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John J. Finnigan, Jr.
Associate General Counsel

VIA HAND DELIVERY

PUCO

July 18, 2007

The Public Utilities Commission of Ohio
Docketing - 13th Floor
180 East Broad Street
Columbus, Ohio 43255-0573

Re: In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Gas Rates,
Case No. 07-589-GA-AIR

In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an
Alternative Rate Plan for its Gas Distribution Service, Case No. 07-590-GA-ALT

In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change
Accounting Methods, Case No. 07-591-GA-AAM

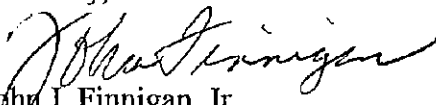
Dear Sir or Madam:

Enclosed please find an original and 20 copies of Duke Energy Ohio, Inc.'s application in the above-referenced cases, along with the Commission's Standard Filing requirements. I have also enclosed an original and 20 copies of a motion for waiver and a motion to approve form of legal notice. The filing consists of eleven volumes, which are described in the attached Table of Contents, plus five copies of a CD.

Please date-stamp and return the two extra copies of this letter, the application, and the motions in the enclosed return-addressed envelope.

Should you have any questions, please feel free to call me at (513) 287-3601. Thank you.

Sincerely,


John J. Finnigan, Jr.
Associate General Counsel

JJF/sew

cc: Ms. Renee J. Jenkins (w/encl.)
Mr. Steven R. Brennen (w/encl.)
Ms. Doris E. McCarter (w/encl.)
Counsel of record in Case No. 01-1228-GA-AIR (w/encl.)

This is to certify that the images appearing are an
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Technician Ann Date Processed 7/18/07

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter of the Application of)	
Duke Energy Ohio, Inc. for an)	Case No. 07-589-GA-AIR
Increase in Gas Rates)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 07-590-GA-ALT
of an Alternative Rate Plan for its)	
Gas Distribution Service)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 07-591-GA-AAM
to Change Accounting Methods)	

APPLICATION OF DUKE ENERGY OHIO, INC.

TO THE HONORABLE
THE PUBLIC UTILITIES COMMISSION OF OHIO:

1. Duke Energy Ohio, Inc. ("DE-Ohio") is an Ohio corporation engaged in the business of supplying natural gas to approximately 424,000 customers in southwestern Ohio, all of whom will be affected by this Application, and is a public utility as defined by R.C. 4905.02 and 4905.03.

2. This Application is made pursuant to R.C. 4909.18 and related sections of the Ohio Revised Code for authority to make changes and increases in gas rates applicable in incorporated communities and unincorporated territory within DE-Ohio's entire service area, which includes all or part of Adams, Brown, Butler, Clermont, Clinton, Hamilton, Highland, Montgomery, and Warren Counties in Ohio. The gas rates that DE-Ohio seeks to change in its tariff, P.U.C.O. Gas No. 18, are as follows:

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Rate RS, Residential Service, Sheet No. 30
Rate GS, General Service, Sheet No. 32
Rate RFT, Residential Firm Transportation Service, Sheet No. 33
Rate SAC, Retail Natural Gas Supplier and Aggregator Charges, Sheet No. 45
Rate IT, Interruptible Transportation Service, Sheet No. 51
Rate FT, Firm Transportation Service, Sheet No. 52
Rider AMRP, Accelerated Main Replacement Program, Sheet No. 65 ("Rider AMRP")
Rider GSR, Gas Surcredit Rider, Sheet No. 66
Rate MSR-G, Merger Savings Credit Rider, Sheet No. 69
Residential Conservation Service Program, Sheet No. 80

DE-Ohio also proposes the following new tariff schedules: (1) Rider AU – Advanced Utility, Sheet No. 88, to recover the costs for DE-Ohio's Utility of the Future project, which would apply to all customers; and (2) Rider SD – Sales Decoupling, Sheet No. 89, to annually adjust DE-Ohio's revenues to recover the difference between actual base revenues and the adjusted revenues as approved in this proceeding, and which would apply to all of DE-Ohio's sales and transportation customers except Rate IT customers. DE-Ohio also proposes: (1) changes to its service regulations to state that DE-Ohio assumes responsibility for the installation, maintenance, repair and replacement of the curb-to-meter service line, including the riser; (2) text changes to Rate FRAS – Full Requirements Aggregation Service, Sheet No. 44; and (3) text changes to Rider EFBS, Enhanced Firm Balancing Service, Sheet No. 50.

