

# Large Filing Separator Sheet

Case Number : 03-93-EL-ATA, 03-2079-EL-AAM, 03-2081-EL-AAM, 03-2080-EL-ATA, 05-724-EL-UNC, 05-725-EL-UNC, 06-1068-EL-UNC, 06-1069-EL-UNC, 06-1085-EL-UNC

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Section : 2 of 2

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1 costs for customers at a future date when the plant is in service. However, in  
2 today's deregulated generation environment, the future is too uncertain to  
3 guarantee this claimed benefit would ever be realized by the consumers who  
4 would pay the 2007 AAC because it is unknown which customers will receive  
5 service from DE-Ohio's generating units in the future.

6  
7 ***Q14. WHAT IS THE COMPANY'S POSITION REGARDING THE TREATMENT***  
8 ***OF CWIP?***

9 ***A14.*** Company witness Wathen states in his February 28, 2007 Supplemental  
10 Testimony (page 5) that "traditional ratemaking regulations, such as the limit on  
11 CWIP at issue here, must be set aside because we are not dealing with traditional  
12 cost based regulation."

13  
14 ***Q15. DO YOU AGREE WITH THE COMPANY'S POSITION THAT THE***  
15 ***COMPANY SHOULD NOT BE LIMITED TO TRADITIONAL***  
16 ***REGULATORY RULES?***

17 ***A15.*** I agree with the theory, but the theory has not been properly applied by DE-Ohio  
18 in this situation. DE-Ohio witness Wathen's "'new' formula to determine a  
19 market price" (page 5 again) simply seeks cost-based recovery that is similar to  
20 the traditional methodology for the treatment of CWIP, but without any limitation  
21 regarding the percentage of completion for additions to environmental plant.  
22 DE-Ohio proposes to benefit from the best of both worlds: cost recovery using  
23 traditional revenue requirement methodology instead of using a market approach,

1 but not having to abide by traditional rules governing cost recovery such as those  
2 that governed CWIP. In a truly competitive market, CWIP would not be earned at  
3 all. A return on the plant would not occur until the plant is fully operational. In a  
4 proper market approach, the entire AAC would be a generation charge that is  
5 avoidable for customers who switched to another supplier.

6  
7 ***Q16. WHAT IS YOUR SUGGESTION FOR THE HANDLING OF THE CWIP***  
8 ***PORTION OF THE ENVIRONMENTAL COMPLIANCE COSTS?***

9 ***A16.*** I recommend the CWIP portion be removed from the "Return on Environmental  
10 Plant" calculation in DE-Ohio witness Wathen's Attachment WDW-2, Schedule  
11 2, for purposes of setting a more reasonable AAC charge.

12  
13 ***Q17. DO YOU HAVE A RESPONSE TO DE-OHIO WITNESS WATHEN'S***  
14 ***SUPPLEMENTAL TESTIMONY REGARDING THE COMMISSION'S***  
15 ***PREVIOUS TREATMENT FOR THE CALCULATION OF THE AAC?***

16 ***A17.*** Yes, witness Wathen's review of the subject in Section II of his Supplemental  
17 Testimony is incomplete and is therefore misleading. As witness Wathen states in  
18 his Supplemental Testimony, DE-Ohio proposed an AAC concept (not identical  
19 to the AAC finally approved by the Commission) in the Stipulation filed on May  
20 19, 2004. That Stipulation included as an attachment calculations based upon  
21 DE-Ohio's approach to CWIP. The Commission's September 29, 2004 Order  
22 was hardly an endorsement of DE-Ohio's approach. DE-Ohio's calculation for  
23 the AAC contained in its Stipulation was \$107,514,533, and the eight percent

1       limitation contained in the Stipulation for 2005 came to \$60,172,508. The  
2       amount approved by the Commission was \$53,757,267.

3  
4       The Commission's Order explained its consideration of future AAC charges as  
5       follows (page 32):

6  
7       "[T]he Commission will, when requested by CG&E but no more often than  
8       annually, determine the appropriate level of possible increases in the AAC  
9       charge, and the appropriate level of avoidability by shopping customers, on  
10      the basis of its consideration of CG&E's proven expense in these categories,  
11      the development of the market in each consumer class, off-system sales by  
12      CG&E in the marketplace, the impact of MISO Day 2 on the market, and such  
13      other factors as it may deem appropriate from time to time. No increases in  
14      the AAC will be allowed without Commission approval. It is the  
15      Commission's goal to ensure that prices remain market-based . . . ."

16  
17      The Commission's approach mentions "expenses," which does not describe the  
18      CWIP calculation. Also, the Commission's overall approach did not approve "a  
19      'new' formula" as stated on page 5 of DE-Ohio witness Wathen's Supplemental  
20      Testimony. The overall approach is flexible, taking into account factors over  
21      time.

1 **Q18. DID DE-OHIO WATHEN'S SUPPLEMENTAL TESTIMONY ADDRESS**  
2 **EARLIER OCC ARGUMENTS REGARDING THE AAC?**

3 **A18.** Yes. DE-Ohio witness Wathen states in his Supplemental Testimony (page 4)  
4 that the "Commission directly addressed OCC's objection to the Rider AAC  
5 calculation." Counsel advises me that the cited portion of the November 23, 2004  
6 Entry on Rehearing (located on pages 17-18) addressed the OCC's legal argument  
7 based upon Ohio statutes.

8  
9 **Q19. DO YOU FIND OTHER PORTIONS OD THE COMMISSION'S ENTRY**  
10 **ON REHEARING IMPORTANT IN PREPARING YOUR TESTIMONY?**

11 **A19.** Yes. The Commission's Entry on Rehearing continued to stress that it "will  
12 continue to consider the reasonableness of expenditures" (page 10) and that it  
13 would seek to "ensure that CG&E's generation rates are market-based"(page 18).  
14 The current proceeding is the first opportunity that the OCC has had since the  
15 conclusion of Case No. 03-93-EL-ATA in 2004 to present its views in a case  
16 before the Commission regarding what is a reasonable level for AAC charges.

17  
18 **Q20. HAVE YOU CALCULATED THE EFFECT OF YOUR**  
19 **RECOMMENDATION?**

20 **A20.** Yes, using DE-Ohio Witness Wathen's Attachment WDW-2, Schedule 2, I  
21 removed the \$244,413,759 CWIP amount from the "Return on Environmental  
22 Plant." MPH Attachment 1 demonstrates that this reduces the "Pre-Tax Return"

1 to \$53,938,303, and reduces the "Total Environmental Compliance Increase" to  
2 \$50,429,411.

3  
4 ***Q21. WHAT EFFECT DOES THIS HAVE ON THE AAC RIDER?***

5 ***A21.*** The removal of the CWIP portion of the Environmental Plant reduces the revenue  
6 requirement for the 2007 AAC to \$45,246,994. Using DE-Ohio witness Wathen's  
7 methodology, this reduction results in the AAC being set at 5.6% of "little g."  
8 MPH Attachment 1 also shows the resulting Rate RS AAC rates.

9  
10  
11 **V. PROPOSED SRT**

12  
13 ***Q22. WHAT IS THE SYSTEM RELIABILITY TRACKER?***

14 ***A22.*** The PUCO approved the mechanism of the SRT in the November 23, 2004 Entry  
15 on Rehearing in PUCO Case No 03-93-EL-ATA. DE-Ohio's stated purpose for  
16 the SRT charge was to permit the Company to collect from customers the costs  
17 associated with maintaining a generation reserve margin. The SRT does not  
18 include DE-Ohio's costs of the purchased power, just the capacity to prove the  
19 Company has adequate resources to provide for its load. Any power purchased  
20 from the capacity arrangements would be collected through the Company's fuel  
21 and purchased power ("FPP") rider.

1 **VL DUKE ENERGY NORTH AMERICA GENERATING ASSETS**

2

3 ***Q23. HOW WERE THE DENA ASSETS OBTAINED BY DE-OHIO?***

4 ***A23.*** In PUCO Case No. 05-732-EL-MER ("Merger Case"), the Cincinnati Gas &  
5 Electric Company (now known as Duke Energy-Ohio, Inc., referred to herein at  
6 "DE-Ohio") submitted pre-filed testimony by Wendy L. Aumiller that described  
7 the transfer of generating assets from DENA to the Cincinnati Gas & Electric  
8 Company as an "equity infusion" at the book value of the generating assets.

