

FILE

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the :
Application of the :
Cincinnati Gas & Electric : Case No. 01-1228-GA-AIR
Company for an Increase :
in Gas Rates in Its :
Service Area. :

In the Matter of the :
Application of the :
Cincinnati Gas & Electric : Case No. 01-1539-GA-AAM
Company for Approval to :
Change Accounting Methods.:

PROCEEDINGS

before Hearing Examiner Greta See, at the Public
Utilities Commission of Ohio, commencing at 1:00
p.m., on Tuesday, April 4, 2006, in Hearing Room
11-F, 180 East Broad Street, Columbus, Ohio.

ARMSTRONG & OKEY, INC.
185 South Fifth Street, Suite 101
Columbus, Ohio 43215-5201
(614) 224-9481/(800) 223-9481
Fax (614) 224-5724

ORIGINAL

Armstrong & Okey, Inc. Columbus, Ohio (614) 224-9481

PUCO

RECEIVED-DOCKETING DIV
2006 APR 18 AM 9:37

This is to certify that the images appearing are an
accurate and complete reproduction of a case file
document delivered in the regular course of business
Date Processed 4-18-06
Technician

1 APPEARANCES:

2 Cinergy Corp.
3 By Mr. John J. Finnigan, Jr.
4 139 East Fourth Street
5 Room 2500 Atrium II
6 Cincinnati, Ohio 45201-0960

7 On behalf of the Company.

8 McNeese, Wallace & Nurick
9 By Ms. Lisa McAlister
10 Ms. Gretchen J. Hummel
11 Fifth Third Center, Suite 1700
12 21 East State Street
13 Columbus, Ohio 43215

14 On behalf of the Industrial Energy
15 Users of Ohio.

16 Janine L. Migden-Ostrander
17 Ohio Consumers' Counsel
18 By Mr. Larry S. Sauer
19 West Broad Street, Suite 1800
20 Columbus, Ohio 43215-3485

21 On behalf of the Residential
22 Consumers of the State of Ohio.

23 Jim Petro, Ohio Attorney General
24 Duane W. Luckey, Senior Deputy
Attorney General
Public Utilities Section
By Mr. Matthew J. Satterwhite
Mr. Steven Logan Beeler
180 East Broad Street, 9th Floor
Columbus, Ohio 43215-3793

On behalf of the Staff of the Public
Utilities Commission.

- - -

INDEX

- - -

JOINT EXHIBITS IDFD ADMTD

1 - Stipulation and Recommendation 6 8

COMPANY EXHIBITS IDFD ADMTD

1 - Application 10 11

2 - Prefiled Direct Testimony
of Gary J Hebbeler 10 113 - Prefiled Direct Testimony
of William Don Wathen 10 11

OCC EXHIBITS IDFD ADMTD

1 - Prefiled Direct Testimony
of Steven Hines 11 12

STAFF EXHIBITS IDFD ADMTD

1 - Staff Report 11 11

2 - Staff Report Correction Letter 11 11

- - -

1 Tuesday Morning Session,

2 April 4, 2006.

3 - - -

4 THE HEARING EXAMINER: Scheduled for
5 hearing today at the Public Utilities Commission is
6 Case No. 01-1228-GA-AIR and case No. 01-1539-GA-AAM,
7 In the Matter of the Application of the Cincinnati
8 Gas & Electric Company's Request for an Increase in
9 Rates; and the second case, In the Matter of the
10 Application of the Cincinnati Gas & Electric;
11 Company's Request for Approval to Change Accounting
12 Methods.

13 My name is Greta See. I'm the
14 attorney-examiner assigned by the Commission to hear
15 the case.

16 At this time I'd like to take appearances
17 of the parties starting with the company and moving
18 around.

19 MR. FINNIGAN: Good afternoon, your
20 Honor. I am John Finnigan on behalf of Duke Energy
21 Ohio. I am pleased to report that we closed our
22 merger yesterday, so that's our new doing business as
23 name now for CG&E, and my business address is 139
24 East Fourth Street, Cincinnati, Ohio 45201.

1
2 MR. SAUER: Larry Sauer on behalf of the
3 Office of Ohio Consumers Counsel, Janine Migden
4 Ostrander, consumers' counsel, 10 West Broad Street,
5 Suite 1800, Columbus, Ohio 43215.

6 MS. HUMMEL: Thank you, your Honor. On
7 behalf of the Industrial Energy Users-Ohio, McNees
8 Wallace & Nurick, Gretchen G. Hummel and Lisa
9 McAlister, 21 East State Street, Columbus, Ohio
10 43215.

11 MR. BEELER: On behalf of the staff, Jim
12 Petro, Ohio Attorney General, Duane Luckey, senior
13 deputy attorney general, Bill Wright, Steve Beeler
14 assistant attorneys general, 180 East Broad Street,
15 Columbus, Ohio 43215.

16 THE HEARING EXAMINER: Thank you.

17 Mr. Finnigan.

18 MR. FINNIGAN: Thank you, your Honor.
19 Your Honor, I'm pleased to report at this time as a
20 result of the negotiations that we had this morning,
21 we have been able to reach a settlement with all the
22 parties who have been participating in this case.

23 A couple of representations I'd like to
24 make in the record regarding our efforts to reach

1 this settlement, and then I'd like to introduce the
2 settlement agreement itself that's been signed by the
3 participating parties as Joint Exhibit 1.

4 Your Honor, the settlement agreement
5 reflects signature blocks for the parties who
6 participated in the original rate case back in 2001
7 and 2002, with the exception of the Ohio Homebuilders
8 and with the exception of the union.

