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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 17-32-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 17-33-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 17-34-EL-AAM

TESTIMONY

VOLUME 1

March 16, 2017

DUKE ENERGY OHIO EXHIBIT ______

BEFORE

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DIRECT TESTIMONY OF

LISA M. BELLUCCI

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_________ Management policies, practices, and organization
_________ Operating income
_________ Rate Base
_________ Allocations
_________ Rate of return
_________ Rates and tariffs
____X____ Other: Taxes

March 16, 2017

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lisa M. Bellucci, and my business address is 550 South Tryon Street, Charlotte, North Carolina 28202.

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

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

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I have a Bachelor of Arts degree in Business Administration from the University of Rhode Island and a Master of Business Administration from Boston University. I am a Certified Public Accountant in the state of Rhode Island and I am a member of the Tax Executives Institute. My professional work experience began in 1984 as an auditor with Arthur Young and Company (now Ernst &Young or EY). From 1987 to 1998, I held a number of financial positions at two regulated utilities in Massachusetts (Yankee Atomic Electric Company and New England Electric System). In 1998, I joined Duke Energy and have held a number of financial positions of increasing responsibilities, including financial reporting and accounting, forecasting and investor relations. In February 2015, I joined the Corporate Tax Department as Director, Tax Operations.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS DIRECTOR, TAX OPERATIONS.

A. As Director, Tax Operations, I have overall responsibility for corporate tax compliance, and accounting for Duke Energy. The Duke Energy Tax Operations Department prepares and files federal, state, and local income tax returns for Duke Energy.

The Tax Operations Department also maintains and reconciles Duke Energy's tax accounts and is responsible for calculating and reporting income tax expense and accumulated deferred income taxes and reporting and disclosure of tax-related matters, to the extent required.

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

A. No.

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

A. My testimony addresses Duke Energy Ohio's income tax expense presented in this filing. I sponsor Schedules C-4 and C-4.1 and Supplemental Filing Requirement (C)(13). I also cosponsor Schedule B-6 and have provided certain tax information to other witnesses for their use in these proceedings.

II. SCHEDULES, FILING REQUIREMENTS AND INFORMATION SPONSORED BY WITNESS

Q. PLEASE DESCRIBE SCHEDULE B-6.

A. Schedule B-6 is a summary of date certain balances for Customer Advances for Construction, Customer Service Deposits, Post Retirement Benefits, Accumulated

Deferred Investment Tax Credits, and Accumulated Deferred Income Taxes.

Q. **WHAT INFORMATION ON SCHEDULE B-6 ARE YOU SPONSORING?**

A. I am sponsoring the balances shown in the "Total Company" column for Accumulated Deferred Investment Tax Credits and Accumulated Deferred Income Taxes. Duke Energy Ohio witness Peggy A. Laub is responsible for the remainder of the information and the adjustments provided on Schedule B-6.

Q. **PLEASE DESCRIBE SCHEDULE C-4.**

A. Schedule C-4 provides the adjusted jurisdictional federal, state, and municipal income tax expenses for Duke Energy Ohio.

Q. **PLEASE DESCRIBE SCHEDULE C-4.1.**

A. Schedule C-4.1 presents the jurisdictional federal, state, and municipal income tax expenses for Duke Energy Ohio prior to adjustments.

Q. **PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(13).**

A. Supplemental Filing Requirement (C)(13) provides information relating to the Company's federal and state income tax expense.

Q. **PLEASE DESCRIBE THE TAX INFORMATION YOU PROVIDED TO OTHER WITNESSES FOR THEIR USE IN THESE PROCEEDINGS.**

A. In addition to cosponsoring Schedule B-6, I also provided Duke Energy Ohio witness John L. Sullivan, III with the accumulated deferred income tax and accumulated deferred investment tax credit balances for use on Schedules D-1A and D-1B.

III. CONCLUSION

Q. WAS THE INFORMATION YOU PROVIDED IN SCHEDULES B-6, C-4, AND C-4.1, SUPPLEMENTAL FILING REQUIREMENTS (C)(13), AND THE TAX INFORMATION YOU SUPPLIED TO OTHER WITNESSES PREPARED UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. IS THE INFORMATION YOU SPONSORED ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

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

A. Yes.

DUKE ENERGY OHIO EXHIBIT_____

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 17-32-EL-AIR
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DIRECT TESTIMONY OF

DAVID L. DOSS, JR.

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____ Management policies, practices, and organization

_____ Operating income

_____ Rate base

_____ Allocations

_____ Rate of return

_____ Rates and tariffs

__X__ Other: Accounting Adjustments

March 16, 2017

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David L. Doss, Jr., and my business address is 550 South Tryon Street, Charlotte, North Carolina 28202.

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

A. I am employed by Duke Energy Business Services LLC (DEBS), as Director, Electric Utilities & Infrastructure. DEBS provides various administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Texas at Austin with a Bachelor's of Business Administration degree and I am a certified public accountant. I have over 30 years of professional experience with Duke Energy, including over 20 years of management experience in various accounting and finance roles. I was named to my current role as Director, Electric Utilities and Infrastructure in December 2016.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR, ELECTRIC UTILITIES AND INFRASTRUCTURE.

A. I am responsible for maintaining the books of account and reporting the financial position and the results of electric operations for Duke Energy's public utility operating companies in the Carolinas, Florida, Ohio, Indiana, and Kentucky, including Duke Energy Ohio.

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

A. No.

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

A. I sponsor information related to Duke Energy Ohio's financial position and the actual results of the Company's operations as of June 30, 2016. I also sponsor actual income statement data from April 1, 2016, through November 30, 2016, which is included in the test period. In particular, I sponsor Schedules C-10.1 and C-10.2, pages 2 and 4 of both Schedule D-5A and Schedule D-5B, and the following Supplemental Filing Requirements: (C)(1), (C)(3), and (C)(4). I also sponsor the following service agreements: Service Company/Utility; Operating Company; and Operating Company/Non-Utility Companies. At the request of Company witness Peggy A. Laub, I made certain accounting adjustments to Duke Energy Ohio's financial position per the accounting books, which I will discuss in more detail below and as shown on Workpaper WPD-1a. I provided this information to Company witness John L. Sullivan, III, for his use in determining Duke Energy Ohio's capital structure as of the date certain used in these proceedings, June 30, 2016, and in preparing Schedule D. Finally, I sponsor three service agreements that govern the nature and type of charges that occur between Duke Energy Ohio and its affiliates as part of Duke Energy Ohio's normal operations. These service agreements govern how charges occur from the Company's affiliated service company, DEBS; its sister utility operating companies; and the non-regulated companies in the Duke Energy family.

II. OVERVIEW OF DUKE ENERGY OHIO'S ACCOUNTING RECORDS

Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES AND BOOKS OF ACCOUNT OF DUKE ENERGY OHIO?

A. Yes. The books of account for Duke Energy Ohio's regulated business follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

Q. ARE THE BOOKS OF ACCOUNT FOR THE ELECTRIC BUSINESS OF DUKE ENERGY OHIO PREPARED AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?

A. Yes.

Q. ARE THE CAPITAL AND OPERATING EXPENDITURES REPRESENTED ON DUKE ENERGY OHIO'S BOOKS OF ACCOUNT ACCURATE AND REASONABLE?

A. Yes. Duke Energy Ohio has various budgeting, planning, and review procedures in place to establish and monitor the capital and operating budgets, as well as actual expenditures. The system of internal accounting controls provides reasonable assurance that all transactions are executed in accordance with management's authorization and are recorded properly.

The system of internal accounting controls is annually reviewed, tested, and documented by Duke Energy Ohio to provide reasonable assurance that amounts recorded on the books and records of the Company are accurate and proper. In addition, independent certified public accountants perform an annual audit to provide assurance that internal accounting controls are operating effectively and that Duke Energy Ohio's financial statements are materially accurate.

III. SCHEDULES AND SUPPLEMENT FILING REQUIREMENTS SPONSORED BY WITNESS

Q. PLEASE DESCRIBE SCHEDULES C-10.1 AND C-10.2.

A. Schedules C-10.1 and C-10.2 consist of Duke Energy Ohio's comparative Balance Sheets and Income Statements for the most recent five calendar years.

Q. PLEASE DESCRIBE PAGE 2 OF BOTH SCHEDULE D-5A AND SCHEDULE D-5B.

A. Page 2 of Schedule D-5A and Schedule D-5B includes the capital structure, condensed income statement, and data for the test year and the ten prior years. Schedule D-5A presents this information for Duke Energy Ohio and Schedule D-5B presents this same information on a consolidated Duke Energy basis.

Q. PLEASE BRIEFLY DESCRIBE PAGE 4 OF BOTH SCHEDULE D-5A AND SCHEDULE D-5B.

A. Page 4 of both Schedule D-5A and Schedule D-5B includes the rate of return measures for the test year and the ten prior years. Schedule D-5A presents this information for Duke Energy Ohio and Schedule D-5B presents this same information on a consolidated Duke Energy basis.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(1).

A. Supplemental Filing Requirement (C)(1) consists of the most recent FERC audit report. The audit report is dated March 29, 2016, and covers the period January 1, 2011, through January 31, 2016.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(3).

A. Supplemental Filing Requirement (C)(3) is a copy of the Duke Energy Ohio's ultimate parent company's annual reports to shareholders for the past five years.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(4).

A. Supplemental Filing Requirement (C)(4) consists of the most recent Securities Exchange Commission Form 10-K, 10-Q, and 8-K for Duke Energy and Subsidiary Registrants, which includes Duke Energy Ohio consolidated.[1]

Q. PLEASE DESCRIBE THE SERVICE AGREEMENTS.

A. I have attached three service agreements to my testimony, all of which were effective on January 31, 2017, when the Company commenced these proceedings and submitted its pre-filing notice. Attachment DLD-1 is the Service Company/Utility Service Agreement, which governs cost allocations between Duke Energy Ohio and DEBS. Attachment DLD-2 is the Operating Company Service Agreement, which governs cost allocations between or among Duke Energy's utility operating companies. Attachment DLD-3 is the Operating Company/Non-Utility Companies Service Agreement, which governs cost allocations between Duke Energy Ohio and its non-utility affiliates that existed prior to the issuance of the FERC's Order 707. This Agreement allows transactions between Duke Energy Ohio and certain of its non-utility affiliates to occur at cost. Following the FERC 707 Order, new affiliate agreements entered into between a regulated utility and its non-regulated affiliates are required to be priced in accordance with the FERC's asymmetric pricing rules. Agreements that

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[1] Duke Energy Ohio consolidated includes all of Duke Energy Ohio's gas and electric business plus its subsidiaries, including Duke Energy Kentucky and KO Transmission Company.

were in place prior to the issuance of FERC's 707 Order were effectively grandfathered.

Q. HAVE THERE BEEN ANY CHANGES TO THESE AGREEMENTS SINCE THE TIME OF THE COMPANY'S LAST BASE RATE CASE IN 2012?

A. Yes. There are regular and normal updates occurring to these agreements to reflect changes in the Duke Energy corporate structure. Accordingly, there have been changes to these agreements primarily to reflect the addition or removal of parties (affiliated companies) to these agreements. For example, during 2012, immediately following the completion of the merger between Duke Energy and Progress Energy, Progress Energy Service Company (PSEC) was a party to the Service Company Utility Service Agreement and provided services to Duke Energy Ohio. Since that time, PSEC was dissolved and removed from that agreement. The majority of PSEC employees are now DEBS employees and their costs for work for Duke Energy Ohio are included as part of the total DEBS allocations that the Company receives. Similarly, in 2016, Duke Energy completed its merger with Piedmont Natural Gas Corp. (Piedmont). As a result of this merger, the Piedmont utility companies have been added as parties to the relevant agreements. As result of these and other additions and deletions to the service agreement participants, allocations (direct and indirect) between and among the parties have also changed over the years.

IV. ACCOUNTING ADJUSTMENTS

Q. WHAT ACCOUNTING ADJUSTMENTS DID YOU PROVIDE RELATED TO DUKE ENERGY OHIO'S CAPITAL STRUCTURE?

A. Company witness Laub asked me to make two adjustments to the capital structure contained on Duke Energy Ohio's accounting books relating to the merger between Duke Energy and Cinergy Corp. As required under generally accepted accounting principles, the merger caused Duke Energy Ohio to apply purchase accounting to its assets and liabilities. As a result, Duke Energy Ohio wrote up the value of its assets and liabilities to fair market value as of the merger closing date, which caused an increase in the shareholder's equity component of the capital structure. My first adjustment, therefore, was to adjust Duke Energy Ohio's capital structure to eliminate the impact of purchase accounting. Second, I adjusted Duke Energy Ohio's capital structure to eliminate the remaining accounting impact of the generation assets contributed to Duke Energy Ohio by Duke Energy North America, LLC. Although these assets were later sold to a third party, there are still some accounting issues that need to be eliminated for retail ratemaking purposes. Workpaper WPD-1a shows these two adjustments to Duke Energy Ohio's capital structure. These two particular adjustments are consistent with adjustments made by the Company in its last two electric distribution rate cases and that have been accepted by the Commission. I provided the adjusted capital structure to Company witness Sullivan for his use in determining the capital structure for Duke Energy Ohio and in preparing Schedule D-1 and Schedule D-3.

V. CONCLUSION

Q. WAS THE INFORMATION YOU SPONSORED IN SCHEDULES C-10.1 AND 10.2, PAGES 2 AND 4 OF BOTH SCHEDULE D-5A AND SCHEDULE D-5B, AND SUPPLEMENTAL FILING REQUIREMENTS (C)(1), (C)(3), AND (C)(4) PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. IS THE INFORMATION YOU SPONSORED IN THOSE SCHEDULES AND SUPPLEMENTAL FILING REQUIREMENTS, AND IN THE SERVICE AGREEMENTS, ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

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

A. Yes.

SERVICE COMPANY
UTILITY SERVICE AGREEMENT

This Service Company Utility Service Agreement (this "Agreement") is by and among Duke Energy Carolinas, LLC ("DEC"), a North Carolina limited liability company, Duke Energy Ohio, Inc., an Ohio corporation ("DEO"), Duke Energy Indiana, LLC an Indiana limited liability company ("DEI"), Duke Energy Kentucky, Inc., a Kentucky corporation ("DEK"), Duke Energy Progress, LLC, a North Carolina limited liability company ("DEP"), Piedmont Natural Gas Company, Inc., a North Carolina corporation ("Piedmont"), Duke Energy Florida, LLC ("DEF"), a Florida limited liability company, and Duke Energy Business Services LLC ("DEBS"), a Delaware limited liability company. DEBS is sometimes hereinafter referred to as a "Service Company." DEC, DEO, DEI, DEK, DEP, DEF, and Piedmont are sometimes hereinafter referred to individually as a "Client Company" and collectively as the "Client Companies". The Effective Date as stated herein is the date on which this Agreement is executed or, as may be required, submitted to the appropriate regulatory body for approval, whichever occurs last. This Agreement supersedes and replaces in its entirety all previous Service Company Utility Service Agreements dated before the Effective Date of this Agreement.

WITNESSETH

WHEREAS, each of the Client Companies and the Service Company are direct or indirect subsidiaries of Duke Energy Corporation;

WHEREAS, the Service Company and the Client Companies have entered into this Agreement whereby the Service Company agrees to provide and the Client Companies agree to accept and pay for various services as provided herein at cost, except to the extent otherwise required by Section 482 of the Internal Revenue Code; and

WHEREAS, economies and efficiencies benefiting the Client Companies will result from the performance by the Service Company of services as herein provided;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties to this Agreement covenant and agree as follows:

ARTICLE I – SERVICES

Section 1.1 The Service Company shall furnish to the Client Companies, upon the terms and conditions hereinafter set forth, such of the services described in Appendix A hereto, at such times, for such periods and in such manner as the Client Companies may from time to time request and which the Service Company concludes it is equipped to perform. The Service Company shall also provide Client Companies with such special services, including without limitation cost management services, in addition to those services described in Appendix A hereto, as may be requested by a Client Company and which the Service Company concludes it is equipped to perform. In supplying such services, the Service Company may (i) arrange, where it deems appropriate, for the services of such experts, consultants, advisers and other persons with necessary qualifications as are required for or pertinent to the rendition of such services, and (ii) tender payments to third parties as agent for and on behalf of Client Companies, with such charges being passed through to the appropriate Client Companies.

Section 1.2 Each of the Client Companies shall take from the Service Company such of the services described in Section 1.1 and such additional general or special services, whether or not now contemplated, as are requested from time to time by the Client Companies and which the Service Company concludes it is equipped to perform.

Section 1.3 The services described herein shall be directly assigned, distributed or allocated by activity, process, project, responsibility center, work order or other appropriate basis. A Client Company shall have the right from time to time to amend, alter or rescind any activity, process, project, responsibility center or work order, provided that (i) any such amendment or alteration which results in a material change in the scope of the services to be performed or equipment to be provided is agreed to by the Service Company, (ii) the cost for the services covered by the activity, process, project, responsibility center or work order shall include any expense incurred by the Service Company as a direct result of such amendment, alteration or rescission of the activity, process, project, responsibility center or work order, and (iii) no amendment, alteration or rescission of an activity, process, project, responsibility center or work order shall release a Client Company from liability for all costs already incurred by or contracted for by the Service Company pursuant to the activity, process, project, responsibility center or work order, regardless of whether the services associated with such costs have been completed.

Section 1.4 The Service Company shall maintain a staff trained and experienced in the design, construction, operation, maintenance and management of public utility properties.

ARTICLE II - COMPENSATION

Section 2.1 Except to the extent otherwise required by Section 482 of the Internal Revenue Code, as compensation for the services to be rendered hereunder, each of the Client Companies shall pay to the Service Company all costs which reasonably can be identified and related to particular services performed by the Service Company for or on its behalf. Where more than one Client Company is involved in or has received benefits from a service performed, costs will be directly assigned, distributed or allocated, as set forth in Appendix A hereto, between or among such companies on a basis reasonably related to the service performed to the extent reasonably practicable.

Section 2.2 The method of assignment, distribution or allocation of costs described in Appendix A shall be subject to review annually, or more frequently if appropriate. Such method of assignment, distribution or allocation of costs may be modified or changed by the Service Company without the necessity of an amendment to this Agreement, provided that in each instance, all services rendered hereunder shall be at actual cost thereof, fairly and equitably assigned, distributed or allocated, except to the extent otherwise required by Section 482 of the Internal Revenue Code. The Service Company shall promptly advise the Client Companies of any material changes in such method of assignment, distribution or allocation. As appropriate, the Client Companies shall advise the North Carolina Utilities Commission ("NCUC"), the Public Service Commission of South Carolina, the Florida Public Service Commission; the Indiana Utility Regulatory Commission, the Public Utilities Commission of Ohio, the Kentucky Public Service Commission, and the Tennessee Regulatory Authority ("the "Affected State Commissions") of any such changes. Such notice shall be in compliance with the requirements of applicable state law, regulations and regulatory conditions.

Section 2.3 The Service Company shall render a monthly statement to each Client Company which shall reflect the billing information necessary to identify the costs charged for that month. By the last day of each month, each Client Company shall remit to the Service Company all charges billed to it. For avoidance of doubt, the Service Company and each Client Company may satisfy the foregoing requirement by recording billings and payments required hereunder in their common accounting systems without rendering paper or electronic monthly statements or remitting cash payments.

Section 2.4 Subject to Section 482 of the Internal Revenue Code, it is the intent of this Agreement that the payment for services rendered by the Service Company to the Client Companies shall cover all the costs of its doing business (less the cost of services provided to affiliated companies not a party to this Agreement and to other non-affiliated companies, and credits for any miscellaneous income items), including, but not limited to, salaries and wages, office supplies and expenses, outside services employed, property insurance, injuries and damages, employee pensions and benefits, miscellaneous general expenses, rents, maintenance of structures and equipment, depreciation and amortization and compensation for use of capital. Without limitation of the foregoing, "cost," as used in this Agreement, means fully embedded cost, namely, the sum of (1) direct costs, (2) indirect costs and (3) costs of capital.

ARTICLE III - TERM

Section 3.1 This Agreement is entered into as of the Effective Date and shall continue in force with respect to a Client Company until terminated by the Service Company and Client Company with respect to such Client Company (provided that no such termination with respect to less than all of the Client Companies shall thereby affect the term of this Agreement or any of the provisions hereof) or until terminated by unanimous agreement of all the parties then signatory to this Agreement.

ARTICLE IV – ACCOUNTS AND RECORDS

Section 4.1 The Service Company shall utilize the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

Section 4.2 The Service Company shall permit each Affected State Commission and applicable statutory utility consumer representative(s), together with other interested parties as required under applicable law, access to its accounts and records, including the basis and computation of allocations, necessary for each Affected State Commission to review a Client Company's operating results.

ARTICLE V – MISCELLANEOUS

Section 5.1 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each party and delivered to the other parties.

Section 5.2 Entire Agreement; No Third Party Beneficiaries. This Agreement (including Appendix A and any other appendices or other exhibits or schedules hereto) (i) constitutes the entire agreement, and supersedes any prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement; and (ii) is not intended to confer upon any person other than the parties hereto any rights or remedies.

Section 5.3 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflict of laws.

Section 5.4 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of each of the other parties. Any attempted or purported assignment in violation of the preceding sentence shall be null and void and of no effect whatsoever. Subject to the preceding two sentences, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 5.5 Amendments. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties. To the extent that applicable state law or regulation or other binding obligation requires that any such amendment be filed with any Affected State Commission for its review or otherwise, each Client Company shall comply in all respects with any such requirements.

Section 5.6 Interpretation. When a reference is made in this Agreement to an Article, Section or Appendix or other Exhibit, such reference shall be to an Article or Section of, or an Appendix or other Exhibit to, this Agreement unless otherwise indicated. The headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. References to a person are also to its permitted successors and assigns.

Section 5.7 DEC, DEP, and Piedmont Conditions. In addition to the terms and conditions set forth herein, with respect to DEC and DEP, the provisions set out in Appendix B are hereby incorporated herein by reference. In addition, DEC's, DEP's, and Piedmont's participation in this Agreement is explicitly subject to the Regulatory Conditions and Code of Conduct approved by the NCUC in its Order Approving Merger Subject to Regulatory Conditions and Code of Conduct issued, in NCUC Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682. In the event of any conflict between the provisions of this Agreement and the approved Regulatory Conditions and Code of Conduct provisions, the Regulatory Conditions and Code of Conduct shall govern.

IN WITNESS WHEREOF, the parties hereto have caused this Service Agreement to be executed as of ________, 201_.

DUKE ENERGY BUSINESS SERVICES LLC

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY CAROLINAS, LLC

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY OHIO, INC.

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY INDIANA, LLC

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY KENTUCKY, INC.

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY PROGRESS, LLC

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY FLORIDA, LLC

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

PIEDMONT NATURAL GAS COMPANY, INC.

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

APPENDIX A

Description of Services and Determination
of Charges for Services

I. The Service Company will maintain an accounting system for accumulating all costs on an activity, process, project, responsibility center, work order, or other appropriate basis. To the extent practicable, time records of hours worked by Service Company employees will be kept by activity, process, project, responsibility center or work order. Charges for salaries will be determined from such time records and will be computed on the basis of employees' labor costs, including the cost of fringe benefits, indirect labor costs and payroll taxes. Records of employee-related expenses and other indirect costs will be maintained for each functional group within the Service Company (hereinafter referred to as "Function"). Where identifiable to a particular activity, process, project, responsibility center or work order, such indirect costs will be directly assigned to such activity, process, project, responsibility center or work order. Where not identifiable to a particular activity, process, project, responsibility center or work order, such indirect costs within a Function will be distributed in relationship to the directly assigned costs of the Function. For purposes of this Appendix A, any costs not directly assigned or distributed by the Service Company will be allocated monthly.