9

10

11 ***Q24. HAS THE PUCO ADDRESSED WHETHER COSTS RELATED TO DENA***  
12 ***ASSETS CAN BE COLLECTED FROM OHIO CUSTOMERS?***

13 ***A24.*** In the Finding and Order of the Merger Case, the Commission found "costs that  
14 may be related to the transfer of the DENA assets will not be able to be passed on  
15 to Ohio customers without approval of the Commission." (Finding and Order at  
16 page 15.) Further, in Case No. 05-724-EL-UNC, the Commission adopted a  
17 Stipulation (in its entirety) in which it was stated that DE-Ohio could not use the  
18 DENA assets to satisfy the SRT margin requirements without an application to  
19 the Commission requesting approval of a market price associated with the DENA  
20 assets. (November 22, 2005 Opinion and Order at page 5) The Company has not  
21 provided any market pricing mechanism in its Application.

1 **Q25. IS DE-OHIO PROPOSING IN THIS CASE TO COLLECT FROM**  
2 **CUSTOMERS ANY COSTS RELATED TO DENA ASSETS?**

3 **A25.** Yes. DE-Ohio Witness Whitlock stated in his direct testimony that DENA assets  
4 should be treated the same as any other capacity in the market. (Whitlock  
5 testimony filed 9/1/2006 at page 9.) Based on this statement, it seems that DE-  
6 Ohio would plan to collect bids and offers in the marketplace as a way to  
7 determine the cost of the DENA assets it would seek to collect from customers via  
8 the current and future SRT charges.

9  
10 **Q26. DO YOU AGREE WITH THE METHODOLOGY PROPOSED BY DE-OHIO**  
11 **WITNESS WHITLOCK?**

12 **A26.** No, Mr. Whitlock states that DE-Ohio will provide the Commission with bids for,  
13 and offers of, capacity that would justify the market price DE-Ohio would charge  
14 (to customers) for capacity through the SRT. (Whitlock testimony at page 12.)  
15 DE-Ohio witness Whitlock admits that the prices in the spot market for capacity  
16 are "exceptionally volatile." (Whitlock testimony at page 11.) This would lead  
17 one to believe that there is a wide range between the price DE-Ohio is willing to  
18 pay for the capacity and the price at which other generators are willing to sell  
19 their capacity. Large differences between bids and offers or -- in the case of a  
20 limited market -- no offers -- leads to uncertainty of the true market price. The  
21 market price is determined by the transactions that take place in the market. If  
22 there are very few or no transactions, then speculation regarding the market price  
23 would be the means by which it is reported. In the situation of the DENA assets,



1 this would require DE-Ohio to estimate the market price of the capacity with  
2 limited or no market data because of the lack of transactions in the capacity  
3 market. DE-Ohio's proposal is not an acceptable solution to determining the  
4 market price of DENA assets, and does not provide a reasonable cost for capacity  
5 -- meaning the proposal is not in the best interest of DE-Ohio customers.  
6

7 ***Q27. WHAT DID THE AUDITOR RECOMMEND REGARDING WHETHER DE-***  
8 ***OHIO SHOULD PURCHASE CAPACITY OFF THE DENA ASSETS?***

9 ***A27.*** The Auditor first stated that he does not believe DE-Ohio witness Whitlock's  
10 claims that DE-Ohio's customers are paying more for capacity in the market than  
11 they would for capacity off the DENA assets. (Audit Report at page 6-5) Next  
12 the Auditor states that affiliate transactions are problematic. (Audit Report at page  
13 6-5) Third the Auditor asserts that these affiliate transactions would overly  
14 burden the ability of future auditors to audit affiliate transactions. (Audit Report at  
15 page 6-5) Finally the Auditor believes DE-Ohio could sell the capacity from  
16 these units on the open market. (Audit Report at page 6-5)  
17

18 ***Q28. DO YOU AGREE WITH THE AUDITOR'S RECOMMENDATIONS?***

19 ***A28.*** I agree with the Auditor that DE-Ohio has not shown that customers would be  
20 better off by using DENA assets than paying for capacity in the market. The cost  
21 of capacity off the DENA assets would be passed through to customers at market  
22 prices, unless DE-Ohio is proposing that the capacity off the DENA assets will

1 cost less than the rest of the market. DE-Ohio has not demonstrated that use of  
2 the DENA assets will provide benefits to customers.

3  
4 I agree with the Auditor that affiliate transactions can be troublesome, mainly in  
5 light of my previous discussion on how DE-Ohio plans to set the market price for  
6 the DENA assets. I also note the significance of the Auditor stating the difficulty  
7 of conducting an audit of these transactions related to DENA assets. Under these  
8 circumstances, the PUCO's intended check on SRT costs will not be adequate to  
9 ensure reasonably priced retail electric service for Ohio consumers. Finally,  
10 given the picture painted by DE-Ohio witness Whitlock regarding the dire need  
11 for capacity in the region served by the Midwest Independent System Operator  
12 (which arranges transmission), DE-Ohio should not have any problem selling  
13 capacity off these generating units as opposed to charging DE-Ohio customers by  
14 means of the SRT mechanism.

15  
16 ***Q29. ARE THERE ANY SITUATIONS IN WHICH DE-OHIO SHOULD BE***  
17 ***ALLOWED TO PURCHASE CAPACITY OFF THE DENA ASSETS?***

18 ***A29.*** If a circumstance arises where DE-Ohio is in an emergency situation and unable  
19 to meet its capacity needs, then use of the DENA assets could be appropriate.  
20 DE-Ohio should only be allowed to purchase capacity off the DENA assets in the  
21 future if DE-Ohio demonstrates that the DENA assets clearly offer a better price  
22 or a better product for customers than that offered in the open market. Otherwise,  
23 the DENA capacity should be used only as a last resort and if there is a pre-

1 determined, reasonable method to determine the price for the capacity off the  
2 DENA assets.

3  
4 **VII. PLACEMENT OF AAC AND SRT ON CUSTOMER BILLS**

5  
6 ***Q30. WHAT IS YOUR UNDERSTANDING REGARDING THE TREATMENT OF***  
7 ***THE AAC AND SRT ON DE-OHIO'S RESIDENTIAL CUSTOMER BILLS?***

8 ***A30.*** As shown on MPH Attachment 2, the "Rider AAC" is in the "Delivery Charge"  
9 portion of the bill. The SRT is included in the "Delivery Riders" also in the  
10 "Delivery Charge" portion of the bill.

11  
12 ***Q31. WHAT IS MPH ATTACHMENT 2?***

13 ***A31.*** Attachment 2 is a sample bill faxed to the OCC by a DE-Ohio representative on  
14 February 1, 2006. The customer name, account number and address have been  
15 redacted to protect the identity of the customer.

16  
17 ***Q32. WHERE SHOULD THE AAC AND SRT BE LOCATED ON A CUSTOMER'S***  
18 ***BILL?***

19 ***A32.*** Both riders were created in Case No. 03-93-EL-ATA regarding DE-Ohio's  
20 "market based standard service offer," not the recently concluded distribution rate  
21 case (PUCO Case No. 05-59-EL-AIR). The November 23, 2004 Entry on  
22 Rehearing in Case No. 03-93-EL-UNC states (page 17) that the AAC charge is  
23 "not . . . placed upon distribution or transmission, and is not an ancillary service."

1 The AAC rider deals with generation costs. As stated by DE-Ohio witness  
2 Wathen on page 2 of his testimony in Case No 06-1085-EL-UNC, the AAC is a  
3 component of the Company's standard service offer, the generation rate approved  
4 by the PUCO in Case No. 03-93-EL-ATA. The calculations for the proposed  
5 AAC deals with environmental compliance on DE-Ohio's generating units, as  
6 discussed on pages 4-6 of DE-Ohio witness Wathen's testimony. The decrease in  
7 the AAC component for changes in the tax rate, explained on page 7 of DE-Ohio  
8 witness Wathen's testimony, is also entirely related to the generation of  
9 electricity.

