality of the proposed ESP does provide  
19 benefits to customers as compared to the expected results under the MRO  
20 provision of R.C. 4928.143(C)(1).

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<sup>10</sup> These customers are billed based on kilowatts (kW) or on kilovolt amperes (kVA).

1   **Q.   WILL YOU EXPLAIN HOW THE COST OF SSO SERVICE UNDER THE**  
2       **PROPOSED ESP IS EQUAL TO THE COST THAT WOULD BE**  
3       **EXPECTED UNDER AN MRO?**

4   A.   In the proposed ESP, there are no competitive generation-related charges being  
5       sought by the Company other than the flow-through of the cost of procuring SSO  
6       generation service via the CBP plan. Therefore, the only driver of SSO costs  
7       under the proposed ESP is competitively priced, market-based generation service.  
8       Under an MRO, the source and the price of SSO generation service must be the  
9       same, as 100 percent of the SSO load requirement would have to be procured in a  
10      competitive process just as is being done in the existing and proposed ESP.  
11      Inasmuch as the SSO service to be procured in both an ESP and an MRO would  
12      be pursuant to purely competitive process, the quantitative value of the ESP  
13      versus the MRO, as it relates to competitive generation service, is necessarily  
14      equal.

15   **Q.   IF THE COST OF SSO GENERATION SERVICE UNDER THE**  
16       **PROPOSED ESP IS THE SAME AS COSTS THAT WOULD BE**  
17       **EXPECTED UNDER AN MRO, WHAT IS THE BASIS FOR**  
18       **CONCLUDING THAT THE PROPOSED ESP IS MORE FAVORABLE**  
19       **THAN AN MRO?**

20   A.   On the advice of counsel, it is my understanding that the Ohio Supreme Court has  
21       confirmed that the "in the aggregate test" is not limited to a price comparison.  
22       Rather, the Commission has been instructed to also consider other terms and

1 conditions of a proposed ESP.<sup>11</sup> The Commission has similarly affirmed the  
2 scope of the “better in the aggregate” test in recent orders. Specifically, in  
3 DP&L’s most recent SSO filing (DP&L ESP Case),<sup>12</sup> the Commission defined the  
4 test as one that “includes a quantitative and a qualitative analysis.”<sup>13</sup> On advice of  
5 counsel, the implication of the Commission’s finding in the DP&L ESP Case is  
6 that the qualitative benefits of an ESP can render that form of an SSO better than  
7 the expected results under R.C. 4928.142, where the quantitative factors are  
8 comparable or even favor the MRO.

9 In the Company’s proposed ESP, the Commission’s determination as to  
10 whether this ESP is “better in the aggregate” than the results expected under the  
11 MRO provision will therefore depend on the qualitative benefits of the proposed  
12 ESP. Insofar as the proposed ESP and the MRO are necessarily equal  
13 quantitatively, the scale can only be tipped one way or the other based on the  
14 qualitative benefits of the proposed ESP relative to the MRO. The Company  
15 believes that its proposed ESP provides significant advantages over the results  
16 that could be expected under an MRO. Some of the most conspicuous benefits of  
17 the proposed ESP include:

- 18 • Changes to rate design and the elimination of non-market-  
19 based influences on customer behavior;

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<sup>11</sup> *In re Columbus Southern Power Co.*, 128 Ohio St.3d 402, 2011-Ohio-958, at ¶ 407.

<sup>12</sup> *In the Matter of the Application of The Dayton Power and Light Company for Approval of its Electric Security Plan*, Case No. 12-426-EL-SSO, *et al.*

<sup>13</sup> *Id.* Opinion and Order, at pg. 48 (September 4, 2013).

- 1           • Promotion of the competitive market by further leveling the  
2           playing field between SSO auction winners and CRES  
3           providers;
- 4           • Proposed Rider DCI, which offers the Company, the  
5           Commission, and customers an opportunity to improve the  
6           safety and reliability of the system in an economical and  
7           efficient manner; and
- 8           • A means to stabilize competitive generation prices for  
9           shopping and non-shopping customers through the  
10          competitively neutral Rider PSR.

11           While the benefits I have ascribed to an ESP that are not available under  
12          an MRO are mostly qualitative, the Commission has recognized that such  
13          qualitative benefits are meaningful in determining whether the "in the aggregate"  
14          test is satisfied. Consequently, the Commission should find that the ESP being  
15          proposed in this Application is better in the aggregate than the results that would  
16          be expected under R.C. 4918.142.

#### V.    GOVERNMENTAL AGGREGATION

17    Q.    WHAT IS GOVERNMENTAL AGGREGATION?

18    A.    Governmental aggregation is a process by which municipalities, townships, or  
19          counties may negotiate rates for the collective load of the non-mercantile  
20          customers in the area. Thus, the loads of the residents are aggregated for  
21          improved negotiating leverage. Governmental aggregation is provided for in R.C.  
22          4928.20.

1    **Q.    WHAT IS REQUIRED BY DIVISION (I) OF REVISED CODE 4928.20?**

2    **A.    Division (I) of that statute reads as follows:**

3                   Customers that are part of a governmental aggregation under this  
4                   section shall be responsible only for such portion of a surcharge  
5                   under section 4928.144 of the Revised Code that is proportionate  
6                   to the benefits, as determined by the commission, that electric load  
7                   centers within the jurisdiction of the governmental aggregation as a  
8                   group receive. The proportionate surcharge so established shall  
9                   apply to each customer of the governmental aggregation while the  
10                  customer is part of that aggregation. If a customer ceases being  
11                  such a customer, the otherwise applicable surcharge shall apply.  
12                  Nothing in this section shall result in less than full recovery by an  
13                  electric distribution utility of any surcharge authorized under  
14                  section 4928.144 of the Revised Code.

15          **R.C. 4928.144, referenced in division (I), provides that:**

16                  The public utilities commission by order may authorize any just  
17                  and reasonable phase-in of any electric distribution utility rate or  
18                  price established under sections 4928.141 to 4928.143 of the  
19                  Revised Code, and inclusive of carrying charges, as the  
20                  commission considers necessary to ensure rate or price stability for  
21                  consumers. If the commission's order includes such a phase-in, the  
22                  order also shall provide for the creation of regulatory assets  
23                  pursuant to generally accepted accounting principles, by  
24                  authorizing the deferral of incurred costs equal to the amount not  
25                  collected, plus carrying charges on that amount. Further, the order  
26                  shall authorize the collection of those deferrals through a  
27                  nonbypassable surcharge on any such rate or price so established  
28                  for the electric distribution utility by the commission.

29    **Q.    WHAT IS REQUIRED BY DIVISION (J) OF REVISED CODE 4928.20?**

30    **A.    Division (J) of that statute states that:**

31                  On behalf of the customers that are part of a governmental  
32                  aggregation under this section and by filing written notice with the  
33                  public utilities commission, the legislative authority that formed or  
34                  is forming that governmental aggregation may elect not to receive  
35                  standby service within the meaning of division (B)(2)(d) of section  
36                  4928.143 of the Revised Code from an electric distribution utility  
37                  in whose certified territory the governmental aggregation is located  
38                  and that operates under an approved electric security plan under  
39                  that section. Upon the filing of that notice, the electric distribution

1 utility shall not charge any such customer to whom competitive  
2 retail electric generation service is provided by another supplier  
3 under the governmental aggregation for the standby service. Any  
4 such consumer that returns to the utility for competitive retail  
5 electric service shall pay the market price of power incurred by the  
6 utility to serve that consumer plus any amount attributable to the  
7 utility's cost of compliance with the alternative energy resource  
8 provisions of section 4928.64 of the Revised Code to serve the  
9 consumer. Such market price shall include, but not be limited to,  
10 capacity and energy charges; all charges associated with the  
11 provision of that power supply through the regional transmission  
12 organization, including, but not limited to, transmission, ancillary  
13 services, congestion, and settlement and administrative charges;  
14 and all other costs incurred by the utility that are associated with  
15 the procurement, provision, and administration of that power  
16 supply, as such costs may be approved by the commission. The  
17 period of time during which the market price and alternative  
18 energy resource amount shall be so assessed on the consumer shall  
19 be from the time the consumer so returns to the electric distribution  
20 utility until the expiration of the electric security plan. However, if  
21 that period of time is expected to be more than two years, the  
22 commission may reduce the time period to a period of not less than  
23 two years.

24 With introductory text taken from division (B)(2), R.C.  
25 4928.143(B)(2)(d), referenced in that section, provides as follows:

26 The plan may provide for or include, without limitation, any of the  
27 following:

28 (d) Terms, conditions, or charges relating to limitations on  
29 customer shopping for retail electric generation service,  
30 bypassability, standby, back-up, or supplemental power service,  
31 default service, carrying costs, amortization periods, and  
32 accounting or deferrals, including future recovery of such  
33 deferrals, as would have the effect of stabilizing or providing  
34 certainty regarding retail electric service;

35 R.C. 4928.64, referenced in division (J), addresses the provision, by an  
36 electric distribution utility, of electricity from alternative energy resources.

37 **Q. WHAT IS REQUIRED BY DIVISION (K) OF REVISED CODE 4928.20?**

38 **A.** Division (K) reads as follows:



1 The commission shall adopt rules to encourage and promote large-  
2 scale governmental aggregation in this state. For that purpose, the  
3 commission shall conduct an immediate review of any rules it has  
4 adopted for the purpose of this section that are in effect on the  
5 effective date of the amendment of this section by S.B. 221 of the  
6 127<sup>th</sup> general assembly, July 31, 2008. Further, within the context  
7 of an electric security plan under section 4928.143 of the Revised  
8 Code, the commission shall consider the effect on large-scale  
9 governmental aggregation of any nonbypassable generation  
10 charges, however collected, that would be established under that  
11 plan, except any nonbypassable generation charges that relate to  
12 any cost incurred by the electric distribution utility, the deferral of  
13 which has been authorized by the commission prior to the effective  
14 date of the amendment of this section by S. B. 221 of the 127<sup>th</sup>  
15 general assembly, July 31, 2008.

16 **Q. HOW DOES DUKE ENERGY OHIO INTEND TO ADDRESS**  
17 **GOVERNMENTAL AGGREGATION PROGRAMS AND THE**  
18 **IMPLEMENTATION OF DIVISION (I) OF REVISED CODE 4928.20?**

19 A. As I understand, based upon advice of counsel, Duke Energy Ohio is not, in this  
20 Application, seeking any deferral or to phase in any deferrals, as authorized under  
21 R.C. 4928.144. Thus, the provisions of R.C. 4928.20(I) are not applicable to the  
22 Company's proposed ESP. And to the extent R.C. 4928.20(I) is intended to assist  
23 governmental aggregators, the Company's proposed ESP will not impede that  
24 intent.

25 **Q. HOW DOES DUKE ENERGY OHIO INTEND TO ADDRESS**  
26 **GOVERNMENTAL AGGREGATION PROGRAMS AND**  
27 **IMPLEMENTATION OF DIVISION (J) OF REVISED CODE 4928.20?**

28 A. As I understand, based upon advice of counsel, the provisions of R.C. 4928.20(J)  
29 that concern a charge for standby service are also not applicable to the Company's  
30 ESP Application. Duke Energy Ohio is not proposing any charge for providing

1 standby service. Accordingly, the implementation of R.C. 4928.20(J) is not  
2 complicated by the Company's proposed ESP.

3 **Q. HOW DOES DUKE ENERGY OHIO INTEND TO ADDRESS**  
4 **GOVERNMENTAL AGGREGATION PROGRAMS AND**  
5 **IMPLEMENTATION OF DIVISION (K) OF REVISED CODE 4928.20?**

6 A. As I understand, based upon advice of counsel, R.C. 4928.20(K) provides  
7 instruction to the Commission in promulgating rules to "encourage and promote  
8 large-scale governmental aggregation" in Ohio. As this instruction is directed to  
9 the Commission, Duke Energy Ohio's proposed ESP is necessarily irrelevant to  
10 implementation of certain parts of R.C. 4928.20(K). That is, the Company's filing  
11 will not result in rules designed to encourage or promote aggregations.

12 R.C. 4928.28(K) also directs the Commission to consider the effect of any  
13 non-bypassable generation charge on large-scale aggregation, with the exception  
14 of non-bypassable charges for which a deferral was created prior to the effective  
15 date of SB 221. First of all, compliance with this statutory provision requires  
16 conduct by the Commission but, importantly, there are no non-bypassable  
17 generation charges being proposed in the proposed ESP. Consequently, this  
18 requirement is moot insofar as Duke Energy Ohio's Application is concerned.

## 19 VI. CONCLUSION

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

A. Yes.

NC

FILE

DEC 7

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BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of  
Ohio Power Company for Approval  
of Full Legal Corporate Separation  
and Amendment to Its Corporate  
Separation Plan

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Case No. 12-1126-EL-UNC

OHIO POWER COMPANY'S APPLICATION FOR APPROVAL OF FULL LEGAL  
CORPORATE SEPARATION AND AMENDMENT TO ITS CORPORATE  
SEPARATION PLAN

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Ohio Power Company (OPCo or the Company) hereby submits this application ("Application") pursuant to R.C. 4928.17(A) and Ohio Admin. Code Rules 4901:1-37-06 and 4901:1-37-09 seeking any and all necessary authorizations and approvals (1) for full legal corporate separation (also known as structural corporate separation) such that the transmission and distribution assets of OPCo will continue to be held by the distribution utility and OPCo's generation assets will be transferred to an affiliate, (2) to implement amendments to OPCo's existing corporate separation plan necessary to reflect structural corporate separation that will be effective upon the transfer of OPCO's generation assets to its affiliate and (3) for certain waivers related to the foregoing authorizations that the Commission may grant for good cause pursuant to Ohio Admin. Code Rule 4901:1-37-02(C).

AEP requests swift approval of this Application so that it can fulfill the mandate of R.C. 4928.17 and terminate OPCo's decade-long "interim" plan of functional separation. Corporate separation is also a fundamental element of the Company's modified Electric Security Plan (modified ESP II), filed concurrently with this Application in Case No. 11-346-EL-SSO, *et al.*, that will lead to full market-based pricing of generation service for retail customers and will promote retail shopping in Ohio. However, OPCo intends to pursue corporate separation

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independent of any outcome in the modified ESP II case in order to fully transform its business operations in Ohio to clearly divide its competitive generation-related business from its regulated transmission- and distribution-related businesses. As OPCo demonstrates below, its Application satisfies R.C. 4928.17(A) and Ohio Admin. Code Rules 4901:1-37-06 and 4901:1-37-09 and should be approved, and respectfully requests the Commission grant the limited waivers it has requested for good cause shown pursuant to Ohio Admin. Code Rule 4901:1-37-02(C).

**A. Approval of Full Legal Corporate Separation and the Transfer of Generation Assets**

**1. Overview of Corporate Separation And Asset Transfers**

OPCo is an electric utility operating within the American Electric Power system. American Electric Power Company, Inc. (AEP), through its electric utility operating companies, provides generation, transmission and distribution services in eleven states.<sup>1</sup> American Electric Power Service Corporation (AEPSC), a subsidiary of AEP, provides accounting, administrative, information technology, engineering, financial, legal, maintenance, and other services to AEP system companies, including OPCo. In order to implement structural corporate separation, OPCo formed a subsidiary, AEP Generation Resources Inc. (AEP Generation), for the purposes of planning, constructing, owning, and operating the generating assets of OPCo. Consequently, as a result of their common ownership, AEP, OPCo and AEP Generation are affiliates.

By this Application, OPCo seeks Commission approval of full legal corporate separation as contemplated by R.C. 4928.17(A) such that the transmission and distribution assets of OPCo will continue to be held by the distribution utility and all of OPCo's generation, fuel and other assets (essentially all of its non-transmission and non-distribution assets) will be transferred to an

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<sup>1</sup> Besides the service provided by OPCo in Ohio, service is provided in Indiana and Michigan by Indiana Michigan Power Company, Virginia and West Virginia by Appalachian Power Company, West Virginia by Wheeling Power Company, Kentucky by Kentucky Power Company, Tennessee by Kingsport Power Company, Texas by AEP Texas North Company and AEP Texas Central Company, Oklahoma by Public Service Company of Oklahoma and Arkansas, Louisiana and Texas by Southwestern Electric Power Company.

affiliate, AEP Generation. Full legal corporate separation necessitates Federal Energy Regulatory Commission (FERC) approval, and it will be implemented as soon as reasonably possible after necessary regulatory approvals are obtained, but not earlier than the date of termination of the existing Interconnection Agreement (the "Pool Agreement") among OPCo and the other electric utilities of the AEP System that are parties to that Agreement.<sup>2</sup>

A critical component of full legal corporate separation is transferring OPCo's generation assets to AEP Generation, which requires Commission approval under Ohio Admin. Code Rule 4901:1-37-09. By this Application, the Company seeks Commission approval to transfer title, at net book value, of its generation assets out of OPCo and into AEP Generation.

Full legal corporate separation of OPCo through the transfer of its generation, fuel and other assets to AEP Generation as described in this Application will achieve important objectives for the Company and its customers. The proposed generating asset transfer will fulfill the mandate of R.C. 4928.17 and terminate the "interim" plan of functional separation for OPCo. AEP Generation will receive the legacy generating assets and can engage in sales for resale as regulated by the FERC. The corporate separation plan for OPCo has been based on functional separation since 2001. R.C. 4928.17(C) only permits functional separation "for an interim period" and otherwise mandates structural separation. The decade-long interim period should end, and the Commission should fulfill the statutory mandate by swiftly approving full legal separation for OPCo.

Corporate separation is also a fundamental element of the Company's modified ESP II, filed concurrently with this Application in Case No. 11-346-EL-SSO, *et al.* The impact of structural corporate separation on the modified ESP II of OPCo is clear: Corporate separation

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<sup>2</sup> On December 17, 2010, OPCo and each of the other parties to the Pool Agreement provided each other with notice of termination of that agreement effective as of December 31, 2013 or such other date as ordered by the FERC.

will ultimately lead to full market-based pricing of generation service for retail customers and will promote retail shopping in Ohio. Transformation of OPCo's business model through corporate separation is critical to facilitating an auction-based Standard Service Offer (SSO) for OPCo starting on January 1, 2015, as described in the Company's modified ESP II. However, OPCo intends to pursue corporate separation independent of any outcome in the modified ESP II case. OPCo intends to fully transform its business operations in Ohio so that its generation-related business is fully, structurally separated from the regulated transmission- and distribution-related businesses that will remain with OPCo.

In achieving the statutory mandate of full legal corporate separation and facilitating the Company's modified ESP II, approval of structural corporate separation advances the public interest and promotes R.C. Chapter 4928's competitive policies.

## **2. Scope of Proposed Transfers to AEP Generation**

Regarding the scope of the proposed transfer of generating assets, transmission- and distribution-related assets will remain in the electric distribution utility and OPCo's generation, fuel and other non-transmission- and non-distribution-related assets will be transferred to an AEP affiliate, AEP Generation. The transfer will include OPCo's existing generating units<sup>3</sup> and contractual entitlements.<sup>4</sup> AEP Generation will assume all liabilities associated with the generating assets being transferred, including the retired generating plants and liabilities associated with the retired plants. In addition, there are certain issues associated with renewable

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<sup>3</sup> See Exhibit PJN-4 to the direct testimony of Philip J. Nelson in modified ESP II. The relevant excerpt from PJN-4 is attached to this Application.

<sup>4</sup> OPCo has a FERC-approved unit power purchase agreement with its affiliate AEP Generating Company to purchase the output of the Lawrenceburg generating plant in Lawrenceburg, Indiana. In addition, OPCo has station agreements with Buckeye and its affiliates relating to the Robert P. Mone generating plant in Van Wert, Ohio and the Cardinal Plant, under which OPCo operates those generating plants and OPCo and Buckeye and its affiliates have certain rights to the capacity and energy of the plants. Finally, under the Inter-Company Power Agreement among Ohio Valley Electric Corporation ("OVEC") and its sponsoring companies (including OPCo), OPCo has certain rights to purchase power from generating resources owned by OVEC. As proposed, these entitlements would transfer to AEP Generation.

contracts and the long-term debt obligations of OPCo that it wishes to clarify, as described below.

First, although renewable energy purchase agreements (REPAs) are not necessarily "generation assets" under R.C. 4928.17(E) or Ohio Admin. Code Chapter 4901:1-37 and, thus, transfer of the REPAs does not necessarily require Commission approval or need to be addressed in a corporate separation plan or amendment, in an abundance of caution and in the spirit of full disclosure, OPCo would like to address these agreements. OPCo currently possesses certain REPAs — the 99 MW Timber Road wind REPA, the 100 MW Fowler Ridge II wind REPA, and the 10 MW Wyandot solar REPA. OPCo believes that the most direct and efficient way to preserve flexibility is to leave the REPAs behind in the transfer of generating assets to AEP Generation. That way, the RECs associated with these long-term REPAs (which were purchased for compliance with Ohio's renewable portfolio requirements for the benefit of SSO customers) would continue to be available after legal separation to help satisfy OPCo's renewable compliance mandate. Accordingly, OPCo will leave the REPAs with OPCo and not include them with assets being proposed for transfer as part of this Application.

Second, OPCo would like to address pollution control revenue bonds (PCRBs). As described more fully in the direct testimony of Renee V. Hawkins in ESP II, PCRBs are a low cost segment of OPCo's long-term debt portfolio. They are tax exempt, general obligations of the Company which are not secured by its generation assets or by any other assets of OPCo. Accordingly, PCRBs are not necessarily liabilities associated with any "generation assets" of OPCo under R.C. 4928.17(E) or Ohio Admin. Code Chapter 4901:1-37 and, thus, do not necessarily need to be assumed by AEP Generation as liabilities associated with the generating assets (or retired generating assets) being transferred. Nonetheless, OPCo believes that the most

efficient way to provide for the re-capitalization of OPCo and AEP Generation will be for OPCo to transfer the PCRBs that have tender dates prior to the closing of corporate separation to AEP Generation as soon as practicable after closing of corporate separation in the following manner: AEP Generation, or its holding company, would reissue new, separate PCRBs in its own name and use the proceeds to redeem the existing PCRBs, releasing OPCo from any further obligation for those PCRBs. OPCo expects the transfer of those PCRBs to be completed within six months of the closing of Corporate Separation. OPCo anticipates retaining those PCRBs that have tender dates after the closing of Corporate Separation. This will allow OPCo to retain some of its tax exempt debt, thereby providing OPCo with more flexibility because this type of debt is frequently marketed to allow for flexible maturity dates and variable interest rate modes. Because PCRBs with tender dates after December 31, 2013 represent only approximately 7% of OPCo's overall portfolio of long term indebtedness, and those remaining with tender dates after December 31, 2014 shrink to a mere 3% of that portfolio, retaining these limited PCRBs also reduces the administrative burden that would attend providing for the transfer of these PCRBs after closing of corporate separation. Alternatively, although OPCo believes it would be a less optimal solution, these PCRBs (with tender dates after the closing of corporate separation) could be transferred to AEP Generation in the manner described above on or about their tender dates.