II. Service Company costs accumulated for each activity, process, project, responsibility center or work order will be directly assigned, distributed, or allocated to the Client Companies or other Functions within the Service Company as follows:

1. Costs accumulated in an activity, process, project, responsibility center or work order for services specifically performed for a single Client Company or Function will be directly assigned and charged to such Client Company or Function.

2. Costs accumulated in an activity, process, project, responsibility center or work order for services specifically performed for two or more Client Companies or Functions will be distributed among and charged to such Client Companies or Functions. The appropriate method of distribution will be determined by the Service Company on a case-by-case basis consistent with the nature of the work performed and will be based on the application of one or more of the methods described in paragraphs IV and V of this

Appendix A. The distribution method will be provided to each such affected Client Company or Function.

3. Costs accumulated in an activity, process, project, responsibility center or work order for services of a general nature which are applicable to all Client Companies or Functions or to a class or classes of Client Companies or Functions will be allocated among and charged to such Client Companies or Functions by application of one or more of the methods described in paragraphs IV and V of this Appendix A.

III. For purposes of this Appendix A, the following definitions or methodologies shall be utilized:

1. Where applicable, the following will be utilized to convert gas sales to equivalent electric sales: 1 cubic foot of gas sales equals 0.303048 kilowatt-hour of electric sales (based on electricity at 3412 Btu/kWh and natural gas at 1034 Btu/cubic foot).

2. "Domestic utility" refers to a utility which operates in the contiguous United States of America.

3. "Gross margin" refers to revenues as defined by Generally Accepted Accounting Principles, less cost of sales, including but not limited to fuel, purchased power, emission allowances and other cost of sales.

4. "Distribution" means electric distribution and local gas distribution as applicable.

5. "Distribution Lines" mean electric power lines at distribution voltages measured in circuit miles, and gas mains and lines, as applicable.

The weights utilized in the weighted average ratios in paragraph V of this Appendix A shall represent the percentage relationship of the activities associated with the function for which costs are to be allocated. For example, if an expense item is to be allocated on the weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the Total Property, Plant and Equipment ("PP&E") Ratio, and the activity to be allocated is one-third gross margin related, one-third labor related and one-third PP&E related, 33 percent of the Gross Margin Ratio would be utilized, 33 percent of the Labor Dollars Ratio and 34 percent of the PP&E Ratio would be utilized. To illustrate this application, assuming that the Gross Margin Ratio were 53.75 percent for Company A and 46.25 percent for Company B, the Labor Dollars Ratio were 25 percent for Company A and 75 percent for Company B, and the Total PP&E Ratio were 60 percent for Company A and 40 percent for Company B, the following weighted average ratio would be computed:

		Company A		Company B	
Activity	Weight	Ratio	Weighted	Ratio	Weighted
Gross Margin Ratio	33%	53.75%	17.74%	46.25%	15.26%
Labor Dollars Ratio	33%	25.00%	8.25%	75.00%	24.75%
Total Property, Plant and Equipment Ratio	34%	60.00%	20.40%	40.00%	13.60%
	100%		46.39%		53.61%

IV. The following allocation methods will be applied, as specified in paragraph V of this Appendix A, to assign costs for services applicable to two or more clients and/or to allocate costs for services of a general nature.

1. Sales Ratio

   A ratio, based on the applicable domestic firm kilowatt-hour electric sales (and/or the equivalent cubic feet of gas sales, where applicable), excluding intra-system sales, for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all utility Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable), This ratio will be determined annually, or at such time as may be required due to a significant change.

2. Electric Peak Load Ratio

   A ratio, based on the sum of the applicable monthly domestic firm electric maximum system demands for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all utility Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually, or at such time as may be required due to a significant change.

3. Number of Customers Ratio

A ratio, based on the sum of the applicable domestic firm electric customers (and/or gas customers, where applicable) at the end of a recent month in the preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all domestic utility Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually, or at such time as may be required due to a significant change.

4. Number of Employees Ratio

A ratio, based on the applicable number of employees at the end of a recent month in the preceding twelve consecutive month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually, or at such time as may be required due to a significant change.

5. Construction-Expenditures Ratio

A ratio, based on the applicable projected construction expenditures for the following twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). Separate ratios will be computed for total construction expenditures and appropriate functional plant (i.e., production, transmission, Distribution, and general) classifications. This ratio will be determined annually, or at such time as may be required due to a significant change.

6. Miles of Distribution Lines Ratio

In the case of electric Distribution, a ratio, based on the applicable installed circuit miles of domestic electric Distribution Lines, and in the case of gas Distribution, a ratio, based on the applicable installed miles of domestic gas Distribution Lines, in either case at the end of the preceding calendar year, the numerator of which is for a Client Company and the denominator of which is for all domestic utility Client Companies. This ratio will be determined annually, or at such time as may be required due to a significant change.

7. Circuit Miles of Electric Transmission Lines Ratio

A ratio, based on the applicable installed circuit miles of domestic electric transmission lines at the end of the preceding calendar year, the numerator of which is for a Client Company and the denominator of which is for all domestic utility Client Companies. This ratio will be determined annually, or at such time as may be required due to a significant change.

8. Millions of Instructions Per Second Ratio

A ratio, based on the sum of the applicable number of millions of instructions per second (MIPS) used to execute mainframe computer software applications for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company or Service Company Function, and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually, or at such time as may be required due to a significant change.

9. Revenues Ratio

A ratio, based on the total applicable revenues for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually or at such time as may be required due to a significant change.

10. Inventory Ratio

A ratio, based on the total applicable inventory balance for the preceding year, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). Separate ratios will be computed for total inventory and the appropriate functional plant (i.e., production, transmission, Distribution, and general) classifications. This ratio will be determined annually or at such time as may be required due to a significant change.

11. Procurement Spending Ratio

A ratio, based on the total amount of applicable procurement spending for the preceding year, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. Separate ratios will be computed for total procurement spending and appropriate functional plant (i.e., production, transmission, Distribution, and general) classifications. This ratio will be determined annually or at such time as may be required due to a significant change.

12. Square Footage Ratio

A ratio, based on the total amount of applicable square footage occupied in a recent month in the preceding twelve consecutive month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually or at such time as may be required due to a significant change.

13. Gross Margin Ratio

A ratio, based on the total applicable gross margin for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually or at such time as may be required due to a significant change.

14. Labor Dollars Ratio

A ratio, based on the total applicable labor dollars for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually or at such time as may be required due to a significant change.

15. Number of Personal Computer Work Stations Ratio

A ratio, based on the total number of applicable personal computer work stations at the end of a recent month in the preceding twelve consecutive month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually or at such time as may be required due to a significant change.

16. Number of Information Systems Servers Ratio

A ratio, based on the total number of applicable servers at the end of a recent month in the preceding twelve consecutive month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually or at such time as may be required due to a significant change.

17. Total Property, Plant and Equipment Ratio

A ratio, based on the total applicable Property, Plant and Equipment balance (net of accumulated depreciation and amortization) for the preceding year, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually or at such time as may be required due to a significant change.

18. Generating Unit MW Capability / Maximum Dependable Capacity (MDC) Ratio A ratio, based on the total applicable installed megawatt capability for the preceding year, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually or at such time as may be required due to a significant change.

19. Number of Meters Ratio

A ratio, based on the number of electric and/or gas meters, as applicable, the numerator of which is for a Client Company and the denominator of which is for all domestic utility Client Companies. Separate ratios will be computed for appropriate meter classifications (e.g., type of metering technology). This ratio will be determined annually, or at such time as may be required due to a significant change.

20. O&M Expenditures Ratio

A ratio, based on the operation and maintenance (O&M) expenditures for a prior twelve month period, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). Separate ratios will be computed for total O&M expenditures and appropriate functional plant (i.e., production, transmission, Distribution, and general) classifications. This ratio will be determined annually.

V. A description of each Function's activities, which may be modified from time to time by the Service Company, is set forth below in paragraph "a" under each Function. As described in paragraph II, "1" and "2" of this Appendix A, where identifiable, costs will be directly assigned or distributed to Client Companies or to other Functions of the Service Company. For costs accumulated in activities, processes, projects, responsibility centers, or work orders which are for services of a general nature that cannot be directly assigned or distributed, as described in paragraph II, "3" of this Appendix A, the method or methods of allocation are set forth below in paragraph "b" under each Function. For any of the functions set forth below other than Information Systems, Transportation, Human Resources or Facilities, costs of a general nature to be allocated pursuant to this Agreement shall exclude costs of a general nature which have been allocated to affiliated companies not a party to this Agreement. Substitution or changes may be made in the methods of allocation hereinafter specified, as may be appropriate, and will be provided to state regulatory agencies and to each Client Company. Any such substitution or changes shall be in compliance with the requirements of applicable state law, regulations and regulatory conditions.

1. Information Systems

a. Description of Function

Provides communications and electronic data processing services. The activities of the Function include:

(1) Development and support of mainframe computer software applications.

(2) Procurement and support of personal computers and related network and software applications.

(3) Development and support of distributed computer software applications (e.g., servers).

(4) Installation and operation of communications systems.

(5) Information systems management and support services.

b. Method of Allocation

(1) Development and support of mainframe computer software applications - allocated between the Client Companies and other Functions of the Service Company based on the number of Millions of Instructions per Second Ratio (MIPS).

(2) Procurement and support of personal computers and related network and software applications - allocated to the Client Companies and to other Functions of the Service Company based on the Number of Personal Computer Work Stations Ratio.

(3) Development and support of distributed computer software applications - allocated to the Client Companies and to other Functions of the Service Company based on the Number of Information Systems Servers Ratio.

(4) Installation and operation of communications systems - allocated to the Client Companies and to other Functions of the Service Company based on the Number of Employees Ratio.

(5) Information systems management and support services – allocated to the Client Companies and to other Functions of the Service Company based on the Number of Personal Computer Work Stations Ratio.

2. Meters
   a. Description of Function
      Procures, tests and maintains meters.
   b. Method of Allocation
      Allocated to the Client Companies based on the Number of Customers Ratio.

3. Transportation
   a. Description of Function
      (1) Procures and maintains vehicles and equipment.
      (2) Procures and maintains aircraft and equipment.
   b. Method of Allocation
      (1) The costs of maintaining vehicles and equipment are allocated to the Client Companies and to other Functions of the Service Company based on the Number of Employees Ratio.
      (2) The costs of maintaining aircraft and equipment are allocated to the Client Companies and to other Functions of the Service Company based on a weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the PP&E Ratio.

4. System Maintenance
   a. Description of Function
      Coordinates maintenance and support of electric transmission systems and Distribution systems.
   b. Method of Allocation
      (1) Services related to electric transmission systems - allocated to the Client Companies based on the Circuit Miles of Electric Transmission Lines Ratio.
      (2) Services related to electric Distribution systems - allocated to the Client Companies based on the Miles of Distribution Lines Ratio.
      (3) Services related to gas Distribution systems – allocated to the Client Companies based on the Labor Dollars Ratio.

5. Marketing and Customer Relations

   a. Description of Function

      Advises the Client Companies in relations with domestic utility customers.

      The activities of the Function include:

      (1) Design and administration of sales and demand-side management programs.

      (2) Customer meter reading, billing and payment processing.

      (3) Customer services including the operation of call center.

   b. Method of Allocation

      (1) Design and administration of sales and demand-side management programs - allocated to the Client Companies based on the Number of Customers Ratio.

      (2) Customer billing and payment processing - allocated to the Client Companies based on the Number of Customers Ratio.

      (3) Customer Services - allocated to the Client Companies based on the Number of Customers Ratio.

6. Transmission and Distribution Engineering and Construction

   a. Description of Function

      Designs and monitors construction of electric transmission and Distribution Lines and associated facilities. Prepares cost and schedule estimates, visits construction sites to ensure that construction activities coincide with plans, and administers construction contracts.

   b. Method of Allocation

      (1) Transmission engineering and construction allocated to the Client Companies based on the Electric Transmission Plant's Construction-Expenditures Ratio.

      (2) Distribution engineering and construction allocated to the Client Companies based on the Distribution plant's Construction-Expenditures Ratio.

7. Power Engineering and Construction

   a. Description of Function

      Designs, monitors and supports the construction and retirement of electric generation facilities. Prepares specifications and administers contracts for construction of new electric generating units, improvements to existing electric generating units, and the retirement of existing electric generating equipment, including developing associated operating processes with operations personnel. Prepares cost and schedule estimates and visits construction sites to ensure that construction and retirement activities meet schedules and plans.

   b. Method of Allocation

      Allocated to the Client Companies based on the Electric Production Plant's Construction-Expenditures Ratio.

8. Human Resources

   a. Description of Function

      Establishes and administers policies and supervises compliance with legal requirements in the areas of employment, compensation, benefits and employee health and safety. Processes payroll and employee benefit payments. Supervises contract negotiations and relations with labor unions.

   b. Method of Allocation

      Allocated to the Client Companies and to other Functions of the Service Company based on the Number of Employees Ratio.

9. Supply Chain

   a. Description of Function

      Provides services in connection with the procurement of materials and contract services, processes payments to vendors, and provides management of material and supplies inventories.

   b. Method of Allocation

      (1) Procurement of materials and contract services and vendor payment processing - allocated to the Client Companies and to other Functions of the Service Company based on the Procurement Spending Ratio.

(2) Management of materials and supplies inventory – allocated to the Client Companies on the Inventory Ratio.

10. Facilities

a. Description of Function

Operates and maintains office and service buildings. Provides security and housekeeping services for such buildings and procures office furniture and equipment.

b. Method of Allocation

Allocated to the Client Companies and to other Functions of the Service Company based on the Square Footage Ratio.

11. Accounting

a. Description of Function

Maintains the books and records of Duke Energy Corporation and its affiliates, prepares financial and statistical reports, prepares tax filings and supervises compliance with the laws and regulations.

b. Method of Allocation

(1) Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

(2) Certain merger related costs are allocated based on Generating Unit MW Capability/ MDC Ratio.

12. Power and Gas Planning and Operations

a. Description of Function

Coordinate the planning, management and operation of Duke Energy Corporation's power generation, transmission and Distribution systems. The activities of the Function include:

(1) System Planning - planning of additions and retirements to the electric generation units and transmission and Distribution systems belonging to the regulated utilities owned by Duke Energy Corporation.

(2) System Operations - coordination of the dispatch and operation of the electric generating units and transmission and Distribution systems belonging to the regulated utilities owned by Duke Energy Corporation.

(3) Power Operations – provides management and support services for the electric generation units owned or operated by subsidiaries of Duke Energy Corporation.

(4) Wholesale Power Operations – coordination of Duke Energy Corporation's wholesale power operations.

b. Method of Allocation

(1) System Planning

(a) Generation planning - allocated to the Client Companies based on the Electric Peak Load Ratio.

(b) Transmission planning – allocated to the Client Companies based on the Electric Peak Load Ratio.

(c) Electric Distribution planning - allocated to the Client Companies based on a weighted average of the Miles of Distribution Lines Ratio and the Electric Peak Load Ratio.

(d) Gas Distribution planning – allocated to the Client Companies based on the Construction-Expenditures Ratio.

(2) System Operations –

(a) Generation Dispatch - allocated to the Client Companies based on the Sales Ratio.

(b) Transmission Operations - allocated to the Client Companies based on a weighted average of the Circuit Miles of Electric Transmission Lines Ratio and the Electric Peak Load Ratio.

(c) Electric Distribution Operations - allocated to the Client Companies based on a weighted average of the Miles of Distribution Lines Ratio and the Electric Peak Load Ratio.

(d) Gas Distribution Operations – allocated to the Client Companies based on the Construction-Expenditures Ratio.

(3) Power Operations – allocated to the Client Companies based on the Generating Unit MW Capability / Maximum Dependable Capacity (MDC) Ratio.

(4) Wholesale Power Operations – allocated to the Client Companies based on the Sales Ratio.

13. Public Affairs

a. Description of Function

Prepares and disseminates information to employees, customers, government officials, communities and the media. Provides graphics, reproduction lithography, photography and video services.

b. Method of Allocation

(1) Services related to corporate governance, public policy, management and support services - allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

(2) Services related to utility specific activities - allocated to the Client Companies based on a weighted average of the Number of Customers Ratio and the Number of Employees Ratio.

14. Legal

a. Description of Function

Renders services relating to labor and employment law, litigation, contracts, rates and regulatory affairs, environmental matters, financing, financial reporting, real estate and other legal matters.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

15. Rates

a. Description of Function

Determines the Client Companies' revenue requirements and rates to electric and gas requirements customers. Administers interconnection and joint ownership agreements. Researches and forecasts customers' usage.

b. Method of Allocation

Allocated to the Client Companies based on the Sales Ratio.

16. Finance

a. Description of Function

Renders services to Client Companies with respect to investments, financing, cash management, risk management, claims and fire prevention. Prepares budgets, financial forecasts and economic analyses.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

17. Rights of Way

a. Description of Function

Purchases, surveys, records, and sells real estate interests for Client Companies.

b. Method of Allocation

(1) Services related to Distribution system - allocated to the Client Companies based on the Miles of Distribution Lines Ratio.

(2) Services related to electric generation system- allocated to the Client Companies based on the Electric Peak Load Ratio.

(3) Services related to electric transmission system – allocated to the Client Companies based on the Circuit Miles of Electric Transmission Lines Ratio.

18. Internal Auditing

a. Description of Function

Reviews internal controls and procedures to ensure that assets are safeguarded and that transactions are properly authorized and recorded.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

19. Environmental, Health and Safety

a. Description of Function

Establishes policies and procedures and governance framework for compliance with environmental, health and safety ("EHS") issues, monitors compliance with EHS requirements and provides EHS compliance support to the Client Companies' personnel.

b. Method of Allocation

(1) Services related to corporate governance, environmental policy, management and support services - allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

(2) Services related to utility specific activities – allocated to the Client Companies based on the Sales Ratio.

20. Fuels

a. Description of Function

Procures coal, gas and oil for the Client Companies. Ensures compliance with price and quality provisions of fuel contracts and arranges for transportation of the fuel to the generating stations.

b. Method of Allocation

Allocated to the Client Companies based on the Sales Ratio.

21. Investor Relations

a. Description of Function

Provides communications to investors and the financial community, performs transfer agent and shareholder record keeping functions, administers stock plans and performs stock-related regulatory reporting.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the PP&E Ratio.

22. Planning
    a. Description of Function

       Facilitates preparation of strategic and operating plans, monitors trends and evaluates business opportunities.
    b. Method of Allocation

       Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the PP&E Ratio.

23. Executive
    a. Description of Function

       Provides general administrative and executive management services.
    b. Method of Allocation

       Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the PP&E Ratio.

24. Nuclear Development
    a. Description of Function

       Provides design, engineering, project management and licensing for potentially proposed new operating units.
    b. Method of Allocation

       Directly assigned/charged to participating jurisdictions.

APPENDIX B

Duke Energy Carolinas, LLC, Duke Energy Progress, LLC and Piedmont Natural Gas Company, Inc. Conditions

In connection with the NCUC approval of the Merger in NCUC Docket No. E-2, Sub 1095, Docket No. E-7, Sub 1100, and Docket No. G-5, Sub 682, the NCUC adopted certain Regulatory Conditions and a revised Code of Conduct governing transactions between DEC, DEP, Piedmont, and their affiliates. Pursuant to the Regulatory Conditions, the following provisions are applicable to DEC, DEP, and Piedmont:

(a) DEC's, DEP's and Piedmont's participation in this Agreement is voluntary. DEC, DEP, or Piedmont is not obligated to take or provide services or make any purchases or sales pursuant to this Agreement, and DEC, DEP, or Piedmont may elect to discontinue its participation in this Agreement at its election after giving any required notice;

(b) DEC, DEP or Piedmont may not make or incur a charge under this Agreement except in accordance with North Carolina law and the rules, regulations and orders of the NCUC promulgated thereunder.

(c) DEC, DEP or Piedmont may not seek to reflect in rates any (A) costs incurred under this Agreement exceeding the amount allowed by the NCUC or (B) revenue level earned under this Agreement less than the amount imputed by the NCUC; and

(d) DEC, DEP or Piedmont shall not assert in any forum – whether judicial, administrative, federal, state, local or otherwise – either on its own initiative or in support of other entity's assertions, that the NCUC's authority to assign, allocate, make pro-forma adjustments to or disallow revenues and costs for retail ratemaking and regulatory accounting and reporting purposes is, in whole or in part, (A) preempted by Federal Law or (B) not within the Commission's power, authority, or jurisdiction; DEC, DEP, and Piedmont will bear the full risk of any preemptive effects of Federal Law with respect to this Agreement.

OPERATING COMPANIES SERVICE AGREEMENT

This Operating Companies Service Agreement (this "Agreement") by and among Duke Energy Carolinas, LLC ("DEC"), a North Carolina limited liability company, Duke Energy Ohio, Inc. ("DEO"), an Ohio corporation, Duke Energy Indiana, LLC ("DEI"), an Indiana limited liability company, Duke Energy Kentucky, Inc. ("DEK"), a Kentucky corporation, Duke Energy Progress, LLC ("DEP"), a North Carolina limited liability company, and Duke Energy Florida, LLC ("DEF"), a Florida limited liability company and Piedmont Natural Gas Company, Inc., a North Carolina corporation ("Piedmont"),, supersedes and replaces in its entirety all previous Operating Company Service Agreements dated before the Effective Date of this Agreement. The Effective date as stated herein is the date on which this agreement is signed or, as may be required, submitted to the appropriate regulatory body for approval, whichever occurs last. DEC, DEO, DEI, DEK, DEP DEF and Piedmont are referred to collectively as the "Operating Companies" and, individually, an "Operating Company."

WITNESSETH:

WHEREAS, Duke Energy Corporation ("Duke Energy") is a Delaware corporation;

WHEREAS, each Operating Company is a subsidiary of Duke Energy and a public utility company;

WHEREAS, in the ordinary course of their businesses, Operating Companies maintain organizations of employees with technical expertise in matters affecting public utility companies and related businesses and own or acquire related equipment, facilities, properties and other resources; and

WHEREAS, subject to the terms and conditions herein set forth, and taking into consideration the parties' utility responsibilities or primary business operations, as the case may be, the parties hereto are willing, upon request from time to time, to perform such services, and in connection therewith to make available such equipment, facilities, properties and other resources, as they shall request from each other;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties agree as follows:

ARTICLE 1. PROVISION OF SERVICES; LOANED EMPLOYEES

Section 1.1 Provision of Services.

(a) Except as hereinafter provided with respect to DEC, DEP, and Piedmont providing services for each other, upon receipt by a party hereto (in such capacity, a "Service Provider") of a written request in substantially the same form attached hereto as Exhibit A (a "Service Request") from another party hereto (in such capacity, a "Client Company") for the provision to such Client

Company of such services as are specified therein, including if applicable use of any related equipment, facilities, properties or other resources (collectively, "Services"), the Service Provider, if in its sole discretion it has available the personnel or other resources needed to perform the Service Request without impairment of its utility responsibilities or business operations, as the case may be, shall furnish such Services to the Client Company at such times, for such periods and in such manner as the Client Company shall have so requested and otherwise in accordance with the provisions hereof.