10  
11 According to DE-Ohio witness Wathen, the SRT is based on the total dollars  
12 spent to maintain a 15% generation reserve margin.(Wathen direct testimony in  
13 Case No. 06-1069-EL-UNC at page 15) The purchase of capacity is in essence  
14 purchasing the rights to a predetermined amount of generation off a designated  
15 resource. The SRT purchases are to provide the Company an adequate reserve of  
16 generation. It is inaccurate and misleading to identify the SRT as a charge for a  
17 distribution function. Therefore the SRT should not be identified as a distribution  
18 rider, and should instead be placed in the "Generation Charges" section of the  
19 customers' bill.

1 **Q33. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING CHARGES**  
2 **ON A CUSTOMER'S BILL?**

3 **A33.** Yes. DE-Ohio currently has six riders listed on its residential customer's bill  
4 along with a line item titled "Delivery Riders," which I have determined contains  
5 the SRT and Infrastructure Maintenance Fund ("IMF"). The Company should be  
6 required to place the riders in the appropriate section of the customer's bill to  
7 provide the proper information to customers about the service for which they are  
8 paying. Hence, the AAC, SRT and IMF should be placed in the generation  
9 portion of a customer's bill. .

10  
11 **Q34. WHAT SHOULD THE COMPANY DO TO RECTIFY THE CUSTOMER**  
12 **BILL ISSUES YOU ADDRESS?**

13 **A34.** DE-Ohio should be required to correct the faults in its current billing statements  
14 and file a corrected bill format for approval by the Commission if these  
15 generation-related riders continued to be charged as the result of these  
16 proceedings.

17

## 18 **VIII. CONCLUSION**

19

20 **Q35. WHAT ARE YOUR OVERALL CONCLUSIONS?**

21 **A35.** The AAC Application filed by the Company should not be approved by the  
22 Commission because it is incomplete and proposes an unreasonable AAC rate for  
23 2007. The Application is incomplete because it does not allow for an independent

1       audit. An independent audit would promote accountability that would help the  
2       Commission assure that proposed AAC charges are reasonable in the same  
3       manner that audits ordered by the Commission regarding DE-Ohio's other  
4       generation-related riders have served this function. The Company's calculations  
5       for the 2007 AAC results in an unreasonable charge because the Company seeks  
6       to pick and choose between elements of traditional rate making methodology (i.e.  
7       regarding the treatment of CWIP) in the context of market-based rates.

8  
9       I agree with the SRT Auditor's recommendation that DE-Ohio should not be  
10      permitted to pass through to consumers costs associated with the DENA assets to  
11      satisfy the capacity requirements of the SRT because of the inability to determine  
12      a true market price for the capacity of these assets.

13  
14      Both the AAC and SRT Applications fail to address that these charges are clearly  
15      generation related, but are included on the distribution portion of the customer's  
16      bill. These charges, if they continue to be applied as the result of these  
17      proceedings, should be placed on the generation portion of the customer's bill.

18  
19      ***Q36. WHAT ACTIONS DO YOU RECOMMEND?***

20      ***A36.*** As part of any order regarding the AAC and SRT charges for 2007, the  
21      Commission should (1) require that an independent audit be conducted on all  
22      costs requested and recovered through the AAC Rider such as has been ordered  
23      regarding DE-Ohio's FPP and SRT charges, (2) remove the return on CWIP

1       portion of the Environmental Compliance revenue requirement or at least make it  
2       avoidable to all customers being served by a CRES provider, (3) refuse to allow  
3       DE-Ohio to pass through any costs associated with the DENA assets in the SRT  
4       and (4) order the Company to file a new bill format which places the AAC and  
5       SRT Riders on the generation portion of customers' bills.

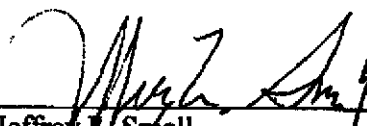
6

7   ***Q37. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

8   ***A37.*** Yes, it does. However, I reserve the right to incorporate new information that  
9       may subsequently become available.

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the Testimony of Mike Haugh was served electronically on the persons listed on the electronic service list shown below (as supplemented), provided by the Attorney Examiner, this 9<sup>th</sup> day of March 2007.

  
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**Duke 2007 AAC**  
**PUCO Case No. 06-1085-EL-UNC**  
**Revised AAC Calculation**

MPH Attachment 1

	@ 5/31/06	Less: CWIP (a)	
Total Environmental Plant	(a) \$ 705,819,256	\$ (244,413,759)	\$ 461,405,497
Pre-Tax Return at	(a) 11.69%	11.69%	11.69%
Pre-Tax Return	\$ 82,510,271	\$ (28,571,968)	\$ 53,938,303
Environmental O&M Exp	(a) \$ 41,419,290		\$ 41,419,290
Total Revenue Req.	\$ 123,929,561	\$ (28,571,968)	\$ 95,357,593
Rev Req As of 12/31/00	(a) \$ 44,928,182		\$ 44,928,182
Environmental Compliance Increase	\$ 79,001,379	\$ (28,571,968)	\$ 50,429,411
Homeland Security	\$ 132,732		\$ 132,732
Tax Changes	\$ (5,315,149)		\$ (5,315,149)
Total Revenue Requirement	\$ 73,818,962	\$ (28,571,968)	\$ 45,246,994

**AAC Recovery % Calculation:**

Revised AAC Rev Req	(c) \$ 73,818,962	\$ 45,246,994
Little g Revenue 12 ME 5/31/06	(c) \$ 812,324,838	\$ 812,324,838
Revised Rider AAC %	9.1%	5.6%

Calculation of Rate RS Residential Service AAC at:				9.1%	1000 kWh	
(\$ per kWh)	Current AAC	New%/Old% ratio			Monthly	Annual
Summer, First 1000 kWh (c)	\$ 0.002651	1.5167	\$	0.004021	\$ 4.02	\$ 48.24
Summer, Additional kWh (c)	\$ 0.003359	1.5167	\$	0.005095		
Winter, First 1000 kWh (c)	\$ 0.002651	1.5167	\$	0.004021		
Winter, Additional kWh (c)	\$ 0.000100	1.5167	\$	0.000152		

Calculation of Rate RS Residential Service AAC at:				5.6%	1000 kWh	
(\$ per kWh)	Current AAC	New%/Old% ratio			Monthly	Annual
Summer, First 1000 kWh (c)	\$ 0.002651	0.9333	\$	0.002474	\$ 2.47	\$ 29.64
Summer, Additional kWh (c)	\$ 0.003359	0.9333	\$	0.003135		
Winter, First 1000 kWh (c)	\$ 0.002651	0.9333	\$	0.002474		
Winter, Additional kWh (c)	\$ 0.000100	0.9333	\$	0.000093		

Difference:

\$ (1.55) \$ (18.60)

- (a) Case No. 06-1085-EL-UNC, Wathen Attachment WDW-2, Schedule 2  
(b) Case No. 06-1085-EL-UNC, Wathen Attachment WDW-2, Schedule 1  
(c) Case No. 06-1085-EL-UNC, Application Attachment WDW-4, page 1 of 2

Account Number [REDACTED] 18 06

For less detailed billing information on  
your monthly bill, check box on right☐

Feb 1, 2006	\$186.81
-------------	----------

\$ \_\_\_\_\_ \$ \_\_\_\_\_  
HeatShare Contribution Amount Enclosed  
(for Customer Assistance)

[REDACTED]

PO Box 740124  
Cincinnati OH 45274-0124

400 00000186813 03000073228 020120061 00000189618

Page 1 of 4

Cinergy/CG&amp;E

513-421-8500 [REDACTED]

PO Box 740124  
Cincinnati OH 45274-0124

Payments after Jan 10 not included  
Last payment received Jan 09

Bill prepared on Jan 10, 2006  
Next meter reading Feb 07, 2006

Gas	000605267	Dec 06 Jan 09	34	25	157	132
Elec	094887121	Dec 06 Jan 09	34	17744	19017	1273

Usage - 132 CCF  
Cinergy/CG&E - Rate RS \$200.21  
Current Gas Charges \$200.21  
Gas Cost Recovery \$1.21810000/CCF

Am't Due - Previous Bill \$186.81  
Payment(s) Received 187.00cr  
Balance Forward 0.45cr  
Budget Billing Am't Due 187.00  
Current Amount Due \$186.81

Usage - 1,049 kWh  
Cinergy/CG&E - Rate RS \$78.16  
Usage - 224 kWh  
Cinergy/CG&E - Rate RS 21.21  
Current Electric Charges \$97.37

Old Rate Effective Dec 06 To Jan 09  
New Rate Effective Jan 03 To Jan 09

Current Billing \$186.81  
Budget Billing Balance 23.73  
Total Account Balance \$210.54

Feb 1, 2006	\$186.81	\$186.81
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Don't wait for the weather to cause your energy bill to jump; enroll in Budget Billing today. Go to [www.CinergyComfort.com](http://www.CinergyComfort.com) to sign up and learn about ways to reduce your energy bills.