9 The reason those signature blocks are
10 contained for those parties is that the union
11 attorney contacted me after I sent him notice of our
12 settlement negotiations and asked to be removed as a
13 party and an attorney from the case.

14 It's my understanding with regard to the
15 Homebuilders, they have not participated in the
16 annual AMRP proceedings through the inception of
17 those annual cases in 2003, and it's my further
18 understanding that they had no intention to
19 participate in this year's proceeding.

20 In addition, your Honor, there are a
21 couple of representations I'd like to make in the
22 record of this case based on the settlement
23 discussions I've had with the parties.

24 Number one is it's my understanding that

1 the parties are in agreement that this settlement in
2 this year's proceeding will not prejudice any party
3 in any future AMRP proceeding or rate case from
4 arguing for or against the recoverability of costs
5 relating to plastic pipe and all costs relating
6 thereto, including retirements and assorted
7 accounting treatment.

8 Additionally, your Honor, this settlement
9 will not prejudice any party's right to argue for or
10 against the term or the length of the AMRP rider in
11 future AMRP rider or base rate proceedings.

12 I would just ask if the other attorneys
13 agree on the record with those representations, and
14 with that, I would like to introduce the settlement
15 agreement into evidence.

16 MR. SAUER: The OCC agrees with those
17 representations.

18 MS. HUMMEL: Industrial Energy Users-Ohio
19 has no objections those representations.

20 MR. BEELER: We agree with those
21 representations.

22 THE HEARING EXAMINER: Okay. And Joint
23 Exhibit 1, any objections to the admission of Joint
24 Exhibit 1?

1 MS. HUMMEL: No, your Honor.

2 MR. BEELER: No.

3 MR. SAUER: No.

4 THE HEARING EXAMINER: Joint Exhibit 1
5 will be admitted into evidence.

6 (EXHIBIT ADMITTED INTO EVIDENCE.)

7 THE HEARING EXAMINER: Is there an
8 additional copy?

9 MR. FINNIGAN: No, your Honor. We have
10 to run a copy off because there are handwritten
11 changes. We will do that immediately after the
12 hearing is concluded, and we will submit it to you.

13 THE HEARING EXAMINER: Okay. Anything
14 further, Mr. Finnigan?

15 MR. SAUER: There is one additional
16 issue. The OCC had raised the issue of the term of
17 the AMRP program, and the parties had agreed that OCC
18 would withdraw its portion of the testimony that OCC
19 had submitted for Steve Hines. Essentially it
20 contained a question and answer 16.

21 I believe the company is going to
22 withdraw similar testimony in Mr. Hebbeler's initial
23 submitted testimony pertaining to a representation as
24 to the length of the program.

1 MR. FINNIGAN: Your Honor, the company
2 will withdraw the statement in Mr. Hebbeler's
3 testimony at page 2, line 21, through page 3, line 1
4 relating to the length of the program.

5 MR. SAUER: Thank you.

6 THE HEARING EXAMINER: Mr. Sauer, OCC is
7 withdrawing the testimony of Mr. Hines?

8 MR. SAUER: Question and answer No. 16.

9 THE HEARING EXAMINER: Okay, lines 13
10 through 21, thank you.

11 MR. SAUER: Thank you.

12 THE HEARING EXAMINER: Ms. Hummel,
13 anything else.

14

15 MS. HUMMEL: No, your Honor.

16 MR. WRIGHT: We have two exhibits we want
17 to mark, .

18 Before with do that, do you want to admit
19 your support application and support testimony?

20 MR. FINNIGAN: Yes.

21 Your Honor, at this time the company
22 would like to move into evidence the application
23 filed in the record of this case in November of last
24 year along with its update filing in February that

1 had previously been filed with the Commission and
2 copies provided the parties, along with the tetimony
3 of Mr. Hebbeler and Mr. Wathen, also filed in
4 November of this year.

5 Your Honor, we have copies we will mark
6 at this time, but they have already been filed in the
7 docket of this case.

8 THE HEARING EXAMINER: How is if
9 stipulation set up? Is it making reference to those
10 items?

11 MR. FINNIGAN: No, it does not, your
12 Honor. The stipulation stands on its own, and it
13 doesn't incorporate matters from the tetimony.

14 THE HEARING EXAMINER: Okay. Are there
15 any objections to any admission of the company's
16 application as filed November 30 and the update filed
17 February 21?

18 MR. WRIGHT: None.

19 MR. SAUER: No objection.

20 MR. FINNIGAN: Mr. Finnigan, did you move
21 the company testimony previously docketed?

22 MR. FINNIGAN: Yes, your Honor.

23 THE HEARING EXAMINER: Is there any
24 objection to the admission of those items?

1 MR. WRIGHT: No.

2 THE HEARING EXAMINER: Thank you.

3 (EXHIBITS ADMITTED INTO EVIDENCE.)

4 THE HEARING EXAMINER: Mr. Beeler.

5 MR. BEELER: I have what has been
6 previously marked as Staff Exhibit 1 and Staff
7 Exhibit 2. Staff Exhibit 1 is staff report filed in
8 this case, Staff Exhibit 2 is a letter docketed
9 March 21, 2006 correcting the staff report in this
10 case.

11 I ask these two items be moved into
12 evidence.

13 THE HEARING EXAMINER: Any objections?

14 MR. FINNIGAN: No, your Honor.

15 THE HEARING EXAMINER: Staff Exhibit 1
16 and 2 are admitted into the record.

17 (EXHIBIT ADMITTED INTO EVIDENCE.)

18 MR. SAUER: OCC would move for the
19 admission of the prepared testimony of Stephen Hines
20 previously docketed in the case on, I think,
21 March 20, 2006.