(b) For purposes of this Agreement, "Services" may include, but shall not be limited to, services in such areas as engineering and construction; operations and maintenance; installation services; equipment testing; generation technical support; environmental, health and safety; and procurement services (including, but not limited to, fuel procurement).

(c) "Services" may also include the use of assets, equipment and facilities, provided the Client Company compensates the Service Provider for such use in accordance with Article 3.

(d) For the avoidance of doubt, affiliate transactions involving sales or other transfers of assets, goods, energy commodities (including electricity, natural gas, coal and other combustible fuels) or thermal energy products are outside the scope of this Agreement.

Section 1.2 Loaned Employees.

(a) If specifically requested in connection with the provision of Services, Service Provider shall loan one or more of its employees to such Client Company, provided that such loan shall not, in the sole discretion of Service Provider, interfere with or impair Service Provider's utility responsibilities or business operations, as the case may be. After the commencement thereof, any such loaned employees may be withdrawn by Service Provider from tasks duly assigned by Client Company, prior to completion thereof as contemplated in the associated Service Request, only with the consent of Client Company (which shall not be unreasonably withheld or delayed), except in the event of a demonstrable emergency requiring the use of any such employees in another capacity for Service Provider.

(b) While performing work on behalf of Client Company, any such loaned employees shall be under its supervision and control, and Client Company shall be responsible for their actions to the same extent as though such persons were its employees (it being understood that such persons shall nevertheless remain employees of Service Provider and nothing herein shall be construed as creating an employer-employee relationship between any Client Company and any loaned employees). Accordingly, for the duration of any such loan, Service Provider shall continue to provide its loaned employees with the same payroll, pension, savings, tax withholding, unemployment, bookkeeping and other personnel support services then being provided by Service Provider to its other employees.

ARTICLE 2. SERVICE REQUESTS

Section 2.1 Procedure. All Services (including any loans of employees) (i) shall be performed in accordance with Service Requests issued by or on behalf of Client Company and accepted by Service Provider and (ii) shall be assigned to applicable activities, processes, projects, responsibility centers or on other appropriate bases to enable specific work to be properly assigned. Service Requests shall be as specific as practicable in defining the Services requested. Client Company shall have the right from time to time to amend or rescind any Service Request, *provided* that (a) Service Provider consents to any amendment that results in a material change in the scope of Services to be provided, (b) the costs associated with an amended or rescinded Service Request shall include the costs incurred by Service Provider as a result of such amendment or rescission, and (c) no amendment or rescission of a Service Request shall release Client Company from any liability for costs already incurred or contracted for by Service Provider pursuant to the original Service Request, regardless of whether any labor or the furnishing of any property or other resources has been commenced or completed.

ARTICLE 3. COMPENSATION FOR SERVICES

Section 3.1 Cost of Services. As compensation for any Services rendered to it pursuant to this Agreement, Client Company shall pay to Service Provider the Cost thereof, except to the extent otherwise required by Section 482 of the Internal Revenue Code. "Costs" means the sum of (i) direct costs, (ii) indirect costs and (iii) costs of capital. As soon as practicable after the close of each month, Service Provider shall render to each Client Company a statement reflecting the billing information necessary to identify the costs charged for that month. By the last day of each month, Client Company shall remit to Service Provider all charges billed to it. For avoidance of doubt, the Service Provider and each Client Company may satisfy the foregoing requirement by recording billings and payments required hereunder in their common accounting systems without rendering paper or electronic monthly statements or remitting cash payments.

Section 3.2 Exception. In the event any Services to be rendered under this Agreement are to be provided to or from DEC, DEP, and Piedmont in accordance with DEC's, DEP's, and Piedmont's North Carolina Code of Conduct at anything other than fully embedded cost as described above, then prior to entering into the transaction, DEI, DEK, DEF or DEO, whichever is applicable, shall provide 30 days written notice to the respective state commission staffs and state consumer representatives explaining the proposed transaction, including the benefits of the transaction. If no objection is received within 30 days, then the transaction may proceed. If one or more third parties object to the transaction in writing within 30 days, then DEI, DEK, DEF or DEO, whichever is applicable, must seek specific state commission approval of the transaction prior to entering into the transaction.

ARTICLE 4. LIMITATION OF LIABILITY; INDEMNIFICATION

Section 4.1 Limitation of Liability/Services. In performing Services pursuant to Section 1.1 hereof, Service Provider will exercise due care to assure that the Services are performed in a workmanlike manner in accordance with the specifications set forth in the applicable Service Request and consistent with any applicable legal standards. The sole and exclusive responsibility of Service Provider for any deficiency therein shall be promptly to correct or repair such deficiency or to re-perform such Services, in either case at no additional cost to Client Company, so that the Services fully conform to the standards described in the first sentence of this Section 4.1. No Service Provider makes any other warranty with respect to the provision of Services, and each Client Company agrees to accept any Services without further warranty of any nature.

Section 4.2 Limitation of Liability/Loaned Employees. In furnishing Services under Section 1.2 hereof (*i.e.*, involving loaned employees), neither the Service Provider, nor any officer, director, employee or agent thereof, shall have any responsibility whatsoever to any Client Company receiving such Services, and Client Company specifically releases Service Provider and such persons, on account of any claims, liabilities, injuries, damages or other consequences arising in connection with the provision of such Services under any theory of liability, whether in contract, tort (including negligence or strict liability) or otherwise, it being understood and agreed that any such loaned employees are made available without warranty as to their suitability or expertise.

Section 4.3 Disclaimer. WITH RESPECT TO ANY SERVICES PROVIDED UNDER THIS AGREEMENT, THE SERVICE PROVIDER THEREOF MAKES NO WARRANTY OR REPRESENTATION OTHER THAN AS SET FORTH IN SECTION 4.1, AND THE PARTIES HERETO HEREBY AGREE THAT NO OTHER WARRANTY, WHETHER STATUTORY, EXPRESS OR IMPLIED (INCLUDING BUT NOT LIMITED TO ALL WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND WARRANTIES ARISING FROM COURSE OF DEALING OR USAGE OF TRADE), SHALL BE APPLICABLE TO THE PROVISION OF ANY SUCH SERVICES. THE PARTIES FURTHER AGREE THAT THE REMEDIES STATED HEREIN ARE EXCLUSIVE AND SHALL CONSTITUTE THE SOLE AND EXCLUSIVE REMEDY OF ANY PARTY HERETO FOR A FAILURE BY ANY OTHER PARTY HERETO TO COMPLY WITH ITS WARRANTY OBLIGATIONS.

Section 4.4 Indemnification.

(a) Subject to subparagraph (b) of this Section 4.4, Service Provider shall release, defend, indemnify and hold harmless each Client Company, including any officer, director, employee or agent thereof, from and against, and shall pay the full amount of, any loss, liability, claim, damage, expense (including costs of investigation and defense and reasonable attorneys' fees), whether or not involving a third-party claim, incurred or sustained by or against any such Client Company arising, directly or indirectly, from or in connection with Service Provider's negligence or willful misconduct in the performance of the Services.

(b) Notwithstanding any other provision hereof, Service Provider's total liability hereunder with respect to any specific Services shall be limited to the amount actually paid to Service Provider for its performance of the specific Services for which the liability arises, and under no circumstances shall Service Provider be liable for consequential, incidental, punitive, exemplary or indirect damages, lost profits or other business interruption damages, by statute, in tort or contract, under any indemnity provision or otherwise (it being the intent of the parties that the indemnification obligations in this Agreement shall cover only actual damages and accordingly, without limitation of the foregoing, shall be net of any insurance proceeds actually received in respect of any such damages).

Section 4.5 Procedure for Indemnification. Within 15 business days after receipt by any Client Company of notice of any claim or the commencement of any action, suit, litigation or other proceeding against it (a "Proceeding") with respect to which it is eligible for indemnification hereunder, such Client Company shall notify Service Provider thereof in writing (it being understood that failure to so notify Service Provider shall not relieve the latter of its indemnification obligation, unless Service Provider establishes that defense thereof has been prejudiced by such failure). Thereafter, Service Provider shall be entitled to participate in such Proceeding and, at its election upon notice to such Client Company and at its expense, to assume the defense of such Proceeding. Without the prior written consent of such Client Company, Service Provider shall not enter into any settlement of any third-party claim that would lead to liability or create any financial or other obligation on the part of such Client Company for which such Client Company is not entitled to indemnification hereunder. If such Client Company has given timely notice to Service Provider of the commencement of such Proceeding, but Service Provider has not, within 15 business days after receipt of such notice, given notice to Client Company of its election to assume the defense thereof, Service Provider shall be bound by any determination made in such Proceeding or any compromise or settlement made by Client Company. A claim for indemnification for any matter not involving a third-party claim may be asserted by notice from the applicable Client Company to Service Provider.

ARTICLE 5. MISCELLANEOUS

Section 5.1 Amendments. Any amendments to this Agreement shall be in writing executed by each of the parties hereto. To the extent that applicable state law or regulation or other binding obligation requires that any such amendment be filed with any affected state public utility commission for its review or otherwise, each Operating Company shall comply in all respects with any such requirements.

Section 5.2 Effective Date; Term. This Agreement shall become effective on the Effective Date and shall continue in full force and effect as to each party until terminated by any party, as to itself only, upon not less than 30 days prior written notice to the other parties hereto. Any such termination of parties shall not be deemed an amendment hereto. This Agreement may be terminated and thereafter be of no further force and effect upon the mutual consent of all of the parties hereto.

Section 5.3 Entire Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any prior or contemporaneous contracts, agreements, understandings or arrangements, whether written or oral, with respect thereto. Any oral or written statements, representations, promises, negotiations or agreements, whether prior hereto or concurrently herewith, are superseded by and merged into this Agreement.

Section 5.4 Severability. If any provision of this Agreement or any application thereof shall be determined to be invalid or unenforceable, the remainder of this Agreement and any other application thereof shall not be affected thereby.

Section 5.5 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of each of the other parties. Any attempted or purported assignment in violation of the preceding sentence shall be null and void and of no effect whatsoever. Subject to the preceding two sentences, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 5.6 Governing Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of New York, without regard to conflicts of laws principles.

Section 5.7 Captions, Headings. The captions and headings used in this Agreement are for convenience of reference only and shall not affect the construction to be accorded any of the provisions hereof. As used in this Agreement, "hereof," "hereunder," "herein," "hereto," and words of like import refer to this Agreement as a whole and not to any particular section or other paragraph or subparagraph thereof.

Section 5.8 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed a duplicate original hereof, but all of which shall be deemed one and the same Agreement.

Section 5.9 DEC, DEP, and Piedmont Conditions. In addition to the terms and conditions set forth herein, with respect to DEC, DEP, and Piedmont, the provisions set out in Appendix B are hereby incorporated herein by reference. In addition, except with respect to the pricing of Services as set forth herein, DEC's, DEP's and Piedmont's participation in this Agreement is explicitly subject to the Regulatory Conditions and Code of Conduct approved by the North Carolina Utilities Commission ("NCUC") in its *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* issued, in Docket Nos. E-2, Sub 1095 and E-7, Sub 1100, and G-9, Sub 682, and applicable to South Carolina, as such Regulatory Conditions and Code of Conduct may be amended from time to time. In the event of any conflict between the provisions of this Agreement and the approved Regulatory Conditions and Code of Conduct provisions, the Regulatory Conditions and Code of Conduct shall govern.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on _________, 201_, on its behalf by an appropriate officer thereunto duly authorized.

Duke Energy Carolinas, LLC

By: ________________________
Nancy M. Wright
Assistant Corporate Secretary

Duke Energy Ohio, Inc.

By: ________________________
Nancy M. Wright
Assistant Corporate Secretary

Duke Energy Indiana, LLC

By: ________________________
Nancy M. Wright
Assistant Corporate Secretary

Duke Energy Kentucky, Inc.

By: ________________________
Nancy M. Wright
Assistant Corporate Secretary

Duke Energy Progress, LLC

By: ________________________
Nancy M. Wright
Assistant Corporate Secretary

Duke Energy Florida, LLC

By: ________________________
Nancy M. Wright
Assistant Corporate Secretary

Piedmont Natural Gas Company, Inc.

By: ________________________
Nancy M. Wright
Assistant Corporate Secretary

Folder Name: efr148v1-003818
Status: New

eForms

Service Request for Affiliates

* Red Asterisk indicates required fields   * Functional Area (for the Service Provider):

Service Provider

* Service Provider [Select]

*Legal Approval Representative [Select]

Proposed Service

* Description of Proposed Service

Please Provide Basis for Estimated Costs, include # of employees requested and amount of time requested

* Estimated Costs (Numbers only, no commas or decimals) $0

* Scheduled Start Date

* Scheduled Completion Date

Client Company

* Client Company [Select]

PeopleSoft Accounting Codes for the Services Provided

*** **Process OR Project & Activities OR GL Account for Client Company must be entered**

* Client Company Operating Unit   * Service Provider Resp. Center   * Process

* Project   * Activity   * GL Account

Confirmation of Service Provider Utility Responsibilities & Service Provider Approval

* ☐ Check this box to confirm that this Service Request will not result in impairment of Service Provider's utility responsibilities or business operations.

Confirmation of Service Provider Utility Responsibilities by Service Provider Approver

* ☐ Check this box to confirm that this Service Request will not result in impairment of Service Provider's utility responsibilities or business operations.

Miscellaneous Comments

Comments

Comments Log

Attachments

Help

Filename	Size

Approver's Section

[illegible]

Route To:	Name		Phone	Status
* Client Company		Select		
* Service Provider		Select		
* Legal				

Submitter Details

Created by

Created on 11/10/2015 1:19:43 PM

* Phone

Last Modified by

Last Modified

Exhibit B

DUKE ENERGY CAROLINAS, LLC DUKE ENERGY PROGRESS, LLC, AND PIEDMONT NATURAL GAS COMPANY, INC. CONDITIONS

1. In connection with the NCUC approval of the Merger in NCUC Docket No. E-2, Sub 1095, Docket No. E-7, Sub 1100, and Docket No. G-5, Sub 682, the NCUC adopted certain Regulatory Conditions and a revised Code of Conduct governing transactions between DEC, DEP, Piedmont, and their affiliates. Pursuant to the Regulatory Conditions, the following provisions are applicable to DEC, DEP, and Piedmont:

(a) DEC's, DEP's and Piedmont's participation in this Agreement is voluntary. DEC, DEP, or Piedmont is not obligated to take or provide services or make any purchases or sales pursuant to this Agreement, and DEC, DEP, or Piedmont may elect to discontinue its participation in this Agreement at its election after giving any required notice;

(b) DEC, DEP or Piedmont may not make or incur a charge under this Agreement except in accordance with North Carolina law and the rules, regulations and orders of the NCUC promulgated thereunder.

(c) DEC, DEP or Piedmont may not seek to reflect in rates any (A) costs incurred under this Agreement exceeding the amount allowed by the NCUC or (B) revenue level earned under this Agreement less than the amount imputed by the NCUC; and

(d) DEC, DEP or Piedmont shall not assert in any forum – whether judicial, administrative, federal, state, local or otherwise – either on its own initiative or in support of other entity's assertions, that the NCUC's authority to assign, allocate, make pro-forma adjustments to or disallow revenues and costs for retail ratemaking and regulatory accounting and reporting purposes is, in whole or in part, (A) preempted by Federal Law or (B) not within the Commission's power, authority, or jurisdiction; DEC, DEP, and Piedmont will bear the full risk of any preemptive effects of Federal Law with respect to this Agreement.

2. Transfers by DEC, DEP, or Piedmont. With respect to the transfer by DEC, DEP, or Piedmont under this Agreement of the control of, operational responsibility for, or ownership of any DEC, DEP, or Piedmont assets used for the generation, transmission or distribution of electric power to its North Carolina retail customers with a gross book value in excess of ten million dollars, the following shall apply: (a) neither DEC, DEP nor Piedmont may commit to or carry out the transfer except in accordance with all applicable law, and the rules, regulations and orders of the NCUC promulgated thereunder; and (b) neither DEC, DEP, or Piedmont may include in its North Carolina cost of service or rates the value of the transfer, whether or not subject to federal law, except as allowed by the NCUC in accordance with North Carolina law.

3. Access to DEC, DEP or Piedmont Information. Any Operating Company providing Services to DEC or DEP pursuant to this Agreement, including any loaned employees under Section 1.2 of the Agreement, shall be permitted to have access to DEC's, DEP's or Piedmont's Customer Information and Confidential Systems Operation Information, as those terms are defined in the Code of Conduct, to the extent necessary for the performance of such Services; provided that such Operating Company shall take reasonable steps to protect the confidentiality of such Information.

Exhibit B

4. Procedures for Services Received By DEC DEP, or Piedmont from each other or the other Operating Companies and for Services Provided by DEC, DEP or Piedmont to each other or the other Operating Companies. DEC, DEP, and Piedmont shall receive from each other and the other Operating Companies, upon the terms and conditions set forth in this agreement, such of the services listed in the Operating Companies Service Agreement List on file with the NCUC, at such times, for such periods and in such manner as DEC DEP, or Piedmont may from time to time request of each other or another Operating Company. DEC, DEP, or Piedmont may provide to each other and the other Operating Companies, upon the terms and conditions set forth in this Agreement, at such times for such periods, and in such a manner as DEC, DEP or Piedmont concludes it is equipped to perform for each other or another Operating Company. DEC, DEP, or Piedmont may perform these services for each other as described in this paragraph without the requirement of a written request in substantially the form attached to this Agreement as Exhibit A.

AMENDED AND RESTATED OPERATING COMPANY/NONUTILITY COMPANIES SERVICE AGREEMENT

This Amended and Restated Operating Company/Nonutility Companies Service Agreement (this "Agreement") dated June 1, 2009 (the "Effective Date") by and among Duke Energy Ohio, Inc., an Ohio corporation ("Operating Company"), and the respective associate nonutility companies listed on the signature pages hereto (each, a "Nonutility Company") supersedes and restates in its entirety the Operating Company/Nonutility Companies Service Agreement entered into between the Operating Company and each Nonutility Company dated January 2, 2007.

WITNESSETH:

WHEREAS, Duke Energy Corporation ("Duke Energy") is a Delaware corporation;

WHEREAS, Operating Company is a subsidiary of Duke Energy and a public utility company;

WHEREAS, each Nonutility Company is a subsidiary of Duke Energy that is or was formed to engage in any one or more non-regulated businesses;

WHEREAS, certain non-regulated public utilities were added in error to the Operating Company/Nonutility Companies Service Agreement dated January 2, 2007 and are being removed in this Agreement.

WHEREAS, in the ordinary course of their businesses, Operating Company and each Nonutility Company maintain organizations of employees with technical expertise in matters affecting public utility companies and related businesses and own or acquire related equipment, facilities, properties and other resources; and

WHEREAS, subject to the terms and conditions herein set forth, and taking into consideration the parties' utility responsibilities or primary business operations, as the case may be, the parties hereto are willing, upon request from time to time, to perform such services, and in connection therewith to make available such equipment, facilities, properties and other resources, as they shall request from each other;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties agree as follows:

ARTICLE 1. PROVISION OF SERVICES; LOANED EMPLOYEES

Section 1.1 Provision of Services.

(a) Upon receipt by a party hereto (in such capacity, a "Service Provider") of a written request in substantially the form attached hereto as Exhibit A (a "Service Request") from another party hereto (in such capacity, a "Client Company") for the provision to such Client Company of such services as are specified therein, including if applicable use of any related equipment, facilities, properties or other resources (collectively, "Services"), the Service Provider, if in its sole discretion it has available the personnel or other resources needed to perform the Service Request without impairment of its utility responsibilities or business operations, as the case may be, shall furnish such Services to the Client Company at such times, for such periods and in such manner as the Client Company shall have so requested and otherwise in accordance with the provisions hereof.

(b) For purposes of this Agreement, "Services" may include, but shall not be limited to: (i) in the case of Services that may be provided by Operating Company hereunder, services in such areas as engineering and construction; operations and maintenance; installation services; equipment testing; generation technical support; environmental, health and safety; and procurement services; and (ii) in the case of Services that may be provided by Nonutility Companies hereunder, services in such areas as information technology services; monitoring, surveying, inspecting, constructing, locating and marking of overhead and underground utility facilities; meter reading; materials management; vegetation management; and marketing and customer relations.

(c) For the avoidance of doubt, affiliate transactions involving sales or other transfers of assets, goods, energy commodities (including electricity, natural gas, coal and other combustible fuels) or thermal energy products are outside the scope of this Agreement.

Section 1.2 Loaned Employees.

(a) If specifically requested in connection with the provision of Services, Service Provider shall loan one or more of its employees to such Client Company, provided that such loan shall not, in the sole discretion of Service Provider, interfere with or impair Service Provider's utility responsibilities or business operations, as the case may be. After the commencement thereof, any such loaned employees may be withdrawn by Service Provider from tasks duly assigned by Client Company, prior to completion thereof as contemplated in the associated Service Request, only with the consent of Client Company (which shall not be unreasonably withheld or delayed), except in the event of a demonstrable emergency requiring the use of any such employees in another capacity for Service Provider.

(b) While performing work on behalf of Client Company, any such loaned employees shall be under its supervision and control, and Client Company shall be responsible for their actions to the same extent as though such persons were its employees (it being understood that such persons shall nevertheless remain employees of Service Provider and nothing herein shall be construed as creating an employer-employee relationship between any Client Company and any loaned employees). Accordingly, for the duration of any such loan, Service Provider shall continue to provide its loaned employees with the same payroll, pension, savings, tax withholding, unemployment, bookkeeping and other personnel support services then being provided by Service Provider to its other employees.

ARTICLE 2. SERVICE REQUESTS

Section 2.1 Procedure. All Services (including any loans of employees) (i) shall be performed in accordance with Service Requests issued by or on behalf of Client Company and accepted by Service Provider and (ii) shall be assigned to applicable activities, processes, projects, responsibility centers or on other appropriate bases to enable specific work to be properly assigned. Service Requests shall be as specific as practicable in defining the Services requested. Client Company shall have the right from time to time to amend or rescind any Service Request, *provided* that (a) Service Provider consents to any amendment that results in a material change in the scope of Services to be provided, (b) the costs associated with an amended or rescinded Service Request shall include the costs incurred by Service Provider as a result of such amendment or rescission, and (c) no amendment or rescission of a Service Request shall release Client Company from any liability for costs already incurred or contracted for by Service Provider pursuant to the original Service Request, regardless of whether any labor or the furnishing of any property or other resources has been commenced or completed.

ARTICLE 3. COMPENSATION FOR SERVICES

Section 3.1 Cost of Services. As compensation for any Services rendered to it pursuant to this Agreement, Client Company shall pay to Service Provider the fully embedded cost thereof (i.e., the sum of (i) direct costs, (ii) indirect costs and (iii) costs of capital), except to the extent otherwise required by Section 482 of the Internal Revenue Code. As soon as practicable after the close of each month, Service Provider shall render to each Client Company a statement reflecting the billing information necessary to identify the costs charged for that month. By the last day of each month, Client Company shall remit to Service Provider all charged billed to it.

ARTICLE 4. LIMITATION OF LIABILITY; INDEMNIFICATION

Section 4.1 Limitation of Liability/Services. In performing Services pursuant to Section 1.1 hereof, Service Provider will exercise due care to assure that the Services are performed in a workmanlike manner in accordance with the specifications set forth in the applicable Service Request and consistent with any applicable legal standards. The sole and exclusive responsibility of Service Provider for any deficiency therein shall be promptly to correct or repair such deficiency or to re-perform such Services, in either case at no additional cost to Client Company, so that the Services fully conform to the standards described in the first sentence of this Section 4.1. No Service Provider makes any other warranty with respect to the provision of Services, and each Client Company agrees to accept any Services without further warranty of any nature.