3. This Application is also made pursuant to R.C. 4929.11, which authorizes the Commission to approve automatic rate adjustments for natural gas service, and R.C. 4929.05 and related sections of the Ohio Revised Code for approval of an Alternative Regulation Plan ("Plan"). The automatic rate adjustments and the Plan consist of implementing Rider AMRP, Rider AU and Rider SD as annually-adjusted cost recovery mechanisms, as described herein. DE-Ohio proposes to extend Rider AMRP through 2015, with the following changes: (1) allowing the Company to recover costs for plastic main-to-curb services and short sections of

plastic pipe that DE-Ohio replaces as part of the AMRP; (2) allowing DE-Ohio to recover riser replacement costs through Rider AMRP; (3) eliminating the current rate caps that limit recovery from residential and interruptible customers; and (4) to reflect DE-Ohio's proposal to assume ownership of the curb-to-meter service, including the riser. Pursuant to R.C. 4929.05(A)(1) and (2), DE-Ohio states that it is in compliance with R.C. 4905.35. DE-Ohio is also in substantial compliance with the policy of this State as set forth in R.C. 4929.02 and will continue to be in substantial compliance with such policy after the Plan is implemented.

4. The Notice of Intent to file was served upon The Public Utilities Commission of Ohio ("Commission") and the mayor and legislative authority of each municipality affected by this Application on June 18, 2007, pursuant to R.C. 4909.43(B) and in compliance with the Commission's Standard Filing Requirements set forth in OAC 4901-7-1.

5. DE-Ohio proposes a test year consisting of the twelve-month period ending December 31, 2007, and a date certain for property valuation of March 31, 2007.

6. DE-Ohio estimates that the rate changes proposed herein, if granted in full, would increase gross revenues by \$34.1 million or 5.7% annually over the test period gross revenues generated from providing service to customers.

7. One of DE-Ohio's primary reasons for filing this Application is to generate sufficient revenues for DE-Ohio to pay its operating expenses, to service its debt, and to provide an adequate rate of return on its property used and useful in the rendition of gas service to its customers. DE-Ohio's current rates, authorized by the Commission in Case No. 01-1228-GA-AIR, are based on a date certain of March 31, 2001, and on an accounting test year for the twelve months ended December 31, 2001. Since that test year, the property used and useful in the rendition of gas service to the customers affected by this Application has materially increased. As a result, the current rates are projected to provide a 5.62% rate of

return for the proposed test period. This is substantially below the 9.27% return found reasonable for DE-Ohio by this Commission in DE-Ohio's last gas rate proceeding. The Company submits that a return of 8.73% is fair and reasonable.

8. DE-Ohio's other primary reason for filing this Application is to propose: (1) re-approval of Rider AMRP as a cost recovery mechanism for DE-Ohio's accelerated cast iron and bare steel replacement program; and (2) implementation of new Riders AU and SD. DE-Ohio began the AMRP in 2000. Under the program, DE-Ohio plans to replace all of the cast iron and bare steel mains and associated metallic services on its system by 2015. As of December 2006, DE-Ohio had approximately 604 miles of remaining twelve-inch and smaller diameter cast iron and bare steel mains on its distribution system. The cast iron and bare steel mains are quite aged, with some as old as 1873. This program will improve safety and reliability because the leak rate for DE-Ohio's cast iron and bare steel mains is higher than the leak rate for DE-Ohio's plastic and coated steel mains. Rider AU is a tracking mechanism that will allow DE-Ohio to recover the costs, and pass through to customers, the savings related to upgrade its distribution network, including installation of Advanced Metering Infrastructure. Rider SD will break the linkage between volumes sold and cost recovery by allowing the Company to recover the differences between actual base revenues and adjusted revenues as granted by the Commission in the Company's last base rate case (beginning with the pending proceeding, when approved by the Commission).

9. DE-Ohio proposes Riders AMRP, AU and SD in its standard rate application under R.C. 4909.18 and also under R.C. 4929.11 and R.C. 4929.05, in order to maximize flexibility in ratemaking treatment.