22 THE HEARING EXAMINER: Admitted on
23 March 28.

24 MR. SAUER: March 28.

1 THE HEARING EXAMINER: Any objections to
2 the admission of Mr. Hines' testimony?

3 MR. FINNIGAN: No, subject to the portion
4 being stricken. No, your Honor.

5 THE HEARING EXAMINER: With that, it's
6 admitted into the record.

7 (EXHIBIT ADMITTED INTO EVIDENCE.)

8 THE HEARING EXAMINER: Is there anything
9 further?

10 MR. FINNIGAN: Yes, your Honor. I have
11 one last matter.

12 In know your Honor has presided over the
13 annual AMRP proceedings in prior years, but I would
14 like to bring up again the issue of timing of our
15 annual increase, and, as your Honor knows, in our
16 underlying rate case settlement in 2002 the parties
17 reached a stipulation which provided they would use
18 their best efforts to try to implement the annual
19 rider AMRP increases by May 1 of every year, and that
20 was one of the factors that drove our settlement
21 negotiations today, because the parties did not wish
22 to have a hearing and a briefing that could
23 jeopardize the implementation of the increase.

24 We wanted to bring that to your Honor's

1 attention and ask if your Honor and the Commission
2 would likewise use their best efforts as well just to
3 remind you of the settlement that had previously been
4 reached among the parties.

5 Thank you.

6 THE HEARING EXAMINER: Mr. Finnigan, in
7 years past I've made every effort to have the entry
8 before the Commissioners in a timely fashion. I will
9 continue to make that best effort. I make no
10 promises on behalf of the Commissioners, the time
11 they need to review this entry and to sign it.

12 MR. FINNIGAN: Your Honor, on behalf of
13 the company, I note you have a perfect record.

14 THE HEARING EXAMINER: Thank you, very
15 much.

16 Is there anything further?

17 (No response.)

18 THE HEARING EXAMINER: With that, this
19 hearing is adjourned.

20 MR. FINNIGAN: Thank you, your Honor.


21 (Thereupon, the hearing concluded at 1:15
22 p.m.)

23 - - -

24

1 CERTIFICATE

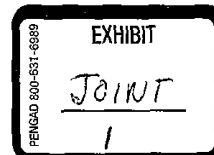
2 I do hereby certify that the foregoing is a
3 true and correct transcript of the proceedings taken
4 by me in this matter on Tuesday, April 4, 2006, and
5 carefully compared with my original stenographic
6 notes.

7 
8 Rosemary Foster Anderson,
9 Professional Reporter and
Notary Public in and for
the State of Ohio.

10 My commission expires April 5, 2009.

11 (RFA-6818)

12 - - -



**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

IN THE MATTER OF THE APPLICATION)
OF THE CINCINNATI GAS & ELECTRIC) CASE NO. 01-1228-GA-AIR
COMPANY FOR AN INCREASE IN GAS)
RATES IN ITS SERVICE AREA)

IN THE MATTER OF THE APPLICATION)
OF THE CINCINNATI GAS & ELECTRIC) CASE NO. 01-1539-GA-AAM
COMPANY FOR APPROVAL TO CHANGE)
ACCOUNTING METHODS)

STIPULATION AND RECOMMENDATION

Rule 4901-1-30, Ohio Administrative Code (OAC) provides that any two or more parties to a proceeding may enter into a written stipulation covering the issues presented in such proceeding.¹ The purpose of this document is to set forth the understanding of the parties who have signed below (Parties) and to recommend that the Public Utilities Commission of Ohio (Commission) approve and adopt, as part of its Opinion and Order in these proceedings, this Stipulation. This Stipulation is supported by adequate data and information, including the application, testimony and schedules, and the Report filed by the Commission Staff on March 17, 2006, as updated on March 21, 2006, represents a just and reasonable resolution of all issues in this proceeding; violates no regulatory principle or precedent; and is the product of lengthy, serious bargaining among knowledgeable and capable parties in a cooperative

¹ Although the Stipulation and Recommendation was only signed by certain parties, CG&E represents that it provided notice of the settlement conference and a draft of the Stipulation and Recommendation to the following parties: Commission Staff, Office of Ohio Consumers' Counsel, IEU-Ohio, Ohio Partners for Affordable Energy, The New Power Company, IUU, Communities United for Action, People Working Cooperatively, Inc. and the Ohio Homebuilders Association.

JT gsm
SLS
JLS

JF and LJM
SLS
JLS
RJ

JF gsm
SLS
JLS
RJ

process undertaken by the Parties to settle this case. While this Stipulation is not binding on the Commission, it is entitled to careful consideration by the Commission, where, as here, it is sponsored by Parties representing a wide range of interests, including the Commission's Staff.² For purposes of resolving all issues raised by these proceedings, the Parties stipulate, agree and recommend as set forth below.

Except for enforcement purposes, neither this Stipulation nor the information and data contained herein or attached, shall be cited as precedent in any future proceeding for or against any Party, or the Commission itself, if the Commission approves the Stipulation and Recommendation, other than in a proceeding to enforce the terms of this Stipulation. This Stipulation and Recommendation is a compromise involving a balancing of competing positions, and it does not necessarily reflect the position that one or more of the Parties would have taken if these issues had been fully litigated.

