

139 East Fourth Street, R. 25 At II
P.O. Box 960
Cincinnati, Ohio 45201-0960
Tel: 513-287-4326
Fax: 513-287-3810
Rocco.D'Ascenzo@duke-energy.com

RECEIVED-DOCKETING DIV

2006 NOV 14 AM 9:33

Rocco O. D'Ascenzo
Counsel

November 13, 2006

PUCO

Public Utilities Commission of Ohio
Attn: Ms Renee Jenkins, Director Docketing Division
13th Floor
180 East Broad Street
Columbus, OH 43215-3793

RE: Case No. 06-572-EL-AAM and Case No. 06-573-GA-AAM.

Dear Ms Jenkins:

On April 12, 2006, Duke Energy Ohio (DE-Ohio) filed its Application in the above captioned cases seeking authority to modify its current accounting procedures (Application) and create regulatory assets for pensions, other post retirement employee benefits (OPEBs) and interest rate hedges. On or about September 13, 2006, the Commission issued its Finding and Order approving DE-Ohio's Application, finding DE-Ohio's rationale for creating these assets was reasonable. In Finding 15 of the Finding and Order, the Commission requested that DE-Ohio:

“provide in this docket a quantification and recording of the unrecognized pension, OPEB and interest hedge amounts immediately before and after recording the merger that are the subject of this application. This quantification shall contain readily verifiable information supporting the regulatory asset balances created and unrecognized cost balances eliminated, information supporting the regulatory asset amortization and the eliminated balance recognition periods, and the bases of allocation to the appropriate operating segment.”¹

In response to Finding 15, DE-Ohio respectfully submits the attached support, providing further support for the amounts recognized as regulatory assets. Attachment A to this letter includes a summary schedule and several supporting schedules that provide the requested information.

The Commission will note that the Summary schedule provides an annual amortization amount for both pension/OPEB and interest rate hedges. The amount for pension/OPEB is only an estimate because this amount will change annually as our actuaries remeasure pension and post-retirement balances and the value of plan assets changes over time.

¹ *In re DE-Ohio's Application for Authority to Modify Accounting Procedures*, Case No 06-572-EL-AAM, et al., (Finding and Order)(September 19, 2006) at 4.

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.

www.duke-energy.com

Technician  Date Processed 11-14-06

This volatility is not a result of the merger; rather, it occurred pre-merger under the remeasurement provision of FAS 87 and FAS 106. These annual remeasurements affect not only the obligations for pension/OPEB, but also the expense amounts for the forthcoming year. The amounts for interest rate hedges were to be rolled out on a straight-line basis under pre-merger GAAP and will be amortized on the same fixed basis post-merger.

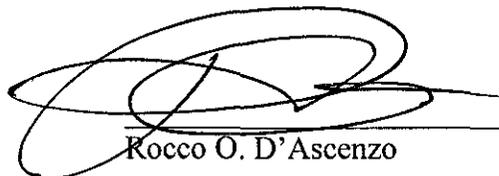
Very Truly Yours,



Rocco O. D'Ascenzo
Counsel
Duke Energy Ohio, Inc
P.O. Box 960
139 E. Fourth Street
Rm. 2500 AT II
Cincinnati, OH 45201

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing quantification and recording of the unrecognized pension, OPEB, and interest hedge amounts and support information schedules was sent by first class US Mail to all parties of record listed below this 13th day of November, 2006.



Rocco O. D'Ascenzo

Dan Neilsen, Esq.
IEU-Ohio
McNees Wallace & Nurick LLC
Fifth Third Center, 17th Floor
21 East State Street
Columbus, Ohio 43215

Maureen Grady
Office of Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215

Pension

	<u>After Purchase</u> Accounting & Remeasurement	<u>Before Purchase</u> Accounting & <u>After</u> Remeasurement ^(a)	Difference	Regulated Portion ^(b)	Non-regulated Portion	Estimated Annual Amortization ^(c)
Accrued Liabilities						
Qualified Pension (FAS 87)	(216,960,140)	(100,907,124)	(116,053,016)	84,303,732	31,749,285	9,400,820
Non-qualified Pension (FAS 87)	(9,339,599)	(7,733,597)	(1,606,002)	738,227	867,775	64,451
LTD and Dependents (FAS 112)	(5,544,285)	(1,504,199)	(4,040,086)	1,855,827	2,184,259	162,024
Post-Retirement Benefits (FAS 106)	(120,687,242)	(67,521,565)	(53,165,677)	35,090,881	18,074,797	1,617,060
	<u>(352,531,266)</u>	<u>(177,666,485)</u>	<u>(174,864,781)</u>	<u>121,988,666</u>	<u>52,876,115</u>	<u>11,244,355</u>

(a) These amounts are net of any gross up recorded to reflect DE - Ohio minimum pension obligations (pursuant to par. 36 of FAS 87) since those gross-ups are balance sheet only and do not reflect the amounts that have run through expense.