### **3. Request For Waivers Related to Corporate Separation and Asset Transfers**

OPCo proposes to transfer the generating assets at net book value and, to the extent necessary, seeks a waiver of Ohio Admin. Code Rule 4901:1-37-09(C)(4). OPCo also seeks a waiver of any hearing required in this matter under Ohio Admin. Code Rule 4901:1-3709(D). OPCo requests, pursuant to Ohio Admin. Code Rule 4901:1-37-02(C), a waiver of both these requirements, neither of which are required by any statute. Under Rule 4901:1-37-02(C), the



Commission may waive any requirement of Chapter 37 for good cause shown. Here, good cause is present to waive each.

The request to waive Admin. Code Rule 4901:1-37-09(C)(4) is reasonable because OPCo seeks to transfer its generating assets to an affiliate within the same parent corporation, in compliance with the mandate of R.C. 4928.17. Under SB 3, all of these generation assets were subjected to market and EDUs therefore were given a temporary opportunity to recover stranded generation investments during a transition period. That transition period is over. EDUs can no longer recover stranded generation investments, and transferring the generation assets based on an arbitrary determination of their current fair market value rather than net book value would be inappropriate. The Commission determined in Case No. 11-3549, based on information similar to what OPCo provides in this Application, that it was in the public interest to waive Rule 4901:1-37-09(C)(4) and allow Duke Energy Ohio to transfer its generation assets at net book value.<sup>5</sup> If that treatment was in the public interest for Duke Energy Ohio, it is also in the public interest to grant OPCo's similar request. Further, as a result of that recent decision, there is good cause to apply the same rule to similar facts in a consistent manner so as not to create an unfair and unlevel playing field for competition.

Waiving any hearing required in this matter under Ohio Admin. Code Rule 4901:1-37-09(D) is also appropriate. OPCo voluntarily commits to the same conditions Duke Energy Ohio agreed to in Case No. 11-3549, which the Commission concluded "provided the necessary safeguards to ensure that the statutory mandates pertaining to Duke's sale of generation assets

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<sup>5</sup> *In the Matter of the Application of Duke Energy Ohio for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service*, Case No. 11-3549-EL-SSO, Opinion and Order (November 22, 2011) and Entry on Rehearing (January 18, 2012).

and corporate separation are adhered to and the policy of the state is carried out." (Opinion and Order at p. 46). Specifically, OPCo would consent to the following conditions:

1. Staff, or an independent auditor at the Commission's discretion, shall audit the terms and conditions of the transfer of the Generation Assets to ensure compliance with this the order approving this Application and shall also audit OPCo's compliance with R.C. 4928.17 and the Commission's Corporate Separation Rule, O.A.C. 4901:1-37 and any successors to that rule, to ensure that no subsidiary or affiliate of OPCo that owns competitive generation assets has any competitive advantage due to its affiliation with OPCo. OPCo may file an application with the Commission to seek approval of the recovery of the costs associated with an independent audit. (Duke Stipulation at 25-26)
2. Further, the Commission Staff shall have access to books and records in compliance with rule 4901:1-37-09(F). (Duke Stipulation at 26)
3. Following the transfer of the Generation Assets, OPCo shall not without prior Commission approval: (1) provide or loan funds to; (2) provide any parental guarantee or other security for any financing for; and/or (3) assume any liability or responsibility for any obligation of subsidiaries or affiliates that own generating assets, provided however, that contractual obligations arising before the date of the Commission's approval of this Application ("Commission Approval Date") shall be permitted to remain with OPCo without Commission approval for the remaining period of the contract but only to the extent that assuming or transferring such obligations is prohibited by the terms of the contract or would result in substantially increased liabilities for OPCo if OPCo were to transfer such obligations to its subsidiary or affiliate. (Duke Stipulation at 26-27)
4. On and after the Commission Approval Date, OPCo shall ensure that all new contractual obligations have a successor-in-interest clause that transfers all OPCo responsibilities and obligations under such contracts and relieves OPCo from any performance or liability under the contracts upon the transfer of the Generation Assets to its subsidiaries.
5. This provision [3 and 4, above] does not restrict OPCo's ability to receive and pass through to the subsidiary(ies) that own the Generation Assets' equity contributions from its parent that are in support of the Generation Assets, nor does it restrict OPCo's ability to receive dividends from the subsidiary(ies) that own the Generation Assets and pass through such dividend(s) to its parent. (Duke Stipulation at 27)
6. Generation-related costs associated with implementing corporate separation shall not be recoverable from customers. (Duke Stipulation at 27)

7. Any subsidiary of OPCo to which Generation Assets are transferred shall not use or rely upon the rating(s) from credit rating agency(ies) for OPCo. If such subsidiary currently does not maintain separate rating(s) from the credit rating agency(ies), then upon transfer of any of the Generation Assets, it shall either seek to establish such rating(s) or shall tie its credit rating to American Electric Power Company, Inc. as soon as practicable but no later than six months following such transfer. (Duke Stipulation at 27)

With these commitments, there is good cause for the Commission waive the hearing requirement under Rule 4901:1-37-09(D), as it recently did for Duke Energy Ohio.

**4. Disposition of Assets Acquired by AEP Generation and Description of Unit Retirements**

As described more fully in the direct testimony of Robert P. Powers and Philip J. Nelson in support of modified ESP II, immediately after transferring the generation assets (including retired plants) and associated liabilities to AEP Generation, Appalachian Power Company (APCo) will obtain the transferred interest in Unit No. 3 of the Amos generating plant and appurtenant interconnection facilities and related assets and liabilities (APCo already owns the remaining interest in Amos Unit No. 3) and an 80% undivided interest in the Mitchell generating plant and appurtenant interconnection facilities and related assets and liabilities (collectively, "Mitchell"), and Kentucky Power Company (KPCo) will obtain the remaining 20% undivided interest in Mitchell. PCRBs, with tender dates prior to the closing of corporate separation, related to (but not secured by) Amos Unit No. 3 and the Mitchell generating station may be transferred to APCo and KPCo as an alternative to their assumption by AEP Generation, subject to approvals applicable to their assumption by APCo and KPCo. In addition, Exhibit PJN-2 to the direct testimony of Philip J. Nelson in modified ESP II provides the list of the AEP East System units, including OPCo units, estimated to retire before June 1, 2015 that was provided to PJM. The ultimate retirement dates for these units will be based on implementation of the new EPA environmental regulations.

## **B. Amendments to Corporate Separation Plan**

Pursuant to the Commission's orders in Case No. 10-2376-EL-UNC, Columbus Southern Power Company (CSP) merged into OPCo effective December 31, 2011. The merger of CSP into OPCo and subsequent corporate separation of OPCo as described above will impact OPCo's corporate separation plan. Accordingly, the purpose of this section of the Application is to implement amendments to OPCo's existing corporate separation plan necessary to reflect the merged company after structural corporate separation.

### **1. Status of the Company's Corporate Separation Plan**

CSP and OPCo (the Companies) were granted authority by the Commission to legally separate each company's distribution, transmission, and generation functions in their Electric Transition Plan Cases.<sup>6</sup> Subsequently, the Commission approved those Companies' request to continue to operate on a functionally separate basis.<sup>7</sup> In their electric security plan (ESP I) proceeding, the Companies requested permission to modify their corporate separation plans to allow each company to retain its distribution and transmission assets until the expiration of functional separation.<sup>8</sup> The Commission declined to rule on the request in the ESP I proceeding, and, instead, directed the Companies to file an application for approval of their corporate

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<sup>6</sup> *In Re Application of Columbus and Southern Power Company and Ohio Power Company for Approval of Their Electric Transition Plans and for Receipt of Transition Revenues*, Case No. 99-1729-EL-ETP, Opinion and Order (September 28, 2000) and Entry on Rehearing (November 21, 2000).

<sup>7</sup> *In Re Application of Columbus and Southern Power Company and Ohio Power Company for Approval of a Post-Market Development Rate Stabilization Plan*, Case No. 04-169-EL-UNC, Opinion and Order, at 35 (January 26, 2005).

<sup>8</sup> *In Re Application of Columbus and Southern Power Company for Approval of an Electric Security Plan; and the sale or Transfer of Certain Generating Assets; and In Re Ohio Power Company for Approval of an Electric Security Plan; and an Amendment to its Corporate Separation Plan*, Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, Opinion and Order (March 18, 2009), Entry on Rehearing (July 23, 2009), and Second Entry on Rehearing (November 4, 2009) (ESP I Cases).

separation plans within 60 days of the effective date of the newly adopted corporate separation rules, codified at Chapter 4901:1-37, Ohio Admin. Code.<sup>9</sup>

On June 1, 2009, the Companies filed an application for approval of their corporate separation plans, in accordance with Rule 4901:1-37-05(A), Ohio Admin. Code (Corporate Separation Case). The Commission selected Baker Tilley Virchow Krause, LLP (Baker Tilley or auditor) to assist the Commission with the evaluation of the Companies' corporate separation plans. Baker Tilley completed its audit and submitted its report of investigation on March 19, 2010. On June 2, 2010, the Commission issued its Opinion and Order in the Corporate Separation Case. Based on the auditor's evaluation and the Commission's directives, which the Companies had committed to satisfy, the Commission concluded that the Companies had, in all material respects, implemented their corporate separation plans in compliance with Section 4928.17, Ohio Admin. Code, and the orders of the Commission. The Commission further concluded that the Companies' corporate separation plans reasonably comply with the rules set forth in Chapter 4901:1-37, Ohio Admin. Code.

On February 10, 2011, the Companies filed an application seeking approval of an amendment to their corporate separation plans that, among other things, reflected the existence of AEP Ohio Transmission Company, Inc. The application was deemed approved on the sixty-first day after the filing, per 4901:1-37-06(B), Ohio Admin. Code.

## **2. Newly formed Generation Affiliate**

Effective December 8, 2011, OPCo formed the subsidiary AEP Generation Resources Inc., incorporated in Delaware and registered to do business in Ohio under the name AEP

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<sup>9</sup> *In Re Adoption of rules for Standard Service Offer, Corporate Separation, Reasonable Arrangements, and Transmission Riders for Electric Utilities Pursuant to Sections 4928.14, 4928.17, and 4905.31, Ohio Rev. Code, as Amended by Am. Sub. S.B. No. 221, Case No. 08-777-EL-ORD, Finding and Order (September 17, 2008) and Entry on Rehearing (February 11, 2009).*

Generation Resources. The Board of Directors of the corporation held its first meeting on Tuesday, December 13, 2011 for the purpose of electing officers and ratifying the bylaws adopted by the sole incorporator. Corporate separation of OPCo's generating assets will be accomplished in several steps. First, OPCo will contribute its generation-related assets to AEP Generation in exchange for all of the outstanding capital stock of that subsidiary. Next, OPCo will distribute its shares of AEP Generation to AEP, the parent company. Finally, AEP will contribute all of the stock of AEP Generation to a sub-holding company. The sub-holding company will not be a subsidiary of the regulated OPCo transmission and distribution company that survives corporate separation, thereby isolating the utility from AEP Generation in AEP's corporate structure.

**3. Request for Approval of an Amendment to the Corporate Separation Plan to Reflect Structural Corporate Separation and the Merger of CSP into OPCo**

The Commission's Corporate Separation rules, set out in Section 4901:1-37-05, Ohio Admin. Code, require that the electric distribution utility's corporate separation plan include the following components:

- (1) Provisions that maintain structural safeguards.
- (2) Provisions that maintain separate accounting.
- (3) A list of all current affiliates identifying each affiliate's product(s) and/or service(s) that it provides.
- (4) A list identifying and describing the financial arrangements between the electric utility and all affiliates.
- (5) A code of conduct policy that complies with this chapter and that employees of the electric utility and affiliates must follow.
- (6) A description of any joint advertising and/or joint marketing activities between the electric utility and an affiliate that the electric utility intends to utilize, including when and where the name and logo of the electric

utility will be utilized, and explain how such activities will comply with this chapter.

- (7) Provisions related to maintaining a cost allocation manual (CAM).
- (8) A description and timeline of all planned education and training, throughout the holding company structure, to ensure that electric utility and affiliate employees know and can implement the policies and procedures of this rule. The information shall be maintained on the electric utility's public web site.
- (9) A copy of a policy statement to be signed by electric utility and affiliate employees who have access to any nonpublic electric utility information, which indicates that they are aware of, have read, and will follow all policies and procedures regarding limitation on the use of nonpublic electric utility information. The statement will include a provision stating that failure to observe these limitations will result in appropriate disciplinary action.
- (10) A description of the internal compliance monitoring procedures and the methods for corrective action for compliance with this chapter.
- (11) A designation of the electric utility's compliance officer who will be the contact for the commission and staff on corporate separation matters. The compliance officer shall certify that the approved corporate separation plan is up to date and in compliance with the commission's rules and orders. The electric utility shall notify the commission and the director of the utilities department (or their designee) of changes in the compliance officer.
- (12) A detailed description outlining how the electric utility and its affiliates will comply with this chapter. The format shall identify the provision and then provide the description.
- (13) A detailed listing of the electric utility's electric services and the electric utility's transmission and distribution affiliates' electric services.
- (14) A complaint procedure to address issues concerning compliance with this chapter, which, at a minimum, shall include the following:
  - (a) All complaints, whether written or verbal, shall be referred to the compliance officer designated by the electric utility to handle corporate separation matters or the compliance officer's designee.
  - (b) The complaint shall be acknowledged within five working days of its receipt.

- (c) A written statement of the complaint shall be prepared and include the name of the complainant, a detailed factual report of the complaint, all relevant dates, the entities involved, the employees involved, and the specific claim.
- (d) The results of the preliminary investigation shall be provided to the complainant in writing within thirty days after the complaint was received, including a description of any course of action that was taken.
- (e) The written statements of the complaints and resulting investigations required by paragraphs (B)(14)(c) and (B) (14) (d) of this rule shall be kept in the CAM, in accordance with rule 4901:1-37-08 of the Administrative Code for a period of not less than three years.
- (f) This complaint procedure shall not in any way limit the rights of any person to file a formal complaint with the commission.

In addition, the corporate separation plan must include a narrative describing how the corporate separation plan ensures competitive equality, prevents unfair competitive advantage, prohibits the abuse of market power and effectuates the policy of the state set out in Section 4928.02, Ohio Rev. Code.

The June 1, 2009 corporate separation plan submission by the Companies in Case No. 09-464-EL-UNC addressed and satisfied each requirement of the Commission's Corporate Separation rules, outlined above, and the Commission properly approved the Companies' plan in its June 2, 2010 Finding and Order in Case Nos. 09-464-EL-UNC. That plan, however, did not reflect the merger of CSP into OPCo or full, legal corporate separation because, at the time of the plan's submission and subsequent 2011 amendment, neither of these events had occurred. Consequently, pursuant to 4901:1-37-06, Ohio Admin. Code, OPCo submits amendments to its plan reflecting the existence of these items.



Accordingly, in compliance with the Commission's directive in Case No. 09-464-EL-UNC, OPCo submits for approval by the Commission the following amendments to its corporate separation plan to reflect the new generation structure described in section A above. The changes necessitated by the new structure and the merger are reflected in the attached redline of the existing corporate separation plan. Once FERC approves full, legal corporate separation, the Company, pursuant to the Corporate Separation Plan, will update the list of affiliates and corporate structure set forth in Exhibit 1 to its plan and its Cost Allocation Manual to add AEP Generation, remove CSP in recognition of its merger into OPCo and record any other accumulated changes in corporate structure.

The amended corporate separation plan also reflects a proposed wholesale power purchase by OPCo from AEP Generation from the closing of corporate separation until the date that power begins to be delivered under the auction of SSO service. As further described in the direct testimony of Mr. Nelson in modified ESP II, OPCO is proposing that there will be an auction-based competitive bidding process for the delivery period beginning January 1, 2015 for energy and a separate auction delivery beginning June 1, 2015 for both energy and capacity. Therefore, between the time of Corporate Separation and the delivery date of the January 1, 2015 SSO energy auction, AEP Generation will sell wholesale power to OPCo under a full requirements agreement to supply OPCo's non-shopping retail load (SSO Contract). The SSO Contract will allow OPCo to serve SSO customers, i.e., those OPCo retail customers that are not being served by a competitive retail electric service (CRES) provider. From January 1, 2015 through May 31, 2015, AEP Generation will provide capacity, but will no longer supply the energy for SSO customers, under the SSO Contract. Beginning June 1, 2015 both energy and

capacity will be provided through the SSO auction and therefore the SSO contract between AEP Generation and OPCo ends on that date.

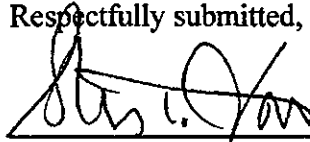
In order to clearly reflect these updates and corrections, OPCo is submitting two attachments: (1) Attachment A, a clean version of the revised Corporate Separation Plan for which OPCo requests approval through this application, and (2) Attachment B, which is a redlined version showing the changes made to the Corporate Separation Plan. In all other respects, the Company's plans remains the same as it was when submitted on June 1, 2009 and approved on June 2, 2010, in Case No. 09-464-EL-UNC, as amended in April 2011. These are the same amendments that the Commission reviewed and approved in Case No. 11-5333-EL-UNC.

#### **REQUEST FOR RELIEF**

Based on the information and exhibits submitted herewith, the Company requests that the Commission approve (1) its request for full legal corporate separation under R.C. 4928.17(A); (2) its request under Ohio Admin. Code Rule 4901:1-37-09 to transfer title, at net book value, to all of its generation assets out of OPCo and into AEP Generation; (3) its requests for waiver of

Ohio Admin. Code Rule 4901:1-37-09(C)(4) and (D); and (4) the above-described requests for amendments to its Corporate Separation Plan.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steven T. Nourse", is written over a horizontal line.

Steven T. Nourse

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Counsel for Ohio Power Company

**ATTACHMENT A**

**MODIFIED CORPORATE SEPARATION PLAN OF OHIO POWER COMPANY**

In accordance with the Commission's rules, AEP Ohio addresses each of the required topics.

**1. Provisions That Maintain Structural Safeguards.**

Certain Structural Safeguards are set out in §4901:1-37-04 (A) (1)-(6), Ohio Admin. Code. Those requirements and the Company's responses follow:

- (1) Each electric utility and its affiliates that provide services to customers within the electric utility's service territory shall function independently of each other.**

Response:

Except as permitted by the Commission's rules and Title 49, Ohio Rev. Code, the Company and its affiliates that provide services to customers within the Company's respective service territories function independently of each other.

- (2) Each electric utility and its affiliates that provide services to customers within the electric utility's service territory shall not share facilities and services if such sharing in any way violates paragraph (D) of this rule.**

Response:

To the extent the Company and an affiliate provide services to customers within the Company's respective service territories, such sharing complies with Paragraph (D) of this rule concerning Code of Conduct. See the Company's responses to the requirements of Paragraph (D).

- (3) Cross-subsidies between an electric utility and its affiliates are prohibited. An electric utility's operating employees and those of its affiliates shall function independently of each other.**

Response:

Under the cost allocation guidelines established in the Cost Allocation Manual, a policy statement is included noting that AEP's accounting and allocation

procedures for costs shall not result in any cross subsidization among affiliates and the Company reinforces and follows that policy. In addition, see the responses to (1) and (4) of this topic.

**(4) An electric utility may not share employees and/or facilities with any affiliate, if the sharing, in any way, violates paragraph (D) of this rule.**

Response:

The Company's employees work independently of those of its affiliates except for "shared employees" whose job duties and responsibilities are divided between either or both the Company and any affiliate which provides a competitive retail electric service and/or any affiliate which provides a non-electric product or service to customers.

**(5) An electric utility shall ensure that all shared employees appropriately record and charge their time based on fully allocated costs.**

Response:

AEP's time reporting system ensures that salary and salary-related costs are properly allocated by having employees charge their time to the appropriate accounting codes by company, based on the work they perform. AEP's policy is that all such charges are based on fully allocated costs.

**(6) Transactions made in accordance with rules, regulations, or service agreements approved by the federal energy regulatory commission, securities and exchange commission, and the commission, which rules the electric utility shall maintain in its cost allocation manual (CAM) and file with the commission, shall provide a rebuttable presumption of compliance with the costing principles contained in this chapter.**

Response:

The Company maintains in its CAM the rules or regulations approved by the Federal Energy Regulatory Commission and this Commission governing affiliated transactions.

**2. Provisions That Maintain Separate Accounting.**

Response:

Upon Ohio corporate separation, the Ohio generation business will be separated from the existing Ohio Power Company (OPCo) to form a new corporate entity, Ohio Generation (OG). The remaining OPCo business will consist primarily of OPCo's current distribution and transmission businesses. Separate general ledgers and supporting accounting records will be maintained for both OG and OPCo. With respect to OPCo, each of the Company's business units (transmission and distribution) will continue to maintain separate ledgers and supporting accounting records through the use of business unit codes and work orders.

Both the OG and OPCo's functional ledgers and accounting records will be maintained consistent with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts for the Companies' affiliates and are in accordance with Generally Accepted Accounting Principles.

All OPCo revenues will be collected by and recorded on OPCO's distribution ledger. To the extent OPCo purchases power from OG, OPCO's distribution ledger will record an affiliated purchased power expense. OG will record its applicable affiliated generation revenues from the sale of power to OPCo's distribution function. With

respect to transmission, OPCO's distribution ledger will record an affiliated transmission service expense and OPCO's transmission ledger will record affiliated transmission revenue. The FERC electric plant accounts and operating expense accounts are already functionalized with the exception of the Administrative and General (A&G) accounts. A&G expenses such as insurance, benefits, rents, etc. are directly assigned to the appropriate function. Other A&G expenses, billed from AEPSC, are directly assigned to the appropriate function wherever possible, and otherwise are allocated to each function based on FERC accepted allocation methodologies.

With respect to OPCo, with the exception of long-term debt, all liability accounts are functionally separated between transmission and distribution on a specific identification basis. Long-term debt accounts are allocated based on total net assets excluding capitalization of each function. Long-term debt and equity are issued on a total company corporate basis since the OPCO's transmission and distribution functions are owned and financed by a single legal entity and because the use of such funds cannot be specifically identified by function. Similarly, the use of equity capital raised by the OPCo cannot be specifically functionally identified and must be allocated. Earned equity, however, is identified by function.

**3. A List of All Current Affiliates Identifying Each Affiliate's Product(s) and/or Service(s) That it Provides.**

Response:



A list of the Company's affiliates, with a description of each affiliate, is attached to this application as Exhibit No. 1.

**4. A List Identifying and Describing the Financial Arrangements Between the Electric Utility and All Affiliates.**

**Response:**

The Company is financed as a vertically integrated utility and utilizes tax-exempt and taxable long-term debt as well as short-term debt for debt financing needs. The tax-exempt and taxable long-term bonds are issued by the Company in its name. The cash proceeds from those bonds are for the use of the entire business of the Company, as necessary.

The Company also funds cash needs through participation in the AEP Money Pool. The AEP Money Pool is financed by AEP through issuance of commercial paper. The Company borrows from the Money Pool when necessary to meet cash needs. The Company and AEP as a whole, benefit from the use of the Money Pool as AEP is able to borrow money more cost-effectively at the consolidated level as opposed to each individual subsidiary borrowing money when needed.