Pursuant to state law, the Universal Service Fund rider rate has been adjusted effective with this bill.

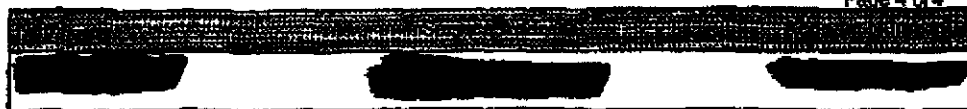
Under state law, the amount you are being billed includes: (1) kilowatt-hour taxes that have been in effect since 2001 and are currently at \$.00465 for the first 2,000 kWh, \$.00419 for the next 18,000 kWh and \$.00363 for all additional kWh and, (2) Assessments to assist in the support of the PUCO and the Office of the Consumers Counsel that have been in effect since 1912 and 1977 respectively.

**PRICE TO COMPARE:** In order for an average residential customer to save money, an electric supplier must offer a price lower than 8.49 cents per kWh. Your Price to Compare may be different based on your usage. Visit [www.cinergyco.com](http://www.cinergyco.com) to calculate your individual Price to Compare or contact Cinergy/C&E for a written explanation.

Gas Meter -	000605267	Cinergy/C&E		
CCF Usage -	132	Rate RS - Residential Service		
Dec 06 - Jan 09		Customer Charge	\$ 8.00	
24 Days		Gas Delivery Charge		
		132 CCF @ \$0.18591000	24.54	
		Rider MSR-G	1.18	
		Gas Delivery Riders	10.03	
		Gas Cost Recovery		
		132 CCF @ \$1.21910000	160.79	\$ 200.21
				\$ 200.21

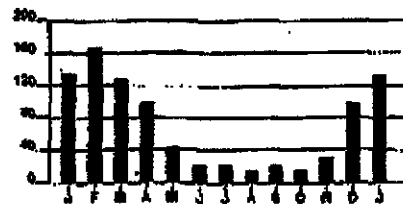
Electric		Cinergy/CG&E		
Meter -	094887121	Rate RS - Residential Svc-Winter		
kWh Usage -	1,273	Old Rate Effective Dec 06 To Jan 09		
Dec 06 - Jan 09		Distribution-Customer Chg	\$ 9.30	
34 Days		Delivery Charges		
		Distribution-Energy Chg		
		1,049 kWh @ \$ 0.01471000	15.43	
		Rider TCR	7.90	
		Delivery Riders	5.48	
		Total Delivery Charges	\$ 28.61	
		Generation Charges		
		Residential Generation Credit		
		824 kWh @ \$ 0.00253320cr	2.09cr	
		225 kWh @ \$ 0.00102730cr	0.23cr	
		Generation Energy Chg		
		824 kWh @ \$ 0.00066400	41.75	
		225 kWh @ \$ 0.02054800	4.62	
		Total Generation Charges	\$ 44.05	76.16
<hr/>				
		Cinergy/CG&E		
		Rate RS - Residential Svc-Winter		
		New Rate Effective Jan 03 To Jan 09		
		Distribution-Customer Chg	\$ 0.79	
		Delivery Charges		
		Distribution-Energy Chg		
		224 kWh @ \$ 0.01894900	4.47	
		Rider TCR	1.89	
		Rider RSC	1.29	
		Rider AAC	0.52	
		Rider MSR-E	0.32cr	
		Delivery Riders	3.12	
		Total Delivery Charges	\$ 10.77	
		Generation Charges		
		Generation Energy Chg		
		176 kWh @ \$ 0.03755900	6.61	
		48 kWh @ \$ 0.01416900	0.68	
		Rider FPP	2.66	
		Rider RSS	0.30cr	
		Total Generation Charges	\$ 9.65	21.21
				\$ 97.37

Summary		Previous Budget Billing Balance		\$ 86.85cr
BBP Option :	Quarterly Plan	Current Gas Charges		200.21
BBP Installment Amount:	\$ 187.00	Current Electric Charges		97.37
		Budget Billing Amt Due		187.00cr
		Budget Billing Balance		\$ 22.73



CCF

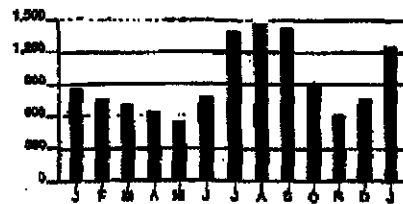
Gas Usage



Calculations based on most recent 12 month history  
 Total Usage 784  
 Average Usage 65

kWh

Electric Usage



Calculations based on most recent 12 month history  
 Total Usage 11,352  
 Average Usage 946

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN
Gas	134	186	128	98	42	21	20	14	80	14	91	98	132
Electric	857	782	718	654	582	780	1,384	1,482	1,423	917	827	750	1,273

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**CONFIDENTIAL**

**SUPPLEMENTAL TESTIMONY**

**OF**

**MICHAEL P. HAUGH**

**ON BEHALF OF  
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL  
10 West Broad Street, Suite 1800  
Columbus, OH 43215**

April 17, 2007

1    ***SQ1. ARE YOU THE SAME MICHAEL P. HAUGH WHOSE TESTIMONY WAS***  
2           ***PREVIOUSLY FILED IN THIS CASE?***

3    ***SA1.*** Yes.  
4

5    ***SQ2. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?***

6    ***SA2.*** The purpose of my testimony is to address the Stipulation filed on April 9, 2007  
7           in this case ("2007 Stipulation"). I recommend that the Public Utilities  
8           Commission of Ohio ("PUCO" or "Commission") not approve the 2007  
9           Stipulation because it does not meet the criteria regarding the reasonableness of a  
10          stipulation.

11

12   ***SQ3. WHAT IS YOUR UNDERSTANDING OF THE CRITERIA THE***  
13           ***COMMISSION USES TO EVALUATE A STIPULATION?***

14   ***SA3.*** In the past, the Commission has applied a three-part test in determining if a  
15          stipulation should be adopted. The three-part test asks three questions. First, is  
16          the stipulation a product of serious bargaining among capable, knowledgeable  
17          parties? Second, taken as a package does the stipulation benefit ratepayers and  
18          the public interest? Third, does the stipulation violate any important regulatory  
19          principle or practice? My testimony will address the second and third parts of the  
20          test.

1   ***SQ4. DOES THE 2007 STIPULATION BENEFIT RATEPAYERS AND THE***  
2       ***PUBLIC INTEREST?***

3   ***SA4.*** No. There are a number of areas where the 2007 Stipulation does not benefit  
4       ratepayers and is not in the public interest. The 2007 Stipulation is ambiguous  
5       and meaningless in parts, and harmful to ratepayers in other parts.

6  
7   ***SQ5. WHERE DO YOU FIND THE 2007 STIPULATION TO BE AMBIGUOUS OR***  
8       ***MEANINGLESS?***

9   ***SAS.*** First, paragraph three of the 2007 Stipulation states that interested parties shall  
10       meet to determine how to handle DE-Ohio's management of its portfolio of coal  
11       assets, emission allowances, and purchased power arrangements post-2008. This  
12       paragraph does not accomplish anything except an agreement to meet and "use  
13       their best efforts to agree and make a recommendation."<sup>1</sup> The procurement of  
14       coal, emission allowances, and power raises important issues that has already  
15       been raised and reviewed by the Auditor. Regarding the determination of how  
16       these issues should be handled post-2008, a docket already exists for the  
17       determination of such issues (i.e. Case 06-986-EL-UNC dealing with extension of  
18       the rate stabilization plan post-2008). That docket already exists to address the  
19       issues that are the subject of paragraph three, and that docket (or related dockets)  
20       better serves the purpose of exploring the post-2008 issues than the provision in  
21       the 2007 Stipulation.

