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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Consolidated Duke	:	Case Nos.	03-93-EL-ATA
Energy Ohio, Inc. Rate Stabilization	:		03-2079-EL-AAM
Plan Remand and Rider Adjustment	:		03-2080-EL-ATA
Cases.	:		03-2081-EL-AAM
	:		05-724-EL-UNC
	:		05-725-EL-UNC
	:		06-1068-EL-UNC
	:		06-1069-EL-UNC
	:		06-1085-EL-UNC

**CORRECTED
SUPPLEMENTAL TESTIMONY
OF
L'NARD E. TUFTS
PUBLIC UTILITIES COMMISSION OF OHIO
ACCOUNTING AND ELECTRICITY DIVISION**

STAFF EX. _____

Date submitted: March 9, 2007

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1 1. Q. What is the purpose of your supplemental testimony in this proceeding?

2 A. I will update my previously filed testimony and discuss the Staff's investigation
3 regarding the Applicant's filing.
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5 2. Q. What costs are eligible to be recovered through the Annually Adjusted
6 Component (AAC) Rider?

7 A. The AAC Rider is intended to recover cumulative incremental costs associated
8 with environmental compliance including reagent costs, homeland security, and
9 tax law changes that are above a baseline level of such costs approved for
10 calendar year 2000.
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12 3. Q. What documents did the Staff review relative to the Applicant's request?

13 A. Staff reviewed the Commission's Opinion and Order issued on September 29,
14 2004, Entry on Rehearing issued November 23, 2004, and Entry issued December
15 28, 2005, all in the Applicant's Rate Stabilization Plan Cases, Case Nos. 03-93-
16 EL-ATA, et al. Staff also reviewed the Commission's Opinion and Order issued
17 on February 2, 2006 in the Applicant's Fuel and Purchased Power Case, Case No.
18 05-806-EL-UNC.
19

20 4. Q. How did the Applicant determine incremental cost for each AAC Rider element?

21 A. The Applicant calculated incremental cost for environmental compliance as the
22 difference between the sum of the pre-tax return on capital investment plus
23 operation and maintenance (O&M) expenses as of December 31, 2000, and the

1 sum of the pre-tax return on capital investment plus O&M expenses as of May 31,
2 2006. Incremental of tax law changes were determined by applying the changes
3 in tax laws since the year 2000 to generation revenues and income for the twelve
4 months ended May 31, 2006. All homeland security costs as of May 31, 2006 are
5 incremental.

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7 5. Q. Would you describe the Staff's investigation of incremental Environmental
8 Costs?

9 A. The Staff verified the Applicant's environmental revenue requirement presented
10 in Applicant witness Wathen's testimony by tracing amounts through the
11 Applicant's accounting records. These include: source document information,
12 fixed asset records, construction tracking system, and Applicant estimates. The
13 Staff also verified the physical existence of plant items through on-site
14 inspections.

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16 6. Q. What were the Staff's findings regarding environmental compliance costs?

17 A. The Staff traced the information from the filing to the Applicant's records. Staff
18 made adjustments to reflect changes in the Applicant's operations, Commission
19 orders, corrections and updates.

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21 7. Q. What adjustments did the Staff make to May 31, 2006 environmental compliance
22 information?

1 A. Staff adjusted the May 31, 2006 Construction Work in Progress (CWIP) balance
2 and O&M expenses.

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4 8. Q. Why did the Staff adjust the CWIP balance?

5 A. The filing had a CWIP amount made up of the actual balance at February 28,
6 2006 plus estimated expenditures for March, April and May 2006. The Applicant
7 updated the filed information that contained estimates with actual information for
8 the twelve months ended May 31, 2006. The updated data increased CWIP by
9 \$5,498,014. The Applicant further discovered a data input error that, when
10 corrected, reduced the balance by \$20,000. The Staff traced the revised balance
11 to the Applicant's May 2006 General Ledger Report, Account 107 - Construction
12 Work In Progress. The updates and corrections produced a revised CWIP balance
13 of \$249,891,773.