The Company has a financial relationship with AEP Generation to purchase wholesale power. Specifically, between the time of corporate separation and the delivery date of the January 1, 2015 SSO energy auction, AEP Generation will sell wholesale power to the Company under a full requirements agreement to supply the Company's non-shopping retail load (SSO Contract). The SSO Contract will allow

the Company to serve SSO customers, i.e., those retail customers that are not being served by a competitive retail electric service (CRES) provider. From January 1, 2015 through May 31, 2015 AEP Generation will provide capacity, but will no longer supply the energy for SSO customers, under the SSO Contract.

Further, §4901:1-37-04 (C) (1)-(6), Ohio Admin. Code, addresses certain requirements regarding financial arrangements. Those requirements and the Company's responses follow:

**(1) Any indebtedness incurred by an affiliate shall be without recourse to the electric utility.**

Response:

All indebtedness incurred by affiliates is currently without recourse to the Company.

It is the Company's intent that any future indebtedness incurred by an affiliate also be without recourse to the Company.

**(2) An electric utility shall not enter into any agreement with terms under which the electric utility is obligated to commit funds to maintain the financial viability of an affiliate.**

Response:

The Company currently is not under any agreement with terms under which it is obligated to commit funds to maintain the financial viability of an affiliate. It is the Company's intent not to enter into any agreement with terms under which it would be obligated to commit funds to maintain the financial viability of an affiliate.

**(3) An electric utility shall not make any investment in an affiliate under any circumstances in which the electric utility would be liable for the debts and/or liabilities of the affiliate incurred as a result of actions or omissions of an affiliate.**

Response:

The Company currently does not have any investments in an affiliate in which it is liable for the debts and/or liabilities of an affiliate incurred as a result of actions or omissions of an affiliate. It is the Company's intent not to make any future investments in an affiliate under any circumstances in which it would be liable for the debts and/or liabilities of the affiliate incurred as a result of actions or omissions of an affiliate.

- (4) An electric utility shall not issue any security for the purpose of financing the acquisition, ownership, or operation of an affiliate.**

Response:

The Company has issued no securities for the purpose of financing the acquisition, ownership, or operation of an affiliate. It is the Company's intent not to issue any security for the purpose of financing the acquisition, ownership, or operation of an affiliate.

- (5) An electric utility shall not assume any obligation or liability as a guarantor, endorser, surety, or otherwise with respect to any security of an affiliate.**

Response:

The Company has not assumed any obligation or liability as a guarantor, endorser, surety, or otherwise with respect to any security of an affiliate. It is the Company's intent not to assume any obligation or liability as a guarantor, endorser, surety, or otherwise with respect to any security of an affiliate.

- (6) An electric utility shall not pledge, mortgage, or use as collateral any assets of the electric utility for the benefit of an affiliate.**

Response:

The Company has not pledged, mortgaged, or used as collateral any of their assets for the benefit of an affiliate. It is the Company's intent not to pledge, mortgage, or use as collateral any of their assets for the benefit of an affiliate.

**5. A Code of Conduct Policy that Complies With This Chapter and That Employees of the Electric Utility and Affiliates Must Follow.**

Response:

Certain Code of Conduct requirements are set out in §4901:1-37-04 (D) (1)-(11), Ohio Admin. Code. Those requirements and the Company's responses follow.

- (1) The electric utility shall not release any proprietary customer information (e.g., individual customer load profiles or billing histories) to an affiliate, or otherwise, without the prior authorization of the customer, except as required by a regulatory agency or court of law.**

Response:

The Company does not release any proprietary customer information to an affiliate or any external party, without the prior authorization of the customer, except as required by a regulatory agency or court of law. An example of this exception is detailed in the response to (2) below. The Company makes available on its website (AEPOHIO.com) the approved format and minimum information required on an authorization to release customer information to anyone other than the customer. This authorization must be signed by the customer.

The Company's employees have received training to understand the Company's corporate separation rules including the Code of Conduct. Additional details on this training and other educational efforts are addressed in the response to §4901:1-37-05 (B) (8), Ohio Admin. Code, concerning education and training.

- (2) On or after the effective date of this chapter, the electric utility shall make customer lists, which include name, address, and telephone number, available on a nondiscriminatory basis to all nonaffiliated and affiliated certified retail electric service providers transacting business in its service territory, unless otherwise directed by the customer. This provision does not apply to customer-specific information, obtained with proper authorization, necessary to fulfill the terms of a contract, or information relating to the provision of general and administrative support services. This information shall not be used by the certified retail electric providers for any other purpose than the marketing of electric service to the customer.**

Response:

The Company produces and makes available quarterly, a pre-enrollment list of customers, including name, address, and telephone number in addition to other data as defined in the Pro Forma Certified Supplier Tariff, to any Retail Electric Service Provider, Aggregator, or Market Broker which has been fully certified by the Public Utilities Commission of Ohio.

Customers are notified on a bill insert, sent to them a minimum of four times a year, of their option to opt off the pre-enrollment list. Information on this opt-off option is also included in the Company's Customer Handbook. The customer can make this election via the Company's website (AEPOHIO.com), by calling the Company's customer service number, or by mailing their request to the Company at any time. Customers may also elect to opt in, and then be included on the pre-enrollment list after previously selecting the opt-off election.

- (3) Employees of the electric utility's affiliates shall not have access to any information about the electric utility's transmission or distribution systems (e.g., system operations, capability, price, curtailments, and ancillary services) that is not contemporaneously available, readily accessible, and in the same form and manner available to nonaffiliated competitors providing retail electric service.**

Response:

The Company has an established Corporate Information Security Policy coupled with a Security Monitoring and Logging Standard to monitor, log and audit the effectiveness of and compliance with security measures. This policy requires that information is accessible only to authorized users as determined by operation and business need.

The Company's information system assets has an assigned owner with responsibility to authorize and approve access to the information system asset by individual user, specify data security control requirements, and ensure compliance with these applicable controls. The system monitoring and logging is designed to recognize behavior outside the scope of normal business operations or deviations from normal activities. This standard focuses on minimizing potential exposure that may result from unauthorized use of the Company's electronic information resources. It also ensures the effectiveness of information security controls in protecting the confidentiality, integrity, and availability of the Company's information assets. Further, this standard aligns the Company with the International Standards Organization (ISO 17799) and the Sarbanes-Oxley Act. Additional information is

provided in response to §4901:1-37-05 (B) (10), Ohio Admin. Code, concerning internal compliance monitoring.

The data owners, as well as individual system users have received training to understand the Company's Corporate Separation Rules including the Code of Conduct. Additional details on this training and other educational efforts are addressed in the response to §4901:1-37-05 (B) (8), Ohio Admin. Code, regarding education and training.

**(4)An electric utility shall treat as confidential all information obtained from a competitive retail electric service provider, both affiliated and nonaffiliated, and shall not release such information, unless a competitive retail electric service provider provides authorization to do so or unless the information was or thereafter becomes available to the public other than as a result of disclosure by the electric utility.**

Response:

The Company treats as confidential any information obtained from a competitive supplier of retail electric service, whether affiliated or non-affiliated, and do not release such information unless: 1) the competitive supplier authorizes them to do so; 2) it is required by a regulatory agency; 3) it is ordered by a court of law; or 4) it is already available as public information other than as a result of disclosure by the Company.

**(5) The electric utility shall not tie (or allow an affiliate to tie), as defined by state and federal antitrust laws, or otherwise condition the provision of the electric utility's regulated services, discounts, rebates, fee waivers, or any other waivers of the electric utility's ordinary terms and conditions of**

**service, including but not limited to tariff provisions, to the taking of any goods and/or services from the electric utility's affiliates.**

Response:

The Company and its affiliates do not tie or otherwise condition the provision of the Company's services, discounts, rebates, fee waivers or any other waivers of the Company's ordinary terms and conditions of service, including but not limited to tariff provisions, to the taking of any goods and/or services from such affiliates.

- (6) The electric utility shall ensure effective competition in the provision of retail electric service by avoiding anticompetitive subsidies flowing from a noncompetitive retail electric service to a competitive retail electric service or to a product or service other than retail electric service, and vice versa.**

Response:

The Company does not provide anticompetitive subsidies from a noncompetitive retail electric service to a competitive retail electric service or to a product or service other than retail electric service, or vice versa.

- (7) The electric utility, upon request from a customer, shall provide a complete list of all competitive retail electric service providers operating on the system, but shall not endorse any competitive retail electric service providers, indicate that an electric services company is an affiliate, or indicate that any competitive retail electric service provider will receive preference because of an affiliate relationship.**

Response:

The Company, upon request from a customer, will provide to the customer a toll-free telephone number and the address of an internet web site where the customer can access a list of certified competitive retail electric service suppliers maintained by



the Commission. The Company does not endorse any suppliers, nor indicate that any supplier is an affiliate, nor indicate that any supplier will receive a preference because of an affiliate relationship.

- (8) The electric utility shall use reasonable efforts to ensure retail electric service consumers protection against unreasonable sales practices, market deficiencies, and market power and the electric utility's compliance officer shall promptly report any such unreasonable sales practices, market deficiencies, and market power to the director of the utilities department (or their designee).**

Response:

The training and education efforts discussed in more detail in response to §4901:1-37-05 (B) (8), Ohio Admin. Code, give employees guidance in understanding the Code of Conduct in its entirety, as well as helping them to apply the concepts in their everyday work. Additionally, the topic of consumer protection and confidentiality is periodically covered with employees in Customer Service department meetings.

The Director, Ethics & Compliance promptly reports any such unreasonable sales practices, market deficiencies, and market power to the director of the utilities department (or their designee).

- (9) Employees of the electric utility or persons representing the electric utility shall not indicate a preference for an affiliated electric services company.**

Response:

Neither the Company nor its employees endorse any suppliers nor indicate that any supplier will receive a preference because of an affiliate relationship.

- (10) The electric utility shall provide comparable access to products and services related to tariffed products and services and specifically comply with the following:**

**Response:**

The Company provides comparable access to tariffed products and services.

- (a) An electric utility shall be prohibited from unduly discriminating in the offering of its products and/or services.**

**Response:**

The Company does not unduly discriminate in the offering of its tariffed products and/or services.

- (b) The electric utility shall apply all tariff provisions in the same manner to the same or similarly situated entities, regardless of any affiliation or nonaffiliation.**

**Response:**

The Company applies all tariff provisions in the same manner to the same or similarly situated entities, regardless of any affiliation or non-affiliation.

- (c) The electric utility shall not, through a tariff provision, a contract, or otherwise, give its affiliates or customers of affiliates preferential treatment or advantages over nonaffiliated competitors of retail electric service or their customers in matters relating to any product and/or service.**

**Response:**

The Company does not, through a tariff provision, a contract, or otherwise, give its affiliates or customers of its affiliates preference over nonaffiliated

competitors of retail electric service or its customers in matters relating to any tariffed product and/or service.

**(d) The electric utility shall strictly follow all tariff provisions.**

Response:

The Company strictly follows all tariff provisions. To the extent the Company exercises discretion in the strict application of a tariff provision, it is to accommodate a specific customer request unrelated to any competitive consideration.

**(e) Except to the extent allowed by any applicable law, regulation, or commission order, the electric utility shall not be permitted to provide discounts, rebates, or fee waivers for any retail electric service.**

Response:

Except to the extent allowed by state law, the Company does not provide discounts, rebates, or fee waivers for any retail electric service.

**(11) Shared representatives or shared employees of the electric utility and affiliated electric services company shall clearly disclose upon whose behalf their public representations are being made when such representations concern the entity's provision of electric services.**

Response:

Shared representatives or shared employees of the Company and its affiliates clearly disclose upon whose behalf their public representations are being made when such representations concern the entity's provision of electric services.

**6. A Description of Any Joint Advertising and/or Joint Marketing Activities Between the Electric Utility and an Affiliate That the Electric Utility Intends to Utilize, Including When and Where the Name and Logo of the Electric Utility Will be Utilized, and Explain How Such Activities Will Comply With This Chapter.**

Response:

The Company promotes key safety messages to its customers under the AEP Ohio logo. These advertisements and promotions will be featured in various media outlets, including print, television and radio, and will continue to focus on prevention of public electrical contact. In addition, the Company plans to conduct a joint advertising and marketing campaign under the AEP Ohio logo promoting general education of energy efficiency and demand reduction. This campaign is designed to build customer awareness of energy efficiency programs and tips, as well as to promote behavioral changes that can help customers use energy in their home and business more efficiently. The Company does not plan to engage in any joint advertising or marketing with any competitive affiliate, including AEP Generation and AEP Retail Energy.

**7. Provisions Related to Maintaining a Cost Allocation Manual (CAM).**

Certain Cost Allocation Manual (CAM) requirements are set out in §4901:1-37-08 (A)-(J), Ohio Admin. Code. Those requirements and the Companies' responses follows:

- (A) Each electric utility that receives products and/or services from an affiliate and/or that provides products and/or services to an affiliate shall maintain information in the CAM, documenting how costs are allocated between the electric utility and affiliates and the regulated and nonregulated operations.**

Response:

AEP maintains a CAM that explains how costs are allocated between regulated and non-regulated operations. The CAM is arranged by tab, section and subject. The CAM includes a table of contents and an alphabetical subject index. A separate tab is used to list and identify all documents included in the CAM by reference. Each subject in the manual begins with a brief summary.

**(B) The CAM will be maintained by the electric utility.**

Response:

AEP maintains a single CAM on behalf of the Company and all other electric utility affiliates of AEP. Company-specific information is clearly noted. To the extent that a state commission's CAM requirements are different from those of another commission, only the material pertinent to a particular commission is considered to be part of the CAM for that commission.

**(C) The CAM is intended to ensure the commission that no cross-subsidization is occurring between the electric utility and its affiliates.**

Response:

The cost allocation guidelines included in the CAM include the following policy statement: "AEP's cost accounting and cost allocation methods or procedures shall not result in any cost subsidies among or between regulated and non-regulated operations." The information included in the CAM is useful in evaluating cross-subsidization risks.

**(D) The CAM will include:**

- (1) An organization chart of the holding company, depicting all affiliates, as well as a description of activities in which the affiliates are involved.**

Response:

The prescribed organization chart is included in the CAM. The description of activities will identify the general business purpose of each affiliate.

- (2) A description of all assets, services, and products provided to and from the electric utility and its affiliates.**

Response:

The required descriptions identify the types of assets, products and services provided to and from the Companies and their affiliates.

- (3) All documentation including written agreements, accounting bulletins, procedures, work order manuals, or related documents, which govern how costs are allocated between affiliates.**

Response:

The CAM includes the documents specified in the rule. Where such documents are voluminous, subject to frequent change, maintained in areas of the corporate organization other than the corporate accounting department and/or do not specifically address cost allocation and related accounting practices, the CAM incorporates such documents by reference. A clear trail is maintained to enable an auditor to request and review such documents. The group(s) or individual(s) responsible for maintaining the items that are incorporated in the CAM by reference under §4901:1-37-08 (D) (1)-(9), Ohio Admin. Code, is identified in the CAM.

**(4) A copy of the job description of each shared employee.**

Response:

The required job descriptions are appended to the CAM by reference. AEPSC's Human Resources Department, working with the various business units, prepares and maintains the required job descriptions.

**(5) A list of names and job summaries for shared consultants and shared independent contractors.**

Response:

The required list is appended to the CAM by reference. AEPSC's Human Resources Department, working with the various business units, prepares and maintains the list for "shared employees", including any shared consultants and shared independent contractors.

**(6) A copy of all transferred employees' (from the electric utility to an affiliate or vice versa) previous and new job descriptions.**

Response:

The required list is appended to the CAM by reference. AEPSC's Human Resources Department, working with the various business units, prepares and maintains the list for "transferred employees."

**(7) A log detailing each instance in which the electric utility exercised discretion in the application of its tariff provisions.**

Response:

To the extent the Company exercises discretion in the application of a tariff provision, it is to accommodate a specific customer request unrelated to any

competitive consideration. The Company will maintain a log detailing any other instances in which it exercised discretion in the application of tariff provisions.

**(8) A log of all complaints brought to the electric utility regarding this chapter.**

Response:

The complaint log is incorporated in the CAM by reference.

**(9) A copy of the minutes of each board of directors meeting, where it shall be maintained for a minimum of three years.**

Response:

Copies of the board of director's minutes are incorporated in the CAM by reference.

**(E) The method for charging costs and transferring assets shall be based on fully allocated costs.**

Response:

The formal guidelines in the CAM include the following policy statement:

"Unless otherwise exempted, the AEP companies allocate costs between regulated and non-regulated operations, on a fully-distributed cost basis. Fully-distributed costs include all direct costs plus an appropriate share of indirect costs."

**(F) The costs should be traceable to the books of the applicable corporate entity.**

Response:

The formal guidelines in the CAM include the following policy statement:

"Proper audit trails are maintained so that costs can be traced through the applicable accounting and billing systems."



- (G) The electric utility and affiliates shall maintain all underlying affiliate transaction information for a minimum of three years.**

Response:

Minimum retention requirements are documented in the CAM or are incorporated by reference. In no case is the retention requirement less than three years.

- (H) Following approval of a corporate separation plan, an electric utility shall provide the director of the utilities department (or their designee) with a summary of any changes in the CAM at least every twelve months.**

Response:

The CAM is updated semi-annually. A summary of changes to the CAM, including changes to the documents incorporated by reference, is provided to the Director of the Utilities Department of the Commission every six months.

- (I) The compliance officer designated by the electric utility will act as the contact for the staff when staff seeks data regarding affiliate transactions, personnel transfers, and the sharing of employees.**

Response:

The Company has provided the name of the primary contact. The names of alternative contacts may be provided based on the subject matter and nature of the inquiry. The Company will update the Commission of changes in the contact person(s).

- (J) The staff may perform an audit of the CAM in order to ensure compliance with this rule.**

Response:

The Company will assist the Staff in any audit of the CAM which the Staff may perform.

**8. A Description and Timeline of All Planned Education and Training, Throughout the Holding Company Structure, to Ensure That Electric Utility and Affiliate Employees Know and Can Implement the Policies and Procedures of This Rule. The Information Shall be Maintained on the Electric Utility's Public Web Site.**

Response:

AEPSC's Office of Ethics & Compliance (E&C) has developed training to educate employees and to ensure compliance with the portions of Chapter §4928, Ohio Rev. Code, and Commission regulations regarding corporate separation.

- ◆ All affected newly hired or transferred employees are required to complete this training within 120 days of employment.
- ◆ Refresher training is performed as needed; need being determined by collaboration between E&C and the relevant business unit management.

The Company's training materials are provided in Exhibit Nos. 2A-2C. The materials include: Ohio Corporate Separation Rules, Including the Code of Conduct (Exhibit No. 2 A); a DVD which is viewed (Rules of the Road, Ohio Code of Conduct Exhibit No. 2 B); and the Employee Acknowledgement Form (Exhibit No. 2 C).

All AEP Ohio employees, as well as all AEPSC employees located in Ohio, are required to take the Ohio Rules of the Road training. When employees begin employment in Ohio, or are transferred to Ohio from another AEP location, they are notified through AEP's electronic learning management system that they are required to complete the Ohio Rules of the Road training. The employees are given instructions on how to log into the system and find the course and are given 120 days in which to complete the training. The employees are sent weekly reminders about the need to take the training until the training is completed. A description and timeline of all planned education and training will be maintained on the Company's public web site--AEP.com.

9. **A Copy of a Policy Statement to be Signed by Electric Utility and Affiliate Employees Who Have Access to Any Nonpublic Electric Utility Information, Which Indicates That They Are Aware of, Have Read, and Will Follow all Policies and Procedures Regarding Limitation on the Use of Nonpublic Electric Utility Information. The Statement Will Include a Provision Stating That Failure to Observe These Limitations Will Result in Appropriate Disciplinary Action.**

Response:

All affected employees sign a register or acknowledge by verifiable electronic means that they have received such training. See Exhibit No. 2 C.

10. **A Description of the Internal Compliance Monitoring Procedures and the Methods for**

### **Corrective Action for Compliance With This Chapter.**

#### **Response:**

The AEPSC Audit Services Department has responsibility for monitoring compliance with the corporate separation rules. The primary areas to be periodically reviewed are:

#### **Corporate Structure**

- Review whether affiliates providing a competitive retail electric service or a non-electric product or service are, in fact, “separate corporate entities” from the utility.
- Review whether any shared employees have caused any violations of the Code of Conduct, whether the CAM is properly maintained, and costs are properly allocated.
- Review whether any shared facilities have caused violations of the Code of Conduct.

#### **Separate Accounting**

- Review whether the utility and its affiliates are, in fact, maintaining separate books, records and accounts, as required by §4901:1-37-04 (B), Ohio Admin. Code.

#### **Financial Arrangements**

- Review the adequacy and effectiveness of controls relative to financial arrangements, such that violations of the Commission's rules in §4901-1-37-04 (C), Ohio Admin. Code, are prevented.

#### Information Safeguards

- Review the adequacy and effectiveness of controls in place to prevent the improper disclosure of proprietary customer information. See §4901:1-37-04 (D) (1), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent the improper disclosure of the Company's transmission and distribution information. See §4901:1-37-04 (D) (3), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent the improper disclosure of information obtained from a competitive retail electric service supplier – affiliated or nonaffiliated. See §4901:1-37-04 (D) (4), Ohio Admin. Code.

#### Marketing Practices

- Review the adequacy and effectiveness of controls in place to prevent tying arrangements between the Company's goods and services and those of the affiliate. See 4901:1-37-04 (D) (5), Ohio Admin. Code.

- Review the adequacy and effectiveness of controls in place to identify joint marketing arrangements. See §4901:1-37-05 (B) (6), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent any improper supplier endorsements, withholding of supplier lists, or indications of preference. See §4901:1-37-04 (D) (7), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent the improper use of the Company's name and/or logo and other prohibited actions. See §4901:1-37-05 (B) (6), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent violations of the Code of Conduct, regarding comparable access to tariffed products and services. See §4901:1-37-04 (D) (10), Ohio Admin. Code.

#### Complaint Procedure

- Review the adequacy and effectiveness of controls in place to prevent complaints registered about compliance with the corporate separation rules from being mishandled or being addressed in a way that varies from the procedures described in §4901:1-37-05 (B) (14) (a)-(f), Ohio Admin. Code.

#### Cost Allocation Manual (CAM)

Review the adequacy and effectiveness of controls in place to prevent violations of the CAM rules as defined in §4901:1-37-08.

Ohio Admin. Code. This includes:

- Reviewing whether the Company and its affiliates provide the proper information to the CAM.
- Reviewing whether the CAM is properly set up and maintained – i.e., complies with the requirements detailed in the Cost Allocation Manual section.
- Reviewing whether the method for charging costs and transferring assets is based on fully allocated costs, and whether such costs are traceable to the books of the applicable corporate entity, in accordance with the CAM.
- Reviewing whether affiliate transaction information is maintained as specified in the Cost Allocation Manual section.
- Reviewing whether changes to the CAM are forwarded to the Director of the Utilities Department of the Commission at least every twelve months.
- Reviewing whether the Company designated a Commission Staff contact person, and if changed, such changes have been communicated to the Commission in accordance with the Cost Allocation Manual section.