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<sup>1</sup> 2007 Stipulation at page 5.



1 Second, there seems to be a fundamental disagreement over the meaning of  
2 paragraph eight between DE-Ohio's witness and the PUCO Staff ("Staff").  
3 During the hearing in this case held on April 10, 2007, DE-Ohio Witness Charles  
4 R. Whitlock seemed to think that the only limitation on the use of former Duke  
5 Energy North American Assets ("DENA Assets") was the time frame for  
6 purchasing the capacity. Specifically, he stated that DE-Ohio would be able to  
7 purchase capacity off the DENA Assets by using a series of short term (seven  
8 days or less) purchases.<sup>2</sup> Counsel for the Staff then questioned Mr. Whitlock as to  
9 whether his interpretation of that provision was necessarily the interpretation of  
10 all parties or just his own.<sup>3</sup> Judging from the nature of the cross examination, the  
11 intent of this paragraph from Staff's perspective appears to be that the use of  
12 DENA Assets would be further limited (I will discuss my perspective on this  
13 topic later in this testimony). However, DE-Ohio seems to believe that paragraph  
14 eight allows DE-Ohio to purchase capacity from these units whenever it wants,  
15 assuming it is only for a seven day period, this point was confirmed by DE-Ohio  
16 in response to OCC Interrogatory R-RR-DE-5a (MPH Attachment - S1). . The  
17 signing of the 2007 Stipulation by both the Staff and DE-Ohio appears to mask a  
18 disagreement over the use of the DENA Assets that should not exist at such an  
19 early point following the execution of a stipulation.

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<sup>2</sup> Transcript Vol I at page 143 (Whitlock).

<sup>3</sup> Transcript Vol I at page 156-157.

1 ***SQ6. WHERE DO YOU FIND THE 2007 STIPULATION TO BE HARMFUL TO***  
2 ***RATEPAYERS?***

3 ***SA6.*** Paragraph five does not take into account the recommendation, contained in my  
4 testimony filed on March 9, 2007,<sup>4</sup> to remove the return on the Construction  
5 Work in Progress ("CWIP") from the AAC. In addition, paragraph eight does not  
6 provide adequate protection for ratepayers against DE-Ohio overcharging for the  
7 DENA Assets. Paragraph eight allows DE-Ohio to determine the "market price"  
8 by either using the midpoint of broker quotes, the average price of third party  
9 transactions, or another method determined by DE-Ohio and Staff.<sup>5</sup> DE-Ohio  
10 Witness Whitlock admitted during the hearing in this case that during situations  
11 when DE-Ohio would purchase capacity from the DENA Assets, there are usually  
12 very few broker quotes.<sup>6</sup> This is one reason that I opposed the use of the DENA  
13 Assets, in my testimony filed on March 9, 2007.<sup>7</sup> When questioned how he  
14 would determine third party transaction prices, DE-Ohio Witness Whitlock used  
15 an example of calling possible counterparties and whatever price was offered, that  
16 would be the price of the transaction.<sup>8</sup> The proposed methodology to formulate a  
17 "market price" for the DENA Assets does not provide proper protections (i.e. the  
18 determination of costs from an objective standpoint) for customers paying the  
19 SRT.

---

<sup>4</sup> Prepared Testimony of Michael P. Haugh at pages 19-20.

<sup>5</sup> 2007 Stipulation at page 7.

<sup>6</sup> Transcript Vol I at page 145 (Whitlock).

<sup>7</sup> Prepared Testimony of Michael P. Haugh at pages 13-14.

<sup>8</sup> Transcript Vol I at page 150 (Whitlock).

1   **SQ7. WHAT COULD BE DONE TO LIMIT YOUR CONCERNS REGARDING**  
2       **THE VALUATION OF THE DENA ASSETS?**

3   **SA7.** First and foremost, there needs to be strict rules as to when the DENA Assets can  
4       be used. As I stated in my testimony in this case filed on March 9, 2007, the use  
5       of these assets should be limited to emergency situations where there are no other  
6       options.<sup>9</sup>

7  
8       Secondly, the guidelines for formulating a price for the DENA Assets need to be  
9       more stringent. If there are limited broker quotes and transactions in the capacity  
10      market, there will be too much uncertainty regarding the true market price. If the  
11      Company is to use the formula set forth in Paragraph eight of the 2007  
12      Stipulation, for emergency situations, there needs to be a minimum number of  
13      broker quotes and transactions to determine the price of the DENA capacity. I  
14      suggest the Company provide a minimum of three bids and offers from three  
15      separate brokers. I would also suggest a minimum of three third-party  
16      transactions be required. Finally, when formulating a price there needs to be a  
17      cap on the amount DE-Ohio is charging to the customers who are paying the SRT.  
18      I suggest that the price be capped at the median price DE-Ohio has paid for  
19      capacity during the time frame in which the emergency occurs. I believe this cap  
20      should be implemented if any capacity from the DENA Assets is used because the  
21      2007 Stipulation allows for the price to be determined by an "alternative method"

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<sup>9</sup> Prepared Testimony of Michael P. Haugh at pages 15.

1 determined by Staff and DE-Ohio.<sup>10</sup> As we enter the summer months and the  
2 chances of a capacity emergency increase, a concrete method of valuation of the  
3 DENA assets needs to be in place.  
4

5 ***SQ8. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY***  
6 ***PRINCIPLE OR PRACTICE?***

7 ***SAB.*** Yes. Paragraph five addresses calculations for a return on CWIP that is included  
8 in proposed AAC charges, and violates traditional regulatory practices that can  
9 and should be used to guide the development of realistic costs in order to ensure  
10 reasonable standard service offer rates. The Commission has stated in this regard  
11 that it “will continue to consider the reasonableness of expenditures” in the AAC  
12 category and that “[i]t is not in the public interest to cede this review.”<sup>11</sup> A  
13 reasonable methodology should be used to reflect actual costs for charges such as  
14 the AAC. However, paragraph five of the 2007 Stipulation would permit a return  
15 on CWIP that would not traditionally have been allowed in ratemaking  
16 proceedings. I recommended removing a return on CWIP in my earlier  
17 testimony, and I supported that recommendation with calculations that would  
18 reduce the AAC to 5.6 percent of “little g.” My proposed adjustment provides a  
19 reasonable means to develop costs for the standard service offer prices.

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<sup>10</sup> 2007 Stipulation at page 7.

<sup>11</sup> Entry on Rehearing at page 10.(November 23, 2004).

1   **SQ9. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE 2007**  
2       **STIPULATION?**

3   **SA9.** I recommend that the Commission not approve the 2007 Stipulation and that the  
4       Commission decide this matter based on the record in this case. Specifically the  
5       Commission should restrict the ability of DE-Ohio to recover capacity costs  
6       associated with the DENA Assets through the SRT, except under emergency  
7       situations, and disallow DE-Ohio's return on CWIP in the AAC.

8

9   **SQ10. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY AT THIS**  
10       **TIME?**

11   **SA10.** Yes, it does. However, I reserve the right to incorporate new information that  
12       may subsequently become available.

### CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing (confidential) Supplemental Testimony of Michael P. Haugh on behalf of the Office of the Ohio Consumers' Counsel has been served electronically upon the persons listed below, this 17th day of April, 2007.

  
Jeffrey V. Small  
Assistant Consumers' Counsel

### **SERVICE LIST**

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**Ohio Consumers' Counsel  
Rider Remand  
First Set of Interrogatories  
Duke Energy Ohio, Inc.  
Case No. 03-93-EL-ATA, et al.  
Date Received: April 11, 2007  
Response Due: April 13, 2007**

**R-RI-DE-5**

**REQUEST:**

Regarding paragraph 8 of the April Stipulation:

- a. What, if anything, would prevent DE-Ohio from overlapping periods of "7 days or less," or prevent DE-Ohio from tacking one or more periods of "7 days or less" onto a period of "7 days or less," in order to use former Duke Energy North America assets for purposes of the SRT?
- b. What, if anything, would prevent DE-Ohio from using the former Duke Energy North America plants in a manner other than described by DE-Ohio Witness Whitlock in his testimony on April 10, 2007 (i.e. when he described an unusual event two or three months ago when Vermillion capacity was used to meet capacity requirements)?
- c. How many times and for what periods of time, since January 1, 2006, has DE-Ohio used DENA assets to meet its capacity reserve margin, either for the 15 percent reserve margin or the 4.1 percent required for MISO Module E?
- d. Have any former Duke Energy North America plants other than the Vermillion plant been used in the past to provide capacity in connection with service to DE-Ohio's standard service offer customers (whether compensated for or not)?
- e. If the response to the previous sub-part of this interrogatory is negative, why has no other plant been used for the stated purpose?
- f. How would plants other than the Vermillion plant provide the firm capacity needed so that they could be used for DE-Ohio's capacity requirements, and what are the costs other than for the capacity itself that would be needed for these plants (i.e. other than Vermillion) to be useful to meet DE-Ohio's capacity requirements?