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15 9. Q. What adjustments did the Staff make to O&M expenses?

16 A. The Applicant owns a 40% share of Conesville Unit 4. American Electric Power
17 Company's subsidiary, Columbus Southern Power Company (CSP) operates the
18 unit and bills the other owners for their share of operating costs. There is a one
19 month lag from the operating results of CSP and the Applicant's recognition of
20 billed operating costs. The filing included the Applicant's recognized share of
21 Conesville Unit 4's operating costs for the 12 month period ending June 30, 2006
22 instead of May 31, 2006. The \$10,800 correction increased environmental O&M
23 expenses from \$4,798,597 to \$4,809,397.

1 10. Q. Did the Staff adjust any Homeland Security costs?

2 A. Staff adjusted security related O&M and property taxes.

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4 11. Q. Why did the Staff adjust security related O&M expense?

5 A. The Applicant's filing included an additional \$4,049 of expenses from June 2006,
6 one month beyond the period for all other AAC costs. The Staff's adjustment
7 decreases security related O&O costs from \$38,436 to \$34,387.

8

9 12. Q. Would you describe the adjustment to property taxes?

10 A. The Applicant's filing included a calculation of property taxes for information
11 technology and cyber security that are software items not subject to property tax.
12 The filing also calculated property tax on physical property as if was personal
13 property instead of real property. The net effect of removing the property tax
14 calculated for information technology and cyber security, and recalculating the
15 property tax on physical security reduces annualized Homeland Security related
16 property tax from \$1,187 to \$504.

17

18 13. Q. You stated in your prepared testimony that you were awaiting responses to
19 requests for additional tax law information. Have you received the responses?

20 A. Yes. The Applicant provided support for allocating the Internal Revenue Code,
21 Section 199 -Income Attributable to Domestic Production Activities, deduction
22 between Ohio and Kentucky. The Applicant also provided monthly management
23 financial statements and trial balances by FERC account.

1 14. Q. Did your review of the additional tax law information result in any changes
2 discussed in your prepared testimony?

3 A. Yes. The Native Load Generation Revenue supported by the Applicant's
4 financial statements decreased from \$1,026,513,259 to \$1,025,928,479 due to
5 proceeds from the sales of emission allowances being reclassified from revenue to
6 Gain on Sale of Other Assets. Also, in my prepared testimony, I miscalculated a
7 tax reduction amount of (\$4,389,290). The correct amount is (\$5,477,473).
8

9 15. Q. Will the additional tax law information result in an adjustment to amounts filed in
10 the Application?

11 A. The taxes will decrease from the filing amount of (\$5,315,149) to (\$5,477,473).
12

13 16. Q. Do you have any attachments to your testimony?

14 A. The Staff's recommended AAC Revenue Requirement is detailed in Attachment
15 LET - 1, pages 1 through 6.
16

17 17. Q. Does this conclude your testimony?

18 A. Yes.
19

PROOF OF SERVICE

The undersigned hereby certifies that a copy of the foregoing **Supplemental Testimony of L'nard E. Tufts** on behalf of the Staff of the Public Utilities Commission of Ohio was served upon the parties of record indicated on the attached service list this 9th day of March, 2007 via U.S. mail, postage prepaid and/or electronic service.

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DUKE ENERGY OHIO
Case No. 06-1085
Summary AAC Revenue Requirement

1) Environmental Compliance	\$ 79,652,559
2) Homeland Security	128,000
3) Tax Law Changes	<u>(5,477,473)</u>
Total Revenue Requirement	\$ <u>74,303,086</u>

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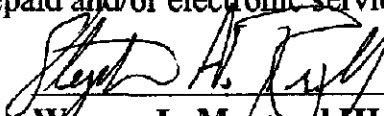
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DUKE ENERGY OHIO
Case No. 06-1085-EL-UNC
Incremental Environmental Cost