The Parties believe that this Stipulation represents a reasonable compromise of varying interests. This Stipulation is expressly conditioned upon adoption by the Commission without material modification. Should the Commission reject or materially modify all or any part of this Stipulation, the Parties shall have the right, within 30 days of issuance of the Commission's order, to file an application for rehearing. Upon the Commission's issuance of an entry on rehearing that does not adopt the Stipulation without material modification, any Party may terminate and withdraw from the Stipulation by

² Staff will be considered a party for the purpose of entering into this Stipulation by virtue of O.A.C. Rule 4901-1-10(c).

filing a notice with the Commission within 30 days of the Commission's entry on rehearing. Upon notice of termination or withdrawal by any Party, pursuant to the above provisions, the Stipulation shall immediately become null and void. In such event, a hearing shall go forward and the Parties shall be afforded the opportunity to present evidence through witnesses, to cross-examine all witnesses, to present rebuttal testimony, and to brief all issues which shall be decided based upon the record and briefs as if this Stipulation had never been executed.

All the Signatory Parties fully support this Stipulation and urge the Commission to accept and approve the terms hereof.

WHEREAS, the agreements herein represent a comprehensive solution to the issues raised in these proceedings;

WHEREAS, all of the issues and concerns raised by the Parties have been addressed in the substantive provisions of this Stipulation, and reflect, as a result of such discussions, compromises by the Parties to achieve an overall reasonable resolution of all such issues;

WHEREAS, this Stipulation is the product of the discussions and negotiations of the Parties, and is not intended to reflect the views or proposals that any individual party may have advanced acting unilaterally, and this Stipulation represents an accommodation of the diverse interests represented by the Parties, and is entitled to careful consideration by the Commission;

WHEREAS, this Stipulation represents a serious compromise of complex issues and involves substantial benefits that would not otherwise have been achievable;

WHEREAS, the Parties believe that the agreements herein represent a fair and reasonable solution to the issues raised in these proceedings;

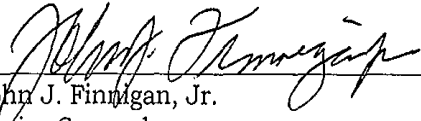
NOW, THEREFORE, the Parties stipulate, agree and recommend that the Commission make the following findings and issue its Opinion and Order in this proceeding in accordance with the following:

1. The Parties agree to the admission into evidence of the Staff Report filed in this proceeding on March 17, 2006, and as updated on March 21, 2006.
2. The Parties agree that CG&E shall receive an annualized revenue requirement under Rider AMRP of ~~\$32,340,235~~ ^{\$32,279,413 JF-JM 5.6 DSK}, calculated as shown on Stipulation Exhibit 1.
3. The Parties agree to the revenue distribution, billing determinants, and calculated AMRP charges shown on Stipulation Exhibit 1, except that the rate for customers taking service under Rate IT shall be \$0.03 per Mcf, subject to a per month cap of \$500.00, and the rate for customers taking service under Rates GS, DGS and FT shall be \$25.56 per month, and the rate for customers taking service under Rates RS and RFT shall be ~~\$4.80~~ ^{\$4.80 JF-JM 5.6 DSK} per month, pursuant to the rate caps provided for in the Stipulation and Recommendation filed in this proceeding on April 17, 2002.

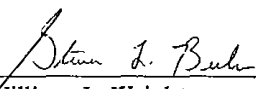
4. The Parties agree that CG&E shall implement the new rates for Rider AMRP pursuant to the terms and conditions set forth in the Stipulation and Recommendation filed in this proceeding on April 17, 2002.
5. Neither the revenue distribution, the allocation of the revenue requirement that forms the basis for the new Rider AMRP rates, nor the accounting provisions contained in paragraph 6 of the Stipulation and Recommendation filed on April 17, 2002 in this proceeding shall have any precedential value in CG&E's next base rate case.
6. CG&E agrees that, for purposes of the ongoing Rider AMRP proceedings in this docket, it will continue to follow the practices and procedures it agreed to at pages 4-16 of the Stipulation and Recommendation filed on April 17, 2002; pages 4-7 of the Stipulation and Recommendation filed on April 14, 2003; and at pages 4-8 of the Stipulation and Recommendation filed on April 7, 2004.
7. Settlement discussions have been held to attempt to resolve the objections filed in this proceeding.
8. The Parties agree to the tariff language attached as Stipulation Exhibit 2, and request that the Commission approve such tariff.

The undersigned hereby stipulate and agree and each represents that it is authorized to enter into this Stipulation and Recommendation this 4th day of ^{April}~~March~~, 2006.

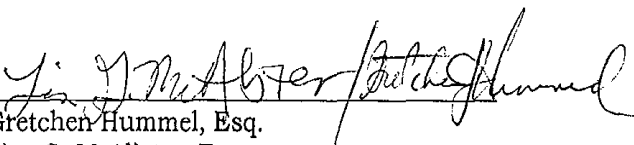
THE CINCINNATI GAS & ELECTRIC COMPANY

By: 
John J. Finnigan, Jr.
Senior Counsel
Its Attorney
139 Fourth Street, Room 25 ATII
Cincinnati, Ohio 45202
(513) 287-2633

STAFF OF THE PUBLIC UTILITIES
COMMISSION OF OHIO

By: 
William L. Wright
Steven L. Beeler
Assistant Attorneys General
180 East Broad Street
Columbus, Ohio 43215-3793
(614) 644-8766

INDUSTRIAL ENERGY USERS OF OHIO

By: 
Gretchen Hummel, Esq.
Lisa G. McAlister, Esq.
McNees, Wallace & Nurick LLC
21 East State St., 17th Floor
Columbus, OH 43215

OHIO CONSUMER'S COUNCIL

By: 

Larry S. Sauer, Esq.
Assistant Consumers' Counsel
10 West Broad Street, 18th Floor
Columbus, OH 43215-3485

OHIO PARTNERS FOR AFFORDABLE ENERGY

By: _____

David C. Rinebolt, Esq.
337 S. Main Street
4th Floor - Suite 5
Findlay, OH 45840

THE NEW POWER COMPANY

By: _____

M. Howard Petricoff, Esq.
Vorys, Sater, Seymour and Pease
52 East Gay Street
P. O. Box 1008
Columbus, OH 43216-1008

COMMUNITIES UNITED FOR ACTION

By: _____

Noel M. Morgan
215 East Ninth Street
Suite 200
Cincinnati, OH 45202

PEOPLE WORKING COOPERATIVELY, INC.