**11. A Designation of the Electric Utility's  
Compliance Officer Who Will Be the Contact**

**For the Commission and Staff on Corporate Separation Matters. The Compliance Officer Shall Certify That the Approved Corporate Separation Plan is Up to Date and in Compliance With the Commission's Rules and Orders. The Electric Utility Shall Notify the Commission and the Director of the Utilities Department (or Their Designee) of Changes in the Compliance Officer.**

**Response:**

The Company has appointed AEPSC's Vice President and Chief Compliance Officer as its Chief Compliance Officer. The Chief Compliance Officer oversees compliance with the portions of Chapter 4928, Ohio Rev. Code, and Commission regulations regarding corporate separation and to serve as the primary contact for the Commission and staff regarding corporate separation issues.

The Chief Compliance Officer is Sandra K. Williams. Ms. Williams may be contacted by email at [swilliams@aep.com](mailto:swilliams@aep.com) and by telephone at (614) 716-2037. The Companies will notify the Commission and the director of the utilities department, or their designee, if there is a change in the Chief Compliance Officer. Attached as Exhibit No. 3 is the required certification that the Companies' proposed Corporate Separation Plan complies with the Commission's rules and orders.

- 12. A Detailed Description Outlining How the Electric Utility and its Affiliates Will Comply With This Chapter. The Format Shall Identify the Provision and Then Provide the Description.**

**Response:**



This Application provides the Company's detailed description outlining how the Company and its affiliates will comply with Chapter 4901:1-37, Ohio Admin. Code.

**13. A Detailed Listing of the Electric Utility's Electric Services and the Electric Utility's Transmission and Distribution Affiliates' Electric Services.**

Response:

The Company will be corporately separated. As a structurally separated electric utility, the Company provides transmission and distribution services, as well as SSO generation service and other services as approved by the Commission from time-to-time, to its customers.

**14. A Complaint Procedure to Address Issues Concerning Compliance With This Chapter, Which, at a Minimum, Shall Include the Following:**

(a) All complaints, whether written or verbal, shall be referred to the compliance officer designated by the electric utility to handle corporate separation matters or the compliance officer's designee.

(b) The complaint shall be acknowledged within five working days of its receipt.

(c) A written statement of the complaint shall be prepared and include the name of the complainant, a detailed factual report of the complaint, all relevant dates, the entities involved, the employees involved, and the specific claim.

(d) The results of the preliminary investigation shall be provided to the complainant in writing within thirty days after the complaint was received, including a description of any course of action that was taken.

**(e) The written statements of the complaints and resulting investigations required by paragraphs (B)(14)(c) and (B) (14) (d) of this rule shall be kept in the CAM, in accordance with rule 4901:1-37-08 of the Administrative Code for a period of not less than three years.**

**(f) This complaint procedure shall not in any way limit the rights of any person to file a formal complaint with the commission.**

**Response:**

The training and education efforts provide all applicable employees guidance in understanding the complaint procedure. The training and education efforts also provide that complaints regarding compliance with Chapter 4901:1-37, Ohio Admin. Code, shall be referred to the Director, Ethics & Compliance. The Director, Ethics & Compliance shall follow the procedures for handling such complaints set forth in the rule. A record of such complaints will be incorporated in the CAM in the manner described herein and will be maintained for a period of not less than three years.

**ADDITIONAL NARRATIVE**

The Commission's rules concerning corporate separation are themselves intended to promote competitive equality, protect against unfair competitive advantage and abuse of market power, and effectuate the policy of the state set out in §4928.02, Ohio Rev. Code. By submitting Corporate Separation Plans which conform to those rules and which are consistent with §§4928.17 and 4928.18, Ohio Rev. Code, the Company's Plan also support these goals and policies.

The Company's structural safeguards include the independent functioning of the Company and its affiliates in a manner which is consistent with the Commission's Code of Conduct and which rejects cross subsidization. The Company's accounting protocols, approach to financial arrangements, adherence to the Cost Allocation Manual requirements, employee education and training and internal compliance monitoring all have the effect of supporting the goals and policies.

In supporting the goals and policies, the Company's Corporate Separation Plan helps effectuate the policy of the state set out in §4928.02, Ohio Rev. Code. The availability of nondiscriminatory retail electric service (§4928.02 (A), Ohio Rev. Code) is supported by the structural corporate separation of competitive retail electric service, and supplying a product or service other than retail electric service, from noncompetitive retail electric service, including adherence to the code of conduct, separate accounting, and proper financial arrangements.

Adhering to the Commission's rules and the applicable statutory provisions through the Corporate Separation Plan also supports: the availability of unbundled and comparable retail electric service which in turn provides consumers with a variety of options to meet their service needs (§4928.02 (B), Ohio Rev. Code); diversity of electricity supplies and suppliers (§4928.02 (C), Ohio Rev. Code); market access for cost-effective retail electric service (§4928.02(D), Ohio Rev. Code); cost-effective and efficient access to information regarding operation of the transmission and distribution systems, so as to promote customer choice (§4928.02 (E), Ohio Rev. Code); the availability of the Company's transmission and distribution systems to customer-generators and owners of distributed generation (§4928.02 (F), Ohio Rev. Code); the

emergence of competitive electricity markets (§4928.02 (G), Ohio Rev. Code); effective competition in providing retail electric service by avoiding anticompetitive subsidies (§4928.01 (H), Ohio Rev. Code); and protections against unreasonable sales practices, market deficiencies and market power (§4928.02 (I), Ohio Rev. Code). By furthering all of these policies the state's effectiveness in the global economy will be facilitated (§4928.02 (N), Ohio Rev. Code).

COLUMBUS/1603287v.2

**ATTACHMENT B**

**MODIFIED CORPORATE SEPARATION PLAN OF OHIO POWER COMPANY**

**(REDLINE)**

In accordance with the Commission's rules, AEP Ohio addresses each of the required topics.

**1. Provisions That Maintain Structural Safeguards.**

Certain Structural Safeguards are set out in §4901:1-37-04 (A) (1)-(6), Ohio Admin. Code. Those requirements and the Company's<sup>2</sup> responses follow:

- (1) Each electric utility and its affiliates that provide services to customers within the electric utility's service territory shall function independently of each other.**

Response:

Except as permitted by the Commission's rules and Title 49, Ohio Rev. Code, the ~~Companies~~ Company and their ~~its~~ affiliates that provide services to customers within the Company's<sup>2</sup> respective service territories function independently of each other.

- (2) Each electric utility and its affiliates that provide services to customers within the electric utility's service territory shall not share facilities and services if such sharing in any way violates paragraph (D) of this rule.**

Response:

To the extent the ~~Companies~~ Company and an affiliate provide services to customers within the Company's~~Companies'~~ respective service territories, such sharing complies

with Paragraph (D) of this rule concerning Code of Conduct. See the

Company's~~Companies'~~ responses to the requirements of Paragraph (D).

- (3) Cross-subsidies between an electric utility and its affiliates are prohibited. An electric utility's operating employees and those of its affiliates shall function independently of each other.**

Response:

Under the cost allocation guidelines established in the Cost Allocation Manual,

a policy statement is included noting that AEP's accounting and allocation procedures for costs shall not result in any cross subsidization among affiliates and the Company~~Companies~~ reinforces and follows that policy. In addition, see the responses to (1) and (4) of this topic.

**(4) An electric utility may not share employees and/or facilities with any affiliate, if the sharing, in any way, violates paragraph (D) of this rule.**

Response:

The Company's ~~Companies'~~ employees work independently of those of their its affiliates

except for "shared employees" whose job duties and responsibilities are divided between either or both ~~Companies~~ the Company and any affiliate which provides a competitive retail electric service and/or any affiliate which provides a non-electric product or service to customers.

**(5) An electric utility shall ensure that all shared employees appropriately record and charge their time based on fully allocated costs.**

Response:

AEP's time reporting system ensures that salary and salary-related costs are properly allocated by having employees charge their time to the appropriate accounting codes by company, based on the work they perform. AEP's policy is that all such charges are based on fully allocated costs.

**(6) Transactions made in accordance with rules, regulations, or service agreements approved by the federal energy regulatory commission,**

securities and exchange commission, and the commission, which rules the electric utility shall maintain in its cost allocation manual (CAM) and file with the commission, shall provide a rebuttable presumption of compliance with the costing principles contained in this chapter.

Response:

The ~~Company~~~~Companies~~ maintains in their ~~its~~ CAM the rules or regulations approved by the Federal Energy Regulatory Commission, ~~Securities and Exchange Commission~~ and this Commission governing affiliated transactions.

**2. Provisions That Maintain Separate Accounting.**

Response:

Upon Ohio corporate separation, the Ohio generation business will be separated from the existing Ohio Power Company (OPCo) to form a new corporate entity, Ohio Generation (OG). The remaining OPCo business will consist primarily of OPCo's current distribution and transmission businesses. Separate general ledgers and supporting accounting records will be maintained for both OG and OPCo. With respect to OPCo, each of the Company's business units (transmission and distribution) will continue to maintain separate ledgers and supporting accounting records through the use of business unit codes and work orders.

Both the OG and OPCo's functional ledgers and accounting records will be maintained consistent with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts for the Companies' affiliates and are in accordance with Generally Accepted Accounting Principles.

All OPCo revenues will be collected by and recorded on OPCO's distribution ledger. To the extent OPCo purchases power from OG, OPCO's distribution ledger will



record an affiliated purchased power expense. OG will record its applicable affiliated generation revenues from the sale of power to OPCo's distribution function. With respect to transmission, OPCO's distribution ledger will record an affiliated transmission service expense and OPCO's transmission ledger will record affiliated transmission revenue. The FERC electric plant accounts and operating expense accounts are already functionalized with the exception of the Administrative and General (A&G) accounts. A&G expenses such as insurance, benefits, rents, etc. are directly assigned to the appropriate function. Other A&G expenses, billed from AEPSC, are directly assigned to the appropriate function wherever possible, and otherwise are allocated to each function based on FERC accepted allocation methodologies.

With respect to OPCo, with the exception of long-term debt, all liability accounts are functionally separated between transmission and distribution on a specific identification basis. Long-term debt accounts are allocated based on total net assets excluding capitalization of each function. Long-term debt and equity are issued on a total company corporate basis since the OPCO's transmission and distribution functions are owned and financed by a single legal entity and because the use of such funds cannot be specifically identified by function. Similarly, the use of equity capital raised by the OPCo cannot be specifically functionally identified and must be allocated. Earned equity, however, is identified by function.

~~Separate general ledgers and supporting accounting records are maintained for each of the Companies' business units or functions (generation, transmission and distribution) through the use of business unit codes and work orders which identify the appropriate functional general ledgers of the Companies on which to record an~~

~~expenditure. The separate functional general ledgers and accounting records are maintained consistent with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts for the Companies' affiliates and are in accordance with Generally Accepted Accounting Principles.~~

~~All revenues which have been unbundled are collected by and recorded on the distribution ledger and offset by a purchase power expense in the amount of the generation revenues and a transmission service expense in the amount of the transmission revenues on the ledger of the distribution function. The funds from such revenues are transferred through inter-company payable and receivable accounts to the generation ledger and transmission ledger, respectively, with the generation function recording on its ledger its unbundled generation revenues from the sale of power to the distribution function and with the transmission function recording on its ledger its unbundled transmission service revenues from the provision of transmission service to the distribution function. The FERC electric plant accounts and operating expense accounts are already functionalized with the exception of the Administrative and General (A&G) accounts. However, AEPSC identifies A&G expenses billed to the Companies by function and other A&G expenses, such as insurance, benefits, rents, etc. are direct charged to the appropriate function wherever possible.~~

~~All liability accounts are functionally separated on a specific identification basis, other than long term debt accounts, which are allocated based on total net assets excluding capitalization of each function. Long term debt and equity are issued on a~~

~~total company corporate basis since CSP's and OP's transmission, distribution and generation functions are owned and financed by a single legal entity and because the use of such funds cannot be specifically identified by function. Similarly, the use of equity capital raised by the Companies cannot be specifically functionally identified and must be allocated. Earned equity, however, is identified by function.~~

**3. A List of All Current Affiliates Identifying Each Affiliate's Product(s) and/or Service(s) That it Provides.**

Response:

~~As identified at the outset of this application, CSP and OP are affiliates of one another, as well as of the other AEP electric utility operating companies listed in footnote 1. A list of the Company's Companies' affiliates, with a description of each affiliate, is attached to this application as Exhibit No. 1.~~

**4. A List Identifying and Describing the Financial Arrangements Between the Electric Utility and All Affiliates.**

Response:

~~The Companies Company are is both~~ financed as a vertically integrated utilities ~~based upon the total cash needs for each Company. The Companies and~~ utilizes tax-exempt and taxable long-term debt as well as short-term debt for debt financing needs. The tax-exempt and taxable long-term bonds are issued by ~~CSP and OP the Company in its name~~ in the name of the respective utility. The cash proceeds from those bonds are for the use of the entire business of the Company, (e.g., generation, transmission and distribution needs) as necessary. ~~In addition, AEP also has loaned~~

~~money to each Company for use by the Company as needed. OP currently has a note to AEP outstanding of \$200 million and CSP has a note to AEP outstanding of \$100 million~~

The ~~Companies~~ Company also funds cash needs through participation in the AEP Money Ppool. The AEP Money Ppool is financed by AEP through issuance of commercial paper. The ~~utility businesses for each Company (e.g., generation, transmission, distribution)~~ borrows from the Money Ppool when necessary to meet cash needs. The ~~Companies~~ Company, and AEP as a whole, benefit from the use of the Money Ppool as AEP is able to borrow money more cost-effectively at the consolidated level as opposed to each individual subsidiary borrowing money when needed.

The Company has a financial relationship with AEP Generation to purchase wholesale power. Specifically, between the time of corporate separation and the delivery date of the January 1, 2015 SSO energy auction, AEP Generation will sell wholesale power to the Company under a full requirements agreement to supply the Company's non-shopping retail load (SSO Contract). The SSO Contract will allow the Company to serve SSO customers, i.e., those retail customers that are not being served by a competitive retail electric service (CRES) provider. From January 1, 2015 through May 31, 2015 AEP Generation will provide capacity, but will no longer supply the energy for SSO customers, under the SSO Contract.

Further, §4901:1-37-04 (C) (1)-(6), Ohio Admin. Code, addresses certain requirements regarding financial arrangements. Those requirements and the Company's~~Companies'~~ responses follow:

**(1) Any indebtedness incurred by an affiliate shall be without recourse to the electric utility.**

Response:

All indebtedness incurred by affiliates is currently without recourse to ~~either the~~ the Company. It is the Company's~~Companies'~~ intent that any future indebtedness incurred by an affiliate also be without recourse to ~~either the~~ the Company.

**(2) An electric utility shall not enter into any agreement with terms under which the electric utility is obligated to commit funds to maintain the financial viability of an affiliate.**

Response:

The Company~~Companies~~ currently ~~are~~is not under any agreement with terms under which ~~they are~~it is obligated to commit funds to maintain the financial viability of an affiliate. It is the Company's~~Companies'~~ intent not to enter into any agreement with terms under which ~~they~~it would be obligated to commit funds to maintain the financial viability of an affiliate.

**(3) An electric utility shall not make any investment in an affiliate under any circumstances in which the electric utility would be liable for the debts and/or liabilities of the affiliate incurred as a result of actions or omissions of an affiliate.**

Response:

The Company~~Companies~~ currently ~~does~~do not have any investments in an affiliate in which ~~they~~it ~~are~~is liable for the debts and/or liabilities of an affiliate incurred as a result of actions or omissions of an affiliate. It is the Company's~~Companies'~~ intent

not to make any future investments in an affiliate under any circumstances in which ~~they~~it would be liable for the debts and/or liabilities of the affiliate incurred as a result of actions or omissions of an affiliate.

**(4) An electric utility shall not issue any security for the purpose of financing the acquisition, ownership, or operation of an affiliate.**

Response:

The Company ~~has Companies have~~ issued no securities for the purpose of financing the acquisition, ownership, or operation of an affiliate. It is the Company's ~~Companies'~~ intent not to issue any security for the purpose of financing the acquisition, ownership, or operation of an affiliate.

**(5) An electric utility shall not assume any obligation or liability as a guarantor, endorser, surety, or otherwise with respect to any security of an affiliate.**

Response:

The Company ~~has Companies have~~ not assumed any obligation or liability as a guarantor, endorser, surety, or otherwise with respect to any security of an affiliate. It is the Company's ~~Companies'~~ intent not to assume any obligation or liability as a guarantor, endorser, surety, or otherwise with respect to any security of an affiliate.

**(6) An electric utility shall not pledge, mortgage, or use as collateral any assets of the electric utility for the benefit of an affiliate.**

Response:

The Company ~~Companies have~~ has not pledged, mortgaged, or used as collateral any of their assets for the benefit of an affiliate. It is the Company's ~~Companies'~~ intent

not to pledge, mortgage, or use as collateral any of their assets for the benefit of an affiliate.

**5. A Code of Conduct Policy that Complies With This Chapter and That Employees of the Electric Utility and Affiliates Must Follow.**

Response:

Certain Code of Conduct requirements are set out in §4901:1-37-04 (D) (1)-(11), Ohio Admin. Code. Those requirements and the Company's~~Companies'~~ responses follow.

**(1) The electric utility shall not release any proprietary customer information (e.g., individual customer load profiles or billing histories) to an affiliate, or otherwise, without the prior authorization of the customer, except as required by a regulatory agency or court of law.**

Response:

The Company ~~does Companies~~ do not release any proprietary customer information to an affiliate or any external party, without the prior authorization of the customer, except as required by a regulatory agency or court of law. An example of this exception is detailed in the response to (2) below. The Company~~Companies~~ makes available on ~~their~~ its website (AEPOHIO.com) the approved format and minimum information required on an authorization to release customer information to anyone other than the customer. This authorization must be signed by the customer.

The Company's~~Companies'~~ employees have received training to understand the Company's~~Companies'~~ corporate separation rules including the Code of Conduct. Additional details on this training and other educational efforts are addressed in the

response to §4901:1-37-05 (B) (8), Ohio Admin. Code, concerning education and training.

- (2) On or after the effective date of this chapter, the electric utility shall make customer lists, which include name, address, and telephone number, available on a nondiscriminatory basis to all nonaffiliated and affiliated certified retail electric service providers transacting business in its service territory, unless otherwise directed by the customer. This provision does not apply to customer-specific information, obtained with proper authorization, necessary to fulfill the terms of a contract, or information relating to the provision of general and administrative support services. This information shall not be used by the certified retail electric providers for any other purpose than the marketing of electric service to the customer.

Response:

The Company~~Companies~~ produces and makes available quarterly, a pre-enrollment list of customers, including name, address, and telephone number in addition to other data as defined in the Pro Forma Certified Supplier Tariff, to any Retail Electric Service Provider, Aggregator, or Market Broker which has been fully certified by the Public Utilities Commission of Ohio.

Customers are notified on a bill insert, sent to them a minimum of four times a year, of their option to opt off the pre-enrollment list. Information on this opt-off option is also included in the Company's ~~Companies'~~ Customer Handbook. The customer can make this election via the Company's ~~Companies'~~ website (AEPOHIO.com), by calling the Company's ~~Companies'~~ customer service number, or by mailing their request to the Company~~Companies~~ at any time. Customers may also elect to opt in, and then be included on the pre-enrollment list after previously selecting the opt-off election.



- (3) Employees of the electric utility's affiliates shall not have access to any information about the electric utility's transmission or distribution systems (e.g., system operations, capability, price, curtailments, and ancillary services) that is not contemporaneously available, readily accessible, and in the same form and manner available to nonaffiliated competitors providing retail electric service.

Response:

The Company has ~~Companies have~~ an established Corporate Information Security Policy coupled with a Security Monitoring and Logging Standard to monitor, log and audit the effectiveness of and compliance with security measures. This policy requires that information is accessible only to authorized users as determined by operation and business need.

The Company's ~~Companies'~~ information system assets ~~has~~ have an assigned owner with responsibility to authorize and approve access to the information system asset by individual user, specify data security control requirements, and ensure compliance with these applicable controls. The system monitoring and logging is designed to recognize behavior outside the scope of normal business operations or deviations from normal activities. This standard focuses on minimizing potential exposure that may result from unauthorized use of the Company's ~~Companies'~~ electronic information resources. It also ensures the effectiveness of information security controls in protecting the confidentiality, integrity, and availability of the Company's ~~Companies'~~ information assets. Further, this standard aligns the Company ~~Companies~~ with the International Standards Organization (ISO 17799) and

the Sarbanes-Oxley Act. Additional information is provided in response to §4901:1-37-05 (B) (10), Ohio Admin. Code, concerning internal compliance monitoring.

The data owners, as well as individual system users have received training to understand the Company's~~Commission's~~ Corporate Separation Rules including the Code of Conduct. Additional details on this training and other educational efforts are addressed in the response to §4901:1-37-05 (B) (8), Ohio Admin. Code, regarding education and training.

**(4)An electric utility shall treat as confidential all information obtained from a competitive retail electric service provider, both affiliated and nonaffiliated, and shall not release such information, unless a competitive retail electric service provider provides authorization to do so or unless the information was or thereafter becomes available to the public other than as a result of disclosure by the electric utility.**

Response:

The Company~~Companies~~ treats as confidential any information obtained from a competitive supplier of retail electric service, whether affiliated or non-affiliated, and do not release such information unless: 1) the competitive supplier authorizes them to do so; 2) it is required by a regulatory agency; 3) it is ordered by a court of law; or 4) it is already available as public information other than as a result of disclosure by the Company~~Companies~~.

**(5) The electric utility shall not tie (or allow an affiliate to tie), as defined by state and federal antitrust laws, or otherwise condition the provision of the electric utility's regulated services, discounts, rebates, fee waivers, or any other waivers of the electric utility's ordinary terms and conditions of**

**service, including but not limited to tariff provisions, to the taking of any goods and/or services from the electric utility's affiliates.**

Response:

The Company~~Companies~~ and their ~~its~~ affiliates do not tie or otherwise condition the provision of the Company's~~Companies'~~ services, discounts, rebates, fee waivers or any other waivers of the Company's~~Companies'~~ ordinary terms and conditions of service, including but not limited to tariff provisions, to the taking of any goods and/or services from such affiliates.

- (6) The electric utility shall ensure effective competition in the provision of retail electric service by avoiding anticompetitive subsidies flowing from a noncompetitive retail electric service to a competitive retail electric service or to a product or service other than retail electric service, and vice versa.**

Response:

The Company~~Companies~~ does not provide anticompetitive subsidies from a noncompetitive retail electric service to a competitive retail electric service or to a product or service other than retail electric service, or vice versa.