(b) Support included on DE - Ohio Reg Asset Calculations sheet

(c) Amortization based on measurement as of 4/3/06. Absent a change in our approach to amortization, these amounts will not remain fixed and could go up or down based on each annual remeasurement, consistent with how unrecognized losses are amortized under FAS 87 and FAS 106.

Note> All Accrued Liabilities are as measured by Hewitt and Associates, DE - Ohio's actuaries. The amounts in the "After" column reflect not only the elimination of unrecognized costs, but also a remeasurement of the plan obligations. Normally, a remeasurement occurs only once per year for DE - Ohio on 9/30. However, FA 141 requires that all assets and liabilities be remeasured as of merger consummation using the most current assumptions for discount rates, pay scale increases, return on plan assets, health care trend rates, etc. Accordingly, the net plan obligations were remeasured on April 1, 2006.

Interest Rate Hedges

	Balance in AOCI before purchase Accounting	T&D Factor*	Regulated Portion	Non-regulated Portion	Annual Amortization **
Hedged Debt					
5.7% Debentures due 9/15/2012	14,486,063	35.00%	5,070,362		780,056
Liquid Asset Notes w/Coupon Exchange due 10/1/2007	2,091,616	35.00%	732,100		488,067
5.4% Debentures due 6/15/2033	4,632,500	35.00%	1,621,452		59,503
	<u>21,210,178</u>		<u>7,423,914</u>	13,786,264	<u>1,327,625</u>

* Support included on Gas/Electric PP&E split

** Unlike the pension amortization, this annual amortization will be fixed over the life of the bond being hedged.

Note> AOCI stands for Accumulated Other Comprehensive Income, which is a component of equity.

Duke Energy Ohio Reg Asset Calculations

	Generation Employees	Regulated Employees	Shared Services	Total DE - Ohio	
Accrued Liability (After Purchase Accounting)					
Qualified Pension (FAS 87)	(37,349,939)	(175,049,418)	(4,560,783)	(216,960,140)	
Non-qualified Pension (FAS 87)			(9,339,599)	(9,339,599)	(1)
FAS 112			(5,544,285)	(5,544,285)	(1)
Post-Retirement Medical (FAS 106)	(29,450,457)	(86,872,773)	(4,364,012)	(120,687,242)	
	(66,800,396)	(261,922,191)	(23,808,679)	(352,531,266)	
Accrued Liability (Before Purchase Accounting)					
Qualified Pension (FAS 87)	(14,356,391)	(92,097,893)	(1,856,370)	(108,310,654)	(3)
Non-qualified Pension (FAS 87)			(7,863,145)	(7,863,145)	(3)
FAS 112			(1,832,631)	(1,832,631)	(3)
Post-Retirement Medical (FAS 106)	(15,372,942)	(52,870,154)	(2,187,489)	(70,430,585)	(3)
	(29,729,333)	(144,968,047)	(13,739,635)	(188,437,015)	
Difference					
Qualified Pension (FAS 87)	(22,993,548)	(82,951,525)	(2,704,413)	(108,649,486)	
Non-qualified Pension (FAS 87)			(1,476,454)	(1,476,454)	
FAS 112			(3,711,654)	(3,711,654)	
Post-Retirement Medical (FAS 106)	(14,077,515)	(34,002,619)	(2,176,523)	(50,256,657)	
	(37,071,063)	(116,954,144)	(10,069,044)	(164,094,251)	
Regulatory Recovery %	0.0%	100.0%	50.0%		(2)
Regulatory Asset	-	116,954,144	5,034,522	121,988,666	
Qualified		82,951,525	1,352,207	84,303,732	
Non-qualified Plans		-	738,227	738,227	
FAS 112		-	1,855,827	1,855,827	
Post-retirement medical		34,002,619	1,088,262	35,090,881	

Notes

- (1) The Non-qualified and FAS 112 plan detail was broken down by Hewitt at the utility company level. For DE - Ohio, we did not attempt to further subdivide between Regulated and Commercial since the amounts primarily relate to inactive employees and the amount is immaterial. We chose to use a 50/50 split as a reasonable proxy for the how the dollars would distribute.
- (2) In the absence of any empirical data supporting a more appropriate split, DE - Ohio opted to use a 50/50 split for shared service allocations given the materiality of the amount.
- (3) Does not tie to the accrual on the prior page due to the elimination of the 3-month lag used by DE - Ohio in its measurement of pension obligations. The increase in the accrual was accounted for as a prepaid expense that was then expensed in Q2 based on guidance from Deloitte & Touche.

General Note

The splits provided above were based on an employee census as of 3/31/06. The census data was provided to Hewitt (with SS#), which enabled them to subdivide the DE - Ohio numbers by the buckets above. The amounts are weighted more toward Regulated because many generation employees were moved out of DE - Ohio and into Cinergy Services a few years back.