By: _____
Henry W. Eckhart, Esq.
50 West Broad Street, #2117
Columbus, Ohio 43215

The Cincinnati Gas & Electric Company
Ohio AMRP Cap Calculation--Projection
Cap Calculation By Rate Class

Stipulation Exhibit 1

<u>Rate Class</u>	<u>Adjusted Base Revenues (1)</u>	<u>Allocation Percentage</u>	<u>Allocated Revenue Requirement</u>	<u>Billing Determinates # of Bills</u>	<u>Sales (Mcf's)</u>	<u>Calculated AMRP Charge</u>	<u>2006 AMRP Rate Cap</u>	<u>Requested Revenue Requirement (2)</u>
Residential Service (RS)	101,607,742			4,289,500				
Residential--Firm Transportation (RFT)	10,219,742			355,570				
Total Residential	111,827,484	65.03%	22,281,965.38	4,645,070	N/A	\$ 4.80	\$ 4.81	22,281,965
General Service (GS)	31,095,554			310,521				
Firm Transportation (FT)	17,725,232			59,621				
Total (GS) & (FT)	48,820,786	28.39%	9,727,587.22	370,142	N/A	\$ 26.28	\$ 25.56	9,460,830
Interruptible Transportation (IT)	11,312,286	6.58%	2,254,579.92	N/A	17,887,265	\$ 0.13	\$ 0.03	536,618
Total Revenue	171,960,556	100.00%	34,264,132.52					32,279,413
<u>Revenue Requirement to be Allocated 34,264,132.52</u>								

(1) Reflects Base Revenues Less Gas Costs and AMRP Rider Revenues.

(2) Reflects the revenue generated from the lesser of the Calculated AMRP Charge or the 2005 AMRP Rate Cap by rate class.

Duke Energy Ohio
139 East Fourth Street
Cincinnati, Ohio 45202

P.U.C.O. Gas No. 18
Sheet No. 65.4
Cancels and Supersedes
Sheet No. 65.3
Page 1 of 1

RIDER AMRP

ACCELERATED MAIN REPLACEMENT PROGRAM RIDER

APPLICABILITY

Applicable to all customers receiving service under the Company's sales and transportation rate schedules.

ACCELERATED MAIN REPLACEMENT PROGRAM FACTORS

All customers receiving service under Rate RS, Rate RFT, Rate GS, Rate FT and Rate DGS shall be assessed a monthly charge in addition to the Customer Charge component of their applicable rate schedule that will enable the Company to complete the bare steel/cast iron main replacement program. Customers receiving service under, Rate IT and Rate SSIT will be assessed a throughput charge in addition to their commodity delivery charge, for that purpose. The maximum monthly Rider AMRP charge for any customers' Rate IT throughput, shall be \$500.00 per account.

Rider AMRP will be updated annually, in order to reflect the impact on the Company's revenue requirements of net plant additions as offset by operations and maintenance expense reductions during the most recent twelve months ended December. Such adjustments to the Rider will become effective with the first billing cycle of May, and during the first year will reflect the allocation of the required revenue increase based on the revenue distribution approved in the Company's last rate proceeding. In subsequent years, the allocation will be made on the basis of the actual base revenues excluding Rider AMRP revenues by rate class for the just completed calendar year. New allocations will be contained within the Company's annual filings.

The charges for the respective gas service schedules are:

Rate RS, Residential Service	\$ 4.80/month
Rate RFT, Residential Firm Transportation Service	\$ 4.80/month
Rate GS, General Service	\$25.56/month
Rate DGS, Distributed Generation Service	\$25.56/month
Rate FT, Firm Transportation Service	\$25.56/month
Rate IT, Interruptible Transportation Service	\$ 0.003/CCF
Rate SSIT, Spark Spread Interruptible Transportation Rate	\$ 0.003/CCF

(I)

These monthly charges shall remain in effect until changed by order of the Public Utilities Commission of Ohio.

Issued pursuant to an Order dated April XX 2006 in Case Nos. 01-1228-GA-AIR and 01-1539-GA-AAM before the Public Utilities Commission of Ohio.

Issued:

Effective:

Issued by Sandra P. Meyer, President



The Public Utilities Commission of Ohio

Monitoring marketplaces and enforcing rules to
assure safe, adequate, and reliable utility services

2006 MAR 21 AM 8:24

PUCO

STAFF Ex 2

Bob Taft, Governor
Alan R. Schriber, Chairman

Commissioners
Ronda Hartman Fergus
Judy A. Jones
Donald L. Mason
Clarence D. Rogers, Jr.