- (7) The electric utility, upon request from a customer, shall provide a complete list of all competitive retail electric service providers operating on the system, but shall not endorse any competitive retail electric service providers, indicate that an electric services company is an affiliate, or indicate that any competitive retail electric service provider will receive preference because of an affiliate relationship.**

Response:

The Company~~Companies~~, upon request from a customer, will provide to the customer a toll-free telephone number and the address of an internet web site where

the customer can access a list of certified competitive retail electric service suppliers maintained by the Commission. The Company~~Companies~~ does not endorse any suppliers, nor indicate that any supplier is an affiliate, nor indicate that any supplier will receive a preference because of an affiliate relationship.

**(8) The electric utility shall use reasonable efforts to ensure retail electric service consumers protection against unreasonable sales practices, market deficiencies, and market power and the electric utility's compliance officer shall promptly report any such unreasonable sales practices, market deficiencies, and market power to the director of the utilities department (or their designee).**

Response:

The training and education efforts discussed in more detail in response to §4901:1-37-05 (B) (8), Ohio Admin. Code, give employees guidance in understanding the Code of Conduct in its entirety, as well as helping them to apply the concepts in their everyday work. Additionally, the topic of consumer protection and confidentiality is periodically covered with employees in Customer Service department meetings.

The Director, Ethics & Compliance promptly reports any such unreasonable sales practices, market deficiencies, and market power to the director of the utilities department (or their designee).

**(9) Employees of the electric utility or persons representing the electric utility shall not indicate a preference for an affiliated electric services company.**

Response:

Neither the Company~~Companies~~ nor ~~their~~its employees endorse any suppliers nor indicate that any supplier will receive a preference because of an affiliate relationship.

**(10) The electric utility shall provide comparable access to products and services related to tariffed products and services and specifically comply with the following:**

Response:

The Company~~Companies~~ provides comparable access to tariffed products and services.

**(a) An electric utility shall be prohibited from unduly discriminating in the offering of its products and/or services.**

Response:

The Company~~Companies~~ does not unduly discriminate in the offering of ~~their~~its tariffed products and/or services.

**(b) The electric utility shall apply all tariff provisions in the same manner to the same or similarly situated entities, regardless of any affiliation or nonaffiliation.**

Response:

The Company~~Companies~~ applies all tariff provisions in the same manner to the same or similarly situated entities, regardless of any affiliation or non-affiliation.

**(c) The electric utility shall not, through a tariff provision, a contract, or otherwise, give its affiliates or customers of affiliates preferential treatment or advantages over nonaffiliated competitors of retail electric service or their customers in matters relating to any product and/or service.**

Response:

The ~~Company~~ies does not, through a tariff provision, a contract, or otherwise, give ~~their~~-its affiliates or customers of ~~their~~-its affiliates preference over nonaffiliated competitors of retail electric service or ~~their~~-its customers in matters relating to any tariffed product and/or service.

**(d) The electric utility shall strictly follow all tariff provisions.**

Response:

The ~~Company~~ ~~Companies~~ strictly follows all tariff provisions. To the extent the ~~Company~~~~Companies~~ exercises discretion in the strict application of a tariff provision, it is to accommodate a specific customer request unrelated to any competitive consideration.

**(e) Except to the extent allowed by any applicable law, regulation, or commission order, the electric utility shall not be permitted to provide discounts, rebates, or fee waivers for any retail electric service.**

Response:

Except to the extent allowed by state law, the ~~Company~~~~Companies~~ does not provide discounts, rebates, or fee waivers for any retail electric service.

**(11) Shared representatives or shared employees of the electric utility and affiliated electric services company shall clearly disclose upon whose behalf their public representations are being made when such representations concern the entity's provision of electric services.**

Response:

Shared representatives or shared employees of the Company~~Companies~~ and ~~their~~its affiliates clearly disclose upon whose behalf their public representations are being made when such representations concern the entity's provision of electric services.

**6. A Description of Any Joint Advertising and/or Joint Marketing Activities Between the Electric Utility and an Affiliate That the Electric Utility Intends to Utilize, Including When and Where the Name and Logo of the Electric Utility Will be Utilized, and Explain How Such Activities Will Comply With This Chapter.**

Response:

The Company~~Companies~~ promotes key safety messages to both CSP and OP ~~its~~ customers under the AEP Ohio logo. These advertisements and promotions will be featured in various media outlets, including print, television and radio, and will continue to focus on prevention of public electrical contact. In addition, the ~~Companies~~ Company plans to conduct a joint advertising and marketing campaign under the AEP Ohio logo promoting general education of energy efficiency and demand reduction. This campaign is designed to build customer awareness of energy efficiency programs and tips, as well as to promote behavioral changes that can help customers use energy in their home and business more efficiently. The Company does not plan to engage in any joint advertising or marketing with any competitive affiliate, including AEP Generation and AEP Retail Energy.

**7. Provisions Related to Maintaining a Cost Allocation Manual (CAM).**

Certain Cost Allocation Manual (CAM) requirements are set out in §4901:1-37-08 (A)-(J), Ohio Admin. Code. Those requirements and the Companies' responses follows:

- (A) Each electric utility that receives products and/or services from an affiliate and/or that provides products and/or services to an affiliate shall maintain information in the CAM, documenting how costs are allocated between the electric utility and affiliates and the regulated and nonregulated operations.**

Response:

AEP maintains a CAM that explains how costs are allocated between regulated and non-regulated operations. The CAM is arranged by tab, section and subject. The CAM includes a table of contents and an alphabetical subject index. A separate tab is used to list and identify all documents included in the CAM by reference. Each subject in the manual begins with a brief summary.

- (B) The CAM will be maintained by the electric utility.**

Response:

AEP maintains a single CAM on behalf of the Company~~Companies~~ and all other electric utility affiliates of AEP. Company-specific information is clearly noted. To the extent that a state commission's CAM requirements are different from those of another commission, only the material pertinent to a particular commission is considered to be part of the CAM for that commission.

- (C) The CAM is intended to ensure the commission that no cross-subsidization is occurring between the electric utility and its affiliates.**

Response:



The cost allocation guidelines included in the CAM include the following policy statement: "AEP's cost accounting and cost allocation methods or procedures shall not result in any cost subsidies among or between regulated and non-regulated operations." The information included in the CAM is useful in evaluating cross-subsidization risks.

**(D) The CAM will include:**

- (1) An organization chart of the holding company, depicting all affiliates, as well as a description of activities in which the affiliates are involved.**

**Response:**

The prescribed organization chart is included in the CAM. The description of activities will identify the general business purpose of each affiliate.

- (2) A description of all assets, services, and products provided to and from the electric utility and its affiliates.**

**Response:**

The required descriptions identify the types of assets, products and services provided to and from the Companies and their affiliates.

- (3) All documentation including written agreements, accounting bulletins, procedures, work order manuals, or related documents, which govern how costs are allocated between affiliates.**

**Response:**

The CAM includes the documents specified in the rule. Where such documents are voluminous, subject to frequent change, maintained in areas of the corporate

organization other than the corporate accounting department and/or do not specifically address cost allocation and related accounting practices, the CAM incorporates such documents by reference. A clear trail is maintained to enable an auditor to request and review such documents. The group(s) or individual(s) responsible for maintaining the items that are incorporated in the CAM by reference under §4901:1-37-08 (D) (1)-(9), Ohio Admin. Code, is identified in the CAM.

**(4) A copy of the job description of each shared employee.**

Response:

The required job descriptions are appended to the CAM by reference. AEPSC's Human Resources Department, working with the various business units, prepares and maintains the required job descriptions.

**(5) A list of names and job summaries for shared consultants and shared independent contractors.**

Response:

The required list is appended to the CAM by reference. AEPSC's Human Resources Department, working with the various business units, prepares and maintains the list for "shared employees", including any shared consultants and shared independent contractors.

**(6) A copy of all transferred employees' (from the electric utility to an affiliate or vice versa) previous and new job descriptions.**

Response:

The required list is appended to the CAM by reference. AEPSC's Human Resources Department, working with the various business units, prepares and maintains the list for "transferred employees."

**(7) A log detailing each instance in which the electric utility exercised discretion in the application of its tariff provisions.**

Response:

To the extent the Company~~Companies~~ exercises discretion in the application of a tariff provision, it is to accommodate a specific customer request unrelated to any competitive consideration. The Company~~Companies~~ will maintain a log detailing any other instances in which ~~they~~it exercised discretion in the application of tariff provisions.

**(8) A log of all complaints brought to the electric utility regarding this chapter.**

Response:

The complaint log is incorporated in the CAM by reference.

**(9) A copy of the minutes of each board of directors meeting, where it shall be maintained for a minimum of three years.**

Response:

Copies of the board of director's minutes are incorporated in the CAM by reference.

**(E) The method for charging costs and transferring assets shall be based on fully allocated costs.**

Response:

The formal guidelines in the CAM include the following policy statement:

“Unless otherwise exempted, the AEP companies allocate costs between regulated and non-regulated operations, on a fully-distributed cost basis. Fully-distributed costs include all direct costs plus an appropriate share of indirect costs.”

**(F) The costs should be traceable to the books of the applicable corporate entity.**

Response:

The formal guidelines in the CAM include the following policy statement:

“Proper audit trails are maintained so that costs can be traced through the applicable accounting and billing systems.”

**(G) The electric utility and affiliates shall maintain all underlying affiliate transaction information for a minimum of three years.**

Response:

Minimum retention requirements are documented in the CAM or are incorporated by reference. In no case is the retention requirement less than three years.

**(H) Following approval of a corporate separation plan, an electric utility shall provide the director of the utilities department (or their designee) with a summary of any changes in the CAM at least every twelve months.**

Response:

The CAM is updated semi-annually. A summary of changes to the CAM, including changes to the documents incorporated by reference, is provided to the Director of the Utilities Department of the Commission every six months.

- (I) The compliance officer designated by the electric utility will act as the contact for the staff when staff seeks data regarding affiliate transactions, personnel transfers, and the sharing of employees.**

Response:

The Company ~~has Companies have~~ provided the name of the primary contact. The names of alternative contacts may be provided based on the subject matter and nature of the inquiry. The Company ~~Companies~~ will update the Commission of changes in the contact person(s).

- (J) The staff may perform an audit of the CAM in order to ensure compliance with this rule.**

Response:

The Company ~~Companies~~ will assist the Staff in any audit of the CAM which the Staff may perform.

- 8. A Description and Timeline of All Planned Education and Training, Throughout the Holding Company Structure, to Ensure That Electric Utility and Affiliate Employees Know and Can Implement the Policies and Procedures of This Rule. The Information Shall be Maintained on the Electric Utility's Public Web Site.**

Response:

AEPSC's Office of Ethics & Compliance (E&C) has developed training to educate employees and to ensure compliance with the portions of Chapter §4928, Ohio Rev. Code, and Commission regulations regarding corporate separation.

- ◆ All affected newly hired or transferred employees are required to complete this training within 120 days of employment.
- ◆ Refresher training is performed as needed; need being determined by collaboration between E&C and the relevant business unit management.

The Company's~~Companies'~~ training materials are provided in Exhibit Nos. 2A-2C. The materials include: Ohio Corporate Separation Rules, Including the Code of Conduct (Exhibit No. 2 A); a DVD which is viewed (Rules of the Road, Ohio Code of Conduct Exhibit No. 2 B); and the Employee Acknowledgement Form (Exhibit No. 2 C).

All AEP Ohio employees, as well as all AEPSC employees located in Ohio, are required to take the Ohio Rules of the Road training. When employees begin employment in Ohio, or are transferred to Ohio from another AEP location, they are notified through AEP's electronic learning management system that they are required to complete the Ohio Rules of the Road training. The employees are given instructions on how to log into the system and find the course and are given 120 days in which to complete the training. The employees are sent weekly reminders about the need to take the training until the training is completed. A description and timeline of all planned education and training will be maintained on the Company's~~Companies'~~ public web site--AEP.com.

**9. A Copy of a Policy Statement to be Signed by  
Electric Utility and Affiliate Employees Who  
Have Access to Any Nonpublic Electric Utility**

**Information, Which Indicates That They Are Aware of, Have Read, and Will Follow all Policies and Procedures Regarding Limitation on the Use of Nonpublic Electric Utility Information. The Statement Will Include a Provision Stating That Failure to Observe These Limitations Will Result in Appropriate Disciplinary Action.**

Response:

All affected employees sign a register or acknowledge by verifiable electronic means that they have received such training. See Exhibit No. 2 C.

**10. A Description of the Internal Compliance Monitoring Procedures and the Methods for Corrective Action for Compliance With This Chapter.**

Response:

The AEPSC Audit Services Department has responsibility for monitoring compliance with the corporate separation rules. The primary areas to be periodically reviewed are:

Corporate Structure

- Review whether affiliates providing a competitive retail electric service or a non-electric product or service are, in fact, "separate corporate entities" from the utility.
- Review whether any shared employees have caused any violations of the Code of Conduct, whether the CAM is properly maintained, and costs are properly allocated.

- Review whether any shared facilities have caused violations of the Code of Conduct.

#### Separate Accounting

- Review whether the utility and its affiliates are, in fact, maintaining separate books, records and accounts, as required by §4901:1-37-04 (B), Ohio Admin. Code.

#### Financial Arrangements

- Review the adequacy and effectiveness of controls relative to financial arrangements, such that violations of the Commission's rules in §4901-1-37-04 (C), Ohio Admin. Code, are prevented.

#### Information Safeguards

- Review the adequacy and effectiveness of controls in place to prevent the improper disclosure of proprietary customer information. See §4901:1-37-04 (D) (1), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent the improper disclosure of the Company's~~Companies'~~ transmission and distribution information. See §4901:1-37-04 (D) (3), Ohio Admin. Code.



- Review the adequacy and effectiveness of controls in place to prevent the improper disclosure of information obtained from a competitive retail electric service supplier – affiliated or nonaffiliated. See §4901:1-37-04 (D) (4), Ohio Admin. Code.

#### Marketing Practices

- Review the adequacy and effectiveness of controls in place to prevent tying arrangements between the Company's ~~Companies'~~ goods and services and those of the affiliate. See 4901:1-37-04 (D) (5), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to identify joint marketing arrangements. See §4901:1-37-05 (B) (6), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent any improper supplier endorsements, withholding of supplier lists, or indications of preference. See §4901:1-37-04 (D) (7), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent the improper use of either the Company's name and/or logo and other prohibited actions. See §4901:1-37-05 (B) (6), Ohio Admin. Code.
- Review the adequacy and effectiveness of controls in place to prevent violations of the Code of Conduct, regarding

comparable access to tariffed products and services. See §4901:1-37-04 (D) (10), Ohio Admin. Code.

#### Complaint Procedure

- Review the adequacy and effectiveness of controls in place to prevent complaints registered about compliance with the corporate separation rules from being mishandled or being addressed in a way that varies from the procedures described in §4901:1-37-05 (B) (14) (a)-(f), Ohio Admin. Code.

#### Cost Allocation Manual (CAM)

Review the adequacy and effectiveness of controls in place to prevent violations of the CAM rules as defined in §4901:1-37-08. Ohio Admin. Code. This includes:

- Reviewing whether the Company~~Companies~~ and ~~their~~its affiliates provide the proper information to the CAM.
- Reviewing whether the CAM is properly set up and maintained – i.e., complies with the requirements detailed in the Cost Allocation Manual section.
- Reviewing whether the method for charging costs and transferring assets is based on fully allocated costs, and whether such costs are traceable to the books of the applicable corporate entity, in accordance with the CAM.

- Reviewing whether affiliate transaction information is maintained as specified in the Cost Allocation Manual section.
- Reviewing whether changes to the CAM are forwarded to the Director of the Utilities Department of the Commission at least every twelve months.
- Reviewing whether the Company~~Companies~~ designated a Commission Staff contact person, and if changed, such changes have been communicated to the Commission in accordance with the Cost Allocation Manual section.

**11. A Designation of the Electric Utility's Compliance Officer Who Will Be the Contact For the Commission and Staff on Corporate Separation Matters. The Compliance Officer Shall Certify That the Approved Corporate Separation Plan is Up to Date and in Compliance With the Commission's Rules and Orders. The Electric Utility Shall Notify the Commission and the Director of the Utilities Department (or Their Designee) of Changes in the Compliance Officer.**

Response:

The ~~Companies'~~ Company hasve appointed AEPSC's Executive Vice President and ~~General Counsel~~ Chief Compliance Officer as ~~their~~ its Chief Compliance Officer. The Chief Compliance Officer has, in turn, designated AEPSC's Director, Ethics & Compliance to oversees compliance with the portions of Chapter 4928, Ohio Rev. Code, and Commission regulations regarding corporate separation and to serve as the primary contact for the Commission and staff regarding corporate separation issues.

The Chief Compliance Officer is ~~John B. Keane and the Director of the Office of Ethics & Compliance is~~ Sandra K. Williams. Mr. Keane may be reached by email at ~~jakeane@aep.com, and by telephone at (614) 716-2929.~~ Ms. Williams may be contacted by email at swilliams@aep.com and by telephone at (614) 716-2037. The Companies will notify the Commission and the director of the utilities department, or their designee, if there is a change in the Chief Compliance Officer ~~or the Chief Compliance Officer's designee.~~ Attached as Exhibit No. 3 is the required certification that the Companies' proposed Corporate Separation Plan complies with the Commission's rules and orders.

**12. A Detailed Description Outlining How the Electric Utility and its Affiliates Will Comply With This Chapter. The Format Shall Identify the Provision and Then Provide the Description.**

Response:

This Application provides the ~~Company's~~ Companies' detailed description outlining how ~~the Companies~~ the Company and their ~~its~~ affiliates will comply with Chapter 4901:1-37, Ohio Admin. Code.

**13. A Detailed Listing of the Electric Utility's Electric Services and the Electric Utility's Transmission and Distribution Affiliates' Electric Services.**

Response:

~~Each The Company is will be functionally separated as opposed to corporately separated. As a functionally structurally separated electric utilities, each the Company provides generation, transmission and distribution services, as well as SSO generation service and other services as approved by the Commission from time-to-time, to their-its respective customers, within their respective service territories.~~

**14. A Complaint Procedure to Address Issues Concerning Compliance With This Chapter, Which, at a Minimum, Shall Include the Following:**

- (a) All complaints, whether written or verbal, shall be referred to the compliance officer designated by the electric utility to handle corporate separation matters or the compliance officer's designee.**
- (b) The complaint shall be acknowledged within five working days of its receipt.**
- (c) A written statement of the complaint shall be prepared and include the name of the complainant, a detailed factual report of the complaint, all relevant dates, the entities involved, the employees involved, and the specific claim.**
- (d) The results of the preliminary investigation shall be provided to the complainant in writing within thirty days after the complaint was received, including a description of any course of action that was taken.**
- (e) The written statements of the complaints and resulting investigations required by paragraphs (B)(14)(c) and (B) (14) (d) of this rule shall be kept in the CAM, in accordance with rule 4901:1-37-08 of the Administrative Code for a period of not less than three years.**
- (f) This complaint procedure shall not in any way limit the rights of any person to file a formal complaint with the commission.**

Response:

The training and education efforts provide all applicable employees guidance in understanding the complaint procedure. The training and education efforts also provide that complaints regarding compliance with Chapter 4901:1-37, Ohio Admin. Code, shall be referred to the Director, Ethics & Compliance. The Director, Ethics & Compliance shall follow the procedures for handling such complaints set forth in the rule. A record of such complaints will be incorporated in the CAM in the manner described herein and will be maintained for a period of not less than three years.

**ADDITIONAL NARRATIVE**

The Commission's rules concerning corporate separation are themselves intended to promote competitive equality, protect against unfair competitive advantage and abuse of market power, and effectuate the policy of the state set out in §4928.02, Ohio Rev. Code. By submitting Corporate Separation Plans which conform to those rules and which are consistent with §§4928.17 and 4928.18, Ohio Rev. Code, the Company's~~Companies'~~ Plans also support these goals and policies.

The Company's~~Companies'~~ structural safeguards include the independent functioning of the Company~~Companies~~ and ~~their~~its affiliates in a manner which is consistent with the Commission's Code of Conduct and which rejects cross subsidization. The Company's~~Companies'~~ accounting protocols, approach to financial arrangements, adherence to the Cost Allocation Manual requirements, employee education and training

and internal compliance monitoring all have the effect of supporting the goals and policies.

In supporting the goals and policies, the Company's~~Companies~~<sup>2</sup> Corporate Separation Plan helps effectuate the policy of the state set out in §4928.02, Ohio Rev. Code. The availability of nondiscriminatory retail electric service (§4928.02 (A), Ohio Rev. Code) is supported by the ~~functional~~-structural corporate separation of competitive retail electric service, and supplying a product or service other than retail electric service, from noncompetitive retail electric service, including adherence to the code of conduct, separate accounting, and proper financial arrangements.

Adhering to the Commission's rules and the applicable statutory provisions through the Corporate Separation Plan also supports: the availability of unbundled and comparable retail electric service which in turn provides consumers with a variety of options to meet their service needs (§4928.02 (B), Ohio Rev. Code); diversity of electricity supplies and suppliers (§4928.02 (C), Ohio Rev. Code); market access for cost-effective retail electric service (§4928.02(D), Ohio Rev. Code); cost-effective and efficient access to information regarding operation of the transmission and distribution systems, so as to promote customer choice (§4928.02 (E), Ohio Rev. Code); the availability of the Company's~~Companies~~<sup>2</sup> transmission and distribution systems to customer-generators and owners of distributed generation (§4928.02 (F), Ohio Rev. Code); the emergence of competitive electricity markets (§4928.02 (G), Ohio Rev. Code); effective competition in providing retail electric service by avoiding anticompetitive subsidies (§4928.01 (H), Ohio Rev. Code); and protections against unreasonable sales practices, market deficiencies and market power (§4928.02 (I), Ohio

Rev. Code). By furthering all of these policies the state's effectiveness in the global economy will be facilitated (§4928.02 (N), Ohio Rev. Code).