Section 4.2 Limitation of Liability/Loaned Employees. In furnishing Services under Section 1.2 hereof (i.e., involving loaned employees), neither the Service Provider, nor any officer, director, employee or agent thereof, shall have any responsibility whatever to any Client Company receiving such Services, and Client Company specifically releases Service Provider and such persons, on account of any claims, liabilities, injuries, damages or other consequences arising in connection with the provision of such Services under any theory of liability, whether in contract, tort (including negligence or strict liability) or otherwise, it being understood and agreed that any such loaned employees are made available without warranty as to their suitability or expertise.

Section 4.3 Disclaimer. WITH RESPECT TO ANY SERVICES PROVIDED UNDER THIS AGREEMENT, THE SERVICE PROVIDER THEREOF MAKES NO WARRANTY OR REPRESENTATION OTHER THAN AS SET FORTH IN SECTION 4.1, AND THE PARTIES HERETO HEREBY AGREE THAT NO OTHER WARRANTY, WHETHER STATUTORY,

EXPRESS OR IMPLIED (INCLUDING BUT NOT LIMITED TO ALL WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND WARRANTIES ARISING FROM COURSE OF DEALING OR USAGE OF TRADE), SHALL BE APPLICABLE TO THE PROVISION OF ANY SUCH SERVICES. THE PARTIES FURTHER AGREE THAT THE REMEDIES STATED HEREIN ARE EXCLUSIVE AND SHALL CONSTITUTE THE SOLE AND EXCLUSIVE REMEDY OF ANY PARTY HERETO FOR A FAILURE BY ANY OTHER PARTY HERETO TO COMPLY WITH ITS WARRANTY OBLIGATIONS.

Section 4.4 Indemnification.

(a) Indemnification In Respect of Services Provided by Operating Company.

(i) In circumstances where Operating Company is a Service Provider: (x) subject to subparagraph (ii) of this Section 4.4(a), Service Provider shall release, defend, indemnify and hold harmless each Client Company, including any officer, director, employee or agent thereof, from and against, and shall pay the full amount of, any loss, liability, claim, damage, expense (including costs of investigation and defense and reasonable attorneys' fees), whether or not involving a third-party claim (collectively, "Damages"), incurred or sustained by or against Service Provider or any such Client Company arising, directly or indirectly, from or in connection with Service Provider's negligence or willful misconduct in the performance of the Services, and (y) each Nonutility Company that is a Client Company with respect to such Services shall release, defend, indemnify and hold harmless Service Provider, including any officer, director, employee or agent thereof, from and against, and shall pay the full amount of, any Damages incurred or sustained by or against Service Provider or any such Client Company arising, directly or indirectly, from or in connection with Service Provider's negligence or willful misconduct in the performance of the Services, to the extent such Damages are not covered by Service Provider's indemnification obligation as provided in the preceding clause (x) or exceed the liability limits provided in subparagraph (ii) of this Section 4.4(a).

(ii) Notwithstanding any other provision hereof, in circumstances where Operating Company is a Service Provider: (x) Service Provider's total liability hereunder with respect to any specific Services shall be limited to the amount actually paid to Service Provider for its performance of the specific Services for which the liability arises, and (y) under no circumstances shall Service Provider be liable for consequential, incidental, punitive, exemplary or indirect damages, lost profits or other business interruption damages, by statute, in tort or contract, under any indemnity provision or otherwise (it being the intent of the parties that the indemnification obligations in this Agreement shall cover only actual damages and accordingly, without limitation of the foregoing, shall be net of any insurance proceeds actually received in respect of any such damages).

(b) Indemnification In Respect of Services Provided by Any Nonutility Company.

(i) In circumstances where a Nonutility Company is a Service Provider (*i.e.*, where Operating Company is the Client Company): (x) subject to subparagraph (ii) of this Section 4.4(b), Service Provider shall release, defend, indemnify and hold harmless the Client Company, including any officer, director, employee or agent thereof, from and against, and shall pay the full amount of, any Damages incurred or sustained by or against Client Company arising, directly or indirectly, from or in connection with Service Provider's negligence or willful misconduct in the performance of the Services.

(ii) Notwithstanding any other provision hereof, in circumstances where a Nonutility Company is a Service Provider (*i.e.*, where Operating Company is the Client Company), under no circumstances shall Service Provider be liable for consequential, incidental, punitive, exemplary or indirect damages, lost profits or other business interruption damages, by statute, in tort or contract, under any indemnity provision or otherwise (it being the intent of the parties that the indemnification obligations in this Agreement shall cover only actual damages and accordingly, without limitation of the foregoing, shall be net of any insurance proceeds actually received in respect of any such damages).

Section 4.5 Procedure for Indemnification. Within 15 business days after receipt by any Client Company of notice of any claim or the commencement of any action, suit, litigation or other proceeding against it (a "Proceeding") with respect to which it is eligible for indemnification hereunder, such Client Company shall notify Service Provider thereof in writing (it being understood that failure so to notify Service Provider shall not relieve the latter of its indemnification obligation, unless Service Provider establishes that defense thereof has been prejudiced by such failure). Thereafter, Service Provider shall be entitled to participate in such Proceeding and, at its election upon notice to such Client Company and at its expense, to assume the defense of such Proceeding. Without the prior written consent of such Client Company, Service Provider shall not enter into any settlement of any third-party claim that would lead to liability or create any financial or other obligation on the part of such Client Company for which it such Client Company is not entitled to indemnification hereunder. If such Client Company has given timely notice to Service Provider of the commencement of such Proceeding, but Service Provider has not, within 15 business days after receipt of such notice, given notice to Client Company of its election to assume the defense thereof, Service Provider shall be bound by any determination made in such Proceeding or any compromise or settlement made by Client Company. A claim for indemnification for any matter not involving a third-party claim may be asserted by notice from the applicable Client Company to Service Provider.

ARTICLE 5. MISCELLANEOUS

Section 5.1 Amendments. Any amendments to this Agreement shall be in writing executed by each of the parties hereto. To the extent that applicable state law or regulation or other binding obligation requires that any such amendment be filed with the Public Utilities Commission of Ohio for its review or otherwise, Operating Company shall comply in all respects with any such requirements.

Section 5.2 Effective Date; Term. This Agreement shall become effective on the Effective Date and shall continue in full force and effect as to each party until terminated by any party, as to itself only, upon not less than 30 days prior written notice to the other parties hereto. Any such termination of parties shall not be deemed an amendment hereto. This Agreement may be terminated and thereafter be of no further force and effect upon the mutual consent of all of the parties hereto.

Section 5.3 Additional Parties. After the effective date of this Agreement, additional Nonutility Companies may become parties to this Agreement by executing appropriate signature pages, whereupon any such additional signatory shall be deemed a "party" hereto all purposes hereof and shall thereupon become bound by the terms and conditions of this Agreement as if an original party hereto. The addition of any such further signatories, in the absence of any changes to the terms of this Agreement, shall not be deemed an amendment hereto.

Section 5.4 Entire Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any prior or contemporaneous contracts, agreements, understandings or arrangements, whether written or oral, with respect thereto (including that certain Services Agreement between Operating Company and certain nonutility subsidiaries of Duke Energy dated January 2, 2007). Any oral or written statements, representations, promises, negotiations or agreements, whether prior hereto or concurrently herewith, are superseded by and merged into this Agreement.

Section 5.5 Severability. If any provision of this Agreement or any application thereof shall be determined to be invalid or unenforceable, the remainder of this Agreement and any other application thereof shall not be affected thereby.

Section 5.6 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of each of the other parties. Any attempted or purported assignment in violation of the preceding sentence shall be null and void and of no effect whatsoever. Subject to the preceding two sentences, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 5.7 Governing Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Ohio, without regard to conflicts of laws principles.

Section 5.8 Captions, etc. The captions and headings used in this Agreement are for convenience of reference only and shall not affect the construction to be accorded any of the provisions hereof. As used in this Agreement, "hereof," "hereunder," "herein," "hereto," and words of like import refer to this Agreement as a whole and not to any particular section or other paragraph or subparagraph thereof.

Section 5.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed a duplicate original hereof, but all of which shall be deemed one and the same Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on its behalf by an appropriate officer thereunto duly authorized.

DUKE ENERGY OHIO, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

CINERGY CORP.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

CINERGY INVESTMENTS, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

KO TRANSMISSION COMPANY

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

TRI-STATE IMPROVEMENT COMPANY

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

SOUTH CONSTRUCTION COMPANY

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DUKE-RELIANT RESOURCES, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

CINERGY TECHNOLOGY, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DEGS OF TUSCOLA, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY ONE, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

CINERGY POWER GENERATION SERVICES, LLC

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY GENERATION SERVICES, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DUKE TECHNOLOGIES, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DUKE VENTURES II, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

SHREVEPORT RED RIVER UTILITIES, LLC

By: Nancy M Wright

Nancy M. Wright
Assistant Corporate Secretary

CINERGY RECEIVABLES COMPANY LLC

By: Nancy M Wright

Nancy M. Wright
Assistant Corporate Secretary

DEGS OF SHREVEPORT, LLC

By: Nancy M Wright

Nancy M. Wright
Assistant Corporate Secretary

DEGS OF NARROWS, LLC

By: Nancy M Wright

Nancy M. Wright
Assistant Corporate Secretary

DEGS OF DELTA TOWNSHIP, LLC

By: Nancy M Wright

Nancy M. Wright
Assistant Corporate Secretary

DEGS O&M, LLC

By: Nancy M Wright

Nancy M. Wright
Assistant Corporate Secretary

CINERGY SOLUTIONS-UTILITY, INC.

By: Nancy M Wright

Nancy M. Wright
Assistant Corporate Secretary

DUKE-CADENCE, INC.

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

CINERGY-CENTRUS, INC.

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

CINERGY-CENTRUS COMMUNICATIONS, INC.

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE SUPPLY NETWORK, LLC

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

CINERGY SOLUTIONS PARTNERS, LLC

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY CORPORATION

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

BISON INSURANCE COMPANTY LIMITED

By: ______________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY AMERICAS, LLC

By: ____________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY ROYAL, LLC

By: ____________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY INTERNATIONAL, LLC

By: ____________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY NORTH AMERICA, LLC

By: ____________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE PROJECT SERVICES, INC.

By: ____________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE VENTURES, LLC

By: ____________________
Nancy M. Wright
Assistant Corporate Secretary

PANENERGY CORP.

By: ____________________
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY SERVICES, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DETMI MANAGEMENT, INC.

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY BUSINESS SERVICES LLC

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY MERCHANTS, LLC

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

DUKE ENERGY RECEIVABLES FINANCE COMPANY, LLC

By: Nancy M Wright
Nancy M. Wright
Assistant Corporate Secretary

EXHIBIT A
Page 1 of 2

Service Request Form

Please use this form for all service requests. All data fields are required.

Facilitator/Contact Information:

First Name:

Last Name:

Phone:

Email:

Service Provider: - Pull Down List to Select -

Or Other: - Pull Down List to Select -

Service Provider Contact Information:

First Name:

Last Name:

Phone:

email Address of Service Provider Approver:

The approver should be appropriate according to the Expenditures, Divestitures & Terminations Category of the Delegation of Authority (DOA) matrix.

Description of Proposed Service and Please Provide Basis for Estimated Costs:

Client Company: - Pull Down List to Select -

Or Other: - Pull Down List to Select -

Client Company Contact Information:

First Name:

Last Name:

Phone:

(this e-mail address must be filled in properly for form to send automatically to the Client Approver)

email Address of Client Company

The approver should be appropriate

EXHIBIT A
Page 2 of 2

Approver:	according to the Expenditures, Divestitures & Terminations Category of the Delegation of Authority (DOA) matrix.
Estimated Costs:	$ Format Numbers Only - do not include commas or periods
Scheduled Start Date:	MM/DD/YYYY
Scheduled Completion Date:	MM/DD/YYYY
Legal Approval Representative:	- Pull Down List to Select -

Accounting codes (FMIS / BDMS) of Duke Energy Company receiving the services:

Process / Work Code(s):

n/a / Corp. Number:

RCTo / Line of Business:

RCFrom / Center:

Project:

Activity:

Submit Reset

DUKE ENERGY OHIO EXHIBIT________

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 17-32-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 17-33-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 17-34-EL-AAM

DIRECT TESTIMONY OF

CICELY M. HART

ON BEHALF OF

DUKE ENERGY OHIO, INC.

________ Management policies, practices, and organization

________ Operating income

________ Rate base

________ Allocations

________ Rate of return

________ Rates and tariffs

___X___ Other: Distribution System

March 16, 2017

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Cicely M. Hart, and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

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

A. I am employed by Duke Energy Business Services LLC (DEBS), with the title Director of Distribution Design. DEBS provides various administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or the Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from Purdue University and a Master's Degree in Business Administration from Indiana Wesleyan University. I am also a registered Professional Engineer in Indiana and Ohio. I began my career at Cinergy Corp., as a System Protection Engineer in 2001, and have held a variety of positions of increasing responsibility across Duke Energy in the areas of transmission and distribution engineering.

Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR OF DISTRIBUTION DESIGN ENGINEERING.

A. In my current role, I am responsible for the distribution integrity programs for Duke Energy's regulated utility operations in Ohio and Kentucky. I am also responsible for engineering and design for line extensions for new businesses in the Duke Energy Ohio and Duke Energy Kentucky, Inc., service territories.

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

A. No.

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

A. The purpose of my testimony is to discuss Duke Energy Ohio's distribution system and to explain the need for continuation of Rider Distribution Capital Investment (Rider DCI). I also sponsor Schedule C-3.20. First, I will provide an overview of how Duke Energy Ohio maintains the reliability of its distribution system and the investments necessary to continue to provide safe, reliable, and reasonably priced service to its approximately 700,000 distribution customers located in southwestern Ohio. I also will discuss the challenges the Company faces in maintaining its distribution system, including the current initiatives the Company will undertake to maintain the safety and integrity of its infrastructure.

II. DUKE ENERGY OHIO'S ELECTRIC DISTRIBUTION SYSTEM

Q. PLEASE BRIEFLY DESCRIBE DUKE ENERGY OHIO'S EXISTING ELECTRIC DISTRIBUTION INFRASTRUCTURE.

A. The Duke Energy Ohio electric delivery system provides electric service to approximately 700,000 customers located throughout southwestern Ohio. Duke Energy Ohio owns and operates all of its electric distribution and local transmission facilities.

Duke Energy Ohio's electric delivery system includes approximately 229 substations, 11 transmission substations (locations with 69 kilovolt (kV) or higher operating voltages) having a combined capacity of approximately 8,923,438 kilovolt-amperes (kVA), 187 distribution substations (locations that supply one or more circuits at 35 kV or lower voltage) having a combined capacity of approximately 6,795,371 kVA, and 31 joint transmission and distribution substations (locations with 69 kV or higher operating voltages that also have 35 kV or lower voltage) having a combined capacity of approximately 7,297,320 kVA. The Duke Energy Ohio electric delivery system includes various other equipment and facilities, such as control rooms, computers, capacitors, street lights, meters and protective relays, and telecommunications equipment and facilities.

Q. PLEASE GENERALLY DESCRIBE HOW THE ELECTRIC DISTRIBUTION INFRASTRUCTURE IS DESIGNED, CONSTRUCTED, MANAGED, AND OPERATED.

A. The electric distribution infrastructure is designed to receive bulk power at transmission voltages, reduce the voltage to 34.5 kV, 12.5 kV, or 4 kV, and deliver power to customers' premises. The distribution infrastructure generally consists of substation power transformers, switches, circuit breakers, wood pole lines, underground cables, distribution transformers, and associated equipment. The physical design of the distribution system is also generally governed by the National Electrical Safety Code, which I understand has been adopted by the state of Ohio in Ohio Administrative Code (O.A.C.) 4901:1-10-06.

Duke Energy Ohio operates the distribution facilities it owns in accordance with good utility practice. Duke Energy Ohio continuously runs the system with a workforce that provides customer service 24 hours per day, 7 days per week, 365 days per year, and includes trouble response crews. The Company monitors outages with various systems, such as Supervisory Control and Data Acquisition, Distribution Outage Management System, and Electric Trouble Data Mart.

Q. PLEASE GENERALLY DESCRIBE HOW DUKE ENERGY OHIO CURRENTLY MONITORS AND MAINTAINS ITS DISTRIBUTION INFRASTRUCTURE AND ITS PERFORMANCE.

A. Duke Energy Ohio maintains its distribution infrastructure in accordance with good utility practice by adhering to inspections, monitoring, testing, and periodic maintenance programs. Examples of these existing programs include, but are not limited to, the following: (1) substation inspection program; (2) line inspection program; (3) ground-line inspection and treatment program; (4) vegetation management program; (5) underground cable replacement program; (6) capacitor maintenance program; and (7) dissolved gas analysis.

Duke Energy Ohio also uses various reliability indices to measure the effectiveness of its maintenance programs and system reliability. The Company follows the Public Utilities Commission of Ohio's (Commission) Electric Service and Safety Standards, as set forth in O.A.C. Chapter 4901:1-10. The Company also uses various indices to measure the effectiveness of its maintenance programs and system reliability.

Q. YOU STATED THAT DUKE ENERGY OHIO USES VARIOUS INDICES TO MEASURE THE EFFECTIVENESS OF ITS MAINTENANCE PROGRAMS AND SYSTEM RELIABILITY. PLEASE EXPLAIN THESE RELIABILITY INDICES.

A. Reliability indices are generally recognized standards for measuring the number, scope, and duration of outages. Ohio requires electric distribution utilities to report annually on these reliability indices. These indices are defined as follows:

- System Average Interruption Duration Index (SAIDI) is the average time each customer is interrupted and is expressed by the sum of customer interruption durations divided by the total number of customers served.
- System Average Interruption Frequency Index (SAIFI) is the system average frequency index and represents the average number of interruptions per customer. SAIFI is expressed by the total number of customer interruptions divided by the total number of customers served.
- Customer Average Interruption Duration Index (CAIDI) is the average interruption duration or average time to restore service per interrupted customer and is expressed by the sum of the customer interruption durations divided by the total number of customer interruptions.

Q. HOW HAS DUKE ENERGY OHIO'S DISTRIBUTION INFRASTRUCTURE PERFORMED, AS MEASURED BY THESE RELIABILITY INDICES?

A. Duke Energy Ohio has performed well. Its reliability scores have always met or exceeded the commitments the Company made in support of deployment of SmartGrid and also as required by the Commission's rules. The Company's results are shown on this table:

Duke Energy Ohio Reliability Scores								
Year	CAIDI Performance Standard	CAIDI Before Exclusion	CAIDI After Exclusion	SAIFI Performance Standard	SAIFI Before Exclusion	SAIFI After Exclusion	SAIDI Before Exclusion	SAIDI After Exclusion
2013	118.14	121.56	117.80	1.24	1.32	0.98	160.46	115.44
2014	121.25	112.94	108.28	1.17	1.29	0.99	145.69	107.20
2015	122.81	163.64	117.32	1.05	1.38	1.04	225.82	122.01
2016	122.81	171.90	136.42	1.05	1.47	1.05	252.69	143.24

III. EXISTING RIDER DCI AND NEW PROGRAMS

Q. PLEASE DESCRIBE RIDER DCI.

A. Rider DCI was approved by the Commission in the Company's last electric security plan case.[1] The purpose of Rider DCI is to allow the Company to maintain the safety and reliability of its delivery system, recover a return of and on incremental capital investment in electric distribution plant, and recover the associated property tax and depreciation expenses. In summary, the rider recovers the Company's incremental revenue requirement for distribution capital investment, including, but not limited to ongoing maintenance capital, as well as the cost to implement various specific programs or initiatives designed to harden and maintain the safety and reliability of the Company's distribution system. Rider DCI also recovers incremental revenue requirement on other plant necessary for the safe and reliable operation of the Company's electric distribution system.

[1] Rider DCI was approved by the Commission in *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. 14-841-EL-SSO, *et al.* (hereinafter, ESP III).

The programs to be implemented under the infrastructure modernization plan are designed to manage costs and proactively address the aging infrastructure issues through a targeted and coordinated approach. Programs within Rider DCI include work that is accounted for in FERC accounts 360 to 374. In ESP III, the Commission recognized that the Company "is correct to aspire to move from a reactive to a more proactive maintenance program."[2] The Commission further recognized that "it is detrimental to the state's economy to require the utility to be reactionary or allow the performance standards to take a negative turn before we encourage the EDU to proactively and efficiently replace and modernize infrastructure… ."[3] Consistent with this view, Duke Energy Ohio seeks to continue this important program.

Q. PLEASE DISCUSS THE WORK THAT HAS BEEN ACCOMPLISHED UNDER RIDER DCI AND WHY IT IS IMPORTANT TO CONTINUE THE RIDER.

A. Improving reliability involves a long-term effort with many elements that contribute to overall success. Reliability is dynamic and must be dealt with continuously and with sustained effort. Without constant management and investment, the system may unintentionally decline or deteriorate. Additionally, system reliability can be influenced by factors such as weather, vegetation management, aging infrastructure, and ongoing maintenance, *etc*. Even though major storm events are excluded from utility reliability metrics, an increase in non-major storms will also impact the outcomes of the indices. However, Duke

[2] Id, Opinion and Order, at p.71.
[3] Id.

Energy Ohio's comprehensive approach envisions continuous improvement to address these ongoing threats.

Since Rider DCI was approved, the Company has made a significant investment in its distribution infrastructure including: underground cable replacement, circuit sectionalization, deteriorated conductor, and pole replacement programs, to name a few. As explained when Rider DCI was initially proposed, these efforts impact the system as a whole and undoubtedly contribute to measurable performance factors. However, it is not possible to attribute any one of these elements to any specific result. Rather, the Company's efforts overall serve to maintain the integrity of existing infrastructure and, as an overall approach, serve to avoid decline of the system.

Q. WHAT IS THE ANTICIPATED IMPACT TO THE COMPANY'S CURRENT RELIABILITY AND PERFORMANCE THROUGH THE PLANS PROPOSED FOR INCLUSION UNDER RIDER DCI?

A. Although Duke Energy Ohio cannot guarantee that system reliability or customer satisfaction will improve in terms of specific reliability index scores or a particular level of performance from implementing its infrastructure improvement plans, doing nothing is sure to erode both. There are factors that impact the Company's reliability that are simply beyond its control, such as the frequency and severity of major storms. Nonetheless, the programs selected by the Company are designed to address those issues that are predictable and controllable, such as replacement of obsolete and aging infrastructure that becomes less reliable as it approaches the end of its useful life. Proactively addressing vulnerable spots on the distribution system is the most effective way to maintain reliability and to provide benefits to customers.

Q. DOES THE DISTRIBUTION WORK INCLUDED IN RIDER DCI PROVIDE SPECIFIC BENEFITS TO CUSTOMERS?

A. The programs included in Rider DCI help the Company manage and control its costs and its workforce resources, allowing for more efficient processes. Updating and replacing the Company's aging distribution equipment enables greater resiliency in the system. Because many of the programs included in Rider DCI are implemented throughout the Company's service territory, ultimately every customer benefits from efficiencies and system hardening. Rider DCI programs allow Duke Energy Ohio to take a holistic, coordinated approach to addressing these identified areas of concern, in contrast to a reactive strategy.