Public Utilities Commission of Ohio
Administration Department
Docketing Division
Attn: Betty McCauley
13th Floor
180 East Broad Street
Columbus, Ohio 43215-3793

Date: March 21, 2006

Re: Case Nos. 01-1228-GA-AIR & 01-1539-GA-AAM

Betty McCauley:

Please be advised that the Staff Report of Investigation docketed March 17, 2006, for the above referenced cases contained three typographical errors. The errors are located on pages 7&8, of the Staff Report. The errors and corresponding corrections are:

Errors:

Corrections:

\$6.56 (Page 7, General Service Rate)

\$26.56

\$16,418,688 (Page 8, Paragraph 4)

\$17,269,848

\$1,074,166 (Page 8, Paragraph 4)

\$223,006

Respectfully

Ibrahim Soliman

This is to certify that the images appearing are an
accurate and complete reproduction of a case file
document delivered in the regular course of business
Technician 2 Date Processed 3/21/06



The Public Utilities
Commission of Ohio

STAFF Ex 1

A report by the Staff of the
Public Utilities Commission of Ohio

Cincinnati Gas & Electric Company

Case No. 01-1228-GA-AIR
AMRP Annual Filing For
Calendar Year 2005

Case No. 01-1539-GA-AAM
AMRP Annual Filing For
Calendar Year 2005

RECEIVED

MAR 17 2006

DOCKETING DIVISION
Public Utilities Commission of Ohio



STAFF'S REPORT
OF
INVESTIGATION

In the Matter of the Application of	)	Case No. 01-1228-GA-AIR
The Cincinnati Gas & Electric Company	)	AMRP Annual Filing For
For an Increase in Rates.	)	Calendar Year 2005
In the Matter of the Application of	)	Case No. 01-1539-GA-AAM
The Cincinnati Gas & Electric Company	)	AMRP Annual Filing For
For Approval to Change Accounting Methods.	)	Calendar Year 2005

Submitted
To
The Public Utilities Commission

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	Case No. 01-1228-GA-AIR
The Cincinnati Gas & Electric Company	)	AMRP Annual Filing For
For an Increase in Rates.	)	Calendar Year 2005

In the Matter of the Application of	)	Case No. 01-1539-GA-AAM
The Cincinnati Gas & Electric Company	)	AMRP Annual Filing For
For Approval to Change Accounting Methods.	)	Calendar Year 2005

Alan R. Schriber, Chairman
Ronda Hartman Fergus, Commissioner
Judith A. Jones, Commissioner
Donald L. Mason, Commissioner
Clarence D. Rogers, Commissioner

To The Honorable Commission:


In accordance with the provisions of R.C. Section 4909.19 and the stipulation adopted, the Commission's Staff has conducted its investigation in the above referenced matter and hereby submits its findings in the within Staff Report.

The Commission's Utilities Department has prepared the Staff Report under the overall supervision of Steven R. Brennen. The Financial Review portion of the report was prepared under the supervision of Ed Hess and Ibrahim Soliman, and the Contractor Selection Process portion of the report was prepared under the supervision of Bob Fortney and Jeff DeVore.


In accordance with R.C. Section 4909.19, and the Commission's Entry issued on December 13, 2005, copies of the Staff Report have been filed with the Docketing Division of the Commission. Interested parties are advised that written objections to the Cincinnati Gas & Electric Company (CG&E) application shall be docketed as soon as possible but no later than March 17, 2006, and in the event a hearing is necessary, the hearing will commence on April 4, 2006.

The Staff Report is intended to present for Commission consideration the results of the Staff's investigation. It does not purport to reflect the views of the Commission nor should any party to said proceeding consider the Commission as bound in any manner by the representations and/or recommendations set forth therein. The Staff Report, however, is legally cognizable evidence upon which the Commission may rely in reaching its decision in this matter. (See Lindsey, et. al. v. PUC, 111 O.S. 6)

Respectfully submitted,


Christine M.T. Pirik
Chief of Staff

Utilities Department


Steven R. Brennen
Director

BACKGROUND

The Cincinnati Gas & Electric Company, (CG&E or Applicant) was incorporated in Ohio on April 3, 1897, as Cincinnati Gas, Light and Coke Company, and its present name was adopted in 1901. Growth, acquisitions and mergers throughout the years have resulted in the present operation in which the Applicant renders electric or gas service, or both, in ten counties in Ohio. The Applicant is a public utility engaged in the business of distribution and sale of gas to approximately 400,000 customers located in eight counties in the southwest portion of Ohio.

On October 24, 1994, the Applicant merged with PSI Resources Inc., to form Cinergy Corporation. Cinergy is the parent company to both PSI Energy, Inc. (PSI Resources' utility subsidiary) and CG&E, and provides administrative, management and support services to both companies through its CINergy Services, Inc. subsidiary.

On May 9, 2005, the Applicant's parent company, Cinergy Corporation, announced its intent to merge with Duke Energy. The combined company will be named Duke Energy Corporation. Following the merger, the combined company will be a registered holding company with headquarters in Charlotte, North Carolina.

On April 17, 2002, various parties entered into an agreement resolving all issues in the CG&E Case Nos. 01-1228-GA-AIR, 01-1478-GA-ALT, and 01-1539-GA-AAM. This Stipulation and Recommendation was approved by the Commission on May 30, 2002.

One resolved issue concerns the establishment of the Accelerated Main Replacement Program (AMRP) rider, where rates are established for each year and for each class of service through 2007, and that such rates established in 2007 would continue until the effective date of the rates set in the Applicant's next base rate case. The rider is designed to recover expenditures associated with the company's AMRP, which covers the ten-year replacement of all twelve inch and smaller cast iron and bare steel gas mains in its distribution system. The Staff, by way of an annual filing by CG&E for an increase in rates, would review the viability of such rates.

As a part of the annual filing, a pre-filing notice is to be issued in November of each year, and will consist of nine months of actual and three months of projected data for the calendar year, or test year, with a date certain December 31. By February 28 of the following year, the Applicant will file an application updating to a full year of actual data.