Interest Rate Hedges at Merger close

	After Tax Balance in AOCI 3/31/2006	Pre-tax Balance in AOCI 3/31/2006	Swap Outstanding	Amortization Period
DE - Ohio				
Treasury Lock	(9,198,650)	(14,486,063)	No*	10/02 - 9/12
Interest Rate Hedge	(1,328,176)	(2,091,616)	Yes	Thru 9/07
Forward Starting Swap	(2,941,637)	(4,632,500)	No*	7/03 - 6/33
	<u>(13,468,463)</u>	<u>(21,210,178)</u>		

* Swap was a hedge of a forecasted debt issuance. Accordingly, the swap was terminated when the debt was issued, but the Accumulated Other Comprehensive Income balance will roll out as interest payments are made on the new debt obligation.

Note> AOCI stands for Accumulated Other Comprehensive Income.

Gas & Electric PP&E split

	Total Electric	Electric Transmission & Distribution & Other	Electric Production	Gas	Non Utility
Plant In service					
Production	2,786,945,763		2,786,945,763	9,531,901	2,502,947
DENA Midwest Assets	1,563,000,000		1,563,000,000		
Transmission	496,812,391	496,812,391		0	
Distribution	1,514,630,452	1,514,630,452		964,997,861	
General	37,570,954	37,570,954	0	10,804,837	
Intangible	56,027,620	18,886,179	37,341,440	4,682,830	
Common Plant	178,217,834	81,657,606	96,560,228	40,938,361	
Total	6,633,205,013	2,149,357,582	4,483,847,431	1,030,955,611	2,502,947
Accumulated Depreciation and Amortization					
Production	1,298,315,884	0	1,298,315,884	7,499,682	1,342,030
Transmission	175,031,821	175,031,821	0	0	
Distribution	526,553,626	526,553,626	0	279,563,446	
General	17,270,712	17,270,712	0	3,326,403	
Intangible	27,506,048	7,718,632	19,787,415	2,913,989	
Common	63,709,227	29,190,922	34,518,305	14,834,427	
Total	2,108,387,118	755,765,514	1,352,621,604	307,937,947	1,342,030
Net Plant					
Production	1,488,629,878	0	1,488,629,878	2,032,220	1,160,916
DENA Midwest Assets	1,563,000,000		1,563,000,000		
Transmission	321,780,770	321,780,770	0	0	0
Distribution	988,076,826	988,076,826	0	685,434,215	0
General	20,300,242	20,300,242	0	7,478,434	0
Intangible	28,521,572	10,967,547	17,554,025	1,768,841	0
Common	114,508,607	52,468,684	62,041,923	26,303,954	0
Net Plant	4,524,817,894	1,393,592,068	3,131,225,826	723,017,664	1,160,916
Cash Working Capital	0	0	0	80,000	0
Other Rate Base Items:					
Customer Deposits Account 235000 & 235100	(7,946,212)	(2,890,759)	(5,055,453)	(4,296,097)	
Unclaimed funds	0	0	0	0	
Customer Advances	0	0	0	(4,810,868)	
ITC Account 255040, 255140, 255200	(4,862,766)	(1,491,878)	(3,370,888)		
ITC Account 255030				(559,127)	
Post Retirement Benefits	3,745,325	1,807,746	1,937,579	(484,279)	
Accumulated Deferred Inc. Taxes (Acct 190)	40,360,340	19,012,988	21,347,352	3,716,826	6,195,574
DENA Midwest Deferrals	(171,000,000)		(171,000,000)		
Accumulated Deferred Inc. Taxes (Acct 282)	(629,690,969)	(245,240,192)	(384,450,777)	(112,219,025)	0
Accumulated Deferred Inc. Taxes (Acct 283)	(49,917,133)	(54,506,049)	4,588,916	(5,428,693)	0
Plant Material & Supplies	0	0	0	0	
Total Other Rate Base	(819,311,415)	(283,308,143)	(536,003,272)	(124,081,082)	6,195,574
Total Rate Base	4,311,679,551	3,705,508,479	1,110,283,925	2,595,222,555	599,016,581
	85.94%	25.75%	60.19%	13.89%	0.17%
Total Regulated Percent				39.64%	
Rounded down to*:				35.00%	

* Rounded down due to potential fluctuations in ratio over term of hedge and the probability requirement of FAS 71.

Allocation of General & Common Plant to Electric Production

Common Plant	LOB 023	LOB 023-Electric Portion
Production	44.06%	54.18%
Transmission	8.83%	10.86%
Distribution	28.43%	34.96%
Gas	18.68%	
Total	100.00%	100.00%
Electric - General Plant	LOB 01E	
Production	0.00%	
Transmission	23.69%	
Distribution	76.31%	
Total	100.00%	