10. DE-Ohio has attached to this Application, as required by R.C. 4909.18 and the Commission's Standard Filing Requirements:

- (a) Schedule A-1, which provides certain financial data for the proposed test year and date certain; and Schedule A-2, which reports that DE-Ohio does not propose a mirrored CWIP revenue surcredit rider in this proceeding;
- (b) Schedules B-1 through B-9, which report DE-Ohio's property used and useful in rendering gas service to those customers affected by this Application, as provided in R.C. 4909.05;
- (c) Schedules C-1 through C-13, which contain:
 - (i) detailed schedules of DE-Ohio's receipts, revenues and incomes from all sources, DE-Ohio's operating costs and other expenditures, and certain adjustments which DE-Ohio deems applicable; and
 - (ii) a statement of the income and expense anticipated under this Application;
- (d) Schedules D-1 through D-5, which, in conjunction with the schedules mentioned in paragraph 10(a) above, contain a statement of DE-Ohio's financial condition summarizing assets, liabilities, and net worth;
- (e) Schedule E-1 through E-5, which set forth DE-Ohio's proposed tariff schedules, current tariff schedules, rationale for cost-of-service study; revenue summary at current and proposed rates, and typical bill comparisons;
- (f) Schedule F, which sets forth the projected financial data for the twelve-month period beginning one month after the Application date with and without the proposed rate increase;
- (g) Schedules S-1 and S-2, which provide certain capital expenditure and revenue requirement information;
- (h) Schedule S-3, which is a proposed notice for newspaper publication, fully disclosing the substance of the Application and the specific requirements of R.C. 4909.18 (E); and
- (i) Schedule S-4.1, which is an executive summary of the Company's corporate process, and Schedule S-4.2, which provides management policies and practices.

11. DE-Ohio has also attached to this Application, as required by R.C. 4929.05 and the Commission's Standard Filing Requirements for Alternative Regulation Plans set forth in OAC 4901:1-19-05:

- (a) Schedule Alt Reg A, which sets forth a detailed Alternative Rate Plan, including the facts and grounds upon which the Application is based, the Plan's

elements, any transition plans, and the rationale for the initial proposed tariff changes;

- (b) Schedule Alt Reg B, which sets forth DE-Ohio's justification for deviating from traditional rate of return regulation, including DE-Ohio's rationale for its proposed Alternative Rate Plan, including how it better matches DE-Ohio's actual experience or performance in terms of costs and quality of service to its regulated customers;
- (c) Schedule Alt Reg C, which establishes that DE-Ohio does not propose to sever costs and rates;
- (d) Schedule Alt Reg D, which establishes that DE-Ohio has not been authorized to exempt any services under R.C. 4929.04;
- (e) Schedule Alt Reg E, which provides a complete matrix showing each rate, service or regulation that is included in the Plan and an explanation of how it may be affected during the term of the Plan;
- (f) Schedule Alt Reg F, which indicates that no potential issues concerning cross-subsidization of services are anticipated under the Plan;
- (g) Schedule Alt Reg G, which provides a detailed discussion of how DE-Ohio is in compliance with R.C. 4905.35; how DE-Ohio is in substantial compliance with the state policies specified in R.C. 4929.02; and how DE-Ohio will continue to be in substantial compliance with the state policies specified in R.C. 4929.02 after the Plan is implemented;
- (h) Schedule Alt Reg H, which provides certain financial data if the Plan is adopted;
- (i) Schedule Alt Reg I, which provides certain financial data if the Plan is not adopted; and
- (j) Schedule Alt Reg J, which lists the witnesses sponsoring each of the exhibits in DE-Ohio's Application.

12. At the time of filing this Application, no municipal corporation has in effect any ordinance or franchise that does, or will, regulate the rates or charges to any customer affected by this Application.