The Commission's December 13, 2005 Entry stated that unless Staff finds CG&E's filing to be unjust or unreasonable, or if any other party files an objection that is not resolved

THE CINCINNATI GAS & ELECTRIC COMPANY
Case No. 01-1228-GA-AIR et al.

by CG&E by March 24, 2006, the Staff will recommend Commission approval of the company's application, with the increase in the AMRP rider taking effect with the first billing cycle for the May revenue month.

By its Entry of December 19, 2002, the Commission stated that future requests for approval of the test year and date certain will not be necessary unless the Applicant seeks a different test year or date certain.

On November 30, 2005, the Applicant filed in Case No. 01-1228-GA-AIR and 01-1539-GA-AAM a notice of intent to file an application for an increase in the AMRP rider rates, along with a motion to establish a test period of twelve months ending December 31, 2005, and the date certain of December 31, 2005. Also on this date, the Applicant filed schedules 1 through 18 demonstrating the justness and reasonableness of the requested revenue increase associated with the AMRP.

On February 21, 2006, the Applicant filed schedules 1 through 18 to update its application to a full year of actual data.

AMRP rider rates for 2006 were established pursuant to the Stipulation and Recommendation, and are capped at \$4.81 per month for residential consumers; \$25.56 per month for general service and firm transportation customers; and \$0.03 per Mcf, subject to a per-month cap of \$500, for interruptible transportation customers.

Scope of Staff's Investigation

The scope of the Staff's investigation was designed to determine if the Applicant's filed exhibits justify the reasonableness of the adjustment to their revenue requirement used as a basis for the annual increase to the AMRP rider. This report is to identify exceptions to the Applicant's rate filing, generally explain the basis or bases for each exception, and provide recommendations to correct those exceptions.

The Staff reviewed and analyzed all of the documentation filed by the Applicant and traced it to supporting work papers and to source data. As part of its review, the Staff issued data requests, conducted investigative interviews, and performed independent analyses when necessary.

When investigating the Applicant's operating income, the Staff limited its review to expenses associated with depreciation, amortization of post in-service carrying charges, meter relocations, customer owned service lines, property taxes, and maintenance savings.

For rate base, the Staff reviewed and tested the Applicant's plant accounting system to ascertain if the information on mains and services assets contained in the Applicant's plant ledgers and supporting continuing property records represented a reliable source of original cost data. The computation of the Allowance of Funds Used During Construction (AFUDC) was examined. The existence and the used and useful nature of these assets were verified through physical inspections. The testing included the selection of transactions for detailed review followed by the conducting of on-site inspections. Finally, the Staff reviewed post in-service carrying costs and its deferred income tax effect, and deferred taxes on liberalized depreciation.

The Staff also reviewed the bidding process by which contractors were selected to perform the mainline and service line replacement.

Contractor Selection Process

The Cincinnati Gas & Electric Company AMRP is the plan to ultimately replace 1200 miles of bare steel, cast iron, and ductile iron gas mains along with customer service lines over a period of approximately 10 years. During 2005, 95.9 miles of mains were replaced. This brings the total replaced to just under 462 miles since 2002.

In its evaluation of CG&E's contractor selection process for this case, Staff reviewed copies of the latest Cast Iron Bare Steel (CIBS) bid selection analyses and summaries of the CIBS Phase I, II, and III listings of expenditures, Contractor Bid Price and Work Order Estimates for 2005 Jobs by Contractor annotated with comments on Contractor performance. Staff also reviewed the summaries of the AMRP costs and work performed by the Contractor.

CG&E, the Commission's Staff, and other Signatory Parties to the Stipulation and Recommendation in Cases 01-1228-GA-AIR and 01-1539-GA-AAM signed their agreement to the terms of the stipulation on April 7, 2004, and to the terms of the latest Stipulation and Recommendation in these cases on April 5, 2005. These stipulations resolved a number of issues of concern to the Signatory Parties. CG&E agreed to continue to follow terms of the various stipulations into the time period pertaining to the instant cases.

Specifically, CG&E agreed to competitively bid not less than 80% of the AMRP construction work and to negotiate not more than 20% of the AMRP construction work based on the construction cost. Through December, 2005, CG&E competitively bid more than 99% of the AMRP work.

CG&E agreed to manage AMRP construction costs through contracts that provide unit-based prices and that pay the contractors in accord with the price per unit reflected in the contract. There are four instances that allow the construction costs to exceed the costs reflected in CG&E's contracts. The four instances are: unanticipated field conditions, additional right-of-way work imposed by a government entity, greater numbers of units required for the actual work versus the number contemplated in the plan drawings, and certain types of construction activities wherein CG&E determines that the contractor could perform the work under other pricing methods such as on a time and materials basis. In the contractor and job reviews by the Staff, there were instances of overruns. The reasons for these overruns fall within the set of guidelines accepted by the Signatory Parties.

CG&E also agreed to only award AMRP work to an affiliate if it were economic to do so and report annually the name of each contractor that is an affiliate of the company, the

THE CINCINNATI GAS & ELECTRIC COMPANY
Case No. 01-1228-GA-AIR et al.

costs paid to the affiliate, and to also provide the reasons why the work was awarded to the affiliate. During 2005, CG&E awarded AMRP work to Miller Pipeline Corp., a CG&E affiliate. All of Miller Pipeline's 2005 AMRP jobs were awarded as a result of the CIBS bidding process except one. The Baywood Lane job (job number 04-1147-0, work order number C1493) was given to Miller Pipeline due to a lack of available resources in the time frame required to complete the work. The price negotiated between CG&E and Miller Pipeline was equivalent to the competitively bid pricing in Miller Pipeline's 2005 module work according to CG&E.

