

**Report of Conclusions and Recommendations
on the Financial Audit of Duke Energy Ohio, Inc.
In Regard to Case No. 07-0589-GA-AIR**

Submitted December 17, 2007

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INTRODUCTION

Background

On July 18, 2007, Duke Energy Ohio, Inc. (DE-Ohio or Company) filed an application for an increase in its gas distribution rates in Case No. 07-0589-GA-AIR. 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. DE-Ohio is a public utility as defined by R.C. 4905.02 and 4905.03.¹

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, 2007.²

DE-Ohio estimates that the rate changes proposed, 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.³

DE-Ohio stated in its application that the primary reasons for filing its 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 has materially increased. As a result, the current rates are projected to provide a 5.62% rate of return for the proposed test period. DE-Ohio stated that this is substantially below the 9.27% return found reasonable for DE-Ohio by the Commission in DE-Ohio's last gas rate proceeding. The Company submits that a return of 8.73% is fair and reasonable.⁴

DE-Ohio's other primary reasons 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 installed in 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

¹ Application of Duke Energy Ohio, Inc. dated July 18, 2007, p. 1, ¶1.

² Application of Duke Energy Ohio, Inc. dated July 18, 2007, p. 3, ¶5.

³ Application of Duke Energy Ohio, Inc. dated July 18, 2007, p. 3, ¶6.

⁴ Application of Duke Energy Ohio, Inc. dated July 18, 2007, pp. 3-4, ¶7.

Advanced Metering Infrastructure. Rider SD will break the link 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).⁵

Project Scope

Blue Ridge Consulting Services, Inc. (Blue Ridge) was retained to conduct an audit and analysis of the components, backup support, and underlying management processes that go into the development and determination of the revenue requirements applied for by the Company. Blue Ridge submitted a preliminary work plan in its proposal dated August 22, 2007, which was subsequently approved and implemented. The scope of the investigation was designed to determine (1) whether the Company's filed exhibits related to test year operating income, rate base, and other issues and the underlying information, data, and calculations were reasonable for ratemaking purposes, and (2) whether the financial and statistical records reliably support the data in the filing and are they accurate.

The scope of Blue Ridge's audit includes four major areas:

- A. **General Requirements** aimed at furthering the understanding of the Company's management, operations, policies, and practices,
- B. **Allocations** including the Corporation Allocations Manual associated with affiliate transactions and jurisdictional allocators,
- C. **Operating Income** including reviews of major changes in revenue and expenses for the past five years, and
- D. **Rate Base** including major plant additions and retirements.

The purpose of Blue Ridge's investigation was to develop financial data for ratemaking purposes; it was not intended to provide a basis for expressing an opinion on the financial statements of the Company as a whole.

⁵ Application of Duke Energy Ohio, Inc. dated July 18, 2007, p. 4, ¶8.

EXECUTIVE SUMMARY

The following is a summary of Blue Ridge's significant findings, conclusions, and recommendations. The Company was cooperative during the audit and provided the requested information timely. The Company's processes, procedures, and practices provide assurance that the information contained in its base rate filing can be relied upon, after correcting for those issues noted herein, for setting rates. Blue Ridge appreciates the Company's cooperation in conducting this audit and facilitating the document and information responses.

A. GENERAL REQUIREMENTS

Blue Ridge verified the mathematical accuracy of the majority of values in the Company's revenue requirement model and traced those values back to cited sources. However, Blue Ridge did discover several of errors in the model. The mathematical errors discovered by Blue Ridge overstate the revenue deficiency by \$413,917 and overstate the revenue requirement calculated by the Company by \$413,691.

Recommendation

Blue Ridge recommends that the Company's revenue requirement model be corrected and the appropriate adjustments made to the revenue deficiency in the Company's filings.

B. ALLOCATIONS

Costs are allocated between and among affiliate organizations based on jurisdictional, organizational, functional, and cost of service considerations. Blue Ridge reviewed and validated the jurisdictional, organizational, and functional allocation factors used in distributing service organization costs to DE-Ohio.

Blue Ridge found that the functional allocations are appropriately documented in the Cost Allocation manual or CAM. However, the allocations are not applied at the individual transactions, but rather after aggregating charges at the line of business or responsibility center level. As a result, individual managers, who are assigned the Shared Services and Business Services costs in aggregate, have difficulty matching charges to services received.

Furthermore, individual managers have little input to their budgets with regard to Service Company⁶ costs. Management analysis is limited to actual to budget variances. The only real managers of Service Company costs are the functional managers within the Service Company organizations.

⁶ The term Service Company refers to both Duke Energy Shared Services and Duke Energy Business Services.