<u>Return on Environmental Plant</u>		<u>12/31/2000</u>	<u>5/31/2006</u>	<u>Increment</u>
1)	Original Cost	\$ 405,942,184	\$ 682,657,284	\$ 276,715,100
2)	Reserve for Depreciation	<u>165,336,370</u>	<u>221,251,787</u>	<u>55,915,417</u>
3)	Net Plant	240,605,814	461,405,497	220,799,683
4)	Construction Work in Progress		<u>249,891,773</u>	<u>249,891,773</u>
5)	Total Environmental Plant	\$ <u>240,605,814</u>	\$ <u>711,297,270</u>	\$ <u>470,691,456</u>
6)	Pre-tax Return (11.69%)	\$ 28,126,820	\$ 83,150,651	\$ 55,023,831
 <u>Environmental O&M Expenses</u>				
7)	Operation and Maintenance	4,453,158	4,809,397	356,239
8)	Environmental Reagents	4,598,944	18,854,155	14,255,211
9)	Annualized Depreciation	<u>7,749,260</u>	<u>17,766,538</u>	<u>10,017,278</u>
10)	Total Environmental Revenue Requirement	\$ <u>44,928,182</u>	\$ <u>124,580,741</u>	\$ <u>79,652,559</u>

DUKE ENERGY OHIO
Case No. 06-1085-EL-UNC
Homeland Security Cost

<u>Return on Capital Expenditures</u>		<u>Information Technology</u>	<u>Cyber Security</u>	<u>Physical Security</u>	<u>Total</u>
1) Original Cost	\$	84,370	\$ 226,365	\$ 28,531	\$ 339,266
2) Reserve for Depreciation		22,499	56,591	2	79,092
3) Net Plant	\$	61,871	\$ 169,774	\$ 28,529	\$ 260,174
4) Pre-tax Return (11.69%)	\$	7,233	\$ 19,847	\$ 3,365	\$ 30,445
<u>Homeland Security O&M</u>					
5) Operation and Maintenance					34,387
6) Annualized Depreciation		16,874	45,273	548	62,695
7) Annualized Property Taxes				504	504
8) Total Homeland Security Revenue Requirement	\$	24,107	\$ 65,120	\$ 4,387	\$ 125,000

DUKE ENERGY OHIO
Case No. 06-1085
Tax Law Changes

1) Section 199 - Production Activity Deduction	\$ (2,116,364)
2) Commercial Activity Tax vs. Ohio Franchise Tax	<u>(3,361,109)</u>
3) Total Tax Law Changes	\$ <u>(5,477,473)</u>

Attachment LET - 1

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IO

bio

<u>New Law</u>	<u>Change</u>
154,159,400	
<u>4.8525%</u>	
<u>7,480,585</u>	
1,025,928,479	
<u>0.1040%</u>	
<u>1,066,966</u>	
145,611,849	
<u>50,964,147</u>	
<u>58,444,732</u>	<u>(3,361,109)</u>

DUKE ENERGY OHIO
Case No. 06-1085
Tax Law Changes - Section 199

- 1) Section 199 Deduction - Year 2005 (a)
- 2) Ohio Franchise Rate - Year 2006
- 3) *Effective State Average Rate (5.1% / 105.1)*
- 4) *Effective Statutory Tax Rate*
- 5) *Less: Average Ohio Franchise Tax Rate*
- 6) *Net Effective Statutory Tax Rate*
- 7) *Statutory Federal Tax Rate*
- 8) *Effective Statutory Federal Tax Rate*
- 9) *Plus: Average Ohio Franchise Tax Rate*
- 10) *Total Effective Statutory Tax Rate*

- 11) Overall Income Tax Reduction for the
12-Months ended May 31, 2006

- (a) Duke Energy Ohio's 2005 Section 199 Deduction
After transfer of generating assets -
Duke Energy Ohio's Share - 83.3%
Duke Energy Kentucky's Share - 16.7%

Attachment LET - 1
Page 6 of 6

\$ 5,547,119

5.10%

4.85%

100.00%

-4.85%

95.15%

35.00%

33.30%

4.85%

38.15%

\$ 2,116,364

\$ 6,659,206

\$ 5,547,119

\$ 1,112,087