Q. WHY SHOULD RIDER DCI BE CONTINUED?

A. Rider DCI encompasses a collection of distribution reliability programs (both new programs and enhancements to existing programs) that were discussed in detail in the Company's ESP III case. Consistent with the intent of Rider DCI, which is to allow the Company to proactively address reliability issues through a coordinated and targeted strategy, the Company anticipated that Rider DCI would continue to evolve, with technological advances or changes in field conditions, to include additional programs or revisions and modifications to the initial programs over time.

Rider DCI should be continued to allow the Company to continue to maintain its distribution grid and to apply investments in equipment and technology that improve the customer experience by reducing outages or reducing their length. In 2016, the Company was able to invest in a program to inject over 1 million feet of underground cable (essentially extending its life another 20 years at a fraction of replacement costs). More than 1,800 distribution poles were replaced and over 28,000 feet of small conductor wire was replaced, mainly because of age and unreliability, but also in anticipation of complete failure.

In order to continue this important work and to support the Company's efforts to maintain and improve aging infrastructure, the Commission should approve Rider DCI to extend beyond its current term of three years. There can be no doubt that such an effort involves investment. The Company strives to ensure that the investments it proposes are balanced with results achieved to ensure that customers experience the reliability they expect and demand, without undue cost. Balancing the customers' expectations and the shareholders' financial needs is challenging for the both the Company and the Commission, but it is a balance that must be maintained in the interests of all stakeholders. To illustrate the proposed planned investments for purposes of continuing Rider DCI, Supplemental Schedule S-1, sponsored by Company witness Robert H. Pratt, details the amount of capital expenditures in the Company's financial forecast.

Q. IS THE COMPANY PROPOSING ANY NEW INITIATIVES AT THIS TIME?

A. Yes. There are two new programs that the Company proposes to include in the program.

Q. PLEASE DISCUSS THE NEW PROGRAMS THAT THE COMPANY WILL INCLUDE IN THE RIDER.

A. Duke Energy Ohio will begin two new programs to transform the Company's distribution grid. The two programs are Self-Optimizing Grid and Targeted Undergrounding. Both of these programs will improve the customer's electricity experience, which the Company understands is something the Commission is interested in exploring and supporting. Duke Energy Ohio believes that its proposed investments have exactly those goals in mind.

Q. PLEASE EXPLAIN WHAT A SELF-OPTIMIZING GRID IS AND WHY IT IS NEEDED.

A. As customers expect more from the Company, it must invest in the grid to provide ever-improving service. Duke Energy Ohio will utilize technology that supports faster restoration, effectively decreasing the inconveniences of its customers. With this program, the Company is moving from a static grid that may employ pre-determined solutions to a self-optimizing grid that anticipates failures and mitigates them by finding the most efficient real-time solution to restore customers. The difference between static and dynamic is the use of the real-time loading to determine the best solution versus using peak load factors. The new grid will use automation and intelligence to manage itself and maximize the reliability customers experience in real time.

Today the Company's system is constructed for one-way power flow in a radial design with limited ability to integrate renewable energy. The term self-optimizing grid refers to a series of interconnected distribution circuits that allow for smaller amounts of customers to be affected by faults on the system and shorter duration of outages when those faults occur. It bears a relationship and compliments the Company's earlier investment in self-healing "teams", however, this is an even more integrated and "real time" response that represents the next level of "smart" operation. Self-optimizing grid investments seek to: 1) Increase system "connectivity" by building more circuit ties that allow for more flexibility in restoration options. By tying more circuits together the system will shift from a radial design to more of a "spider web" design. 2) Increase "capacity" by installing larger wires, transformers and system banks to be able to handle dynamic switching and increased two-way power flow from adjacent circuits and renewable generation. 3) Increase "control" through additional system automation and intelligence. Increased automation and intelligence is becoming a necessary requirement to manage an increasingly dynamic system.

With increased connectivity, capacity, and control, the Company will have an increasingly more resilient system with greater flexibility in restoration options. Instead of having circuit pairs that can back each other up, the network allows for multiple options to re-energize circuit segments. With a fully functional self-optimizing grid, more than 80 percent of Duke Energy Ohio's customers will benefit from these options and rarely see a sustained outage. The Company has budgeted approximately $10 million, annually, on this program for the next six years.

Q. PLEASE EXPLAIN WHAT TARGETED UNDERGROUNDING IS AND WHY IT IS NEEDED.

A. Duke Energy Ohio's electrical network contains approximately 15,000 miles of overhead distribution lines. These lines contain both backbone feeder conductors, which carry power from electrical substations to neighborhoods, and tap lines (smaller wires) that distribute power throughout those neighborhoods. Duke Energy Ohio will select a subset of these smaller overhead lines to implement targeted undergrounding.

Targeted Undergrounding is the name for a program whereby Duke Energy Ohio proposes to select specific problem areas and replace overhead wires with underground cables in an effort to harden the system, thereby increasing overall reliability. Underground installations carry less exposure to environmental factors that often cause electrical faults. The locations will be selected based on the following: operational performance, costs (average outage costs), construction designs that are inconsistent with the Company's current standards, and age. Part of the selection process will be to identify circuit segments using Duke Energy Ohio's outage history records, specifically looking for repeat outage areas. Once located, engineers will overlay this information with where vegetation management is most costly and where the Company has limited access for its trucks, which drives up restoration costs and increases employee risks. Targeted Undergrounding will also be used to address infrastructure that is nearing its end of design life. Instead of rebuilding the system with "like for like," this program proposes to uplift facilities, bringing them up to current standards, many of which address reliability gaps. Undergrounding overhead tap lines may reduce the frequency and duration of outages for Duke Energy Ohio customers, especially in areas that historically see the most damage in major storms. Restoration in other areas can be accomplished faster due to the material reduction in outage events for these outlier segments of overhead facilities. Faster restoration means life returns to normal more quickly for customers Duke Energy Ohio's, decreasing the economic impact major storms can have. This program also allows for vegetation management resources to be reallocated to benefit all customers. The Company has budgeted $5 million in 2018, $10 million in 2019, $15 million in 2020, and $20 million per year in 2021 and 2022 on this program. It is anticipated that capital costs for this program will be eligible for recovery through Rider DCI.

Q. WHY ARE THESE ADDITIONAL PROGRAMS NECESSARY?

A. Programs in Rider DCI are designed to maintain the integrity of the overall distribution system and, to the extent possible, are also designed to enhance service to Duke Energy Ohio customers. Duke Energy Ohio engages in a plan of continuous improvement of its distribution grid and these programs represent two very vital additions to the Company's efforts to provide safe, affordable, and reliable service to customers. Hence the need to continue and expand Rider DCI.

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL FOR A STREETLIGHT AUDIT ON SCHEDULE C-3.20.

A. Duke Energy Ohio proposes to undertake a streetlight audit to verify that its customer information system and geographical information systems match. The Company proposes having a five-year cycle and inspecting approximately 35,000 streetlights annually. The audit will also determine if customers are being charged for the correct lights that are in the field. Such an audit will enable more accurate record-keeping and enable the Company to correct any billing errors that may exist. The Company proposes to recover the costs of the audit through Rider DCI. Estimated costs are shown in Schedule C-3.20, which I am sponsoring.

IV. CONCLUSION

Q. WAS SCHEDULE C-3.20 COMPILED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

Q. IS THE INFORMATION YOU SPONSOR IN SCHEDULE C-3.20 ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

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

A. Yes.

DUKE ENERGY OHIO EXHIBIT____

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 17-32-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 17-33-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 17-34-EL-AAM

DIRECT TESTIMONY OF

JAMES P. HENNING

ON BEHALF OF

DUKE ENERGY OHIO, INC.

__X__ Management policies, practices, and organization

_____ Operating income

_____ Rate Base

_____ Allocations

_____ Rate of return

_____ Rates and tariffs

__X__ Other: Overview

March 16, 2017

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PAGE

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is James P. Henning, and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

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

A. I am employed by Duke Energy Business Services LLC (DEBS), as State President of Duke Energy Ohio, Inc., (Duke Energy Ohio or the Company) and its subsidiary, Duke Energy Kentucky, Inc. (Duke Energy Kentucky). DEBS provides various administrative and other services to Duke Energy Ohio and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science in Financial Services from Wright State University in 1988 and a Master of Business Administration from the University of South Florida in 1990.

I have worked in the energy industry for over twenty-five years. From 1990-1996, I was employed at The Dayton Power & Light Company (DP&L) as a Natural Gas Analyst in the Natural Gas Supply Planning Department. In 1996, I joined Cinergy Corp.'s non-regulated natural gas sales company, Cinergy Resources, Inc., as the Manager of Energy Sales and Services and worked in this capacity until 2000. From 2000 through 2001, I worked for various departments within Cinergy, including Environmental Services, Labor Relations, and Natural Gas Operations. Beginning October 2001, I led the commercial activities of Duke

Energy's regulated natural gas business in Ohio and Kentucky as General Manager, Natural Gas Commercial Operations. In September 2010, I became Vice President of Government and Regulatory Affairs for Duke Energy Ohio and Duke Energy Kentucky. I assumed the role of State President, Duke Energy Ohio and Duke Energy Kentucky, in December 2012.

Q. PLEASE DESCRIBE YOUR DUTIES AS STATE PRESIDENT, DUKE ENERGY OHIO.

A. As State President, Duke Energy Ohio, I am responsible for ensuring that our customers continue to have access to safe, reliable, and reasonably priced electric and natural gas service and that these services are provided in accordance with applicable federal and state laws and regulations. I am also involved in external efforts relating to governmental and regulatory affairs, interacting with state and community leaders and regulators on matters relevant to Duke Energy Ohio's business and presence in Ohio. I am responsible for the Company's community relations and economic development efforts, as well as Duke Energy's charitable contributions in the Greater Cincinnati region.

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

A. Yes. I have previously testified before the Public Utilities Commission of Ohio (Commission) and have also submitted pre-filed testimony with the Commission.

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

A. I provide an overview of Duke Energy Ohio and its proposed electric distribution rate case. For purposes of doing so, I offer the following:

- General overview of the Company's electric distribution operations.
- General overview of the Company's electric distribution rate case proposed in these proceedings.
- General overview of the Company's community engagement efforts, including our economic development activities and community and charitable contributions.
- Introduction of the witnesses who will testify on behalf of the Company in these proceedings.
- Confirmation that the Duke Energy Ohio's Management Policies, Practices, and Organization, which I sponsor, are filed in compliance with the Commission's standard filing requirements.

II. OVERVIEW OF DISTRIBUTION OPERATIONS

Q. PLEASE PROVIDE AN OVERVIEW OF THE DUKE ENERGY CORPORATE AND BUSINESS STRUCTURE.

A. Duke Energy is one of the largest utility companies in the United States. Through a series of mergers and acquisitions, including the 2006 merger with Cinergy Corp., the 2012 merger with Progress Energy, and the more recent merger with Piedmont Natural Gas Company, Duke Energy now serves over 7 million electric customers and over 1.5 million natural gas customers, representing a population of over 24 million in 7 states, comprising Ohio, Kentucky, Indiana, Florida, North Carolina, South Carolina, and Tennessee. Duke Energy Ohio provides electric service to over 700,000 customers and natural gas service to approximately 420,000 customers.

Q. DESCRIBE DUKE ENERGY OHIO'S ELECTRIC DISTRIBUTION SERVICE TERRITORY.

A. Duke Energy Ohio's headquarters are in downtown Cincinnati, as has been the case for nearly 180 years. From our Cincinnati headquarters, Duke Energy Ohio directs the planning, construction, operation, and maintenance of our electric transmission and distribution systems. The Company's more than 700,000 electric customers are served via approximately 2,200 circuit-miles of transmission lines and approximately 16,600 circuit-miles of distribution lines throughout our territory. Most customers continue to be served via overhead transmission and distribution lines; however, the Company is increasingly serving customers with underground facilities.

Q. DO YOU ANTICIPATE THAT DUKE ENERGY OHIO WILL MAINTAIN ITS HEADQUARTERS IN OHIO?

A. Duke Energy Ohio has no current plans to move its headquarters out of Ohio. The Company has been and will remain committed to southwest Ohio and to serving our customers here, consistent with their ever-changing needs.

Q. HOW DOES DUKE ENERGY OHIO'S ELECTRIC DISTRIBUTION SYSTEM COMPARE TO THOSE OF ITS PEERS?

A. The Company is committed to providing our customers with safe, reliable, and efficient electric distribution service at reasonable rates. Compared to our peers in Ohio and nationally, Duke Energy Ohio fairs exceptionally well on those standards. Most Duke Energy Ohio electric customers enjoy rates that are among the lowest in the state.[1] And, as reflected in the Direct Testimony of Cicely Hart, our reliability measures compare favorably to all of the other major electric distribution utilities in Ohio.

Q. AS AN ELECTRIC DISTRIBUTION UTILITY, DOES DUKE ENERGY OHIO HAVE OBLIGATIONS OTHER THAN THOSE RELATED TO THE SAFE, RELIABLE, AND EFFICIENT DISTRIBUTION OF ELECTRIC SERVICE?

A. Yes. One such obligation relates to the Company's status, by statute, as the provider of last resort for all retail electric customers in our southwest Ohio service territory. The significance of this obligation relative to these proceedings is that Duke Energy Ohio must have the infrastructure and the contracted-for resources to provide electric generation service to as many as all of our retail customers or as few as one. As informed by counsel, no other entity has this legal obligation in Duke Energy Ohio's service territory. Consequently, Duke Energy Ohio incurs significant unavoidable costs to function as the provider of last resort

[1] Typical electric bills are reported monthly in the Ohio Utility Rate Survey published at www.puco.ohio.gov.

for all of our retail electric customers and, as such, is entitled to full cost recovery of these unavoidable costs.

Q. WOULD YOU PROVIDE AN UPDATE ON THE COMPANY'S SMARTGRID DEPLOYMENT?

A. In 2015, the Company successfully completed the deployment of its initial SmartGrid program, which was approved by the Commission in 2008 and affirmed in connection with a mid-deployment review initiated in 2010. As evident by the modest overall base rate increase sought in these proceedings, it is apparent that the program has achieved its objectives. Company witness Donald L. Schneider, Jr., provides a summary of the advanced metering infrastructure (AMI) deployment.

Q. PLEASE BRIEFLY DISCUSS THE CONTINUING INVESTMENT THE COMPANY HAS MADE IN ITS DISTRIBUTION SYSTEM.

A. Duke Energy Ohio has regularly made prudent investments in our distribution system, as needed for its continued safe, reliable, and efficient operation. And, over the years, the system has evolved, consistent with applicable standards, changes in technology, and, importantly, changes in our customers' expectations. Our investments and the manner in which they are made have thus also evolved. One such example is our targeted focus on those maintenance and replacement investments necessary to enable the continued reliable performance of our distribution system, together with the incorporation of innovative technologies, with the related capital expenditures captured in Rider DCI. Duke Energy Ohio witness Hart discusses these investments, which include underground cable replacement and circuit sectionalization. The Commission approved Rider DCI in 2015, after having recognized the many benefits associated with proactive enhancements to and modernization of the electric distribution system.[2]

III. OVERVIEW OF BASE DISTRIBUTION RATE CASE

Q. WHAT ARE SOME OF THE PRIMARY REASONS SUPPORTING THE FILING OF THE COMPANY'S RATE CASE?

A. There are several reasons contributing to the submission of the Company's Application in these proceedings, the first of which fulfills a commitment the Company made several years ago.

Duke Energy Ohio agreed, as part of a prior stipulation, that it would file a base electric distribution rate case within one year of the Commission Staff finding that the Company had completed its SmartGrid deployment.[3] As reflected in that prior stipulation, which the Commission approved,[4] the revenue requirement for SmartGrid would be incorporated into base rates via this anticipated rate case. Although Commission Staff found deployment to be complete in October 2015, Duke Energy Ohio initiated these proceedings in January 2017, consistent with Commission approval.[5] Importantly, the test year employed herein is the same as that which would have been used had Duke

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[2] *In the Matter of Application of Duke Energy Ohio, Inc., for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of An Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service*, Case No. 14-841-EL-SSO, *et al.*, at pgs. 71-72 (April 2, 2015).
[3] *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, Stipulation and Recommendation, at pg. 7 (February 24, 2012).
[4] Id, Opinion and Order (June 13. 2012).
[5] *In the Matter of the Application of Duke Energy Ohio, Inc., to Adjust and Set Its Gas and Electric Recovery Rate for 2010 Smart Grid Costs*, Case No. 10-2326-GE-RDR, Entry, at pg. 4 (November 30, 2016).

Energy Ohio initiated this rate case in October 2016, thereby conforming to and fulfilling the prior filing commitment.

Additionally, the Company's costs of providing distribution service continue to increase at a rate that exceeds growth in revenue. The Company diligently focuses on controlling costs and, despite inflationary pressures, has held its operating and maintenance expense essentially constant since the 2012 rate case. The Company has made significant investments since our last electric distribution base rate case in 2012, which investments are the primary driver of higher revenue requirements in these proceedings. Additionally, like many Midwestern electric utilities, Duke Energy Ohio has not seen meaningful and sustained load growth in our service territory. Indeed, we have experienced stagnant growth in residential sales and deteriorating sales in our major non-residential rate classes. As a result, the cost of providing utility service continues to rise but growth in revenue is lagging behind based on limited growth in new customers and declining usage by typical customers. Therefore, as is the case for any base rate case filing, the Company is requesting that the Commission approve rates that will be sufficient to recover our costs of providing electric distribution service, including a fair rate of return.

Q. IN ADDITION TO HONORING A PRIOR COMMITMENT AND SEEKING TO PROPERLY ALIGN REVENUE WITH COSTS, ARE THERE OTHER REASONS FOR THIS CURRENT RATE CASE?

A. Yes. A fundamental aspect of our Application in these proceedings is born out of our focus on our customers and, more specifically, transforming their utility-related experiences. Because of this customer-centric focus, we have included in our Application proposals critical to enabling continued advances in the technology necessary to afford our customers more control over and choices regarding their energy usage and to provide them with the opportunity to implement programs or services that may be of significance to them. It is readily apparent that the electric distribution business is changing and, in order to incorporate the innovation that is vital to our customers' personal and professional demands, the infrastructure on which our customers depend must also evolve. I highlight below some of the proposals in our filing that advance this objective. In doing so, however, I begin with a brief discussion of the significance of this evolution *vis-à-vis* the customer experience.

Historically, the relationship between a utility company such as Duke Energy Ohio and its customers was predicated upon one-way communication. Meters were designed to fulfill a specific function: to record usage one month at a time so that the utility company could bill the customer for that usage. Meters were, for all and intents and purposes, a premises-based measuring device. That is, the meter obtained data, on an aggregate basis, on the usage consumed at the home, without regard to who may be occupying that home and their individual preferences. As I discuss below, Duke Energy Ohio has moved beyond these more restrictive or limiting meters, but additional advancements are necessary to enable the distribution grid to realize its full its potential.

In addition to understanding meters and their advanced capabilities, one must also recognize the value of a necessary complement to meters – the customer information system (CIS). Historically, a CIS enabled only premises-based communication. Specifically, the CIS's primary function, when designed, was to use the aggregated usage data for billing purposes. And this is understandable given the historic function of meters, which supplied the needed information for a CIS.

The industry, however, is not now limited to such simplistic forms of communication. Electric meters and associated components have the capability of recording more granular data. This data, in turn, can create personalized opportunities for customers according to their preferences, whether in the form of rate options or other usage-related services. Through the proposals in these proceedings, we intend to continue transforming our electric distribution company in order to position our customers to have more control, convenience, and information.

Q. PLEASE BRIEFLY DISCUSS HOW THE COMPANY INITIATED THE TRANSITION AWAY FROM THE HISTORIC DISTRIBUTION GRID TO A SMARTER GRID.

A. Duke Energy Ohio was the first electric distribution utility in the state of Ohio to deploy advanced meter technology. Our SmartGrid program was approved in 2008 pursuant to a stipulation that had near unanimous support.[6] Because of the pace with which the Company was able to embark on this program, our customers

[6] *In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of an Electric Security Plan,* Case No. 08-920-EL-SSO, *et al.*, Stipulation and Recommendation, at pp. 40-47 (October 27, 2008).

benefitted from a sizeable grant from the United States Department of Energy,[7] which benefit most likely contributed favorably to our local economy at a time when it was otherwise trending downward.

After the Commission's thorough and independent review of our SmartGrid program, which was initiated in 2010, Duke Energy Ohio continued to move forward with deployment. And we did so with agreement of a variety of stakeholders, including the Commission Staff and the Office of the Ohio Consumers' Counsel, and with approval of the Commission.[8] In 2015, we completed the deployment of that technology initially described in 2008 and reviewed again a few years later. As detailed by Duke Energy Ohio witness Schneider, our SmartGrid program has resulted in substantial benefit to our customers. But as Mr. Schneider further explains, external circumstances have created technological challenges with respect to our current SmartGrid program. Thus, consistent with Governor Kasich's 2018-2019 Budget objective of "embracing the future of 'smart' technologies in public utilities,"[9] and the Commission's similar focus,[10] Duke Energy Ohio is proposing here to cost-effectively integrate programs necessary to enable the continued evolution of our

[7] The grant was received under the American Recovery and Reinvestment Act of 2009, 111 P.L. 5, 123 Stat. 115.

[8] *In the Matter of the Application of Duke Energy Ohio, Inc., to Adjust and Set Its Gas and Electric Recovery Rate for 2010 Smart Grid Costs*, Case No. 10-2326-GE-RDR, Stipulation and Recommendation, at pp. 19-20 (February 24, 2012) and Opinion and Order, at pg. 29 (June 13, 2012).

[9] *Building For Ohio's Next Generation*, Budget of the State of Ohio - Fiscal Years 2018-2019, at pg. 2 (January 30, 2017).

[10] *In the Matter of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan,* Case No. 14-1297-EL-SSO, Opinion and Order, Concurring Opinion of Commissioner Asim Z. Haque, at pg. 5 (March 31, 2016) and *In the Matter of the Application Seeking Approval of Ohio Power Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Rider*, Case No. 14-1693-EL-RDR, *et al.*, Opinion and Order, Concurring Opinion of Commissioner Asim Z. Haque, at pg. 5 (March 31, 2016).

SmartGrid and related technologies. Such a progression will allow us to provide additional benefits to our customers as well as the state. Importantly, our customers will be afforded more control over, and information related to, their individual usage and Duke Energy Ohio will be better positioned to integrate advancements related to a more intelligent distribution network.

Significantly, the state cannot embrace "the future of 'smart' technologies in public utilities"[11] without the necessary infrastructure. And the infrastructure required for a modern distribution system is more than just the equipment classified as poles, lines, and meters A modern distribution system includes communication equipment and information technology investment that is not classified, for accounting purposes, as distribution plant. Nevertheless, investment in this type of equipment is critical to modernizing the distribution system and thus as important as investing in poles and wires. In order to continue the important effort of modernizing our distribution system, we are proposing here to extend our existing Rider DCI to continue to advance Duke Energy Ohio's distribution services for our customers. As explained by Company witness William Don Wathen Jr., we are also proposing a modification, which the Commission has previously approved,[12] that will enable the inclusion of plant classified as general, common, and intangible plant that is distribution-related. The Company's proposal will mitigate the financial pressure resulting from

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[11] *Building For Ohio's Next Generation*, Budget of the State of Ohio - Fiscal Years 2018-2019, at pg. 2. (January 30, 2017).