Recommendation

Blue Ridge recommends that a formal process be established within DE-Ohio that will assure compliance to affiliate transaction guidelines.

Blue Ridge determined that the Liberty Consulting Affiliate Transactions Audit of the Duke Energy – Carolinas Report's findings and conclusions, although the audit was performed specifically on DE-Carolinas, might have an impact on DE-Ohio operations. Based on our limited review of the Service Company charges and in concert with our review of the findings in the Liberty Report, the Commission may want to consider conducting a more thorough review of the Service Company charges and allocations.

Recommendation

Blue Ridge recommends that an audit be conducted on the Service Company charges and allocations. This audit will help ensure that costs flowing through the Service Company to DE-Ohio are appropriate and accurate.

While verifying the accuracy of the Company's revenue requirement filing, Blue Ridge noted that the Company developed its common plant allocation factors using 2004 net plant balances instead of 2006 net plant balances. The Company used an allocator of 18.68% to allocate common plant to gas operations for purposes of its rate filing. The 13.5% allocator based on 2006 data is the most recent data available for the 2007 test year and is more representative of a typical year for the Company due to the merger of Duke and Cinergy in April of 2006.

Recommendation

Staff should consider a regulatory adjustment to modify the common plant to gas allocator from the 18.68% used in the Company's filing (based on 2004 data) to 13.5% (based on 2006 data).

C. OPERATING INCOME

Blue Ridge reviewed the Company's operating income and the validity of the information contained in the income statement and revenue requirements model. Blue Ridge also reviewed the past trends in expenses and budgets to determine if any anomalies or extraordinary issues affected the revenues and/or costs included in the Company's filing.

Blue Ridge found that test year revenue and fuel purchase expenses appear to be reasonable compared with actual results from prior years based on known increases in gas purchase costs and the resulting gas cost revenue earned from customers to pay for gas purchase costs. Operating and maintenance expenses appear reasonable when evaluated at a category level such as total production, transmission or distribution expenses. Blue Ridge confirmed that the Company did not have any non-recurring, abnormal, or extraordinary expenses that were not explained adequately through discussions and data responses.

Blue Ridge noted no major exceptions to the Company's budget process. Blue Ridge's assessment of the Company's budget process is that it is sound and can reasonably be relied upon to produce accurate budgeted revenues and expenses. The Company has generally met its budget targets for the capital expenditures.

The Company's load forecasting process provides appropriate attention to the complex nature of prices and elasticity, and no deviations from accepted industry norms were observed. The Company's weather normalization process as detailed within its filing and the provided narrative includes generally accepted processes and Blue Ridge considers the results reasonable.

Recommendation

However, the Company should require formal senior management approval of the load forecast before it is distributed to other departments because it is one of the most important components of the forecasting process.

It is unclear if the Company's ad hoc process for understanding potential changes at large customers is effective. Some utilities have a more formalized survey process to ensure that large volume users have been surveyed.

Recommendation

Blue Ridge recommends that the Company establish a more formalized survey for large volume users to understand potential changes.

Blue Ridge performed a mathematical accuracy check of the proposed pro forma adjustments to operating income and expenses as well as rate base, identified hard-coded values, requested source documentation for hard-coded values, reviewed the supporting documentation and traced the adjustment inputs to the supporting documentation. Blue Ridge discovered several errors in the Company's model that causes seven proposed adjustments to be inaccurate. It was also difficult to validate a small subset of values that underlie the Company's proposed adjustments.

Recommendation

Blue Ridge recommends that the Company make the corrections and updates to the Company's pro forma adjustments as identified by Blue Ridge.

Recommendation

For the exceptions related to values that could not be traced to source documentation, the Company should be required to demonstrate that the value ties to the source cited, or if the source cannot be tied to the source cited, explain why the input is reasonable.

Blue Ridge found that the Company has a robust system of controls in place to ensure the accuracy of its bill rendering and revenue accounting process. The Company's controls are subjected to annual internal and external audits, and we found no major issues in either reviews of the internal or external audit reports.

D. RATE BASE

Blue Ridge concluded that the balance sheet as presented in the Revenue Requirements Model for the most part reflects historical trend. Blue Ridge found that plant additions as a whole have been consistent since the last rate case with the exception of 2002, which is slightly less than succeeding years.

Blue Ridge validated that the major additions to the Company's plant-in-service were properly supported with appropriate documentation.

Recommendation

Blue Ridge recommends that DE-Ohio initiate a more detailed and timely review of the processes related to charging blanket work orders.

Recommendation

Blue Ridge recommends that DE-Ohio's Accounts Payable section strengthen its adherence to proper documentation procedures.