- g. If the "midpoint of broker quotes received" is used for pricing under sub-part "a." of paragraph 8, how would standard service offer customers "benefit" (i.e. as stated in Company Remand Rider Exhibit 2, page 9, line 16) as compared with DE-Ohio making a purchase according to the lowest broker quote? .
- h. How would the "broker quotes" be documented under sub-part "a." of paragraph 8 and how would they be audited (if at all)?
- i. What source(s) would DE-Ohio use to determine the "[a]verage price of 3<sup>rd</sup> party purchases transacted" if the "midpoint of broker quotes received" is used for pricing under sub-part "b." of paragraph 8?
- j. What was the average price, by month, that DE-Ohio paid for capacity purchased in 2006 and 2007?
- k. What was the highest price, by month, that DE-Ohio paid for capacity purchased in 2006 and during what time frame was that capacity purchased?
- l. In the response to the previous sub-part of this interrogatory, why did DE-Ohio purchase the capacity?
- m. On how many occasions and for what periods of time since January 1, 2006 did DE-Ohio purchase capacity on a short term basis (seven days or less)?
- n. In response to the previous sub-part of this interrogatory, when where those purchases made (i.e. provide dates) and why did DE-Ohio purchase capacity on a short term basis (seven days or less)?

**RESPONSE:**

- a. Assuming the referenced assets are available, nothing prevents this scenario, however unlikely.
- b. Qualified as a Designated Network Resource, whether the capacity is already sold, and a lack of assurance of cost recovery from the Commission.
- c. For the delivery period October 25, 2006 at no charge to consumers.
- d. No.
- e. No economic circumstances have arisen.
- f. One way would be to buy firm transmission from a plant that is located outside of the MISO footprint to the MISO border, from PJM for example. This would be an incremental cost to the cost of capacity. Another way might be to settle the



capacity transactions financially, meaning that if a PJM asset were to be utilized, DE-Ohio could merely buy capacity from another supplier in MISO to satisfy the Module E Requirement, while simultaneously selling capacity to PJM for the asset outside of the MISO footprint. The capacity revenues from PJM and the capacity expenses from MISO would then be net against each other in the SRT. This option does not have a transmission cost component but will be either a credit or charge for the difference to the SRT.

- g. If the "midpoint of the broker quotes received" methodology were to be employed, it would require broker quotes that contain both buy bids and sell offers. Consequently, the lowest midpoint between buy bids and sell offers, which is below the broker quote for a sell offer could be utilized.
- h. DE-Ohio will maintain the broker quotes as part of its business records and such records shall be subject to the SRT audit.
- i. DE-Ohio would use the weighted average of all reported capacity purchases and sales transacted contemporaneously within the same period.
- j. DE-Ohio has not performed such calculations.
- k. During 2006, August was the highest priced month for which capacity was purchased at \$168 per MwDay or \$7.00 per MwHour. Capacity purchases were made for the August 1-2 and August 3 time frame.
- l. The purchases were made a day or a few days in advance of the delivery period to comply with MISO Module E requirements due to the unexpected loss of generation or an increase in expected load obligations.
- m. Since January 1, 2006 DE-Ohio made 11 short-term purchases (seven days or less) for the following periods:  
For 2006: March 4-6; March 9-10; March 28; April 29-30 (for two separate blocks); July 30-31; July 17-21; August 1-2; August 3; August 25-26; October 16-20. No short-term purchases in 2007.
- n. Generally, the short-term purchases noted in "m" above, were made a day or a few days in advance of the delivery period to comply with MISO Module E requirements due to the unexpected loss of generation or an increase in expected load obligations.

**WITNESS RESPONSIBLE:** N/A

**BEFORE****THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

---

**CLARIFICATION OF APRIL 9, 2007, STIPULATION AND  
RECOMMENDATION**

---

Paragraph 8 of the April 9, 2007, Stipulation and Recommendation filed in these proceedings by some, but not all of the Parties, has resulted in some confusion over the potential use of Duke Energy Ohio's (DE-Ohio) assets formerly owned by Duke Energy North America (DENA), to provide short term capacity to meet DE-Ohio operational capacity requirements.

To clarify the meaning of paragraph 8, Staff and DE-Ohio state that the paragraph is intended to permit DE-Ohio to utilize its DENA capacity on an emergency, intermittent basis. An "emergency" basis exists where capacity to meet DE-Ohio's operational requirements is necessary with less than seven days advance notice. In the event that capacity to meet DE-Ohio's operational requirements is necessary with less than seven days advance notice during two consecutive seven day periods, DE-Ohio

must obtain Commission approval before using such capacity during the second seven day period.

8. The Parties agree that DE-Ohio may recover short term (7 days or less) capacity purchases from its generating assets formerly owned by Duke Energy North America through the SRT. DE-Ohio and Staff shall agree on a pricing methodology prior to DE-Ohio's purchase of such capacity. Such purchases shall be acquired at a market price to be determined as either:
  - a. Midpoint of broker quotes received; or
  - b. Average price of 3<sup>rd</sup> party purchases transacted; or
  - c. An alternative method which DE-Ohio and the Staff agree upon as a reasonable price.

In all instances DE-Ohio's ability to maintain an offer of firm generation service to all consumers pursuant to R.C. 4928.14 shall remain paramount. The Parties agree that recommendation 6 on page 1-10 of the October 12, 2006 Audit Report is inapplicable to the extent it is in conflict with this paragraph.

The undersigned hereby stipulate and agree and each represents that it is authorized to enter into this Stipulation and Recommendation this 19th day of April, 2007.

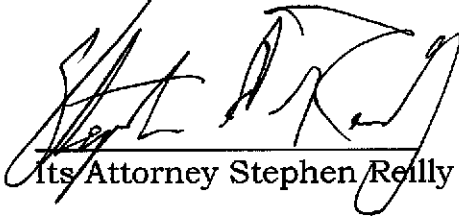
Respectfully Submitted,



Paul A. Colbert, Trial Attorney  
Associate General Counsel  
Rocco D'Ascenzo, Counsel  
Duke Energy Ohio

2500 Atrium II, 139 East Fourth Street  
P. O. Box 960  
Cincinnati, Ohio 45201-0960  
(513) 287-3015

On behalf of Staff

  
Its Attorney Stephen Reilly

FILE

BEFORE

RECEIVED-DOCKETING DIV

THE PUBLIC UTILITIES COMMISSION OF OHIO 2005 OCT 27 PM 2:39

In the Matter of the Application of	)		
The Cincinnati Gas & Electric Company To	)	Case No. 05-724-EL-UNC	PUCO
Adjust and Set its	)		
System Reliability Tracker Market Price	)		

**STIPULATION AND RECOMMENDATION**

Rule 4901-1-30, Ohio Administrative Code (O.A.C.) provides that any two or more parties to a proceeding may enter into a written stipulation covering the issues presented in such a proceeding. The purpose of this document is to set forth the understanding and agreement of the Parties who have signed below (Parties) and to recommend that the Public Utilities Commission of Ohio (Commission) approve and adopt this Stipulation and Recommendation (Stipulation), which resolves all of the issues raised by The Cincinnati Gas & Electric Company's applications in this case.

This Stipulation is supported by adequate data and information; represents a just and reasonable resolution of the issues raised in these proceedings; violates no regulatory principle or precedent; and is the product of lengthy, serious bargaining among knowledgeable and capable Parties in a cooperative process, encouraged by this Commission and undertaken by the Parties representing a wide range of interests, including the Commission's Staff,<sup>1</sup> to resolve the aforementioned issues. While this Stipulation is not binding on the Commission, it is entitled to careful consideration by the Commission. For purposes of resolving certain issues raised by these proceedings, the Parties stipulate, agree and recommend as set forth below.