[12] *See In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Opinion and Order, at pg. 93 (March 31, 2016).

significant investment in plant necessary for continued enhancement of the distribution system that does not to fall into FERC Accounts 360-374.

Additionally, we have recognized that our CIS, while appropriate for more traditional interactions, is now impeding our ability to efficiently and effectively communicate with our customers on an individual basis and to otherwise engage with them. Duke Energy Ohio witness Retha Hunsicker provides further testimony on the important initiative we are pursuing to remove this impediment.

Our focus on our customers is further reflected in our proposal for a customer informational campaign. As we position our customers to assert more control over their energy decisions and to receive more information, it is imperative that they have access to accurate data and that they understand both their rights and available opportunities. We are therefore proposing a public information and education campaign that will address matters such as energy conservation and customer choice. Additionally, because the well-being of our customers and the public at large receives our daily attention, we will include safety in this public information and education service campaign. The Company is proposing to include $2 million in annual revenue requirements to fund the incremental costs for this public information and education service campaign and commits to submitting periodic reporting as to the impact of this effort.

As directed by the Commission in 2013, we are also proposing a transition to straight-fixed variable (SFV) rate design for residential customers. This rate design, which has been in place for our natural gas customers for about a decade, will help levelize customers' monthly bills and reduce volatility caused by weather. Duke Energy Ohio witness James Riddle discusses this proposal.

Mr. Riddle also addresses our proposal for optional LED lighting tariff that will provide more options for our customers, consistent with the growing demand for such lighting.

The Company will be positioned to align customer-focused programs and services with offering our customers greater convenience, control, and transparency. Duke Energy Ohio witness Sasha J. Weintraub discusses this effort in greater detail.

Q. WERE THERE ANY OTHER FACTORS THAT INFLUENCED THE COMPANY'S FILING IN THESE PROCEEDINGS?

A. As explained above, our rate case includes components intended to incorporate technological advancements and mitigate against limitations relevant to our customers' energy consumption, needs, and preferences. These components, therefore, are consistent with the Commission's Mission Statement, which includes assuring "all residential and business consumers access to adequate, safe and reliable utility services at fair prices, while facilitating an environment that provides competitive choices."[13]

The Commission's Mission is achieved by, among other things, "promoting utility infrastructure investment through appropriate regulatory policies and structures" and "ensuring financial integrity and service reliability in the Ohio utility industry."[14]

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[13] *See* PUCO Mission Statement at https://www.puco.ohio.gov/puco/index.cfm/how-the-puco-works-for-you/mission-and-commitments/.
[14] Id.

Q. HOW DOES THE COMPANY'S FILING IN THIS CASE FACILITATE THE COMMISSION'S MISSION STATEMENT?

A. As described throughout the testimony of Duke Energy Ohio witnesses, the Company maintains and operates a safe and reliable electric distribution system. The proposals included in this Application seek to advance that objective and ensure the Company's financial integrity. The Commission's innovative use of riders, such as Rider DCI, promotes investment in utility infrastructure. As all of the electric distribution utilities in Ohio are subsidiaries of multi-jurisdictional holding companies, it is important that Ohio's regulatory model encourages those holding companies to favor investment in this state.

I would further observe that our proposed public education and information campaign is consistent with the Commission's objective of establishing and enforcing a fair competitive framework. For example, providing customers with access to information related to customer choice and the content of their utility bill positions them to make knowledgeable decisions in respect of their electric service. I thus believe the proposals in these proceedings advance the Commission's Mission.

IV. <u>COMMUNITY ENGAGEMENT</u>

Q. PLEASE GIVE AN OVERVIEW OF DUKE ENERGY OHIO'S ECONOMIC DEVELOPMENT ACTIVITIES.

A. Duke Energy embraces our responsibility to promote economic development in the communities in which we do business. Access to affordable, reliable power is a critical factor in a company's decision about where to locate its facilities. As a top-performing utility with affordable electric rates in the state, Duke Energy Ohio is in a key position to meet companies' energy needs and attract job-creating industry and capital investment to our service territory. But business clients need more than reliable power. They also need readily available building sites, transportation infrastructure, access to state and local incentives, flexible workforce training programs, and proximity to a community of customers and business partners. Duke Energy Ohio proactively assists in meeting these needs through our award-winning economic development program.

In 2016, Site Selection magazine named Duke Energy to its Top 10 Utilities in Site Selection for North America for the eighteenth consecutive year. Whether a company is looking for a new site for manufacturing, logistics, distribution, or headquarters, our economic development team is there to help. Cited by Site Selection magazine as a best practice, the Duke Energy "Site Readiness" program seeks to identify and improve large tracts of industrial land in the service territory, moving them closer to being "fully marketable." In collaboration with local economic development organizations, Duke Energy offered funding to local communities that have taken advantage of the program and spent dollars improving participant sites.

Duke Energy Ohio's strategic partnerships with local, regional, and state economic development efforts such as the Regional Economic Development Initiative Cincinnati (REDI) and JobsOhio, combined with Duke Energy Ohio's low electric rates, have resulted in a number of economic development successes in southwest Ohio.

We estimate that our cooperative efforts, along with those of state and local economic development officials, have contributed to the creation of nearly 65,000 Ohio jobs and more than $7 billion of capital investment in southwest Ohio since 1995.

Duke Energy Ohio's leadership and economic development staff have actively served on several committees of organizations in the community that promote economic development. Some of these organizations include:

- REDI
- Cintrifuse
- Middletown Moving Forward
- Cincinnati USA Regional Chamber of Commerce
- Cincinnati Business Committee, Economic Development
- Cincinnati Center City Development Corporation
- Greater Cincinnati Chinese Chamber of Commerce
- European American Chamber of Commerce
- Various local Chambers of Commerce

Q. DESCRIBE DUKE ENERGY OHIO'S CHARITABLE GIVING PHILOSOPHY.

A. Duke Energy Ohio has made good corporate citizenship a priority by giving back to the communities we serve. Since 1996, Duke Energy Ohio and the Duke Energy Foundation, formerly the Cinergy Foundation, have contributed over $55 million in shareholder dollars to Ohio charitable organizations. We strongly encourage a spirit of volunteerism among our employees, who contribute countless hours of volunteer time to support the many communities in which they live and work. This passion for giving back is part of our legacy and who we are as a company. Whenever we act on this passion by volunteering or making charitable contributions, we are part of what is known as Duke Energy In Action. During 2016, Duke Energy in Action had 48 volunteer events in Ohio where employees, their families, and retirees volunteered over 2,400 hours of their time. Corporate stewardship is important to Duke Energy Ohio. We participate in local giving campaigns that support United Way and ArtsWave. These campaigns support hundreds of non-profit organizations in Ohio making our communities more vibrant.

Q. DESCRIBE THE METHODS EMPLOYED BY DUKE ENERGY OHIO TO INTERACT WITH YOUR CUSTOMERS.

A. Duke Energy Corporation and Duke Energy Ohio place a significant emphasis on customer satisfaction. Providing customers with a variety of convenient methods for interacting with its electric service provider is an important means of achieving high customer satisfaction. Customers can remotely interact with the Company through a variety of customer service channels, including:

- Contact Centers
- Business Service Center
- Pay Agents
- Automated Phone Service
- Enhanced Web Functionality for Online Services

Q. DO CUSTOMERS HAVE OPTIONS FOR HOW THEY ARE ABLE TO PAY THEIR BILLS ON TIME?

A. Duke Energy Ohio has a number of programs designed to allow customers to conveniently manage their bills:

- Budget Billing
- Adjusted Due Date
- Extended Payment Agreements
- Heatshare

The Company also offers a number of convenient bill payment options in addition to the traditional option of payment via the United States Postal Service. Such options include:

- Speedpay
- e-bill
- Payment Advantage

Additionally, although not a Company-established program, Duke Energy Ohio assists eligible customers with participation in the state's percentage of income payment plan.

V. <u>INTRODUCTION OF WITNESSES</u>

Q. PLEASE INTRODUCE THE OTHER WITNESSES IN THESE PROCEEDINGS.

A. I identify below the other individuals who will present testimony on behalf of Duke Energy Ohio, as well as the subject matters of their respective testimony:

- Lisa M. Bellucci, Director – Tax Operations
    - Ms. Bellucci, addresses the Company's tax expense in the test year revenue requirement.
- David L. Doss, Jr., Director, Electric Utilities and Infrastructure
    - Mr. Doss offers testimony regarding the Company's accounting policies.
- Cicely M. Hart, Director of Distribution Design
    - Ms. Hart will present testimony regarding Duke Energy Ohio's electric distribution system and its safety and reliability programs.
- Retha Hunsicker, Vice-President, Customer Operations
    - Ms. Hunsicker provides testimony related to improving our customer information system.
- Peggy A. Laub, Director, Rates and Regulatory Planning
    - Ms. Laub provides testimony supporting Duke Energy Ohio's overall revenue requirement for the test year and certain adjustments to the test year financial data.
- Cynthia S. Lee, Director, Asset Accounting
    - Ms. Lee offers testimony on Duke Energy Ohio's accounting processes and sponsors certain accounting information used for the test year financial data.

- Roger A. Morin, PhD, Principal, Utility Research International
    - Dr. Morin offers testimony on Duke Energy Ohio's requested rate of return.
- Scott B. Nicholson, Manager, Ohio Customer Choice
    - Mr. Nicholson offers testimony to provide an overview of the customer energy usage data that is available to competitive electric retail service providers and enhancements to enable meaningful access to such data, as contemplated by the Commission.
- Robert ("Beau") H. Pratt, Director, Regional Financial Forecasting
    - Mr. Pratt presents testimony on Duke Energy Ohio's budgeting and forecasting processes.
- James A. Riddle, Rates and Regulatory Strategy Manager, Pricing and Rates Options.
    - Mr. Riddle offers testimony as to rate design and tariff language.
- Donald L. Schneider, Jr., General Manager, Advanced Metering Infrastructure
    - Mr. Schneider addresses our AMI deployment and initiatives necessary to enable continued evolution of the metering infrastructure.
- John J. Spanos, Gannet Fleming Valuation and Rate Consultants, LLC
    - Mr. Spanos provides testimony on Duke Energy Ohio's latest depreciation study.

- John L. Sullivan, III, Director – Corporate Finance and Assistant Treasurer
    - Mr. Sullivan offers testimony regarding Duke Energy Ohio's credit ratings, financial objectives, cash requirements, and capital structure.
- William Don Wathen Jr., Director, Rates and Regulatory Strategy, Ohio and Kentucky
    - Mr. Wathen provides a more detailed overview of the filing including support for the extension and expansion of Rider DCI.
- Alexander "Sasha" J. Weintraub, PhD, Senior Vice-President, Customer Solutions
    - Mr. Weintraub provides testimony regarding the products and service available as a result of meter change-out and the competitive, behind-the-meter products and services to be offered.
- James E. Ziolkowski, Director, Rates and Regulatory Planning
    - Mr. Ziolkowski provides testimony regarding Duke Energy Ohio's cost of service study.

VI. ATTACHMENTS SPONSORED BY WITNESS

Q. PLEASE DESCRIBE SCHEDULE S-4.1 OF THE APPLICATION.

A. Schedule S-4.1 summarizes Duke Energy Ohio's corporate policies, practices, and organization. The summary describes the Company's processes for establishing policies, making decisions, and communicating our objectives throughout the organization.

Q. PLEASE DESCRIBE SCHEDULE S-4.2 OF THE APPLICATION.

A. Schedule S-4.2 summarizes the policies, practices, and organization for all major functional areas of Duke Energy Ohio.

Q. PLEASE DESCRIBE ATTACHMENT JPH-1.

A. Attachment JPH-1 is a summary of the Company's proposed public information and education campaign.

VII. CONCLUSION

Q. WERE SCHEDULES S-4.1 AND S-4.2 AND ATTACHMENT JPH-1 PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

Q. IS THE INFORMATION YOU SPONSORED IN SCHEDULES S-4.1 AND S-4.2 AND THE INFORMATION IN ATTACHMENT JPH-1 TRUE AND ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

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

A. Yes.

Public Education & Information Campaign

Duke Energy Ohio | 2017 Electric Distribution Rate Case

OBJECTIVES

The main objectives of Duke Energy Ohio's public education and information campaign are to:

- Improve our customers' understanding of safety issues related to storms and general electric utility operations.
- Enhance customers' knowledge of Ohio Customer Choice and the makeup of their monthly electric bills.
- Inform customers about the growing number of illegal utility scams and the actions they should take if they suspect they're being targeted.
- Increase customers' awareness of free tools that can help them better manage their monthly electric bills and payments.
- Enhance customers' familiarity of the energy conservation opportunities available to them, including those for low-income customers.

AUDIENCE

The target audience of Duke Energy Ohio's public education and information campaign are all Duke Energy Ohio residential, commercial and industrial electric customers in southwest Ohio.

POTENTIAL TOPICS

Each year, Duke Energy Ohio will select different topics to emphasize as part of the public education and information campaign. To determine which topics to focus on and when to run each communications campaign, Duke Energy Ohio may assess customer research, surveys and focus groups; community and stakeholder feedback; input from PUCO staff; and other formal feedback.

Below are potential categories and topics that could serve as foundations for strategic communications programs.

- **Safety and well-being**
    - Stay safe before, during, and after a storm
    - Safety around power lines
    - Work zone safety
    - Call before you dig (8-1-1)

- **Rates, billing and customer conveniences**
    - Understanding Ohio Electric Customer Choice
    - How to choose a Competitive Retail Electric Service (CRES) provider
    - Understanding government aggregation and changes in supply contracts
    - Understanding your electric bill
    - High bill alerts
    - Budget billing
    - Paperless billing
- **Energy conservation**
    - Benefits of conserving electricity
- **Utility scams**
    - Ways to identify utility scams
    - What to do when you think you're the target of a utility scam
- **Power outages**
    - Proactive outage notifications
    - How Duke Energy restores electric service after a storm
    - Report a streetlight outage
    - What to do if you lose electric service
    - Why it's important to report a power outage

POTENTIAL CHANNELS

Each strategic communications program Duke Energy Ohio pursues as part of its public education and information campaign will undergo a formal development process by the company's Creative Communications team. The team members and an external advertising placement agency (when necessary) will identify the appropriate messages and communications mediums for each topic.

Below are communications channels that could be used as part of the public education and information campaign. Please note: Emerging and yet-to-exist mediums will be considered in addition to the ones listed below.

- Television advertising
- Radio advertising
- Display advertising (online banners/video)
- Search engine marketing (paid search)
- Print advertising
- Out-of-home (billboards, busses, theaters)

- Social media organic and promoted posts
- Direct mail
- Email marketing
- Media relations

ILLUSTRATIVE ANNUAL BUDGET

The following illustrative budget demonstrates how Duke Energy Ohio would, in theory, allocate campaign dollars each year. Depending on the topics chosen and length of each strategic communications program, the Creative Communications team may choose to emphasize certain communications tactics more than others from year to year.

Television	
Media Buys	$ 384,000
Production & Talent	$ 180,000
Radio	
Media Buys	$ 149,410
Production & Talent	$ 18,000
Online Video	
Production	$ 40,000
Online Display Advertising	
Media Buys	$ 90,000
Search Engine Marketing	$ 36,000
Social Media Marketing	$ 75,000
Print Advertising	
Media Buys	$ 75,000
Out-of-Home Advertising	
Media Buys	$ 125,000
Focus Groups	$ 12,000
Bill Inserts	$ 4,200
Direct Mail	
Postage	$ 651,000
Printing	$ 140,000
Photography	$ 20,000
TOTAL	**$ 1,999,610**

DUKE ENERGY OHIO EXHIBIT ______

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 17-32-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 17-33-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 17-34-EL-AAM

DIRECT TESTIMONY OF

RETHA HUNSICKER

ON BEHALF OF

DUKE ENERGY OHIO, INC.

________ Management policies, practices, and organization

________ Operating income

________ Rate Base

________ Allocations

________ Rate of return

________ Rates and tariffs

___X___ Other: Customer Information System

March 16, 2017

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Retha Hunsicker, and my business address is 400 South Tryon Street, Charlotte, North Carolina, 28202.

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

A. I am employed by Duke Energy Business Services LLC (DEBS), as Vice-President of Customer Operations. DEBS provides various administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I hold a Bachelor of Science degree in Business Administration from Indiana Wesleyan University. Since 1981, I have been employed by, and worked for, companies under what is now Duke Energy. I began my career with Public Service Indiana, the predecessor to Duke Energy Indiana, Inc., (Duke Energy Indiana) as an accounting assistant. Since then, I have held positions with increasing levels of responsibility. More recently, the roles I've held include Director, Business Standards and Integration, and General Manager, Smart Energy Systems & Processes. In 2012, I took the position of Regional Director, Customer Services, leading our Midwest contact centers, before promoting to Vice President, Customer Contact Operations in 2013. I assumed my current role as Vice President, Customer Operations, Customer Information Systems in 2015.

Q. PLEASE DESCRIBE YOUR DUTIES AS VICE-PRESIDENT, CUSTOMER OPERATIONS.

A. I have executive management oversight for the customer information system (CIS) consolidation project known as Customer Connect. Through this program, Duke Energy will complete the successful deployment of a new customer platform that will enable the functional capabilities needed to meet our strategic purpose of powering the lives of our customers by transforming how we serve them.

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

A. I have submitted written testimony with the Public Utilities Commission of Ohio (Commission).

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

A. The purpose of my testimony is to discuss the Company's current CIS and explain why it is necessary to convert that CIS into a modern customer service platform.

II. <u>DISCUSSION</u>

Q. PLEASE EXPLAIN THE PURPOSE OF A CIS.

A. A CIS manages the billing, accounts receivable, and rates for the Company and is the central repository for all customer information. It links the consumption and metering process to payments, collections, and other downstream processes. A CIS manages customer profiles and integration of data to provide a holistic view of the customer and should enable expected customer capabilities.

Q. PLEASE DESCRIBE DUKE ENERGY OHIO'S CURRENT CIS.

A. The CIS currently used by Duke Energy Ohio was developed more than thirty years ago, beginning in 1987, and it was put in service in 1993. This CIS supports Duke Energy Ohio and its sister utilities, Duke Energy Kentucky, Inc., (Duke Energy Kentucky) and Duke Energy Indiana. The current CIS was designed as a premises-based system. That is, it was developed to communicate with a meter attached to a premises, without regard to who may be consuming the services provided through that meter or how they may be consuming those services.

The CIS has been modified over the years, with the first such modification occurring shortly after it was put in service. This modification was needed in 1999 because of the de-regulation of Ohio's electric generation market. And subsequent changes have been necessary in order to allow the Company to continue to adapt and serve our customer's growing expectations and needs.

Q. HOW HAVE MODIFICATIONS TO THE CURRENT SYSTEM BEEN MADE?

A. Although state-of-the-art nearly thirty years ago, the current CIS was not designed to efficiently support new capabilities. We continue to add on functions to the legacy system to try to meet business needs. But as we add newer technologies to the legacy system, the complexity continues to increase, thereby leading to more system disruptions and longer time to recover from outages. In some cases, the business has started looking for other options to meet needs resulting in disjointed solutions and pushing customer data out to multiple vendors. Moreover, certain functions are not compatible with the current CIS as further discussed below.

Q. IS THE CURRENT SYSTEM A FULLY AUTOMATED SYSTEM?

A. No. There are inherent design limitations in this decades-old system and it is not possible to incorporate modifications that enable the automation of certain functions, such as complex billing.

Q. PLEASE EXPLAIN HOW COMPLEX BILLING IS COMPLETED UNDER THE COMPANY'S CURRENT CIS.

A. Because of the existing limitations with the current CIS, complex billing functions must be done manually. Additionally, the system is not designed to enable automated billing for customers having distributed generation with net metering. Our current systems were not designed to produce a credit bill, so these customers receive bills containing charges that are calculated manually. These manual interventions are not desirable for a variety of reasons. Among such reasons is inefficiency. Additionally, as the number of customers having these billing arrangements increases, there is an understandable impact on the Company's ability to provide timely and accurate bills. And it must be accepted that injecting manual intervention into what should be an entirely automated process creates an opportunity for unintended consequences.

Q. ASIDE FROM THOSE RELATED TO COMPLEX BILLING, ARE THERE LIMITATIONS WITH THE CURRENT CIS?

A. As I mentioned above, the current CIS is a premises-based system. Such a restrictive system prevents Duke Energy Ohio from interacting with customers in a meaningful and continually relevant manner. For example, the current CIS does not enable the Company to identify a customer's preferred method of communication. Thus, a customer who consistently opts out of the interactive voice response (IVR) in order to speak directly with a customer service representative must continue to go through, for them, an irritating process to obtain answers or information related to their utility service. Additionally, much of our customer base favors more modern communication channels, where information is almost immediately available. The current CIS does not enable these customers to employ their preferred methods of communication.

Further, the current CIS does not enable ready access to account histories that can be important in non-pay situations or when a customer is seeking to relocate within the Duke Energy jurisdictions. Consequently, a long-standing customer with a history of consistently paying bills on time and in full could be required to pay a security deposit as a condition of receiving service in a new home; a situation that could be avoided with improved access to account histories.

Q. CAN DUKE ENERGY OHIO SIMPLY RELY ON CONTINUED MODIFICATIONS OF THE EXISTING CIS?

A. No. As a practical matter, the current limitations discussed above cannot be remedied with modifications. Continued investment to modify an antiquated technology platform is not practical or sustainable. CISs, like any other software solution, are subject to obsolescence. Upgrades cannot remedy the problems encountered with obsolescence and, like other technology and software, must be made periodically to meet customer expectations. Moreover, Duke Energy Ohio's current CIS does not interact with the CISs in use by Duke Energy's other regulated utilities, which creates additional inefficiencies.

Q. PLEASE DISCUSS THESE ADDITIONAL INEFFICIENCIES.

A. As I discussed previously, the CIS currently in use by Duke Energy Ohio also supports Duke Energy Kentucky and Duke Energy Indiana. But since the inception of the existing CIS decades ago, there have been a series of mergers and acquisitions creating the current Duke Energy family, which now also includes public utilities in North Carolina, South Carolina, and Florida. These other utilities understandably had their own CIS and they continue to rely upon them. But these different systems are not compatible with each other and must be consolidated into one CIS.

Each of these systems varies in age, technological capability, cost to operate, upgradability, and scalability. None of these existing systems is considered to possess the ability to meet growing customer needs or their increasingly desired levels of service across and throughout Duke Energy Corp.'s footprint. Maintaining multiple existing CIS is not a viable, cost-effective, or prudent solution.

Customer Care Operations is currently experiencing system downtime and the vast majority is due to one of the four CISs or CIS interfaces or processes. It is expected that consolidating into a single or modern platform will significantly reduce this system downtime. The program will retire the mainframe and rationalize the support structure that supports the current CISs.

The need to evolve to meet customer expectations will continue beyond the program and it is expected that a consolidated modern platform will greatly simplify these efforts. In current state, the system changes that are required to introduce a new rate structure, for example, tend to be complex and are usually completed four times, once for each CIS used by Duke Energy's regulated utilities. A single and modern platform will reduce the complexity, timeline, and the number of changes required.