CG&E reported via Mr. Gary J. Hebbeler's direct testimony (at page 8) that Miller Pipeline Corporation was paid \$9,302,809.71 for their work on the 2005 AMRP construction program. Mr. Hebbeler's testimony also indicates that CG&E paid \$95,345.95 to Reliant Services, LLC (Reliant), a CG&E affiliate that provided locating services related to the AMRP in 2005 pursuant to the terms of the utility-non-utility agreement, as approved by the SEC, FERC, and the Commission. This was after CG&E conducted a competitive bidding process for underground locating services.

Based upon review of CG&E's 2005 AMRP job determination, bidding and contracting procedures, job monitoring, and contracting controls, Staff finds that the current management operation and selection and oversight of the AMRP are reasonable.

Applicant's Proposed Recovery

The Applicant proposes a revenue requirement calculation, by class, with billing determinates in order to support the 2006 AMRP rider rates approved by the Commission in the Applicant's last base rate case. The effective date of such rates is the first billing cycle in May 2006.

The Applicant's calculation is supported on the basis of what was agreed upon in the Stipulation and Recommendation discussed above and includes the following:

- Original Cost and Accumulated Reserve for post-3/31/01 (date certain, Case No. 01-1228-GA-AIR) AMRP program property
 - Used and Useful on December 31, 2005
 - Capital expenditures for new plant (limited to new mains and services)
 - Adjustments for the retirement of existing assets
- Calculation of PISCC on net plant additions and related deferred taxes
 - Recorded in unique sub-accounts of Account 182.3, Other Regulatory Assets
 - Calculated from the date that the applicable assets are used and useful (post-3/31/01) until the next effective date of AMRP rider
 - Based on company's embedded interest cost and recorded at the gross rate for recovery on deferred taxes that lessens amount for recovery
- Calculation of deferred taxes on liberalized depreciation
- Proper annual depreciation expense
- Gross-up of 9.10% rate of return assigned to the recovery of all AMRP net capital expenditures
- Operation and maintenance expenses savings resulting from the AMRP
- Incremental property taxes associated with net plant additions
- Expenses associated with the cost of meter relocations and all customer owned service lines
- An AMRP revenue requirement that was allocated to each class based on the respective class' proportionate share of base revenues (not including gas costs)

THE CINCINNATI GAS & ELECTRIC COMPANY
Case No. 01-1228-GA-AIR et al.

and AMRP rider revenues) for each applicable test year set in the annual AMRP rider update

- Any annual over-recovery of the residential revenue requirement established in each annual proceeding.

The Applicant's AMRP revenue requirement of \$34,628,948 for AMRP net plant additions capitalized from the program's inception through date certain of December 31, 2005, is allocated to the rate classes using base revenue (excluding gas costs and AMRP revenue), number of customer bills and Mcf sales for the twelve months ended December, 2005. The residential service and residential firm transportation share of the revenue requirement is \$22,519,205, the general service and firm transportation share is \$9,831,158, and interruptible transportation share is \$2,278,585. Applying each revenue requirement number to its appropriate billing determinate generates the following rates:

<u>Class of Service</u>	<u>Calculated AMRP Rate</u>	<u>2005 AMRP Rate Cap</u>
Residential Service	\$ 4.85 / per month	\$ 4.81 / per month
General Service	\$ 6.56 / per month	\$ 25.56 / per month
Interruptible Transportation	\$ 0.13 / per Mcf	\$ 0.03 / per Mcf Subject to \$500 / Per month cap

Staff's Exceptions and Recommendations

The Staff has completed its investigation of the Applicant's proposed AMRP rider. As a result of its investigation, the Staff has determined that the Applicant's calculation of the AMRP revenue requirement as reflected in the updated filing is supported by adequate data and information and is just and reasonable. The Staff believes that the revenue requirement is properly allocated to the various customer classes, and the rate design is properly performed in accordance with the terms and conditions of the Stipulation and Recommendation. The Applicant's calculation of the AMRP rates for residential service, general service, and firm transportation all exceed the previously agreed to 2005 AMRP cap limits as set forth in the Stipulation. Since the Applicant's calculated rider rates for three classes of services are above the agreed to cap limits, the Staff recommends only those rates permissible under the terms of the Stipulation and Recommendation. Therefore, the Staff recommends the approval of the 2005 AMRP rider rates of \$4.81 for residential service, \$25.56 for general service and firm transportation and \$0.03 per Mcf, subject to a per-month cap of \$500 for interruptible transportation, to be implemented in the first billing cycle of May 2006, or the first billing cycle of the month following the Commission's decision.

In addition, the Staff's investigation included a determination of any over-recovery of AMRP Rider residential revenues. In the Stipulation and Recommendation, dated April 17, 2002, the parties agreed that the Applicant refund to residential customers any annual over-recovery of the residential revenue requirement established in each annual proceeding to be filed by the Applicant.

In its last AMRP annual proceeding, the Applicant's AMRP Rider reflected an annualized revenue requirement of \$27,045,229, of which \$17,492,854 was attributable to residential service. Such rider was to be in effect from May 2005 through April 2006.

As part of this year's proceeding, the Applicant provided the Staff with nine months actual AMRP Rider residential revenues collected for the period May 2005 through January 2006 and three months estimated revenues for the period February through April 2006 totaling \$16,418,688. This resulted in an under-collection of \$1,074,166 from the revised revenue requirement of \$17,492,854 authorized by the Commission in the Applicant's last proceeding. Therefore, the Staff recommends no adjustment to lower the residential service rate of \$4.81 discussed above.