<sup>1</sup> Staff will be considered a party for the purpose of entering into this Stipulation by virtue of O.A.C. Rules 4901-1-10(C) and 4901-1-30.

<sup>3</sup>  
 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.  
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discussions and compromises by the Parties, an overall reasonable resolution of all such issues. This Stipulation is the product of the discussions and negotiations of the Parties, and is not intended to reflect the views or proposals which any individual party may have advanced acting unilaterally. Accordingly, 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; and

WHEREAS, the Parties believe that the agreements herein represent a fair and reasonable solution to the issues raised in these proceedings designed to set the System Reliability Tracker (SRT) component of CG&E's Market-Based Standard Service Offer (MBSSO) price for competitive retail electric service for the period of January 1, 2006, through December 31, 2006;

NOW, THEREFORE, the Parties stipulate, agree and recommend that the Commission make the following findings and issue its Opinion and Order in these proceedings relative to the 2006 SRT in accordance with the following:

1. All non-residential customers who have or will sign a contract with CG&E, or provide a CRES contract to CG&E, or provide a release in the form approved by the Commission in Case No. 03-93-EL-ATA indicating that the customer will remain off of MBSSO service through December 31, 2008, may avoid the SRT. More specifically, to avoid the SRT, the customer must be eligible to return to CG&E's MBSSO service at the higher of the Rate Stabilized (RSP) market price, or hourly LMP market price at the applicable node averaged monthly including all applicable MISO charges, as set forth in the Commission's April 13, 2005 Order on Rehearing in case number 03-93-EL-ATA (at page 4).
2. No residential consumers may avoid the SRT and all switched residential consumers may return to CG&E at the MBSSO RSP market price approved by the Commission in case number 03-93-EL-ATA.
3. For its first quarterly filing for 2006, CG&E will set the 2006 SRT utilizing a planning reserve margin of 15% of projected retail load not eligible to avoid the SRT on January 31, of 2006, and will reconcile to the actual load not eligible to avoid the SRT on January 31, 2006 in its filing for the second quarter of 2006. The parties agree that the amount of

the planned reserve purchases for 2006 shall be deemed prudent. CG&E shall make reserve product purchases necessary to achieve the 15% planned capacity reserve margin and recover the costs associated with such purchases from consumers not avoiding the SRT. CG&E will keep a contemporaneous record listing all such capacity reserve products purchased and sold for standard service with sufficient detail to permit an audit by the Commission Staff as discussed in Paragraph 7 below.

4. On an operational basis, CG&E will acquire or sell reserve capacity as needed and as possible in the marketplace. CG&E will credit revenues received from the sale of purchased reserve products to SRT consumers. CG&E will, to the degree possible, manage the planning reserve position throughout the year to maintain a 15% reserve for the projected standard service load. That management will include the buying and selling of capacity for non-residential consumers that leave or return to the MBSSO at the higher of the RSP market price, or hourly LMP defined in paragraph number one above. CG&E's operational management of the 2006 SRT shall be subject to a prudence review during CG&E's application to set its 2007 SRT.
5. CG&E will adjust the SRT quarterly with applicable reconciliations, beginning with the SRT filing on December 1, 2005, similar to the practice adopted by the Commission for the Fuel and Purchased Power Rate.
6. The SRT costs will be divided into two SRT pools determined by the proportion of total cost of capacity acquired to serve CG&E's SRT consumers in its certified territory. One pool will be the SRT pool for residential consumers who are ineligible to avoid the SRT. The other SRT pool will be for non-residential consumers. In the SRT filing 42.382% of the SRT costs will be allocated to the residential SRT pool as recommended by CG&E witness Wathen (attachment WDW-1). Regardless of the level of switching by non-residential consumers, the residential consumers will be allocated no more than 42.382% of the total SRT costs during any time during 2006.

The true-up for actual costs and credits will be conducted using the same allocation amounts. In the case of under-recovery the residential class will pay 42.382% of the under-recovered amount. Conversely, in the event of over-recovery residential consumers will be credited 42.382% of the over-collected amount. In the case that revenues from third party sales are to be credited to the SRT, 42.382% of the credited amounts shall be allocated to the residential SRT. Residential consumers shall not be required to pay for any additional charges as a result of commercial and industrial consumers shopping. Non-residential SRT consumers shall pay the remainder of the SRT costs.


7. Staff shall audit the SRT transactions to verify the accuracy of the filing. The Staff shall file its findings in the docket prior to Commission approval. Any party may request a hearing. CG&E will provide workpapers and data supporting the transactions to OCC.
8. To the extent that any assets owned by Duke Energy North America LLC (DENA Assets) are transferred to CG&E and CG&E proposes to use any such DENA Assets as part of

the SRT portfolio, CG&E cannot use the DENA Assets as part of the SRT unless it receives Commission authorization to do so after CG&E applies to the Commission for approval to include such DENA Asset(s) in the portfolio and for approval of the SRT market price associated with such DENA Asset(s).<sup>3</sup> CG&E shall provide OCC with workpapers and other data supporting the use of DENA Assets as part of the SRT and if any interested party is concerned about the use of DENA Assets in the SRT the Commission will hold a hearing.

9. The Commission shall approve CG&E's SRT Application in case number 05-724-EL-UNC, as filed, except as modified by the above provisions.

The undersigned hereby stipulate and agree and each represents that it is authorized to enter into this Stipulation and Recommendation this 26th day of October, 2005.


THE CINCINNATI GAS & ELECTRIC COMPANY

By:   
Paul A. Colbert, Senior Counsel  
Sheri Hylton, Counsel  
Its Attorney

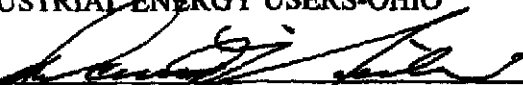
STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO

By:   
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Its Attorney

OHIO CONSUMERS' COUNSEL

By:   
Ann M. Hotz, Esq.  
Its Attorney


INDUSTRIAL ENERGY USERS-OHIO

By:   
Dan Neilsen, Esq.  
McNees, Wallace & Nurick  
Its Attorney


<sup>3</sup> Nothing herein shall be construed as the parties' consent for approval of the transfer of the DENA Assets to CG&E. All parties retain their legal rights with respect to the transfer of the DENA Assets to CG&E.




STRATEGIC ENERGY, LLC

By:   
M. Howard Petricoff  
Vorys, Sater, Seymour & Pease  
Its Attorneys

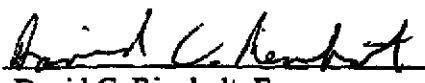
CONSTELLATION ENERGY COMMODITY GROUP

By:   
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Vorys, Sater, Seymour & Pease  
Its Attorneys

CONSTELLATION NEWENERGY, INC.

By:   
M. Howard Petricoff  
Vorys, Sater, Seymour & Pease  
Its Attorney

OHIO PARTNERS FOR AFFORDABLE ENERGY

By:  100% by phone authority  
David C. Rinebolt, Esq.  
Its Attorney

FORMICA CORP.,

By: \_\_\_\_\_  
Craig I. Smith, Esq.  
Its Attorney

### CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Stipulation and Recommendation was sent by electronic mail to all parties of record and listed below this 26<sup>th</sup> day of October, 2005.



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6

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

RECEIVED-BOOKETING DIV

2006 NOV 28 PM 5:15

PUCO

In the Matter of the Application )  
Of Duke Energy Ohio, Inc. )  
To Adjust and Set the Annually Adjusted ) Case No. 06-1085-EL-UNC  
Component of its Market Based )  
Standard Service Offer )

PREPARED TESTIMONY  
OF  
TRISHA J. SMITH  
PUBLIC UTILITIES COMMISSION OF OHIO  
ACCOUNTING AND ELECTRICITY DIVISION

*Renard Pliska*  
STAFF EX. 1

Submitted November 28, 2006

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Technician SA Date Processed 11/29/06

1. Q. Please state your name and business address.

A. My name is Trisha J. Smith. My business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. What is your current position with the Public Utilities Commission of Ohio and what are your duties?