COLUMBUS/1603287v.2



**EXCERPT FROM EXHIBIT PJN-4**  
**TO THE DIRECT TESTIMONY OF**  
**WITNESS PHILIP J. NELSON**

**AEP Ohio Owned Generating Units**  
(March 15, 2012)

Plant	Unit No.	Fuel	Location	SCR	FGD
Cardinal	1 (Note A)	Coal	Brilliant, OH	√	√
Conesville	3	Coal	Conesville, OH		
Conesville	4 (Note B)	Coal	Conesville, OH	√	√
Conesville	5	Coal	Conesville, OH		√
Conesville	6	Coal	Conesville, OH		√
Darby	1-6	Gas	Mount Sterling, OH		
Gen. J.M. Gavin	1	Coal	Cheshire, OH	√	√
Gen. J.M. Gavin	2	Coal	Cheshire, OH	√	√
J.M. Stuart	1 (Note B)	Coal	Aberdeen, OH	√	√
J.M. Stuart	2 (Note B)	Coal	Aberdeen, OH	√	√
J.M. Stuart	3 (Note B)	Coal	Aberdeen, OH	√	√
J.M. Stuart	4 (Note B)	Coal	Aberdeen, OH	√	√
John E. Amos	3 (Note C)	Coal	Winfield, WV	√	√
Kammer	1	Coal	Moundsville, WV		
Kammer	2	Coal	Moundsville, WV		
Kammer	3	Coal	Moundsville, WV		
Mitchell	1	Coal	Moundsville, WV	√	√
Mitchell	2	Coal	Moundsville, WV	√	√
Muskingum River	1	Coal	Waterford, OH		
Muskingum River	2	Coal	Waterford, OH		
Muskingum River	3	Coal	Waterford, OH		
Muskingum River	4	Coal	Waterford, OH		
Muskingum River	5	Coal	Waterford, OH	√	
Philip Sporn	2	Coal	New Haven, WV		
Philip Sporn	4	Coal	New Haven, WV		
Picway	5	Coal	Lockbourne, OH		
Racine	1-2	Hydro	Racine, OH		
W.C. Beckjord	6 (Note B)	Coal	New Richmond, OH		
Waterford	1-4	Gas	Waterford, OH	√	
William H. Zimmer	1 (Note B)	Coal	Moscow, OH	√	√

Note A The Cardinal Plant consists of three coal-fired steam units, with Unit No. 1 owned by Ohio Power and Unit Nos. 2 and 3 owned by Buckeye Power, Inc. ("Buckeye").

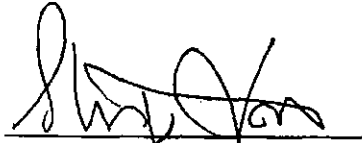
Note B Ohio Power jointly owns several units with Duke Energy Ohio, LLC and Dayton Power and Light Co. The jointly-owned units are Conesville 4, Stuart 1-4, Beckjord 6 and Zimmer 1. Stuart Diesel units 1-4, which are not listed above, will also transfer to AEP Generation Resources.

Note C Ohio Power owns two-thirds and APCo owns one-third of Amos Unit No. 3.

Note: Ohio Power also has certain contractual entitlements to purchase power, which would transfer to Generation Resources.

## **CERTIFICATE OF SERVICE**

I certify that Ohio Power Company's Application for Approval of Full Legal Corporate Separation and Amendment to Its Corporate Separation Plan was served by electronic mail upon the Director of the Utilities Department this 30<sup>th</sup> day of March, 2012.

A handwritten signature in black ink, appearing to read 'Steven T. Nourse', is written over a horizontal line.

Steven T. Nourse

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke )  
Energy Ohio for Authority to Establish a )  
Standard Service Offer Pursuant to Section )  
4928.143, Revised Code, in the Form of ) Case No. 14-841-EL-SSO  
an Electric Security Plan, Accounting )  
Modifications and Tariffs for Generation )  
Service. )

In the Matter of the Application of Duke )  
Energy Ohio for Authority to Amend its ) Case No. 14-842-EL-ATA  
Certified Supplier Tariff, P.U.C.O. No. 20. )

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**DIRECT TESTIMONY OF**

**PEGGY A. LAUB**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

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May 29, 2014

## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>I. INTRODUCTION.....</b>	<b>1</b>
<b>II. RIDER DCI – DISTRIBUTION CAPITAL INVESTMENT .....</b>	<b>2</b>
<b>III. RIDER DSR – DISTRIBUTION STORM RIDER .....</b>	<b>6</b>
<b>IV. SIGNIFICANTLY EXCESSIVE EARNINGS TEST .....</b>	<b>8</b>
<b>V. CONCLUSION .....</b>	<b>8</b>

### **Attachments:**

- PAL-1:       Template for the Revenue Requirement Calculation for the Proposed  
              Distribution Capital Investment Rider
- PAL-2:       Formula for Calculating Duke Energy Ohio Earnings for Significantly  
              Excessive Earnings Test

## **I. INTRODUCTION**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A.   My name is Peggy A. Laub, and my business address is 139 East Fourth Street,  
3       Cincinnati, Ohio 45202.

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

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

9   **Q.   PLEASE BRIEFLY SUMMARIZE YOUR EDUCATION AND**  
10   **PROFESSIONAL EXPERIENCE.**

11   A.   I earned a Bachelor of Business Administration degree, with a major in  
12       accounting, from the University of Cincinnati.

13       I began my career with The Cincinnati Gas & Electric Company, the  
14       predecessor of Duke Energy Ohio, as a co-operative education student in the  
15       Accounting Department. In 1984, I was employed full-time in the Tax  
16       Department. I progressed through various positions to Coordinator, State & Local  
17       Taxes. In 1998, I was transferred to the Regulated Business Unit's financial  
18       group. In 2000, I was transferred to Fixed Assets Accounting and I was promoted  
19       to manager in 2002. In May 2006, following the merger between Cinergy Corp.  
20       and Duke Energy, I transferred to the Midwest U.S. Franchised Electric & Gas  
21       accounting group. In November 2008, I transferred to Midwest Wholesale

1 Accounting as Manager, Accounting. In May 2010, I transferred to the Rate  
2 Department in my current position, now titled Director, Rates and Regulatory  
3 Planning.

4 **Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR, RATES AND**  
5 **REGULATORY PLANNING.**

6 A. As Director, Rates and Regulatory Planning, I am responsible for the preparation of  
7 financial and accounting data used in retail rate filings and various other rate  
8 recovery mechanisms for Duke Energy Ohio and Duke Energy Kentucky, Inc.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**  
10 **UTILITIES COMMISSION OF OHIO?**

11 A. Yes. I have previously testified in a number of cases before the Public Utilities  
12 Commission of Ohio (Commission) and other regulatory commissions.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**  
14 **PROCEEDINGS?**

15 A. The purpose of my testimony is to support various aspects of Duke Energy Ohio's  
16 proposed electric security plan (ESP). I will provide testimony describing the  
17 proposed Distribution Capital Investment Rider (Rider DCI), the proposed  
18 Distribution Storm Rider (Rider DSR), and the Company's proposal for  
19 calculations addressing the significantly excessive earnings test (SEET).

## **II. RIDER DCI – DISTRIBUTION CAPITAL INVESTMENT**

20 **Q. PLEASE DESCRIBE RIDER DCI.**

21 A. Rider DCI, as proposed in the Application, is intended to recover a return on  
22 incremental capital investment and the associated depreciation and property tax

1 expense for distribution-related reliability investment that is not otherwise  
2 recovered through base rates or another rider. Rider DCI would be used as a  
3 mechanism for all distribution upgrades, excluding the Company's current  
4 SmartGrid deployment program.

5 **Q. PLEASE DESCRIBE HOW RIDER DCI WILL BE CALCULATED.**

6 A. The incremental revenue requirement applicable to Rider DCI would be  
7 determined by calculating the revenue requirement associated with the projected  
8 rate base at the end of the next quarter, and subtracting out the revenue  
9 requirement for rate base that is recovered through base rates. An example of the  
10 calculation is shown in Attachment PAL-1, as described later in my testimony.

11 **Q. HOW WILL THE COMPANY DETERMINE WHICH CAPITAL**  
12 **INVESTMENTS TO INCLUDE IN THE RIDER?**

13 A. All capital investments (excluding those recovered via Rider DR-IM) recorded in  
14 FERC Plant accounts 360 through 374 will be included in this rider. In addition,  
15 the portions of the electric and common general plant accounts in FERC Plant  
16 accounts 389 through 398 and account 303 that are allocated to distribution will  
17 also be included.

18 **Q. WHAT IS THE RATE OF RETURN THAT WOULD BE APPLICABLE**  
19 **TO THE INCREMENTAL CAPITAL INVESTMENT RECOVERED VIA**  
20 **RIDER DCI?**

21 A. The rate of return grossed up for taxes (*i.e.*, the pre-tax rate of return) would be  
22 based on the weighted-average cost of capital and gross revenue conversion factor  
23 approved in the Company's then most recent electric distribution rate case, which



1 currently is 10.70 percent. Included in the rate of return is the Commission  
2 approved 9.84% return on equity.

3 **Q. IF RIDER DCI IS APPROVED, WILL THE COMPANY CONTINUE**  
4 **SEEKING RECOVERY OF ITS SMARTGRID INVESTMENT THROUGH**  
5 **RIDER DR-IM?**

6 A. Yes. The Company will continue to recover its SmartGrid investment separately  
7 through Rider DR-IM until that program is fully deployed, with the determination  
8 of full deployment to be made by the Staff of the Commission<sup>1</sup>

9 **Q. WILL RIDER DCI RECOVER ONLY THE INCREMENTAL REVENUE**  
10 **REQUIREMENT ON DISTRIBUTION INVESTMENT, EXCLUDING**  
11 **GRID MODERNIZATION?**

12 A. Yes.

13 **Q. WHAT BASELINE WILL BE USED TO MEASURE THE**  
14 **INCREMENTAL COSTS?**

15 A. The baseline for the Rider DCI calculation is the revenue requirement on  
16 distribution and distribution-related rate base for the sum of (1) return, (2) income  
17 taxes, (3) depreciation, and (4) property taxes.

18 **Q. HOW WILL THE INCREMENTAL REVENUE REQUIREMENT TO BE**  
19 **RECOVERED IN RIDER DCI BE CALCULATED?**

20 A. The incremental revenue requirement will be calculated as shown on Attachment

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<sup>1</sup> See *In the Matter of the Application of Duke Energy Ohio, Inc. to Adjust Rider DR-IM and Rider AU for 2010 SmartGrid Costs and Mid-Deployment Review*, Case No. 10-2326-GE-RDR, Opinion and Order (June 13, 2012), at pg. 14 (Commission approved stipulation in its entirety).

1 PAL-1. Our actual filings will include projected capital for the next upcoming  
2 quarter.

3 **Q. IS DUKE ENERGY OHIO PROPOSING TO RECOVER INCREMENTAL**  
4 **OPERATING AND MAINTENANCE EXPENSE THROUGH RIDER DCI?**

5 A. No. The Company has modeled its Rider DCI to be similar to AEP Ohio's Rider  
6 DIR (Distribution Investment Rider) and the FirstEnergy distribution utilities'  
7 Rider DCR (Delivery Capital Rider). As the specific riders of these other Ohio  
8 electric distribution companies only recover capital costs, Duke Energy Ohio is  
9 not seeking recovery of operating and maintenance (O&M) expenses through  
10 Rider DCI.

11 **Q. IS DUKE ENERGY OHIO PROPOSING TO RECOVER POST IN**  
12 **SERVICE CARRYING COSTS THROUGH RIDER DCI?**

13 A. No.

14 **Q. IS RIDER DCI PROPOSED TO BE A NON-BYPASSABLE RIDER?**

15 A. Yes. Rider DCI addresses distribution issues and, hence, relates to all customers,  
16 whether they purchase competitive generation supply from Duke Energy Ohio or  
17 from a competitive supplier.

18 **Q. WHAT PROCEDURAL TIMELINE DO YOU PROPOSE FOR THIS**  
19 **RIDER?**

20 A. The Company proposes a timeline similar to those used by AEP Ohio for its Rider  
21 DIR and the FirstEnergy utilities for their Rider DCR. Filings will be made  
22 quarterly, at least 60 days prior to the start of a calendar quarter. Rates are to be

1 automatically approved, absent a Commission Order that states otherwise, within 60  
2 days of the quarterly filing.

3 **Q. HOW WILL THE INCREMENTAL REVENUE REQUIREMENT BE**  
4 **ALLOCATED TO THE VARIOUS CUSTOMER CLASSES?**

5 A. The incremental revenue requirement will be allocated based on the same allocation  
6 as used in Schedule E in the Company's then most recently approved distribution  
7 base rate case.

8 **Q. PLEASE EXPLAIN ATTACHMENT PAL-1.**

9 A. Schedule PAL-1 is a template for the revenue requirement calculation for the  
10 proposed Rider DCI, using historical December 2013 data. As shown on this  
11 attachment, the filing will include detailed plant in service and accumulated  
12 depreciation schedules similar to the format used in Duke Energy Ohio's most  
13 recent distribution rate case. There are also detailed schedules showing the  
14 depreciation expense, deferred tax and property tax calculations for both the current  
15 period and the amount in base rates for distribution related property. The revenue  
16 requirement also includes an amount for the CAT (Commercial Activity Tax).

### **III. RIDER DSR – DISTRIBUTION STORM RIDER**

17 **Q. PLEASE DESCRIBE RIDER DSR.**

18 A. Rider DSR, as proposed in the Application, is intended to mitigate the financial  
19 impact of major storms experienced by Duke Energy Ohio. For each calendar  
20 year, the Company has \$4.4 million in its base distribution rates for major storm

1 O&M recovery.<sup>2</sup> The Company is proposing to establish a regulatory asset  
2 account to defer the costs above or below this amount in each calendar year. The  
3 Company will recover the balance of this deferral in its next base distribution case  
4 unless the cumulative balance exceeds \$5 million at the end of a calendar year.  
5 Once the balance exceeds \$5 million, as either a regulatory debit or a regulatory  
6 credit, the Company will adjust Rider DSR to collect the balance in the regulatory  
7 account.

8 **Q. HOW DOES DUKE ENERGY OHIO DEFINE A MAJOR STORM?**

9 A. The Company uses the methodology outlined in the IEEE (Institute of Electrical and  
10 Electronics Engineers) Guide for Electric Power Distribution Reliability Indices to  
11 determine when a major storm has affected its service territory.

12 **Q. WILL THIS RIDER INCLUDE CAPITAL?**

13 A. No. Any capital costs will be addressed in Rider DCI or in a subsequent distribution  
14 rate case.

15 **Q. IS THE COMPANY PROPOSING ONLY TO DEFER COSTS IN EXCESS**  
16 **OF THE \$4.4 MILLION?**

17 A. No. In years when storm costs are below the \$4.4 million baseline, there will be a  
18 corresponding credit to the regulatory asset account.

19 **Q. WILL RIDER DSR INCLUDE CARRYING COSTS?**

20 A. Yes. Any monthly positive or negative balance in this deferral account would

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<sup>2</sup> *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in its Electric Distribution Rates, Case No. 12-1682-EL-AIR, et al.*

1 accrue a carrying cost at the Company's long-term cost of debt as approved in its  
2 most recent base distribution case.

**IV. SIGNIFICANTLY EXCESSIVE EARNINGS TEST**

3 **Q. DOES THE COMPANY PROPOSE ANY CHANGES TO THE WAY ITS**  
4 **CURRENT SEET TEST IS PERFORMED?**

5 A. No. The Company administers its annual significantly excessive earnings test  
6 (SEET) as required under R.C. 4928.143(F) and Rule 4901:1-35-10, Ohio  
7 Administrative Code. The Company proposes the calculation as detailed in  
8 Attachment PAL-2, which is similar to Commission-approved manner in which the  
9 SEET is applied to Duke Energy Ohio under its current ESP.<sup>3</sup>

**V. CONCLUSION**

10 **Q. WERE ATTACHMENT PAL-1 AND ATTACHMENT PAL-2 PREPARED**  
11 **BY YOU OR UNDER YOUR SUPERVISION?**

12 A. Yes.

13 **Q. IS THE INFORMATION CONTAINED IN ATTACHMENT PAL-1 AND**  
14 **ATTACHMENT PAL-2 TRUE AND ACCURATE TO THE BEST OF**  
15 **YOUR KNOWLEDGE AND BELIEF?**

16 A. Yes.

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

18 A. Yes.

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<sup>3</sup> *In the Matter of the Application of Duke Energy Ohio for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Accounting Modifications and Tariffs for Generation Service, Case No. 11-3549-EL-SSO, et al., Stipulation and Recommendation (October 24, 2011), Attachment H, and Opinion and Order (November 22, 2011).*

Duke Energy Ohio  
Calculation of Rates for Rider DCI

Line No.	Rate Classification	Base Revenue Allocation		Allocation of Tracked Components (c)	Billing Determinants Base Period (d)	Base Per Bill Rate For Tracked Components (e) = (c) / (d)	Billing Determinants 12 ME 12/31/13 (f)	Current Revenue at Base Rates (g) = (e) * (f)	Current Revenue Required (h)	Incremental Revenue Required (i) = (h) - (g)	Calculated Rider DR (j) = (i) / (f)	Per Bill Per kWh	
		Dollars (a)	Percent (b)									Per Bill	Per kWh
1	Residential (RS, CUR, etc)	\$228,064,940	56.4%	\$135,715,976	7,526,140	\$18.03	7,554,716	\$136,211,529	\$146,957,040	\$10,745,511	\$1.42	Per Bill	Per kWh
2	Small Commercial (DM)	20,773,279	5.1%	12,361,680	464,869	26.59	469,337	12,479,671	13,385,572	905,901	1.93	Per Bill	Per kWh
3	Distribution Secondary (DS and DS-RTP)	118,949,991	29.4%	70,784,287	20,223,052	3.48	20,787,160	72,339,317	76,647,198	4,307,881	0.21	Per kWh	Per kWh
4	Distribution Primary (DP and DP-RTP)	24,620,991	6.1%	14,651,361	5,420,784	2.70	5,088,001	13,737,603	15,864,902	2,127,299	0.42	Per kWh	Per kWh
5	Unmetered Small Fixed Loads (GSFL)	648,257	0.2%	385,762	4,199	91.87	4,493	412,772	417,714	4,942	1.10	Per Bill	Per kWh
6	Electric Space Heating (EH)	1,379,127	0.3%	820,685	6,945	118.17	6,658	786,776	888,661	101,885	15.30	Per Bill	Per kWh
7	Optional Unmetered Small Load Attached Directly to PL (SFL-ADPL)	10,492	0.0%	6,244	49	127.42	48	6,116	6,761	645	13.44	Per Bill	Per kWh
8	Street Lighting (SL)	\$6,490,228	1.6%	3,862,179	39,007,820	0.099010	37,563,698	3,719,182	4,182,075	462,893	0.01	Per kWh	Per kWh
9	Traffic Lighting (TL)	185,244	0.0%	110,234	18,168,696	0.006067	15,527,375	94,205	119,365	25,160	0.00	Per kWh	Per kWh
10	Outdoor Lighting (OL)	2,118,146	0.5%	1,260,458	20,517,593	0.061433	20,112,018	1,235,542	1,364,859	129,317	0.01	Per kWh	Per kWh
11	Non-Standard Street Lighting (NSU)	119,381	0.0%	71,041	1,023,982	0.068973	923,868	63,722	76,925	13,203	0.01	Per kWh	Per kWh
12	Customer-Owned Street Lighting (SC)	321,162	0.1%	191,116	1,339,766	0.142649	1,411,534	201,354	206,946	5,592	0.00	Per kWh	Per kWh
13	Overhead Equivalent Street Lighting (SE)	125,112	0.0%	74,451	21,155,286	0.003519	20,414,916	71,840	80,618	8,778	0.00	Per kWh	Per kWh
14	Unmetered Outdoor Lighting (UOL)	496,169	0.1%	295,258	4,987,426	0.059201	4,831,194	286,012	319,714	33,702	0.01	Per kWh	Per kWh
15	Total Distribution Rate Schedules	58,539	0.0%	58,638	16,686,247	0.003514	16,637,320	58,464	63,495	5,031	\$0.00	Per kWh	Per kWh
16		\$404,401,058	100.0%	\$240,649,370				\$241,704,105	\$260,581,842	\$18,877,740			

Notes: (a) From Schedule E-4 as filed and approved in Case No. 12-1682-EL-AIR, et al.

(b) Percent of Total Column (a).

(c) Total bills for current twelve-month period.

(d) Total current revenue requirement as calculated in supporting schedules.

**Duke Energy Ohio**  
**Revenue Requirement for Rider DCI**

	<u>March 31, 2012</u>	<u>December 31, 2013</u>
Gross Plant	\$2,070,246,027	\$2,246,979,574
Accumulated Depreciation	746,082,535	799,309,122
Net Plant in Service	<u>\$1,324,163,492</u>	<u>\$1,447,670,452</u>
Accumulated Deferred Income Taxes	<u>(\$257,173,857)</u>	<u>(\$307,404,937)</u>
Rate Base for Rider	<b>\$1,066,989,635</b>	<b>\$1,140,265,515</b>
Return on Rate Base (Pre-Tax %)	10.70%	10.70%
Return on Rate Base (Pre-Tax)	\$114,167,891	\$122,008,410
Depreciation Expense	\$58,555,292	\$64,466,804
Property Tax Expense (Excludes M&S)	<u>\$67,300,499</u>	<u>\$73,429,115</u>
Revenue Requirement Before CAT	\$240,023,682	\$259,904,330
Commercial Activities Tax (CAT)	<u>625,688</u>	<u>677,513</u>
Total Revenue Requirement	<u>\$240,649,370</u>	<u>\$260,581,842</u>