Q. **PLEASE DISCUSS HOW A MODERN CIS WILL BENEFIT DUKE ENERGY OHIO'S CUSTOMERS.**

A. Through the consolidation of the older CISs into a new CIS, Duke Energy and, in turn, Duke Energy Ohio, will be able to deliver a universal customer experience solution that will simplify, strengthen, and advance the ability to serve our customers. Key customer benefits include the following:

- Universal, simplified processes for customers;
- New and comprehensive ways to understand customers and better serve their unique needs; today we only understand our meters;
- Improvements to bill formats, helping customers more easily view and understand their bills;
- Reduction in the complexity, timeline, and the number of systematic changes required when introducing new rates, riders, and programs to better serve customers' unique needs;
- Flexibility and scale in leveraging advanced metering infrastructure and providing customers alternative rates and additional basic services; and
- More opportunities for advanced pricing structures and billing options.

Q. WILL THE NEW SYSTEM ALLOW FOR MORE FLEXIBLE RATE DESIGN AND OTHER RATE OFFERINGS?

A. Yes, our current system requires significant coding to implement new rates and pricing. New, modern CISs are much more configurable, reducing the amount of time to implement and test pricing changes and offerings.

Q. HOW LONG WILL IT TAKE TO FULLY IMPLEMENT THE SYSTEM FOR DUKE ENERGY OHIO?

A. We anticipate that the new CIS will be fully implemented in early 2022. Prior to full deployment, we will be deploying new capabilities every year that will improve our customers' experience.

Q. WILL CUSTOMERS SEE ANY BENEFITS PRIOR TO FULL DEPLOYMENT FOR DUKE ENERGY OHIO?

A. Yes, we will be deploying new capabilities every year leading up to full deployment to improve our customers' experience. These capabilities include, among others:

- Expanded communications preferences
- Streamlined IVR experience
- More personalized and customer-centric service
- Universal, customer-friendly bill format

Q. WHAT IS THE ESTIMATED COST FOR THE CIS IMPROVEMENT APPLICABLE TO DUKE ENERGY OHIO'S ELECTRIC CUSTOMERS?

A. The estimated cost for Duke Energy Ohio's electric customers is $45-50 million, with approximately 50 percent reflecting the capital investment.

Q. IS DUKE ENERGY OHIO PROPOSING TO RECOVER ANY OF THE COST OF THE CIS REPLACEMENT IN THIS CASE?

A. The test year revenue requirement includes a levelized estimate of the incremental operating and maintenance (O&M) expenses associated with the project in the amount $3,694,000, as reflected in Schedule C-3.23 of the Application. This estimate was derived by levelizing the projected incremental O&M expenses for the project of $22,164,000, over a period of six years (*i.e.*, $22,164,000 ÷ six years).

III. <u>CONCLUSION</u>

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

A. Yes.

DUKE ENERGY OHIO EXHIBIT______

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 17-32-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 17-33-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 17-34-EL-AAM

DIRECT TESTIMONY OF

PEGGY A. LAUB

ON BEHALF OF

DUKE ENERGY OHIO, INC.

______	Management policies, practices, and organization
X	Operating income
X	Rate base
______	Allocations
______	Rate of return
______	Rates and tariffs
______	Other

March 16, 2017

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

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

I began my career with The Cincinnati Gas & Electric Company, the predecessor of Duke Energy Ohio, as a co-operative education student in the Accounting Department. In 1984, I was employed full-time in the Tax Department. I progressed through various positions to Coordinator, State & Local Taxes. In 1998, I was transferred to the Regulated Business Unit's financial group. In 2000, I was transferred to Fixed Assets Accounting and I was promoted to manager in 2002. In May 2006, following the merger between Cinergy Corp. and Duke Energy, I transferred to the Midwest U.S. Franchised Electric & Gas accounting group. In November 2008, I transferred to Midwest Wholesale Accounting as Manager, Accounting. In May 2010, I transferred to the Rate

Department and to my current position as Director, Rates & Regulatory Planning.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR, RATES AND REGULATORY PLANNING.

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

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

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

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

A. I sponsor Schedules A-1, A-2, A-3, B-1, B-5, B-5.1, B-6, B-6.1, B-7, B-7.1, B-7.2, C-1, C-2, C-2.1, C-3, C-3.1 through C-3.3, C-3.5 through C-3.19, C-3.21 through C-3.23, C-5 through C-9.1, C-11.1 through C-12, and page 5 of Schedule D-5A and D-5B. In addition, I address certain test year operating income and rate base adjustments. I also sponsor Supplemental Filing Requirements (C)(5), (C)(6), (C)(8), (C)(11), (C)(14), (C)(15) and (C)(22).

II. <u>TEST YEAR AND DATE CERTAIN</u>

Q. WHAT ARE THE TEST YEAR AND DATE CERTAIN IN THESE PROCEEDINGS?

A. Pursuant to the Company's Motion to Set Test Period and Date Certain filed in these proceedings on March 2, 2017, which was approved by the Commission in its entry on February 23, 2017, the test year consists of the twelve months ended March 31, 2017, and the date certain is June 30, 2016.

III. SCHEDULES AND SUPPLEMENTAL FILING REQUIREMENTS SPONSORED BY WITNESS

Q. PLEASE DESCRIBE SCHEDULE A-1.

A. Schedule A-1 is the overall financial summary of Duke Energy Ohio's electric distribution operations. The data presented on Schedule A-1 shows that the Company will earn a 7.08 percent overall return on rate base for the test year and that an increase of $15.4 million over current electric distribution revenue is required to earn a reasonable rate of return on its electric distribution rate base at the Company's current cost of capital of 7.82 percent.

Q. PLEASE DESCRIBE SCHEDULE A-2.

A. Schedule A-2 sets forth the calculation of the gross revenue conversion factor. The revenue conversion factor is used on Schedule A-1, Line 7 in the computation of the revenue deficiency.

Q. WHAT ITEMS ARE INCLUDED IN THIS REVENUE CONVERSION FACTOR?

A. The revenue conversion factor includes the city of Cincinnati Franchise Tax, the Commercial Activities Tax, the Commission and the Office of the Ohio Consumers' Counsel (OCC) annual assessments, certain municipal income taxes, state income taxes, and federal income taxes. The rates used represent either the most current applicable rates or statutory rates as of the time of the filing. Also included in this factor is an uncollectible account factor.

Q. **PLEASE DESCRIBE SCHEDULE A-3.**

A. Schedule A-3 is a calculation of mirrored construction work in progress (CWIP) revenue surcredit rider. As indicated on this schedule, the Company has no mirrored CWIP revenue.

Q. **PLEASE DESCRIBE SCHEDULE B-1.**

A. Schedule B-1 is the jurisdictional rate base summary. The rate base components listed on this summary are supported by the various Section B schedules. The plant in service and reserve for accumulated depreciation were summarized from Schedules B-2 and B-3, sponsored by Company witness Cynthia S. Lee. The working capital and other items of rate base were summarized from Schedules B-5, which I sponsor, and B-6, which I co-sponsor with Company witness Lisa M. Bellucci.

Q. **PLEASE DESCRIBE SCHEDULES B-5 AND B-5.1.**

A. Schedule B-5 is a summary of allowance for working capital, which includes cash working capital and materials and supplies (M&S). Additional detail for all of these items is shown on Schedule B-5.1, including the average thirteen-month balance and the actual balance as of June 30, 2016, the date certain in these proceedings.

Q. **HOW MUCH CASH WORKING CAPITAL ALLOWANCE IS BEING REQUESTED BY DUKE ENERGY OHIO IN THESE PROCEEDINGS?**

A. Duke Energy Ohio is not making a request for cash working capital allowance in these proceedings.

Q. WHY HAS THE COMPANY INCLUDED NO CASH WORKING CAPITAL IN RATE BASE?

A. The question in determining the appropriate level of cash working capital to include in rate base is essentially one of reasonableness. Many jurisdictions consistently use a formula method, such as the one-eighth method, to estimate cash working capital. This method is accepted at the Federal Energy Regulatory Commission (FERC) and by several other state regulators, including the Kentucky Public Service Commission, which regulates Duke Energy Ohio's subsidiary company, Duke Energy Kentucky.

Admittedly, a lead/lag study is a more detailed approach but it is a costly and time consuming exercise, and it typically invites considerable dispute over the assumptions used to develop the study. In addition to these reasonable approaches of using the lead/lag study or the one-eighth method, the Company submits that its proposal to include $0 for its cash working capital allowance is well within the bounds of reasonableness.

Q. PLEASE DESCRIBE HOW YOU ESTIMATED THE BALANCE OF M&S TO INCLUDE ON SCHEDULES B-5 AND B-5.1.

A. The process of allocating the Company's investment in M&S to electric distribution is described in Supplemental Filing Requirement (C)(11), which is discussed later in my testimony.

Q. SHOULD THE COMPANY BE ALLOWED TO INCLUDE ITS INVESTMENT IN M&S IN RATE BASE EVEN IF THERE IS NO REQUEST FOR CASH WORKING CAPITAL?

A. Yes. The two items are separate components of rate base. I have been advised by counsel that Section 4909.15(A)(1) of the Ohio Revised Code draws a distinction between a utility's investment in cash working capital and its investment in materials and supplies. As this provision states:

> (1) The valuation as of the date certain of the property of the public utility used and useful or, with respect to a natural gas company, projected to be used and useful as of the date certain, in rendering the public utility service for which rates are to be fixed and determined. The valuation so determined shall be the total value as set forth in division (C)(8) of section 4909.05 of the Revised Code, *and a reasonable allowance for materials and supplies and cash working capital* as determined by the commission. (Emphasis added.)

The unambiguous language here indicates that an allowance for materials and supplies is appropriate regardless of whether there is any request for cash working capital. In this case, the Company is making no request for cash working capital, as is its prerogative, but it is requesting an allowance for M&S.

Q. IS IT YOUR UNDERSTANDING THAT A LEAD/LAG STUDY IS REQUIRED FOR THE COMMISSION TO APPROVE ANY ALLOWANCE FOR <u>CASH</u> WORKING CAPITAL?

A. Yes, that is my understanding. O.A.C. Chapter 4901-7 includes Appendix A, which provides a set of instructions for rate proceedings before the Commission. In Section (B)(E)(1) of Appendix A, the requirement for a cash working capital allowance provides that "[a]n allowance for cash working capital shall be supported by a recent lead-lag study." The fact that the Company is asking for no allowance for cash working capital renders this requirement moot – there is no request to support.

Furthering the conclusion that cash working capital and other working capital are separate separable rate base items, the same section of Appendix A distinguishes cash working capital from "Miscellaneous Working Capital," such as M&S.

There is no explicit provision in the Commission's rules or in the Ohio Revised Code that remotely suggests that a lead/lag study related to cash working capital is a requirement to support an allowance for non-cash working capital.

Q. ARE M&S A DISTINGUISHABLE INVESTMENT FROM THE LEAD/LAG OF RECEIPT OF PAYMENTS ATTRIBUTABLE TO CASH WORKING CAPITAL?

A. Yes. M&S are indeed a distinguishable investment from the lead/lag of receipts/payments. The Company's shareholders must invest in on-hand inventory of material and equipment to reasonably maintain and operate its electric distribution system. To conflate the Company's investment in M&S with cash working capital is inappropriate. The Company is not asking for a return on any cash working capital but is making a reasonable request that shareholders be compensated for investments made to safely and reliably maintain the electric distribution system.

Q. PLEASE DESCRIBE SCHEDULE B-6.

A. Schedule B-6 is a summary of other rate base items including any adjustments to these balances as contained on Schedule B-6.1. The items include customer deposits, post-retirement benefits, accumulated deferred investment tax credits, accumulated deferred income taxes, and other rate base adjustments. The investment tax credit balance for the 10 percent credits are non-jurisdictional pursuant to the normalization requirements of the Internal Revenue Code.

Q. PLEASE EXPLAIN WHY CUSTOMER SERVICE DEPOSITS ARE INCLUDED AS A DEDUCTION FROM RATE BASE ON SCHEDULE B-6.

A. Customer service deposits represent funds held by the Company in advance of service. These funds are included on Schedule B-6 because they provide the Company with a source of capital. The Commission's rules (O.A.C. 4901-7-01, Appendix A) specifically identify this item as one to be included on Schedule B-6. It also prescribes that items included on Schedule B-6 are to be included at the date certain balance.

Q. HOW DID YOU DERIVE THE FIGURE SHOWN ON SCHEDULES B-6 FOR CUSTOMER SERVICE DEPOSITS?

A. The estimate of customer service deposits to be included in Schedule B-6 is the date certain balance as of June 30, 2016, allocated to electric distribution operations based on the ratio of electric residential customers to total gas and electric residential customers.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR POST-RETIREMENT LIFE INSURANCE AND HEALTH INSURANCE BENEFITS INCLUDED ON SCHEDULE B-6 AS AN INCREASE IN RATE BASE.

A. In prior proceedings, the Commission has allowed the Company to internally fund its post-retirement life insurance and health insurance benefits. Accordingly, the amount included on Schedule B-6 represents cumulative expense recovery included in rates, net of benefits paid.

Q. PLEASE DESCRIBE SCHEDULE B-6.1.

A. Schedule B-6.1 summarizes the adjustments to the various other rate base item balances contained on Schedule B-6. Certain balances are eliminated or adjusted to reflect the ratemaking treatment of these or related items in this filing.

Q. PLEASE DESCRIBE SCHEDULE B-7.

A. Schedule B-7 is a summary of the jurisdictional allocation factors used in the development of the revenue requirement. The only "jurisdictional" costs, *i.e.*, costs regulated by the Commission, are distribution costs and there are no "jurisdictional" wholesale distribution customers. Therefore, the allocation factors shown are those used to allocate certain costs between distribution and other electric functions (*i.e.*, transmission).

Q. PLEASE DESCRIBE SCHEDULES B-7.1 AND B-7.2.

A. Schedule B-7.1 provides statistics used to develop the jurisdictional allocation factors shown on Schedule B-7. The requirement for Schedule B-7.2 is to provide an explanation of changes to allocation factors since the prior electric distribution rate case, Case No. 12-1682-EL-AIR, *et al.* In this case, the Company has changed the method of allocation of common plant on Schedules B-2 and B-3, consistent with the factors used in its accounting records. Each common plant account number is reviewed and assigned an allocation to gas and electric based on the assets in that plant account. For example, advanced meters and communication equipment is allocated based on the number of customers. In addition, most common assets are then further allocated to electric distribution based on an electric distribution/transmission labor factor. The SmartGrid assets are considered to be 100 percent related to distribution.

Q. PLEASE DESCRIBE SCHEDULE C-1.

A. Schedule C-1 sets forth the Company's jurisdictional *pro forma* income statement for the twelve months ending March 31, 2017, at both the current and proposed rates, and assumes that the total amount of the requested increase calculated on Schedule A-1 is authorized in these proceedings. The current adjusted operating results for the test year were summarized from Schedule C-2. Test year revenue at the proposed rates was developed by adding the increase in revenue as set forth on Schedule E-4 to the adjusted operating revenues. The *pro forma* results (column C) were developed by calculating the operating income effect of the requested increase (column B) and adding these amounts to the adjusted revenue and expense (column A). If the full increase were to be authorized, the resulting rate of return would be 7.82 percent, which is the Company's proposed rate of return.

Q. PLEASE DESCRIBE SCHEDULE C-2.

A. Schedule C-2 shows the Company's jurisdictional adjusted electric operating income associated with its distribution operations for the test year at current rates. This schedule includes unadjusted jurisdictional revenue and expense amounts from Schedule C-2.1, and a summary of the adjustments per Schedule C-3.

Q. PLEASE DESCRIBE SCHEDULE C-2.1.

A. Schedule C-2.1 lists the unadjusted test year operating revenue and expenses, by account. These amounts were derived from the Company's financial records and are summarized and carried forward to Schedule C-2. Also shown on Schedule C-2.1 is the jurisdictional allocation of each cost to electric distribution.

Q. PLEASE DESCRIBE SCHEDULE C-3 AND THE ADJUSTMENTS SHOWN ON SCHEDULES C-3.1 THROUGH C-3.23.

A. Schedule C-3 is a summary of the jurisdictional adjustments to operating revenues and expenses set forth on Schedules C-3.1 through C-3.23. The effect of each adjustment on Net Operating Income is shown on Line 43. The cumulative impact of the adjustments is summarized on Schedule C-3, page 1 of 4, and carried forward to Schedule C-2.

Q. WHY ARE ADJUSTMENTS TO TEST YEAR ACTUAL AND BUDGET INFORMATION NECESSARY?

A. These adjustments are required to reflect the representative ongoing level of revenues and expenses that the Company would experience in a normal year. Some adjustments are required to even out or eliminate the impacts of journal entries made to the actual book accounting data that comprise the first eight months in the test year. Other adjustments are to reflect the level of revenue and expenses that would have occurred had all known prospective changes been in effect during the test year.

The test year adjustments ensure that prevailing revenues and expenses are properly included in the determination of an ongoing level of rates. Duke Energy

Ohio must reflect a proper level of cost in order to give the Company a reasonable opportunity to earn its authorized return. Not capturing these adjustments and reflecting them in the Company's test year would impair the Company's ability to earn a fair rate of return on its electric distribution operations or could result in the Company over-recovering its costs.

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO OPERATING INCOME.

A. Schedule C-3.1 adjusts test year revenue in order to: (1) annualize revenue; (2) eliminate "unbilled" revenue; and (3) include in the test year revenue attributable to two special contracts. The federal income tax effects of this adjustment are shown on Schedule C-3. Importantly, it should be noted that the Company's overall revenue requirement for distribution service is reduced by the revenue it receives from other sources such as from its Backup Delivery Point Rider (Rider BDP). And, any change to decrease or increase such "other" revenue necessarily means more or less overall revenue must be sourced from base rates.

Q. PLEASE EXPLAIN WHY YOU ANNUALIZE REVENUE.

A. Because the test year includes eight months of actual data, it is necessary to make certain adjustments to ensure that the revenue included in the test year is representative of the annual level the Company can expect from its ongoing operations. Also, the methodology employed by the Company to budget revenue for the four months used in the test year is based on averages to simplify the budgeting process. The revenue by Rate Code, as developed on Schedule E-4, applying currently approved rates to test year sales, is a more precise method for determining the test year revenue and represents the level of current base revenue that should be used in these proceedings.

Q. WHY DID THE COMPANY ELIMINATE UNBILLED REVENUE AND EXPENSE?

A. The Company eliminated the estimated unbilled revenue and expense from its operating results to be consistent with the revenue and volume computations contained on Schedule E-4. The revenue and volume amounts on Schedule E-4 are based on adjusted test year billing statistics and, consequently, do not reflect estimated unbilled sales.

Q. PLEASE DESCRIBE THE OTHER ADJUSTMENTS INCLUDED IN DUKE ENERGY OHIO'S FILING.

A. Schedule C-3.2 eliminates energy efficiency, economic competitiveness, and decoupling revenue and expense levels from the test year since these amounts are recovered from customers through various riders. This jurisdictional adjustment results in a decrease in revenue of $42,721,160 and a decrease in operating and maintenance (O&M) expense of $8,777,104.

Schedule C-3.3 adjusts operating income for the estimated cost of presenting this case and the Company's future standard service offer (SSO) proceeding. The Company proposes to defer this expense and amortize it over a three-year period. The Company also proposes to eliminate the amortization of rate case expense approved in Case No. 12-1682-EL-AIR, *et al.*, that is included in the test year. The rate case expense approved in that case will be fully amortized before the new rates go into effect; consequently, an additional adjustment was made to eliminate existing rate case expense amortization from the test year. The three-year amortization period reflects the approximate expected time between rate cases. The net jurisdictional adjustment results in an increase in annual operating expenses of $207,183.

Schedule C-3.4 calculates the annualized depreciation expense adjustment between the proposed depreciation on Schedule B-3.2 and the test period depreciation calculated using eight months of actual depreciation expense and four months of projected depreciation expense as described by Company witness Cynthia S. Lee.

Schedule C-3.5 adjusts operating income to include, as an operating expense, interest computed at 3 percent per annum on the date certain balance of the electric distribution business' share electric operations customer service deposits. This jurisdictional adjustment results in an increase in O&M expense of $556,071.

Schedule C-3.6 adjusts operating income to annualize property tax expense based on the Ohio Average Property Tax Rate for 2016 (per $1,000 of valuation) and the estimated valuation percentages on date certain plant. Also included in this computation is the property tax on the average electric distribution M&S balance. This jurisdictional adjustment to property tax expense results in an increase in taxes other than income taxes of $5,610,448.

Schedule C-3.7 is an adjustment to operating income to reflect interest expense deductible for federal income tax purposes. The *pro forma* tax deduction is based on the embedded weighted cost of long-term debt of 2.54 percent as shown on Schedule D-1A. This adjustment reflects federal income tax at 35 percent on the interest cost included in the cost of capital. The adjustment has been determined by multiplying the weighted cost of long-term debt and the jurisdictional rate base, as indicated on Schedule B-1. Also included as a part of this adjustment is the elimination of interest-related tax Schedule M items and deferred taxes. This jurisdictional adjustment results in a $959,818 increase in current income tax expense and a $707,041 impact in deferred income tax expense.

Schedule C-3.8 is marked as reserved for future use, which means that no adjustment has been made in the model.

Schedule C-3.9 is an adjustment to operating income to eliminate the Ohio Excise Tax Rider (*i.e.*, "kWh tax") revenues and expenses from the test year. This jurisdictional adjustment results in a decrease in revenue of $69,291,364 and a decrease in taxes other than income taxes of $69,698,967.

Schedule C-3.10 is an adjustment to operating income to eliminate non-jurisdictional expenses from the test year. Included in unadjusted test year expense are industry association dues, advertising expenses, and other expenses that are not recoverable in electric distribution rates. The Company proposes to eliminate these charges through a jurisdictional adjustment that decreases O&M expense by $763,234.

Schedule C-3.11 is an adjustment to operating income to annualize the Commission and OCC annual assessments to the latest known levels. This jurisdictional adjustment results in a $52,984 decrease in O&M expense.

Schedule C-3.12 is an adjustment to operating income to annualize uncollectible expense based on the adjusted base revenue shown on Schedule C-2, less interdepartmental revenue and rents, plus other rider revenues that are subject to uncollectible expense, times the uncollectible expense factor shown on Schedule A-2. This adjustment is consistent with the methodology used in prior proceedings and results in a $1,874,936 decrease in O&M expense. The adjustment also eliminates $3,686,157 of revenues collected from the Company's uncollectible expense rider and the amortization of the regulatory asset deferral amortization $474,291.

Schedule C-3.13 reflects an adjustment to annualize the Commercial Activities Tax. This jurisdictional adjustment results in a net decrease in taxes other than income taxes of $83,359.

Schedule C-3.14 is an adjustment to operating income to reflect the annualization of the Company's payroll costs, pensions and benefits, and payroll taxes based on labor for the twelve months ended November 30, 2016, adjusted for annual salary increases. As detailed on work paper WPC-3.14b and WPC-3.14c, annualized labor was determined by using the most recent twelve months of labor and then applying any applicable wage increases that were not already reflected in the twelve months of actual labor. This jurisdictional adjustment to salaries and wages represents an increase in expenses of $673,722. WPC-3.14d is an adjustment to operating income to annualize pension and benefits expense based on annualized salaries and wages as determined on WPC-3.14c. It shows a jurisdictional adjustment to pensions and benefits, which is an increase to O&M expense of $551,309. WPC-3.14e is an adjustment to operating income to annualize payroll taxes based on annualized salaries and wages as determined on WPC-3.14c. It shows a jurisdictional adjustment that increases taxes other than income taxes by $131,337. These jurisdictional adjustments are similar to the adjustments performed in prior cases and adopted by the Commission.