A. My current position with the Public Utilities Commission of Ohio is Utility Specialist 2 in the Accounting and Electric Division of the Utilities Department. I am responsible for investigating various cases filed before the Commission related to electric, as well as investigating operating income issues as part of rate base applications.

3. Q. Please outline your educational background and work experience.

A. I received a Bachelor of Science in Business Administration degree from the Ohio State University in June 1992, with a major in Accounting. I began my current employment with the Public Utilities commission of Ohio in April 1993.

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

A. The purpose of my testimony is to address the issues of verification, incomplete data and Applicant's proposed adjustment to the rate of return.

5. Q. Have you received all information requested from the Applicant?

A. No. Staff is still waiting to receive several requests for information. The Applicant is currently working on providing the remaining information requested by Staff.

6. Q. Were you able to trace data provided by the Applicant to the related source documents?

A. The Staff requested source documentation for the numbers reflected in the Applicant's filing. Several spreadsheets were provided by the Applicant that were created for the filing but do not constitute source documents. Several spreadsheets reflected incorrect data and must be updated to correct the errors. My proposed corrections, based on the information that I have to date, are attached.

7. Q. Do you agree with Applicant's proposed rate of return?

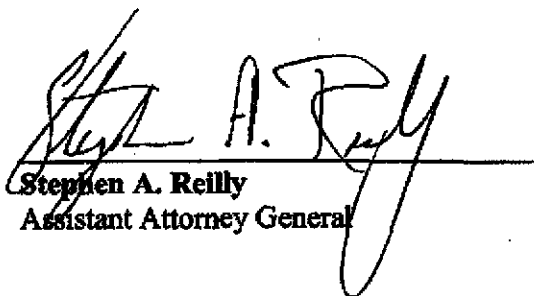
A. No. Staff has been unable to determine the appropriate rate of return. The Applicant grossed up the most recent rate of return from its last rate case, 05-059-EL-AIR, and reflected a higher rate of return in its schedules. The Staff has requested more information from the applicant in order to make a determination of the appropriateness of the updated rate of return. Because I do not have this information, my attached schedules do not reflect any additional adjustments that may be necessary.

8. Q. Does this conclude your testimony?

A. Yes it does.

### **CERTIFICATE OF SERVICE**

I hereby certify that a true copy of the foregoing **TESTIMONY** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following parties of record, this 28<sup>th</sup> day of November, 2006.

  
Stephen A. Reilly  
Assistant Attorney General

### **PARTIES OF RECORD:**

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Colleen Mooney  
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Findlay, OH 45839

# ATTACHMENT

**DUKE ENERGY OHIO**  
**Summary of Rider AAC Revenue Requirement**  
**For Recovery in 2007**

<b>Revenue Requirement From:</b>	<b>Amount</b>
Environmental Compliance	\$79,001,379
Homeland Security	\$128,001
Tax Changes	(\$4,389,290)
<b>Total Revenue Requirement</b>	<b>\$74,740,090</b>



FILE

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

24  
RECEIVED-DOCKETING DIV  
2007 MAR -9 PM 3:53  
PUCO

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

*Remand Rider*  
STAFF EX. 2

Date submitted: March 9, 2007

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Technician \_\_\_\_\_ Date Processed \_\_\_\_\_

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.  
4

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.  
11

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.

6  
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.

15  
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.

20  
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.  
3

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.  
14

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.  
3  
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 9<sup>th</sup> 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	126,000
3) Tax Law Changes	<u>(5,477,473)</u>
Total Revenue Requirement	\$ <u>74,301,086</u>

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>

State Revenue Rider  
Ex 29

**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>Inncrement</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

**Environmental O&M Expenses**

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**

<b><u>Return on Capital Expenditures</u></b>		<b><u>Information Technology</u></b>	<b><u>Cyber Security</u></b>	<b><u>Physical Security</u></b>	<b><u>Total</u></b>
1)	Original Cost	\$ 84,370	\$ 226,365	\$ 28,531	\$ 339,266
2)	Reserve for Depreciation	<u>22,499</u>	<u>56,591</u>	<u>2</u>	<u>79,092</u>
3)	Net Plant	\$ <u>61,871</u>	\$ <u>169,774</u>	\$ <u>28,529</u>	\$ <u>260,174</u>
4)	Pre-tax Return (11.69%)	\$ 7,233	\$ 19,847	\$ 3,335	\$ 30,414
<b><u>Homeland Security O&amp;M</u></b>					
5)	Operation and Maintenance				34,387
6)	Annualized Depreciation	16,874	45,273	548	62,695
7)	Annualized Property Taxes	<u></u>	<u></u>	<u>504</u>	<u>504</u>
8)	Total Homeland Security Revenue Requirement	\$ <u>24,107</u>	\$ <u>65,120</u>	\$ <u>4,387</u>	\$ <u>128,000</u>

**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>

**DUKE ENERGY OH**  
**Case No. 06-1085**  
**Tax Law Changes - Ol**

	<u>Old Law</u>
1) Pre-tax Income	154,159,400
2) Effective State Franchise Tax Rate	<u>7.8341%</u>
3) State Franchise Tax	<u>12,077,002</u>
4) Gross Revenues	1,025,928,479
5) Commercial Activity Tax Rate	<u>0.0000%</u>
6) Commercial Activity Tax (CAT)	<u>0</u>
7) Federeal Taxable Income	142,082,398
8) Federal Income Tax @ 35%	<u>49,728,839</u>
9) Total Income,Franchsie, and CAT	<u>61,805,841</u>

IO

hio

<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

- Overall Income Tax Reduction for  
the
- 11) 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

FILE

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BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO

007 APR -9 PM 4:43

PUCO

In the Matter of the Application of	:	Case Nos:
the Cincinnati Gas and Electric	:	03-0093-EL-ATA
Company to modify its non-	:	05-725-EL-UNC
residential generation rates to	:	06-1069-EL-UNC
provide for market-based standard	:	05-724-EL-UNC
service offer pricing and to	:	06-1068-EL-UNC
establish an alternative	:	06-1085-EL-UNC
competitively-bid service rate	:	
options subsequent to market	:	
development period.	:	

PREPARED TESTIMONY  
of  
RICHARD C. CAHAAN

Capital Recovery and Financial Analysis Division

RR 3  
Staff Exhibit

This is to certify that the images appearing are an  
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document delivered in the regular course of business  
Technician AB Date Processed 4-10-07

1. Q. Would you please state your name and position?

A. My name is Richard C. Cahaan, and I am employed by the Public Utilities Commission of Ohio, 180 E. Broad Street, Columbus, Ohio 43215 as the Chief Economist in the Capital Recovery and Financial Analysis Division of the Utilities Department. I have testified in the previous phase of these proceedings, in testimony filed on March 9, 2007, and that testimony provides my background and qualifications.

2. Q. What is the purpose of the present testimony?

A. The purpose of this testimony is to support the stipulation filed in this case. (by the Staff and ????) The Staff believes that this settlement, as a package, benefits the customers of DE-Ohio and serves the public interest and that it does not violate an important regulatory principle or practice.

3. Q. Please explain.

A. The settlement consists of nine items. Only items one and five (in part) directly involve revenues. The Staff believes that the first item (which is confidential) represents a reasonable compromise among the interests of the parties involved. The fifth item adopts the calculations put forth by Staff witness Tufts in his supplemental testimony in this case, and therefore the Staff certainly believes that this element of the stipulation is reasonable

4. Q. And what of the remainder of the stipulation?
- A. These elements of the stipulation deal with "process" matters. In a sense, they address how certain problems are to be solved, and the Staff believes that these are appropriate means of addressing these problems.
5. Q. Did you, personally, have responsibility for any of these items?
- A. Yes, I was responsible for the Staff positions regarding the SRT. I also was responsible for the treatment of the so-called CWIP which was presented in Mr. Tufts testimony. The CWIP issue was discussed in my previous testimony, referenced above, where I noted that the concepts and mechanisms of the components of a market-based standard service offer are not the same as those under cost-of-service regulation.
6. Q. Does this conclude your testimony?
- A. Yes, it does.

## CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing PREPARED TESTIMONY was served by regular U.S. mail, postage prepaid, via electronic mail, or hand-delivered upon the following parties of record this 9<sup>th</sup> day of April, 2007.

  
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Assistant Attorney General

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