**Duke Energy Ohio, Inc.**  
**Plant in Service Summary by Major Property Groupings (As of December 31, 2013)**

Line No.	Account Number		Account Title	Per Books	Adjustments <sup>(a)</sup>	Adjusted Total Company	Allocated to Distribution	
	FERC	Company					Percent	Dollars
Distribution Accounts								
1	360	3600	Land and Land Rights	\$13,828,389		\$13,828,389	100.000%	\$13,828,389
2	360	3601	Rights of Way	26,180,593		26,180,593	100.000%	26,180,593
3	361	3610	Structures and Improvements	13,931,489		13,931,489	100.000%	13,931,489
4	362	3620	Station Equipment	207,345,720	(30,923,113)	176,422,607	100.000%	176,422,607
5	362	3622	Major Equipment	110,758,617	(3,624,290)	107,134,327	100.000%	107,134,327
6	362	3635	Station Equipment Electronic	942,659	(942,659)	0	100.000%	0
7	364	3640	Poles, Towers & Fixtures	272,746,250	(3,357,656)	269,388,594	100.000%	269,388,594
8	365	3650, 3651	Overhead Conductors and Devices	499,077,142	(27,618,658)	471,458,484	100.000%	471,458,484
9	366	3660	Underground Conduit	92,019,641		92,019,641	100.000%	92,019,641
10	367	3670	Underground Conductors and Devices	304,410,903		304,410,903	100.000%	304,410,903
11	368	3680, 3681	Line Transformers	323,219,428		323,219,428	100.000%	323,219,428
12	368	3682	Customer Transformer Installations	5,183,057		5,183,057	100.000%	5,183,057
13	369	3691	Services - Underground	3,574,533		3,574,533	100.000%	3,574,533
14	369	3692	Services - Overhead	76,694,253		76,694,253	100.000%	76,694,253
15	370	3700	Meters	15,502,708		15,502,708	100.000%	15,502,708
16	370	3701	Leased Meters	14,844,188		14,844,188	100.000%	14,844,188
17	370	3702	Utility of the Future Meters	65,113,874	(65,113,874)	0	100.000%	0
18	371	3710	Installations on Customers' Premises	1,242,058		1,242,058	100.000%	1,242,058
19	371	3712	Company Owned Outdoor Light	1,410,171	(1,410,171)	0	100.000%	0
20	372	3720	Leased Property on Customers' Premises	102,503		102,503	100.000%	102,503
21	373	3730, 3731	Street Lighting	19,199,737		19,199,737	100.000%	19,199,737
22	373	3732	Street Lighting - Boulevard	27,976,814		27,976,814	100.000%	27,976,814
23	373	3733	Light Security OL POL Flood	17,708,343		17,708,343	100.000%	17,708,343
24	373	3734	Light Choice DLE - Public	5,384,047	(5,384,047)	0	100.000%	0
25				\$2,118,397,117	(\$138,374,468)	\$1,980,022,649		\$1,980,022,649
General Plant Accounts								
26	303	3030	Miscellaneous Intangible Plant	\$35,579,649	(\$5,887,901)	\$29,691,748	92.374%	\$27,427,455
27	389	3890	Land and Land Rights	949,213		949,213	92.374%	876,826
28	390	3900	Structures and Improvements	23,972,639		23,972,639	92.374%	22,144,486
29	391	3910	Office Furniture and Equipment	370,890		370,890	92.374%	342,606
30	391	3911	Electronic Data Processing Equipment	4,084,982	(1,459,802)	2,575,180	92.374%	2,378,797
31	391	3920	Transportation Equipment	1,347,709		1,347,709	92.374%	1,244,933
32	391	3921	Trailers	2,905,041		2,905,041	92.374%	2,683,503
33	393	3930	Stores Equipment	1,325,910		1,325,910	92.374%	1,224,796
34	392	3940	Tools, Shop & Garage Equipment	18,379,895		18,379,895	92.374%	16,978,244
35	392	3950	Laboratory Equipment	60,146		60,146	92.374%	55,559
36	393	3960	Power Operated Equipment	1,656,402		1,656,402	92.374%	1,530,085
37	393	3970	Communication Equipment - 75023	104,566,843	(89,980,023)	14,586,820	92.374%	13,474,429
38	393	3970	Communication Equipment - 75024	52,866		52,866	92.374%	48,834
39	393	3970	Communication Equipment - 75025	2,924,243		2,924,243	92.374%	2,701,240
40	393	3970	Communication Equipment Microwave	197,898		197,898	92.374%	182,806
41	394	3980	Miscellaneous Equipment	86,534		86,534	92.374%	79,935
42				\$198,410,860	(\$97,327,726)	\$101,083,134		\$93,374,534
Common Plant Accounts								
43		1030	Miscellaneous Intangible Plant	\$107,796,463		\$107,796,463	Allocated to Electric T&D 63.340%	\$68,278,280
44		1701	Common AMI Meters	\$18,892,473	(\$18,892,473)			
45		1890	Land and Land Rights - 4th and Main	1,378,244		1,378,244	61.240%	844,037
46		1890	Land and Land Rights	455,540		455,540	63.340%	288,539
47		1890	Land and Land Rights - Microwave	287,863		287,863	36.080%	103,861
48		1891	Rights of Way	37,969		37,969	36.080%	13,699
49		1900	Structures & Improvements - 4th and Main	108,673,431		108,673,431	61.240%	66,551,609
50		1900	Structures & Improvements	42,583,478		42,583,478	63.340%	26,972,375
51		1900	Structures & Improvements - Microwave	133,308		133,308	36.080%	48,098
52		1900	Structures & Improvements - Holiday Park	303,876		303,876	62.180%	188,950
53		1910	Office Furniture & Equipment	6,792,396		6,792,396	61.240%	4,159,663
54		1911	Electronic Data Processing	821,780	(61,445)	760,335	63.340%	481,596
55		1920	Transportation Equipment	85,311		85,311	63.340%	54,036
56		1921	Trailers	474,273		474,273	63.340%	300,405
57		1930	Stores Equipment	224,695		224,695	63.340%	142,322
58		1940	Tools, Shop & Garage Equipment	2,533,784		2,533,784	63.340%	1,604,899
59		1950	Laboratory Equipment	23,250		23,250	63.340%	14,727
60		1960	Power Operated Equipment	153,899		153,899	63.340%	97,480
61		1970	Communication Equipment - Non SmartGrid	20,849,642		20,849,642	63.340%	13,206,163
62		1970	Communication Equipment - Microwave	11,843,278		11,843,278	36.080%	4,273,055
63		1980	Miscellaneous Equipment	455,971		455,971	63.340%	288,812
64								
65				\$324,800,924	(\$18,953,918)	\$305,847,006		\$187,912,606
66	92.374%		Electric Portion of Common Allocated to Electric Distribution	\$300,031,606	(\$17,508,492)	\$282,523,113		\$173,582,391
67			Total Distribution Gross Plant	\$2,616,839,583	(\$253,210,686)	\$2,363,628,896		\$2,246,979,574

(a) Grid Mod additions



**Duke Energy Ohio, Inc.**  
**Plant in Service Summary by Major Property Groupings (As of March 31, 2012)**

Line No.	Account Number		Account Title	Per Books	Adjustments <sup>(a)</sup>	Adjusted	Allocated to Distribution	
	FERC	Company				Total Company	Percent	Dollars
Distribution Accounts								
1	360	3600	Land and Land Rights	\$13,109,977		\$13,109,977	100.000%	\$13,109,977
2	360	3601	Rights of Way	26,110,943		26,110,943	100.000%	26,110,943
3	361	3610	Structures and Improvements	8,317,815		8,317,815	100.000%	8,317,815
4	362	3620	Station Equipment	182,040,569	{17,100,300}	164,940,269	100.000%	164,940,269
5	362	3622	Major Equipment	103,229,213	{2,103,326}	101,125,887	100.000%	101,125,887
6	362	3635	Station Equipment Electronic	2,620,440	{2,719,820}	(99,380)	100.000%	(99,380)
7	364	3640	Poles, Towers & Fixtures	243,486,355	{1,162,056}	242,324,299	100.000%	242,324,299
8	365	3650, 3651	Overhead Conductors and Devices	396,969,778	{12,365,335}	384,604,443	100.000%	384,604,443
9	366	3660	Underground Conduit	88,227,723		88,227,723	100.000%	88,227,723
10	367	3670	Underground Conductors and Devices	282,336,871		282,336,871	100.000%	282,336,871
11	368	3680, 3681	Line Transformers	367,228,972		367,228,972	100.000%	367,228,972
12	368	3682	Customer Transformer Installations	5,272,832		5,272,832	100.000%	5,272,832
13	369	3691	Services - Underground	3,391,901		3,391,901	100.000%	3,391,901
14	369	3692	Services - Overhead	64,385,178		64,385,178	100.000%	64,385,178
15	370	3700	Meters	41,968,249		41,968,249	100.000%	41,968,249
16	370	3701	Leased Meters	17,699,187		17,699,187	100.000%	17,699,187
17	370	3702	Utility of the Future Meters	40,433,742	{40,433,742}	0	100.000%	0
18	371	3710	Installations on Customers' Premises	241,509		241,509	100.000%	241,509
19	371	3712	Company Owned Outdoor Light	714,040	{714,040}	0	100.000%	0
20	372	3720	Leased Property on Customers' Premises	102,503		102,503	100.000%	102,503
21	373	3730, 3731	Street Lighting	21,127,345	{180,809}	20,946,536	100.000%	20,946,536
22	373	3732	Street Lighting - Boulevard	28,103,634		28,103,634	100.000%	28,103,634
23	373	3733	Light Security OL POL Flood	17,694,862		17,694,862	100.000%	17,694,862
24	373	3734	Light Choice OLE - Public	1,364,763	{1,364,763}	0	100.000%	0
25				\$1,956,178,401	(\$78,144,191)	\$1,878,034,210		\$1,878,034,210
General Plant Accounts								
26	303	3030	Miscellaneous Intangible Plant	\$34,776,041	(\$5,191,891)	\$29,584,150	92.257%	\$27,293,450
27	389	3890	Land and Land Rights	949,213		949,213	92.257%	875,715
28	390	3900	Structures and Improvements	25,029,892	{96,525}	24,933,367	92.257%	23,002,776
29	391	3910	Office Furniture and Equipment	502,944		502,944	92.257%	464,001
30	391	3911	Electronic Data Processing Equipment	2,403,741	{1,069,127}	1,334,614	92.257%	1,231,275
31	391	3920	Transportation Equipment	1,302,268		1,302,268	92.257%	1,201,433
32	391	3921	Trailers	2,940,408		2,940,408	92.257%	2,712,732
33	393	3930	Stores Equipment	1,090,920		1,090,920	92.257%	1,006,450
34	392	3940	Tools, Shop & Garage Equipment	14,796,560		14,796,560	92.257%	13,650,862
35	392	3950	Laboratory Equipment	125,110		125,110	92.257%	115,423
36	393	3960	Power Operated Equipment	1,555,719		1,555,719	92.257%	1,435,260
37	393	3970	Communication Equipment	53,946,585	{40,153,265}	13,793,320	92.257%	12,725,303
38	394	3980	Miscellaneous Equipment	83,798		83,798	92.257%	77,310
39				\$139,503,199	(\$46,510,808)	\$92,992,391		\$85,791,990
Common Plant Accounts								
40		1030	Miscellaneous Intangible Plant	\$121,520,890		\$121,520,890	44.821%	\$54,466,878
41		1890	Land and Land Rights	2,121,647		2,121,647	44.821%	950,943
42		1891	Rights of Way	37,969		37,969	44.821%	17,018
43		1900	Structures & Improvements	129,745,709	{5,031,788}	124,713,921	44.821%	55,898,027
44		1910	Office Furniture & Equipment	4,220,950	{6,594}	4,214,356	44.821%	1,888,917
45		1911	Electronic Data Processing - Non SmartGrid	693,843		693,843	44.821%	310,987
46		1920	Transportation Equipment	85,311		85,311	44.821%	38,237
47		1921	Trailers	474,273		474,273	44.821%	212,574
48		1930	Stores Equipment	189,750		189,750	44.821%	85,048
49		1940	Tools, Shop & Garage Equipment	1,829,999	{52,910}	1,777,089	44.821%	796,509
50		1950	Laboratory Equipment	23,250		23,250	44.821%	10,421
51		1960	Power Operated Equipment	153,899		153,899	44.821%	68,979
52		1970	Communication Equipment - Non SmartGrid	27,931,369	{8,238}	27,923,131	44.821%	12,515,427
53		1980	Miscellaneous Equipment	429,603	{8,081}	421,522	44.821%	188,930
54		1990, 1991	Retirement Work in Process - ARO	99,735	{99,735}	0	44.821%	0
55				\$289,558,197	(\$5,207,346)	\$284,350,851		\$127,448,895
56	83.50%		Common Allocated to Electric - Excl Smart Grid	\$241,781,094	(\$4,348,134)	\$237,432,961	44.821%	\$106,419,827
57			Total Distribution Gross Plant	\$2,337,462,694	(\$129,003,133)	\$2,208,459,562		\$2,070,246,027

Duke Energy Ohio, Inc.  
Accumulated Depreciation by Major Property Groupings (As of December 31, 2013)

Line No.	Account Number		Account Title	Per Books	Adjustments <sup>(a)</sup>	Adjusted Total Company	Allocated to Distribution	
	FERC	Company					Percent	Dollars
Distribution Accounts								
1	360	3600	Land and Land Rights	\$1,538		\$1,538	100.000%	\$1,538
2	360	3601	Rights of Way	3,129,132		3,129,132	100.000%	3,129,132
3	361	3610	Structures and Improvements	4,284,607		4,284,607	100.000%	4,284,607
4	362	3620	Station Equipment	76,953,434	(1,557,423)	75,396,011	100.000%	75,396,011
5	362	3622	Major Equipment	40,846,659	(189,304)	40,657,355	100.000%	40,657,355
6	363	3635	Dist Station Equip Elec	53,966	(53,966)	0	100.000%	0
7	364	3640	Poles, Towers & Fixtures	115,280,916	(79,223)	115,201,693	100.000%	115,201,693
8	365	3650, 3651	Overhead Conductors and Devices	121,490,653	(1,281,087)	120,209,566	100.000%	120,209,566
9	366	3660	Underground Conduit	38,835,088		38,835,088	100.000%	38,835,088
10	367	3670	Underground Conductors and Devices	81,562,391		81,562,391	100.000%	81,562,391
11	368	3680, 3681	Line Transformers	136,624,780		136,624,780	100.000%	136,624,780
12	368	3682	Customer Transformer Installations	2,847,503		2,847,503	100.000%	2,847,503
13	369	3691	Services - Underground	2,324,273		2,324,273	100.000%	2,324,273
14	369	3692	Services - Overhead	40,490,126		40,490,126	100.000%	40,490,126
15	370	3700	Meters	(7,598,008)		(7,598,008)	100.000%	(7,598,008)
16	370	3701	Leased Meters	5,440,509		5,440,509	100.000%	5,440,509
17	370	3702	Utility of the Future Meters	8,401,452	(8,401,452)	0	100.000%	0
18	371	3710	Installations on Customers' Premises	108,979		108,979	100.000%	108,979
19	371	3712	Company Owned Outdoor Light	(583,155)	583,155	0	100.000%	0
20	372	3720	Leased Property on Customers' Premises	(68,909)		(68,909)	100.000%	(68,909)
21	373	3730, 3731	Street Lighting - Overhead	10,128,012		10,128,012	100.000%	10,128,012
22	373	3732	Street Lighting - Boulevard	7,052,770		7,052,770	100.000%	7,052,770
23	373	3733	Light Security OL POL Flood	6,606,491		6,606,491	100.000%	6,606,491
24	373	3734	Light Choice OLE - Public	(332,957)	332,957	0	100.000%	0
25		108	Retirement Work in Progress	(12,825,285)		(12,825,285)	100.000%	(12,825,285)
26				\$681,054,965	(\$10,646,343)	\$670,408,622		\$670,408,622
27	303	3030	Miscellaneous Intangible Plant	\$26,754,437	(\$1,100,775)	\$25,653,662	92.374%	\$23,697,314
28	389	3890	Land and Land Rights	0		\$0	92.374%	0
29	390	3900	Structures and Improvements	11,223,454		\$11,223,454	92.374%	10,367,553
30	391	3910	Office Furniture and Equipment	14,754		\$14,754	92.374%	13,629
31	391	3911	Electronic Data Processing Equipment	1,609,225	(653,287)	\$955,938	92.374%	883,038
32	391	3920	Transportation Equipment	1,225,489		\$1,225,489	92.374%	1,132,033
33	391	3921	Trailers	1,847,783		\$1,847,783	92.374%	1,706,871
34	393	3930	Stores Equipment	41,914		\$41,914	92.374%	38,718
35	392	3940	Tools, Shop & Garage Equipment	4,642,884		\$4,642,884	92.374%	4,288,818
36	392	3950	Laboratory Equipment	(1,137,846)		(\$1,137,846)	92.374%	(1,051,074)
37	393	3960	Power Operated Equipment	1,123,498		\$1,123,498	92.374%	1,037,820
38	393	3970	Communication Equipment - 75023	15,532,863	(11,667,769)	\$3,865,094	92.374%	3,570,342
39	393	3970	Communication Equipment - 75024	7,399		\$7,399	92.374%	6,835
40	393	3970	Communication Equipment - 75025	1,120,494		\$1,120,494	92.374%	1,035,045
41	393	3970	Communication Equipment Micro - 75025	60,000		\$60,000	92.374%	55,424
42	394	3980	Miscellaneous Equipment	17,746		\$17,746	92.374%	16,393
43		108	Retirement Work in Progress				0.000%	0
				\$64,084,094	(\$13,421,831)	\$50,662,263		\$46,798,759
44		1030	Miscellaneous Intangible Plant	\$103,217,886		\$103,217,886	63.340%	\$65,378,209
45		1890	Land and Land Rights - 4th and Main	82,196		82,196	61.240%	50,337
46		1890	Land and Land Rights	17,483		17,483	63.340%	11,074
47		1890	Land and Land Rights - Microwave	7,228		7,228	36.080%	2,608
48		1891	Rights of Way	0		0	36.080%	0
49		1900	Structures & Improvements - 4th and Main	26,255,721		26,255,721	61.240%	16,079,004
50		1900	Structures & Improvements	3,305,975		3,305,975	63.340%	2,094,005
51		1900	Structures & Improvements - Microwave	12,378		12,378	36.080%	4,466
52		1900	Structures & Improvements - Holiday Park	303,754		303,754	62.180%	188,874
53		1910	Office Furniture & Equipment	(2,049,166)		(2,049,166)	61.240%	(1,254,909)
54		1911	Electronic Data Processing	584,196	(41,396)	542,800	63.340%	343,810
55		1920	Transportation Equipment	85,311		85,311	63.340%	54,036
56		1921	Trailers	275,467		275,467	63.340%	174,481
57		1930	Stores Equipment	(127,497)		(127,497)	63.340%	(80,757)
58		1940	Tools, Shop & Garage Equipment	683,531		683,531	63.340%	432,949
59		1950	Laboratory Equipment	4,005		4,005	63.340%	2,537
60		1960	Power Operated Equipment	73,634		73,634	63.340%	46,640
61		1970	Communication Equipment - Non SmartGrid	4,271,399		4,271,399	63.340%	2,705,504
62		1970	Communication Equipment - Microwave	8,462,281		8,462,281	36.080%	3,053,191
63		1980	Miscellaneous Equipment	162,196		162,196	63.340%	102,735
64		1990, 1991	Retirement Work in Process - ARD	186,723	(186,723)	0	0.000%	0
65		108	Retirement Work in Progress	(803,736)		(803,736)	63.340%	(509,086)
				\$145,010,965	(\$228,119)	\$144,782,846		\$88,879,708
66		92.374%	Common Allocated to Electric - Excl SG	\$133,952,429	(\$210,723)	\$133,741,706		\$82,101,741
67			Total Distribution Gross Plant	\$879,091,488	(\$24,278,897)	\$854,812,591		\$799,309,122

Duke Energy Ohio, Inc.  
Accumulated Depreciation by Major Property Groupings (As of March 31, 2012)

Line No.	Account Number		Account Title	Per Books	Adjustments <sup>(a)</sup>	Adjusted	Allocated to Distribution	
	FERC	Company				Total Company	Percent	Dollars
Distribution Accounts								
1	360	3600	Land and Land Rights	\$1,539		\$1,539	100.000%	\$1,539
2	360	3601	Rights of Way	2,520,994		2,520,994	100.000%	2,520,994
3	361	3610	Structures and Improvements	4,004,656		4,004,656	100.000%	4,004,656
4	362	3620	Station Equipment	70,648,575	(452,294)	70,196,281	100.000%	70,196,281
5	362	3622	Major Equipment	36,923,264	(86,536)	36,836,728	100.000%	36,836,728
6	363	3635	Dist Station Equip Elec	209,328	(178,269)	31,059	100.000%	31,059
7	364	3640	Poles, Towers & Fixtures	108,050,272	(13,609)	108,036,663	100.000%	108,036,663
8	365	3650, 3651	Overhead Conductors and Devices	99,685,733	(367,470)	99,318,263	100.000%	99,318,263
9	366	3660	Underground Conduit	35,969,974		35,969,974	100.000%	35,969,974
10	367	3670	Underground Conductors and Devices	73,293,965		73,293,965	100.000%	73,293,965
11	368	3680, 3681	Line Transformers	143,569,293		143,569,293	100.000%	143,569,293
12	368	3682	Customer Transformer Installations	2,628,003		2,628,003	100.000%	2,628,003
13	369	3691	Services - Underground	2,248,643		2,248,643	100.000%	2,248,643
14	369	3692	Services - Overhead	36,808,118		36,808,118	100.000%	36,808,118
15	370	3700	Meters	12,697,346		12,697,346	100.000%	12,697,346
16	370	3701	Leased Meters	4,187,966		4,187,966	100.000%	4,187,966
17	370	3702	Utility of the Future Meters	2,853,005	(2,853,005)	0	100.000%	0
18	371	3710	Installations on Customers' Premises	2,770		2,770	100.000%	2,770
19	371	3712	Company Owned Outdoor Light	(244,226)	244,226	0	100.000%	0
20	372	3720	Leased Property on Customers' Premises	(76,085)		(76,085)	100.000%	(76,085)
21	373	3730, 3731	Street Lighting - Overhead	8,989,199	1,748,866	10,738,065	100.000%	10,738,065
22	373	3732	Street Lighting - Boulevard	5,929,055		5,929,055	100.000%	5,929,055
23	373	3733	Light Security OL POL Flood	5,507,955		5,507,955	100.000%	5,507,955
24	373	3734	Light Choice OLE - Public	(375,920)	375,920	0	100.000%	0
25		108	Retirement Work in progress	(7,669,689)		(7,669,689)	100.000%	(7,669,689)
26				\$648,363,733	(\$1,582,171)	\$646,781,562		\$646,781,562
27	303	3030	Miscellaneous Intangible Plant	\$28,383,791	(\$1,526,149)	\$26,857,642	92.257%	\$24,778,055
28	389	3890	Land and Land Rights	0		0	92.257%	0
29	390	3900	Structures and Improvements	10,786,139	(53,298)	10,732,841	92.257%	9,901,797
30	391	3910	Office Furniture and Equipment	44,916		44,916	92.257%	41,438
31	391	3911	Electronic Data Processing Equipment	441,424	(216,033)	225,391	92.257%	207,939
32	391	3920	Transportation Equipment	1,218,529		1,218,529	92.257%	1,124,178
33	391	3921	Trailers	1,621,154		1,621,154	92.257%	1,495,628
34	393	3930	Stores Equipment	(597)		(597)	92.257%	(551)
35	392	3940	Tools, Shop & Garage Equipment	3,920,084		3,920,084	92.257%	3,616,552
36	392	3950	Laboratory Equipment	(1,080,986)		(1,080,986)	92.257%	(997,285)
37	393	3960	Power Operated Equipment	1,088,310		1,088,310	92.257%	1,004,042
38	393	3970	Communication Equipment	7,472,559	(4,244,815)	3,227,744	92.257%	2,977,820
39	394	3980	Miscellaneous Equipment	10,412		10,412	92.257%	9,606
		108	Retirement Work in progress	1,671,181		1,671,181	92.257%	1,541,781
40				\$55,576,916	(\$6,040,295)	\$49,536,621		\$45,701,000
41		1030	Miscellaneous Intangible Plant	\$107,949,728		\$107,949,728	44.821%	\$48,384,148
42		1890	Land and Land Rights	106,907		106,907	44.821%	47,917
43		1891	Rights of Way	0		0	44.821%	0
44		1900	Structures & Improvements	26,647,207	(2,211,475)	24,435,732	44.821%	10,952,339
45		1910	Office Furniture & Equipment	(1,746,218)	2,038	(1,744,180)	44.821%	(781,759)
46		1911	Electronic Data Processing - Non SmartGrid	274,745		274,745	44.821%	123,143
47		1920	Transportation Equipment	85,311		85,311	44.821%	38,237
48		1921	Trailers	234,543		234,543	44.821%	105,125
49		1930	Stores Equipment	(151,381)		(151,381)	44.821%	(67,850)
50		1940	Tools, Shop & Garage Equipment	555,791	(33,208)	522,583	44.821%	234,227
51		1950	Laboratory Equipment	1,293		1,293	44.821%	580
52		1960	Power Operated Equipment	62,759		62,759	44.821%	28,129
53		1970	Communication Equipment - Non SmartGrid	12,183,687	(1,232)	12,182,455	44.821%	5,460,298
54		1980	Miscellaneous Equipment	131,816	(5,290)	126,526	44.821%	56,710
55		1990, 1991	Retirement Work in Process - ARO	117,273	(117,273)	0	44.821%	0
56		108	Retirement Work in Progress	(869,369)		(869,369)	44.821%	(389,660)
				\$145,584,092	(\$2,366,440)	\$143,217,652		\$64,191,584
57		83.50%	Common Allocated to Electric - Excl SG	\$121,562,717	(\$1,975,977)	\$119,586,739	44.821%	\$53,599,973
58			Total Distribution Gross Plant	\$825,503,366	(\$9,598,443)	\$815,904,922		\$746,082,535