Field visits were selected for both physical assets and intangible assets such as computer systems. No deviations from accepted norms or good utility practice were observed.

Blue Ridge's investigation into retirements indicates that DE-Ohio has reasonable controls and procedures to ensure that retirements are recorded based on the scope of the work orders. In addition, the Company uses estimates and direct identification of plant to be retired which results in a reasonable presentation of utility plant-in-service and accumulated reserve for depreciation. However, the lag in processing work order cost from a temporary classification in Account 106 -- Completed Construction Not Classified to the continuing property record, along with the determination and recording of associated retirements of plant, affects the accuracy of the gross plant values. In addition, and most importantly, the delay in processing the related plant retirements affects the level of depreciation expense by overstating the depreciable plant basis.

Recommendation

Blue Ridge recommends that Company establish a process and schedule by which it can reduce the backlog of ununitized work orders to an acceptable level. The acceptable level can be determined either by a dollar value from the March 31, 2007, baseline or by an aging of the dollars based on the in-service dates

Blue Ridge concluded that the gross utility plant presented by the Company is overstated. As a result, the Company's proposed depreciation expense is overstated. Although net plant is not overstated, we believe that the amount of the retirements should have been recorded based on actual retirement transactions for the same work orders between the date certain and the filing date and updated based on actual information subsequent to the filing or an estimate in the form of a pro forma adjustment to gross utility plant.

Recommendation

The Company should be required, in this filing and in subsequent rate filings, to establish an estimate of plant that should be retired in connection with each work order that is classified in Account 106 as of the date certain of the filing. This adjustment should be summarized by category (e.g., Gas Distribution Plant, Gas General Plant, etc). It should be summarized further by the associated plant accounts. Finally, an adjustment should be presented that reduces the test-year depreciation expense associated with the amount of estimated plant retirements.

The Company identified seven major sales transactions, excluding sales of vehicles, resulting in the retirement of over \$16 million of common and dedicated utility gas plant. Our analysis of the amount of the proceeds indicates a reasonable assignment of the proceeds to the various accounts, resulting in a proper presentation of the effect on net rate base.

Blue Ridge believes that that Company's AFUDC policy and processes for calculating the debt and equity components of AFUDC, the application to the individual work orders, and applicability are reasonable. Discussions with Company personnel indicate that the work order base for calculating AFUDC does not account for invoices that have been accrued and recorded as of the close of the month. Accruals for items such as accounts payables should be deducted from the work order amount subject to AFUDC, since accounts payables do not require the use of either debt or equity. A further review of the Capitalization Guidelines indicates that it is the Company's policy not to accrue AFUDC on property tax accruals nor invoice accruals. Due to the large number of accounts payable accruals and the number of work orders potentially subject to AFUDC, it is difficult to determine the impact accounts payable accruals would have to the recorded costs of work orders. Any adjustments to the AFUDC calculation or base costs subject to AFUDC will affect the amount of cost recorded in a work order; thus, it affects the Company's rate base and resultant depreciation expense.

Recommendation

Blue Ridge recommends that the Company ensure that the AFUDC calculation and underlying processes, such as accounts payable accruals, are reflected and that the Company is adhering to its policy as stated in its Capitalization Guidelines.

The values presented in the Company's filing for deferred income taxes reconcile to the Company's general ledger. The Company provided explanations for the line items.

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A. GENERAL REQUIREMENTS

Audit Team

1. Michael J. McGarry, Sr. – Lead
2. Donna Mullinax
3. Dan Salter
4. Warren Fischer
5. Patrick Phipps
6. Hallie Lawrence
7. Howard Solganick
8. Michael Dryjanski
9. Tracy Mullinax

Objectives and Scope

Blue Ridge's audit objectives and scope as provided in the approved work plan included the following:

Task A.1-Request and review all available documents and testimony

Search the Commission files through the Internet, and request a copy of the information not available on the Commission website relating to the issues in this proceeding. This information will include the Company's minimum filing requirements (MFR) and any discovery submitted prior to or at the time of the Company's filing, including, but not limited to workpapers and background information requested by Staff.

Task A.2-Initial consultation with Staff

Blue Ridge will confer with Staff and other consultants, if appropriate. The purpose of this initial consultation is to establish a proper working relationship, to receive input or recommendations, to discuss past relevant Orders, and to discuss the procedures to be followed in this proceeding.

Task A.3-Verify the mathematical accuracy of the application

Review filing for major rate and revenue requirement impacts proposed by the Company. Validate all calculations and flow through of exhibits in the filing. Note and request explanation of calculations that cannot be validated.

Task A.4-Review the Staff Report of Investigation in the Applicant's last base rate case.