WHEREFORE, since the rates, prices, charges and other provisions in the current rate schedules do not yield just and reasonable compensation to DE-Ohio for supplying gas service to the customers to which they are applicable, do not yield a just and reasonable return to DE-Ohio on the value of the property used for furnishing gas service to such customers, and result in the taking of DE-Ohio's property for public use without compensation and without due

process of law, DE-Ohio respectfully prays that your Honorable Commission:

- (a) Accept this Application for filing;
- (b) Find that this Application and the attached Schedules filed herewith and incorporated herein, are in accordance with R.C. 4909.18, 4929.11 and 4929.05, and the Rules of the Commission;
- (c) Approve the Form of Notice in Schedule S-3 filed herewith;
- (d) Find that the current rates, prices and charges for gas service are unjust, unreasonable and insufficient to yield reasonable compensation to DE-Ohio for the gas service rendered;
- (e) Find that the proposed rates, prices, and charges are just and reasonable based upon the test period for the twelve months ending December 31, 2007 and approve such schedules in the form tendered herewith;
- (f) Find that DE-Ohio is in compliance with R.C. 4905.35; that DE-Ohio is in substantial compliance with the state policies specified in R.C. 4929.02; and that DE-Ohio is expected to continue to be in substantial compliance with the state policies specified in R.C. 4929.02 after the plan is implemented;
- (g) Approve DE-Ohio's requested automatic rate adjustments pursuant to R.C. 4929.11;
- (h) Approve DE-Ohio's Alternative Rate Plan and authorize DE-Ohio to implement its Alternative Rate Plan;
- (i) Approve DE-Ohio's Application for Approval to Change Accounting Methods consistent with proposed Riders AMRP, AU and SD, including: (i) capitalizing its investment in service lines and risers; (ii) deferring costs related to Rider AMRP and Rider AU for subsequent recovery through the respective riders; and (iii) the calculated monthly Rider SD amounts for and reconciliation amounts for later recovery or pass-through to customers; and
- (j) Fix the date on or after which deliveries made are subject to the proposed rates.

Respectfully submitted,

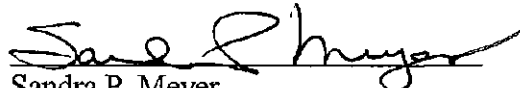
DUKE ENERGY OHIO, INC.


Sandra P. Meyer, President

VERIFICATION

STATE OF OHIO)
)
COUNTY OF HAMILTON)

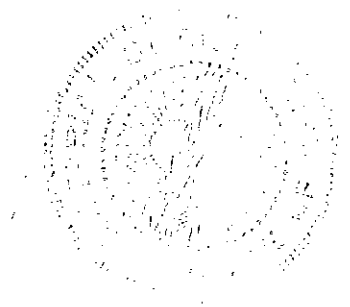
I, SANDRA P. MEYER, President of Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc., being first duly sworn, hereby verify that the information contained in this Application is true and correct to the best of my knowledge, information and belief.

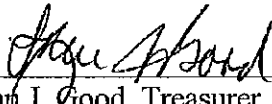

Sandra P. Meyer

Sworn to and subscribed in my presence this 16th day of July, 2007


Notary Public

JOHN J. HENNIGAN, JR., NOTARY PUBLIC
NOTARY PUBLIC, STATE OF OHIO
My commission has no expiration
date. Section 147.02, Ohio.





Lynn J. Good, Treasurer

VERIFICATION

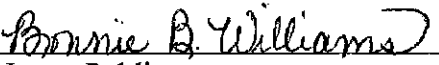
STATE OF NORTH CAROLINA)
)
COUNTY OF MECKLENBURG)

I, LYNN J. GOOD, Vice President. and Treasurer of Duke Energy Corporation, and
Treasurer of Duke Energy Ohio, Inc., being first duly sworn, hereby verify that the
information contained in this Application is true and correct to the best of my knowledge,
information and belief.

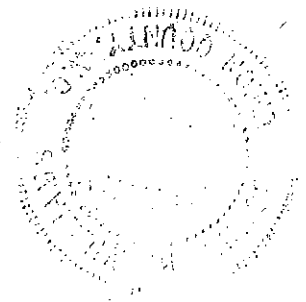


Lynn J. Good

Sworn to and subscribed in my presence this 13th day of July, 2007



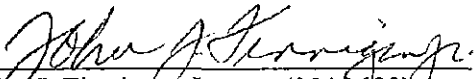
Notary Public



Company Official to be contacted regarding the Application:

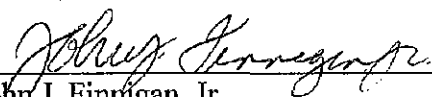
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CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that a copy of the foregoing Application and the accompanying Alternative Regulation Schedules were served on the following parties of record by first class, U.S. mail, postage prepaid this 18th day of July, 2007.



John J. Finnigan, Jr.

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