**Duke Energy Ohio, Inc.**  
**Plant Related Accumulated Deferred Income Taxes - Excluding Grid Modernization (December 31, 2013)**

Line No.	Account Number		Account Title	Per Books	Adjustments <sup>(a)</sup>	Adjusted Total Company	Allocated to Distribution	
	FERC	Company					Percent	Dollars
Account 282								
1	282	282.XXX	263A	\$	(39,358,756)	\$0	100.000%	(\$39,358,756)
2	282	282.XXX	AFUDC Debt		(2,536,635)	0	100.000%	(2,536,635)
3	282	282.XXX	Casualty Loss		(14,278,800)	0	100.000%	(14,278,800)
4	282	282.XXX	CIAC		15,792,599	0	100.000%	15,792,599
5	282	282.XXX	CWIP Differences		4,050,433	0	100.000%	4,050,433
6	282	282.XXX	FAS109		(40,995,295)	40,995,295	100.000%	0
7	282	282.XXX	Miscellaneous		2,863,943	0	100.000%	2,863,943
8	282	282.XXX	Non-Cash Overheads		19,065,676	0	100.000%	19,065,676
9	282	282.XXX	Section 174		(368,221)	368,221	100.000%	0
10	282	282.XXX	Software		(1,268,318)	0	100.000%	(1,268,318)
11	282	282.XXX	Tax Depreciation		(356,724,529)	60,366,228	100.000%	(296,358,301)
12	282	282.XXX	TIC		4,623,222	0	100.000%	4,623,222
					(\$409,134,682)	\$101,729,744		(\$307,404,938)
13	Total Plant-Related Accumulated Deferred Income Tax				(\$409,134,682)	\$101,729,744	100.000%	(\$307,404,937)

**Duke Energy Ohio, Inc.**  
**Plant Related Accumulated Deferred Income Taxes - Excluding Grid Modernization (March 31, 2012)**

Line No.	Account Number		Account Title	Per Books	Adjustments <sup>(a)</sup>	Adjusted Total Company	Allocated to Distribution	
	FERC	Company					Percent	Dollars
			<b>Account 282</b>					
1	282	282.XXX	263A	(\$41,534,825)	\$0	(\$41,534,825)	100.000%	(\$41,534,825)
2	282	282.XXX	AFUDC Debt	(3,210,820)	0	(3,210,820)	100.000%	(3,210,820)
3	282	282.XXX	Casualty Loss	(11,500,231)	0	(11,500,231)	100.000%	(11,500,231)
4	282	282.XXX	CIAC	12,778,410	0	12,778,410	100.000%	12,778,410
5	282	282.XXX	CWIP Differences	(2,633,663)	0	(2,633,663)	100.000%	(2,633,663)
6	282	282.XXX	FAS109	(67,639,487)	67,639,487	0	100.000%	0
7	282	282.XXX	Miscellaneous	(13,477,689)	0	(13,477,689)	100.000%	(13,477,689)
8	282	282.XXX	Non-Cash Overheads	17,831,308	0	17,831,308	100.000%	17,831,308
9	282	282.XXX	Section 174	(937,678)	937,678	0	100.000%	0
10	282	282.XXX	Software	(2,713,554)	0	(2,713,554)	100.000%	(2,713,554)
11	282	282.XXX	Tax Depreciation	(256,005,595)	37,843,852	(218,161,743)	100.000%	(218,161,743)
12	282	282.XXX	Light Choice OLE - Public	5,448,950	0	5,448,950	100.000%	5,448,950
				(\$363,594,874)	\$106,421,017	(\$257,173,857)		(\$257,173,857)
13			Total Plant-Related Accumulated Deferred Income Tax	(\$363,594,874)	\$106,421,017	(\$257,173,857)	100.000%	(\$257,173,857)

Duke Energy Ohio, Inc.  
Depreciation Expense by Major Property Groupings

		Gross Plant Balance		Depreciation Rate (%)	Depreciation Expense	
		Base Case	Current Period		Base Case	Current Period
Distribution Accounts						
360	Land and Land Rights	\$13,109,977	\$13,828,389	-	\$0	\$0
3601	Rights of Way	\$26,110,943	\$26,180,593	1.33	\$347,276	\$348,202
3610	Structures and Improvements	\$8,317,815	\$13,931,489	1.69	140,571	235,442
3620	Station Equipment	\$164,940,269	\$176,422,607	1.92	3,166,853	3,387,314
3622	Major Equipment	\$101,125,887	\$107,134,327	1.92	1,941,517	2,056,979
3635	Station Equipment - Electronic	(959,380)	\$0	5.00	(4,969)	-
3640	Poles, Towers & Structures	\$242,324,299	\$289,388,594	2.40	5,815,783	6,465,326
3650, 3651	Overhead Conductors and Devices	\$384,604,443	\$471,458,484	2.80	10,788,924	13,200,838
3660	Underground Conduit	\$88,227,723	\$92,018,641	2.00	1,764,554	1,840,393
3670	Underground Conductors and Devices	\$282,336,871	\$304,410,903	2.16	6,098,476	6,575,276
3680, 3681	Line Transformers	\$367,228,972	\$333,219,428	2.50	9,180,724	8,090,486
3682	Customer Transformer Installations	\$5,272,832	\$5,183,057	2.22	117,067	115,064
369	Services - Underground	\$3,391,901	\$3,574,533	2.00	67,838	71,491
3692	Services - Overhead	\$64,385,178	\$76,694,253	3.26	2,098,957	2,500,233
370	Meters	\$32,936,648	\$15,502,708	Amortization	3,508,121	3,508,121
3701	Instrument Transformers	\$9,031,601	\$17,699,187	2.86	258,304	1,570,224
3702	Leased Meters	\$17,699,187	\$14,844,188	Amortization	1,570,224	1,570,224
3703	Utility of the Future Meters	\$0	\$0	6.67	-	82,845
3710	Installations on Customers' Premises	\$241,509	\$1,242,058	6.67	16,109	82,845
3712	Company Owned Outdoor Lighting	\$0	\$0	6.67	-	4,100
3720	Leased Property on Customers' Premises	\$102,503	\$102,503	4.00	4,100	4,100
3730, 3731	Street Lighting - Overhead	\$20,946,536	\$19,195,737	3.93	823,199	754,550
3732	Street Lighting - Boulevard	\$28,103,634	\$27,978,814	2.44	685,728	682,634
3733	Light Security OL, POL, Flood	\$17,694,852	\$17,708,343	3.83	677,713	678,230
3734	Light Choice OLE - Public	\$0	\$0	4.20	-	-
sum	Total	\$1,878,034,210	\$1,980,022,649		\$48,047,161	\$52,167,746
General Plant Accounts						
3030	Miscellaneous Intangible Plant	\$27,293,450	\$27,427,455	Various	2,030,355	2,817,632
3890	Land and Land Rights	\$75,715	\$76,826	-	-	-
3900	Structures and Improvements	\$23,002,776	\$22,144,486	2.90	687,081	642,190
3910	Office Furniture and Equipment	\$64,001	\$42,606	5.00	23,200	17,130
3911	Electronic Data Processing Equipment	\$1,231,275	\$2,378,797	20.00	246,255	475,759
3920	Transportation Equipment	\$1,201,433	\$1,244,933	N/A	-	-
3921	Trailers	\$2,712,732	\$2,853,503	N/A	-	-
3930	Stores Equipment	\$1,006,450	\$1,224,796	5.00	50,323	61,240
3934	Tools, Shop & Garage Equipment	\$13,650,862	\$16,978,244	4.00	546,034	679,130
3950	Laboratory Equipment	\$115,423	\$5,559	6.67	7,899	3,706
3960	Power Operated Equipment	\$1,435,260	\$1,530,085	N/A	-	-
3970	Communication Equipment - 75023	\$12,725,303	\$13,474,429	6.67	848,778	898,744
3973	Communication Equipment - 75024	-	\$48,834	6.67	-	3,257
3974	Communication Equipment - 75025	-	\$2,701,240	6.67	-	180,173
3979	Communication Equipment - 75026	-	\$182,806	6.67	-	12,193
3980	Miscellaneous Equipment	\$77,310	\$79,935	5.00	3,866	3,997
sum	Total Depreciation on General Plant Allocable to Distribution	\$85,791,990	\$93,374,534		\$4,423,569	\$5,795,151
Common Plant Accounts						
1030	Miscellaneous Intangible Plant	\$54,468,878	\$58,278,280	Various	\$3,133,484	2,301,545
1890	Land and Land Rights	\$950,343	\$1,236,437	-	-	-
1891	Rights of Way	\$17,018	\$13,699	-	-	-
1900	Structures & Improvements	\$3,429,404	\$8,184,911	3.47	1,854,000	3,060,016
1901	Structures & Improvements - Coplay Bldg - 3rd Floor	\$164,402	\$272,078	15.19	24,973	41,329
1902	Structures & Improvements - Coplay Bldg - 4th / 5th / 6th Flr	\$299,402	\$20,726	2.69	8,054	22,078
1903	Structures & Improvements - Coplay Bldg - Bld & Access Ramp	\$1,853,743	\$1,179,441	0.49	9,162	20,479
1904	Structures & Improvements - Holiday Park	\$135,076	\$303,876	16.23	21,923	49,319
1909	Office Furniture & Equipment	\$1,888,917	\$1,159,663	5.00	94,446	207,883
1910	Electronic Data Processing - Non SmartGrid	\$310,987	\$481,586	20.00	62,197	96,319
1911	Transportation Equipment	\$36,237	\$4,036	N/A	-	-
1920	Trailers	\$212,574	\$300,405	5.00	4,252	7,116
1930	Stores Equipment	\$85,048	\$142,322	4.00	31,860	64,196
1940	Tools, Shop & Garage Equipment	\$796,509	\$1,604,899	6.67	695	982
1950	Laboratory Equipment	\$10,421	\$14,727	N/A	-	-
1960	Power Operated Equipment	\$68,979	\$7,480	-	-	-
1970	Communication Equipment - Non SmartGrid	\$12,515,427	\$13,206,163	6.67	834,779	880,851
1970	Communication Equipment - Microwave	\$4,273,056	\$4,273,056	6.67	-	285,013
1980	Miscellaneous Equipment	\$189,830	\$288,812	5.00	9,447	14,441
sum	Total Depreciation on Common Plant Allocable to Distribution	\$127,448,805	\$187,912,606		\$6,089,272	\$7,051,657
Common Plant Allocated to Electric Distribution						
						\$5,084,542
						\$58,555,292
						\$64,466,804

Total Depreciation Expense for Electric Distribution

**DUKE ENERGY OHIO, INC.**  
**PROPERTY TAXES ALLOCABLE TO ELECTRIC DISTRIBUTION**

Property Taxes			
Personal	Real	Total	
71,145,935	477,713	71,623,648	
696,536	203,884	900,420	
127,768	777,279	905,047	
<b>\$71,970,239</b>	<b>\$1,458,877</b>	<b>\$73,429,115</b>	

1 Distribution  
2 General  
3 Common  
4 Total

**DUKE ENERGY OHIO, INC.  
PERSONAL PROPERTY TAXES ALLOCABLE TO ELECTRIC DISTRIBUTION**

	Distribution	General	Common	Total
Jurisdictional Plant in Service	\$1,980,022,649	\$93,374,534	\$173,582,391	\$2,246,979,574
Jurisdictional Real Property	53,940,471	23,021,312	87,765,616	164,727,399
Jurisdictional Personal Property	\$1,926,082,178	\$70,353,222	\$85,816,775	\$2,082,252,175

Exclusions & Exemptions

Intangible Assets				
Exempt Facilities		\$27,427,455	\$63,071,378	\$90,498,833

Total Exclusions & Exemptions \$0 \$27,427,455 \$63,071,378 \$90,498,833

Net Cost of Taxable Personal Property \$1,926,082,178 \$42,925,767 \$22,745,396 \$1,991,753,341

True Value Percentage (1) 47.03% 73.17% 25.33%

True Value of Taxable Personal Property \$905,836,448 \$31,408,784 \$5,761,409 \$943,006,641

Assessment Percentage 85.0% 24.0% 24.0%

Assessment Value \$769,960,981 \$7,538,108 \$1,382,738 \$778,881,827

Personal Property Tax Rate 9.2402% 9.2402% 9.2402%

Personal Property Tax \$71,145,935 \$696,536 \$127,768 \$71,970,239

(1) Percentage based on 2013 Valuation of Dec 2012 property

Assessed Value 959,217,935 95,128,100 44,711,160

Gross Plant in Service per 2012 Form 1 (Excluding Software) 2,039,524,866 130,018,229 176,481,417

47.03% 73.17% 25.33%



**DUKE ENERGY OHIO, INC.**  
**REAL PROPERTY TAXES ALLOCABLE TO ELECTRIC DISTRIBUTION**

	Distribution	General	Common	Total
Jurisdictional Real Property Allocation to Electric Plant associated with electric distribution	\$53,940,471 100%	\$23,021,312 100%	95,011,168 92.37%	\$171,972,951
Assessment Percentage (1)	15.352%	15.352%	15.352%	
Assessment Value	\$8,280,941	\$3,534,232	\$13,473,777	\$25,288,950
Real Property Tax Rate	5.7688%	5.7688%	5.7688%	
Real Property Tax	\$477,713	\$203,884	\$777,279	\$1,458,877

(1) DEO 2012 property taxes paid in 2013

Real Property cost per return (Distr & General Assessed Value)	163,939,297 25,167,212
Assessment Percentage	15.352%

**PUCO Case No. 14-841-EL-SSO  
Attachment PAL-2**

**Formula for Calculating Duke Energy Ohio Earnings for  
Significantly Excessive Earnings Test**

Use actual data for Duke Energy Ohio from the FERC Form 1 for the calendar year at issue.

Net Income as shown on page 117, column (c), line (78), of the Form 1, adjusted for the following, if necessary:

- Eliminate all impacts related to the purchase accounting recorded pursuant to the Duke Energy/Cinergy Corp. merger;
- Eliminate all impacts of refunds to customers pursuant to R.C. 4928.143(F);
- Eliminate all impacts of mark-to-market accounting;
- Eliminate all impacts of material, non-recurring gains or losses, including but not limited to, the sale or disposition of assets;
- Eliminate all impacts of material, non-recurring revenue or expenses;
- Eliminate all impacts of parent, affiliated, or subsidiary companies and, to the extent reasonably feasible and prudently justified in the opinion of Duke Energy Ohio, eliminate the impacts of its natural gas distribution business

The adjusted net income will be divided by Common Equity to determine the resulting ROE. Certain adjustments will be made to Common Equity.

- Common Equity used in the calculation will be the beginning and ending average common equity of Duke Energy Ohio on a stand-alone basis (i.e., equity associated with subsidiaries will be excluded and common equity will be allocated between gas and electric service to the extent practicable)
- Equity will be adjusted to eliminate the acquisition premium recorded to equity pursuant to the Duke Energy/Cinergy Corp. merger.
- Eliminate the cumulative effect of the Net Income adjustments

If the annual return on average common equity for the relevant year, as adjusted pursuant to the above, is above 15 percent, the Company will be deemed to have had "significantly" excessive earnings. Any significantly excessive earnings shall be grossed up for taxes and refunded to customers. Any refunds will be allocated to all retail customers on the same basis as is used for allocated costs under Rider RC.

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of an Electric Security Plan.	)	Case No. 08-920-EL-SSO
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Amend Accounting Methods.	)	Case No. 08-921-EL-AAM
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of a Certificate of Public Convenience and Necessity to Establish an Unavoidable Capacity Charge(s).	)	Case No. 08-922-EL-UNC
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Amend its Tariff.	)	Case No. 08-923-EL-ATA

OPINION AND ORDER

APPEARANCES.....	3
OPINION.....	4
I. BACKGROUND AND HISTORY OF THE PROCEEDINGS .....	4
II. DISCUSSION .....	7
A. Applicable Law .....	7
B. Summary of the Application and Stipulation .....	9
1. Generation Riders.....	11
(a) Base Generation.....	11
(b) Fuel, Purchased Power & Emission Allowances .....	12
(c) Annually Adjusted Component.....	13
(d) Capacity Dedication.....	14
(e) Market Capacity Purchases.....	14
(f) Regulatory Transition Charge .....	16
2. Transmission Rider .....	16
3. Distribution Riders.....	16
(a) Infrastructure Modernization.....	16
(b) Energy Efficiency.....	18
(c) Economic Competitiveness Fund.....	20
4. Other Matters .....	20

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deferrals and future recovery of deferrals, as modified by the stipulation, is more favorable in the aggregate than the expected results that would otherwise apply under Section 4928.142, Revised Code. (Jt. Ex. 1 at para. 27.)

(c) Excessive Earnings

Duke's application also states that its witnesses address the fact that no ESP component materially affects Duke's earnings and, also, propose a test to determine if Duke's earnings are significantly excessive at the end of each year of the ESP. (Duke Ex. 20, at 25-26.) The stipulation proposes that, beginning in 2010, and by May 15 of each year covered by the stipulation, the Commission implement a significantly excessive earnings test as set forth in the stipulation by the parties. (Jt. Ex. 1 at para. 28.)

(d) Governmental Aggregation

The application notes that there currently no active governmental aggregators in Duke's certified territory and that, therefore, there are no phase-in charges allocated to consumers in such groups. According to Duke, because the law permits governmental aggregators not to receive "standby service" but lacks a definition of that term, it proposes to credit governmental aggregation customers five percent of its SRA-SRT and SRA-CD rider charges as a proxy for the standby service charge that should be avoidable by governmental aggregators. (Duke Ex. 20, at 26-27.)

In the stipulation, residential and nonresidential customers in governmental aggregations are treated separately. With regard to nonresidential customers in governmental aggregations, the stipulation provides that they can avoid the SRA-SRT and receive a shopping credit equal to six percent of "little g" (an amount that is equal to the cost of rider SRA-CD) if the aggregator provides Duke with 60 days' notice of its intent to maintain the aggregation throughout the remainder of the ESP period and agrees that returning nonresidential customers will pay 115 percent of Duke's generation charges. Residential customers in governmental aggregations are not allowed to avoid rider SRA-SRT or receive the shopping credit, but are allowed to return to the ESP pricing at any time. The parties to the stipulation specifically agree that Duke "does not assess a separate charge for standby service or default service." (Jt. Ex. 1 at paras. 17, 20, 21.)

(e) Assistance to Certain Customers

Duke agrees, in the stipulation, that it will increase funding for home energy and weatherization contracts during the ESP to \$1,000,000 per year. It also agrees to contribute \$50,000 per year, through 2011, to a specified nonprofit organization in Duke's certified territory to be used for distributing fans and/or air conditioners to qualifying customers. Additionally, Duke agrees to contribute \$700,000 each year for the benefit of electric customers who are at or below 175 percent of the poverty level and who do not participate

28. The Parties agree that beginning in 2010, by May 15 of each year covered by this Stipulation, the Commission will implement the significantly excessive earnings test as follows:

DE-Ohio's return on ending common equity will be computed using DE-Ohio's prior year publicly reported FERC Form 1 financial statements, including off-system sales, subject only to the following specific adjustments:

- Net Income
  - Eliminate all depreciation and amortization expense related to the purchase accounting recorded pursuant to the Duke Energy/Cinergy merger,
  - Eliminate all impacts of refunds to customers pursuant to this paragraph,
  - Eliminate all impacts of mark-to-market accounting,
  - Eliminate all impacts of material, non-recurring gains/losses, including, but not limited to, the sale or disposition of assets.
- Common Equity
  - Eliminate the acquisition premium recorded to equity pursuant to the Duke Energy/Cinergy merger.

Should the actual annual return on ending common equity for each review year, as adjusted pursuant to this paragraph, not exceed 15%, DE-Ohio's return on common equity shall be deemed

to not be significantly in excess of the return on common equity that was earned during the same period by publicly traded companies that face comparable business and financial risks. If such return exceeds 15%, such excess shall be refunded on a grossed-up for taxes basis, to Rider PTC-FPP customers over a period not to exceed twelve-months, plus a true-up to avoid any over- or under-recovery. Any refund required shall not cause an adjustment to earnings for the years refunded to or from.

This Paragraph does not create a precedent for the computation of DE-Ohio's return on common equity or the applicability of the significantly excess earnings test set forth in R.C. 4928.143 regarding any SSO that DE-Ohio may implement subsequent to December 31, 2011.

29. Effective on the date of the Commission's Order approving this Stipulation, The Kroger Company shall have an one-hundred-eighty (180) day option to sell, and upon fifteen (15) days notice of The Kroger Company's election, to exercise such option, DE-Ohio shall purchase approximately 45 transformers located in the DE-Ohio service territory (as more specifically set forth and listed on Stipulation Attachment 7) at the cost of \$287,000, which reflects the net book value of such transformers based upon DE-Ohio's original cost.

**Duke Energy Ohio**  
**Case No. 14-841-EL-SSO, 14-842-EL-ATA**  
**OEG Second Set Data Requests**  
**Date Received: August 6, 2014**

**OEG-DR-02-008**

**REQUEST:**

If Duke did not bid its interruptible load (as a CSP) into the 2017/2018 BRA, what options are now available to Duke's customers to participate in the PJM DR program for the 2017/2018 delivery year?

**RESPONSE:**

Objection. This Interrogatory seeks to elicit information that is irrelevant and not likely to lead to the discovery of admissible evidence. There is no proposal in these proceedings that concerns Duke Energy Ohio's participation in PJM's base residual auction for the 2017/2018 delivery year through the bidding in of demand response resources. Furthermore, the interruptible load program approved in Case No. 11-3549-EL-SSO expires, by its terms, on May 31, 2015. Additionally, a customer's options in respect of the PJM DR program are a matter of public record and thus equally accessible by the OEG. Without waiving said objection, to the extent discoverable, and in the spirit of discovery, customers can now participate indirectly, or directly, in PJM's DR program 2017/18 delivery year under one of several methods:

Indirectly, by participating with Duke Energy Ohio under the PowerShare® .

Indirectly, by participating with another CSP's DR program in the PJM 2017/18 Incremental Capacity Auctions.

Registering its DR resources with PJM and participating directly in the PJM 2017/18 Incremental Capacity Auctions.

**PERSON RESPONSIBLE:** As to objection - Legal  
As to response - Richard A. Philip