Schedule C-3.15 is an adjustment to operating income to eliminate costs to achieve the merger with Progress Energy and the acquisition of Piedmont Natural Gas that were included in the test year. This jurisdictional adjustment results in a decrease in expense of $987,505.

Schedule C-3.16 is an adjustment to operating income to reflect the amortization of the competitive retail electric service provider logo costs over a three-year period. The costs were approved for deferral in Case No. 15-855-EL-AAM. This jurisdictional adjustment results in an increase in expense of $196,090.

Schedule C-3.17 is an adjustment to operating income to reflect the amortization of the costs of the Ohio Electric Choice Supplier website over three years. Costs were approved to be deferred in Case No. 11-3549-EL-SSO, *et al.* This jurisdictional adjustment results in an increase in expense of $117,709.

Schedule C-3.18 is an adjustment to operating income to annualize the amortization of SmartGrid post in service carrying costs accrued as of June 30, 2016. Amortization of post in service carrying costs related to SmartGrid were calculated based on balances as of June 30, 2016, and were compared to the amount included in the test year. This jurisdictional adjustment results in an increase in expense of $88,204.

Schedule C-3.19 is an adjustment to operating income to adjust test year expenses for the costs of a public informational and customer education campaign that were not included in the Company's operating budget. This jurisdictional adjustment results in an increase in expense of $1,999,610. See testimony of Company witness James P. Henning for a discussion of the Company's proposed campaign.

Schedule C-3.20 is an adjustment to reflect the incremental cost of a proposed street light audit as described by Company witness Cicely M. Hart.

Schedule C-3.21 is an adjustment to operating income to eliminate amortization of SmartGrid included in the test year. This jurisdictional adjustment results in a decrease in other expenses of $29,466,269

Schedule C-3.22 is an adjustment to operating income to amortize IT system improvement costs related to advanced meter opt-outs over a three-year period. The deferral of costs being amortized was approved in Case No. 14-1160-EL-UNC. This jurisdictional adjustment results in an increase in O&M expense of $81,041.

Schedule C-3.23 is an adjustment to operating income to include the levelized estimate of the O&M expenses related to the billing system as discussed in the testimony of Company witness Retha Hunsicker.

Q. PLEASE DESCRIBE SCHEDULES C-5, C-6, AND C-7.

A. Schedule C-5 is entitled "Social and Service Club Dues." No costs are reflected in this case for employee social or service clubs membership dues. Schedule C-6 entitled "Charitable Contributions" indicates that there are no charitable contributions charged to jurisdictional electric operating expenses. Schedule C-7 provides detail, by account, of test year Customer Service and Informational Expense, Sales Expense, and General Advertising Expense.

Q. PLEASE DESCRIBE SCHEDULE C-8.

A. Schedule C-8 sets forth the estimated expense of presenting this case and the future SSO case. The top half of this schedule compares the expenses estimated to be incurred in these proceedings to the expenses for the Company's prior two rate cases. The Company proposes to defer this expense and amortize it over a three-year period. This amount is included in test year operating expense through the adjustment contained in Schedule C-3.3.

Q. PLEASE DESCRIBE SCHEDULE C-9.

A. Schedule C-9 contains a summary of all payroll costs and related benefits and taxes included in O&M expense for the test year. The adjustments made to labor expense, pension and benefits expense, FICA taxes, and unemployment taxes from Schedules C-3.14 were also included on this schedule to arrive at the total adjusted payroll cost.

Q. PLEASE DESCRIBE SCHEDULE C-9.1.

A. Schedule C-9.1 is the Total Company Payroll Analysis for the most recent five years. Page 1 summarizes the total Company payroll information, while pages 2 through 4 reflect the same information for the union, exempt and non-exempt employee classifications. This schedule includes labor for the Company's gas distribution business.

Q. PLEASE DESCRIBE SCHEDULES C-11.1, C-11.2, C-11.3, AND C-11.4.

A. Schedules C-11.1 through C-11.4 set out the electric sales statistics for the total company and the jurisdictional revenues in these proceedings. The years 2011 through 2015 are based on actual data. The test year twelve months ending March 31, 2017, reflects eight months actual and four months projected data. Years 2017 through 2021 are projected and provide information from the Company's electric sales forecast.

Q. PLEASE DESCRIBE SCHEDULE C-12.

A. Schedule C-12 is an analysis of the reserve for uncollectible accounts for the most recent three calendar years and the test year. Shown on this schedule are the beginning reserve balance, the current year provision, recoveries, charge-offs, and ending balances. The ratio of net write-offs and the ratio of uncollectible expenses are also computed. Beginning in February 2002, Duke Energy Ohio's receivables have been sold to Cinergy Receivables Company LLC. The reserve that existed at that time has been reversed over time and no additional reserves are necessary; therefore, the balance is $0.

Q. PLEASE DESCRIBE SCHEDULE D-5.

A. Schedule D-5 contains comparative financial data for the years 2006 through 2015 and the test year ending June 30, 2016. This information was obtained from various departments throughout the Company.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(5).

A. Supplemental Filing Requirement (C)(5) requires the filing of working papers supporting the schedules provided in the Application. The electronic worksheet files are supplied on compact disc as part of the Application. A list of these electronic files is provided as Supplemental Filing Requirement (C)(5).

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(6).

A. Supplemental Filing Requirement (C)(6) is a worksheet showing, by FERC account, monthly test year data, which agrees with Schedule C-2.1, Column 1. Taxes Other Than Income Taxes are itemized and totaled.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(8).

A. Supplemental Filing Requirement (C)(8) is the latest certificate of valuation from the Ohio Department of Taxation.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(11).

A. The information provided in response to Supplemental Filing Requirement (C)(11) describes the calculation of the M&S component listed on Schedule B-5.1. Supplemental Filing Requirement (C)(11)(a) asks for the computation of the M&S used for construction, additions, and extensions. Supplemental Filing Requirement (C)(11)(b), page 1, lists the monthly balances of M&S by function, and page 2 lists the balances by account. The percentage of M&S applicable to new construction is developed on Supplemental Filing Requirement (C)(11)(c), which lists monthly withdrawals by function. The Company does not maintain its inventory in such a way that it can list the balances by function. The functional balances were estimated using information from the inventory system and the internal supply chain inventory management reporting system.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(14).

A. Supplemental Filing Requirement (C)(14) requests information regarding other rate base items included in Schedule B-6.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(15).

A. Supplemental Filing Requirement (C)(15) is a copy of the advertisements for which costs were charged to advertising expense during the actual months of the test year financial data. I also sponsor the Company's estimated costs of the advertisements that will be included in the budgeted portion of the test year.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(22).

A. Supplemental Filing Requirement (C)(22) requests test year and two most recent calendar years' employee levels by month. The required information is provided on Schedule C-9.1.

Q. WHAT INFORMATION DID YOU RECEIVE FROM OTHER DUKE ENERGY OHIO WITNESSES IN THESE PROCEEDINGS?

A. I received test year budgeted revenue and O&M from Company witness Robert ("Beau") H. Pratt. I received Plant-in-Service data from Company witness Lee, which is presented on Schedules B-2 through B-4.2, and B-6.2. I received accumulated deferred investment tax credit and accumulated deferred income tax balance information from Company witness Bellucci, which I used on Schedule B-6. I also received the federal income tax rate from Ms. Bellucci. I received cost-of-capital information from Duke Energy Ohio witness John L. Sullivan, III, which he presented on Schedule D-1. This schedule also includes the recommended rate of return on common equity proposed by Company witness Dr. Roger A. Morin. I also received the O&M costs associated with the new customer information system from Company witness Hunsicker.

Q. ARE THE COSTS AND BENEFITS ASSOCIATED WITH DUKE ENERGY OHIO'S ELECTRIC GRID MODERNIZATION PROGRAM INCLUDED IN THESE PROCEEDINGS?

A. Yes.

Q. ARE THE COSTS ASSOCIATED WITH DUKE ENERGY OHIO'S RIDER DCI INCLUDED IN THESE PROCEEDINGS?

A. Yes. The balance of the Rider DCI capital additions as of June 30, 2016, is included in this filing.

Q. WHAT IS THE AMOUNT OF MAJOR STORM COSTS INCLUDED IN THE REVENUE REQUIREMENT?

A. The amount is $6,221,812 based on eight months actual and four months budget as of March 31, 2017. This amount is identified on Schedule C-2.1. The Company uses the methodology outlined in the IEEE (Institute of Electrical and Electronics Engineers) Guide for Electric Power Distribution Reliability Indices to determine when a major storm has affected its service territory.

Q. HAS COMMISSION STAFF AUDITED THE MAJOR STORM COSTS ?

A. Pursuant to Per the Commission's Opinion and Order in Case No. 14-841-EL-SSO, *et al.*, the Company has provided to Staff a detail accounting of calendar year 2015 and 2016 major storm costs. As part of these proceedings, the Company would recommend that Staff finalize their audit so that the audit process may be resolved and so that there is certainty with regard to the amount of storm costs in base rates.

Q. IS THE COMPANY SEEKING TO CONTINUE THE EXISTING DEFERRAL AUTHORITY RELATED TO MAJOR STORM COSTS USING THE NEW BASE AMOUNT DETERMINED IN THIS CASE ?

A. Yes. At the time the new rates go into effect as a result of this case, Duke Energy Ohio will record the difference between actual major storm costs and the new base amount in a regulatory asset, with carrying costs on the balance, positive or negative , until recovery is sought in a future Rider DSR filing. The Company will file an application for recovery under Rider DSR when the balance of the regulatory asset or liability for storm costs exceeds five million dollars.

Q. WHAT IS THE AMOUNT OF COSTS PAID TO PEOPLE WORKING COOPERATIVELY (PWC) INCLUDED IN THE REVENUE REQUIREMENT?

A. The electric portion of the amount included in test year expense for PWC is $664,342 based on eight months actual and four months budget.

IV. CONCLUSION

Q. WERE ALL OF THE SCHEDULES AND SUPPLEMENTAL FILING REQUIREMENTS YOU SPONSOR PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes.

Q. IS THE INFORMATION YOU SPONSOR IN SCHEDULES A-1, A-2, A-3, B-1, B-5, B-5.1, B-6, B-6.1, B-7, B-7.1, B-7.2, C-1, C-2, C-2.1, C-3, C-3.1 THROUGH C-3.3, C-3.5 THROUGH C-3.19, C-3.21 THROUGH C-3.23,C-5 THROUGH C-9.1, C-11.1 THROUGH C-12, AND PAGE 5 OF SCHEDULE D-5A AND SCHEDULE D-5B AND SUPPLEMENTAL FILING REQUIREMENTS (C)(5), (C)(6), (C)(8),(C)(11), (C)(14), (C)(15)AND (C)(22) ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

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

A. Yes.

DUKE ENERGY OHIO EXHIBIT______

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 17-32-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 17-33-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 17-34-EL-AAM

DIRECT TESTIMONY OF

CYNTHIA S. LEE

ON BEHALF OF

DUKE ENERGY OHIO, INC.

________ Management policies, practices, and organization

________ Operating income

________ Rate Base

________ Allocations

________ Rate of return

________ Rates and tariffs

____X____ Other: Plant in Service

March 16, 2017

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PAGE

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Cynthia S. Lee, and my business address is 550 South Tryon Street, Charlotte, North Carolina 28202.

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

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

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I am a graduate of Rollins College, with a Bachelor of Arts degree in Economics, and a graduate of The Johns Hopkins University, with a Master of Business Administration. I am a Certified Public Accountant in the State of North Carolina. I am also a member of the Edison Electric Institute Property Accounting and Valuation Committee.

I began my employment with Duke Energy in 2002 in the Accounting Department for Progress Energy Service Company, predecessor to what is now DEBS. My responsibilities included oversight of financial reporting, general and regulatory accounting and asset accounting. I transitioned into my current position as the leader of the asset accounting group within Duke Energy's Regulated Utilities business segment in January 2015.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR, ASSET ACCOUNTING.

A. As Director, Asset Accounting, I have responsibility for the accounting activities within Duke Energy's Electric and Gas Utilities and Infrastructure related to fixed assets, including electric plant in service, construction work in progress (CWIP), depreciation and asset retirement obligations, materials and supplies inventory, and fuel (including both inventory and payment of fuel invoices) and emission allowances.

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

A. No.

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

A. I am responsible for net plant in service contained in rate base as of the date certain, June 30, 2016, and other plant-related items. I sponsor the following Schedules: B-2, B-2.1, B-2.2, B-2.3, B-2.4, B-2.5, B-3, B-3.1, B-3.2, B-3.2a, B-3.3, B-3.4, B-4, B-4.1, B-4.2, B-6.2, B-9, and C-3.4. I also sponsor page 1 of both Schedule D-5A and Schedule D-5B, and Supplemental Filing Requirements (C)(7), (C)(12), (C)(16), (C)(17), (C)(19), (C)(20), and (C)(21).

II. SCHEDULES AND FILING REQUIREMENTS SPONSORED BY WITNESS

Q. PLEASE DESCRIBE THE INFORMATION CONTAINED IN THE SCHEDULES OF SECTION B THAT YOU SPONSOR.

A. The schedules of Section B that I sponsor develop the Jurisdictional Net Plant In

Service. The schedules are based on Duke Energy Ohio's property records as of June 30, 2016, the date certain in these proceedings.

Q. PLEASE DESCRIBE SCHEDULE B-2.

A. Schedule B-2 shows the investment in electric plant in service, including allocated common plant by major property grouping, as of the date certain, June 30, 2016. The amount shown in the column labeled "Adjusted Jurisdiction" represents plant in service that is used and useful in providing electric distribution service to Duke Energy Ohio's jurisdictional customers.

Q. PLEASE DESCRIBE SCHEDULE B-2.1.

A. Schedule B-2.1 consists of a further breakdown of Schedule B-2 by the Federal Energy Regulatory Commission (FERC) and Company Account for each major property grouping. The plant investment shown in the column labeled "Adjusted Jurisdiction" represents plant in service that is used and useful in providing electric distribution service to Duke Energy Ohio's jurisdictional customers. Within Schedule B-2.1, the Echelon meters and related communication nodes, as further described in the Direct Testimony of Company witness Donald L. Schneider, Jr., are shown separately.

Q. PLEASE DESCRIBE SCHEDULE B-2.2.

A. Adjustments to plant in service are shown on Schedule B-2.2. For the date certain in these proceedings, the Company is proposing no adjustments to plant in service.

Q. PLEASE DESCRIBE SCHEDULE B-2.3.

A. Schedule B-2.3 shows gross additions, retirements, and transfers by the FERC and

Company Account for each major property grouping from April 1, 2012, the date certain in the Company's most recent electric distribution rate case (Case No. 12-1682-EL-AIR, *et al.*) through the date certain in these proceedings of June 30, 2016.

Q. PLEASE DESCRIBE SCHEDULE B-2.4.

A. Schedule B-2.4 is entitled "Leased Property." This schedule presents the detail of Duke Energy Ohio's plant investment in electric meters capitalized in Account 3701 Meters (the Company began leasing electric meters in 1999) and leasehold improvements that are capitalized in Account 1900 - Structures and Improvements. Duke Energy Ohio made capital improvements to leased office space at the Fourth and Walnut (Clopay) Building and Holiday Park.

Q. PLEASE DESCRIBE SCHEDULE B-2.5.

A. Schedule B-2.5 is a standard filing requirement to identify property to be excluded from rate base. As Duke Energy Ohio is not proposing any exclusions in this proceeding, this schedule is not applicable.

Q. PLEASE DESCRIBE SCHEDULE B-3.

A. Schedule B-3 shows the total plant investment and the Reserve for Accumulated Depreciation and Amortization by FERC and Company Account grouping as of June 30, 2016. The allocated jurisdictional reserve in the last column is applicable to the jurisdictional plant shown on Schedule B-2, "Allocated Jurisdiction."

Q. PLEASE DESCRIBE SCHEDULE B-3.1.

A. Schedule B-3.1 is a standard filing requirement to identify adjustments to Accumulated Depreciation and Amortization. Duke Energy Ohio is proposing no adjustments to its June 30, 2016, balance for Accumulated Depreciation and Amortization.

Q. PLEASE DESCRIBE SCHEDULE B-3.2.

A. Schedule B-3.2 lists the jurisdictional plant investment and reserve balance at June 30, 2016, for each FERC and Company Account within each major property grouping. It also shows the proposed depreciation and amortization accrual rate, calculated annual depreciation and amortization expense, percentage of net salvage, average service life and curve form, as applicable, for each account. The calculated annual depreciation and amortization for Electric Plant was determined by multiplying the allocated jurisdictional plant investment at June 30, 2016, by the proposed electric depreciation or amortization accrual rate. With this filing, Duke Energy Ohio has also filed with the Public Utilities Commission of Ohio (Commission) proposed depreciation and amortization accrual rates. The account numbers referred to in the depreciation study were those in effect at September 30, 2016, for Duke Energy Ohio. These depreciation and amortization accrual rates were established by Company witness John J. Spanos. Mr. Spanos, of Gannett Fleming Valuation and Rate Consultants, LLC, supports the Company's depreciation and amortization study through his testimony. It was noted after filing the Application that the rates shown in Schedule B-3.2 for Company Account numbers 1900 and 3900 were incorrect. The correct rate for account 1900 is 3.29 percent and for 3900 is 4.20 percent. Duke Energy Ohio requests that the Commission approve the depreciation and amortization accrual rates submitted in this case and that the depreciation and amortization accrual rates be effective with the electric distribution rates established in these proceedings.

Q. ARE THERE ANY DEPRECIATION/AMORTIZATION RATES SHOWN ON SCHEDULE B-3.2 THAT WERE NOT PROVIDED BY MR. SPANOS?

A. Yes. Meters in Company Accounts 3700 and 3701 are being amortized pursuant to the order in Case No. 08-709-EL-AIR, *et al.*

Q. PLEASE DESCRIBE SCHEDULE B-3.2a.

A. Schedule B-3.2a is the same as Schedule B-3.2, except that it shows the current depreciation and amortization accrual rate and current annual depreciation and amortization expense. Duke Energy Ohio is filing Schedule B-3.2a so that the current and proposed depreciation and amortization accrual rates, and resulting depreciation and amortization expense, can be easily compared.

Q. PLEASE DESCRIBE SCHEDULE B-3.3.

A. Schedule B-3.3 shows depreciation accruals, salvage, retirements, cost of removal, and transfers by FERC and Company Account for each major property grouping from April 1, 2012, the date certain in the Company's most recent electric distribution rate case, through the date certain in these proceedings of June 30, 2016.

Q. PLEASE DESCRIBE SCHEDULE B-3.4.

A. Schedule B-3.4 contains accumulated depreciation reserve, depreciation rates, and the annual depreciation expense for leased property. This data is presented for electric meters that Duke Energy Ohio began leasing in 1999. This schedule also presents the Company's plant investment for Leasehold Improvements by location, the accumulated amortization reserve, the amortization rates, and the annual amortization expense for the leasehold improvements. This amortization is associated with capital improvements as shown on Schedule B-2.4.

Q. PLEASE DESCRIBE SCHEDULE B-4.

A. Schedule B-4 is a list of all major projects that qualify for inclusion in rate base as CWIP at the date certain. The Company has not included any CWIP in rate base in these proceedings.

Q. PLEASE DESCRIBE SCHEDULE B-4.1.

A. This schedule provides additional information for the projects listed on Schedule B-4. Since no projects were listed on Schedule B-4, no data is provided on Schedule B-4.1.

Q. PLEASE DESCRIBE SCHEDULE B-4.2.

A. This schedule provides additional information for the projects listed on Schedule B-4. Since no projects were listed on Schedule B-4, no data is provided on Schedule B-4.2.

Q. PLEASE DESCRIBE SCHEDULE B-6.2.

A. This schedule presents Contributions in Aid of Construction by Account and Subaccount. Duke Energy Ohio nets all Contributions in Aid of Construction against gross plant pursuant to Federal Power Commission (now FERC) Order No. 490.

Q. PLEASE DESCRIBE SCHEDULE B-9.

A. This schedule includes projects that were in CWIP at the date certain of Duke Energy Ohio's most recent electric distribution rate case and included in rate base. Because Duke Energy Ohio did not include any CWIP projects in rate base in its most recent electric distribution rate case, no data is provided on Schedule B-9.

Q. PLEASE DESCRIBE SCHEDULE C-3.4.

A. Schedule C-3.4 calculates the annualized depreciation expense adjustment between the proposed depreciation on Schedule B-3.2 and the test period depreciation calculated using eight months of actual depreciation expense and four months of projected depreciation expense.

Q. PLEASE DESCRIBE PAGE 1 OF BOTH SCHEDULE D-5A AND SCHEDULE D-5B.

A. I sponsor page 1 of both Schedule D-5A and Schedule D-5B, which include plant in service by major property grouping and Reserve for Accumulated Depreciation and Amortization by utility service as of the date certain, and for each of the ten prior years. Plant held for future use, acquisition adjustments, CWIP, and composite depreciation rates have also been provided for the same periods. Schedule D-5A presents this information for Duke Energy Ohio and Schedule D-5B presents the same information on a consolidated Duke Energy basis as of the date certain, and for each of the ten prior years.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(7).

Supplemental Filing Requirement (C)(7) provides information on CWIP from the prior rate case. There was no CWIP included in the prior rate case.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(12).

A. Supplemental Filing Requirement (C)(12) provides information on depreciation expense related to specific accounts that are charged to clearing accounts.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(16).

A. Supplemental Filing Requirement (C)(16) requests information in the same general format as Schedule B-2.3, which shows plant in service data from the date certain in the Company's last electric distribution base rate case to the date certain in these proceedings. The requested information is available on workpaper WPB-2.3.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(17).

A. Supplemental Filing Requirement (C)(17) requires that Duke Energy Ohio provide the allocation of the depreciation reserve if it was allocated based on a theoretical study. The depreciation reserve was not allocated to accounts based on a theoretical reserve study. Reference is made to the depreciation study reflected in Supplemental Filing Requirement (C)(18) and supported by the Direct Testimony of Company witness Spanos.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(19).

A. Supplemental Filing Requirement (C)(19) requests information in the same general format as Schedule B-3.3, which shows depreciation reserve data from the date certain in the Company's most recent electric distribution base rate case to the date certain in these proceedings. The requested information is available on workpaper WPB-3.3.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(20).

A. Supplemental Filing Requirement (C)(20) requests information related to construction projects that are 75 percent complete. This requirement is not applicable because Duke Energy Ohio has not included CWIP in rate base in these proceedings.

Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(21).

A. Supplemental Filing Requirement (C)(21) is information concerning surviving dollars by vintage year of placement (original cost data as of date certain).

III. CONCLUSION

Q. WERE SCHEDULES B-2, B-2.1, B-2.2, B-2.3, B-2.4, B-2.5, B-3, B-3.1, B-3.2, B-3.2a, B-3.3, B-3.4, B-4, B-4.1, B-4.2, B-6.2, B-9, C-3.4, THE INFORMATION ON PAGE 1 OF BOTH SCHEDULE D-5A AND SCHEDULE D-5B, AND SUPPLEMENTAL FILING REQUIREMENTS (C)(7), (C)(12), (C)(16), (C)(17), (C)(19), (C)(20), AND (C)(21) PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION OR SUBJECT TO YOUR REVIEW?

A. Yes.

Q. IS THE INFORMATION CONTAINED IN THESE SCHEDULES AND FILING REQUIREMENTS ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

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

A. Yes.