Prepare list of significant and carry over issues including any amortizations that should be discontinued or possibly credited to customers.

Task A.5-Review the Opinion and Order from the Applicant's last base rate case

Prepare list of compliance aspects from previous order

Task A.6-Review the audit report and Opinion and Order from the Company's most recent gas cost recovery case

Determine if any cross over issues from the gas cost cases may impact base rate filing.

Task A.7-Develop a comparison of the revenue requirement from the Opinion and Order in the last base rate case to the current revenue requirement (pro forma) in the current case, to assist in identifying what costs are driving the requested increase

Prepare a spreadsheet-based model comparing last case to current application highlighting major differences.

Task A.8-Interview the Applicant's management personnel and review both internal and published financial reports to assure understanding of the Applicant's operation and organization

Conduct a series of management interviews to ensure understanding of Company's operations.

Task A.9-Issue data requests for information to complete the following specific items. Each of these items will be review and incorporated within the analyses, findings and conclusions related to our assessment of the accuracy and validity of the Company's filing.

- Actuarial reports for pensions and other than pensions
- Affiliate Agreements for Inter-affiliate Transactions
- Audit Committee Minutes
- Billing Records (registers, etc.)
- Board of Director Minutes
- Chart of Accounts and Accounts Manual
- Construction Work Orders
- Construction Budgets
- Continuing Property Record (CPR)
- Corporate Budget by Month and by Function
- Current Labor Contract
- External Independent Audit Reports and Workpapers
- Franchise Fee Records (collection and payment)
- Forecast Assumptions
- General Ledger and Subsidiary Ledgers
- Income Tax Returns
- Internal Audit Reports and Workpapers
- Invoices
- List of Property Units

- FERC General Advertising Expense Acct. 930.1
- FERC Miscellaneous General Expense Acct. 930.2
- Monthly or Quarterly Operating/Financial Reports
- Monthly or Quarterly Trial Balances
- Monthly Sales by Rate Schedule and/or Customer Class
- Organizational Charts (corporate and internal reporting lines and departments)
- Payroll Records
- Property Tax Statements
- Risk Committee Minutes and Documentation
- Sample of Customer Bills (to verify rates and information)
- Standard Journal Entries

Background

The General Requirements section of the Work Plan included much of the initial activity required to complete the overall assignment. The foundational tasks performed include those items required to obtain an understanding the underlying financial, operational, procedural, and statistical data that form the basis of the Company's exhibits, calculations and support for the requested revenue increase.

General Requirements Task A.1

Task A.1-Request and review all available documents and testimony

Blue Ridge accessed the Public Utilities Commission of Ohio (PUCO) website for documents pertinent to Case Number 07-0589-GA-AIR. These documents were reviewed to establish a background understanding of DE-Ohio's application. Blue Ridge also obtained other relevant documents including the previous rate case and data requests of parties to the case. Appendix 1 provides an index list of the initial documents reviewed.

A list of preliminary data requests were submitted to the Company on September 13, 2007, prior to the formal kick-off meeting. Additional data requests were submitted through the duration of the project. A list of data requests issued is included in Appendix 2. The responses to all the data requests submitted are included with the project workpapers.

General Requirements Task A.2

Task A.2-Initial consultation with Staff

Blue Ridge held initial discussions with the PUCO Staff (Staff) upon project award to verify the overall scope and direction of this review. A formal kick-off meeting with Staff, the Company, and the Blue Ridge team was held on September 25, 2007, at the Company offices in Cincinnati, Ohio.

General Requirements Task A.3

Task A.3-Verify the mathematical accuracy of the application

Background

Blue Ridge verified the mathematical accuracy of the Company's rate filing. The primary support and calculations for the Company's filing is found in the Company's revenue requirement model⁷ and supporting workpapers. The revenue requirement model is an Excel[®]-based workbook consisting of a number of worksheets that convert data from various sources into the Company's test year operating revenues and expenses, rate base, and adjustments. It is crucial for the revenue requirement model to be mathematically accurate. If the model is inaccurate, the Company's proposed test year ratebase, revenue deficiency, revenue requirement, and/or adjustments could also be inaccurate.

Analysis

Blue Ridge reviewed case documentation, including testimony, workpapers, and supplemental information related to the Company's proposed revenue requirement and underlying calculations. Blue Ridge reviewed the Company's revenue requirement model⁸ focusing on the mathematical accuracy of the model, making note of hard-coded values, checking formulae for accuracy, and checking flow-through of values throughout the model (e.g., dependents/precedents of the model).

For values in the model that include a mathematical formula, Blue Ridge checked the formula to make sure that the math was correct. For values in the model that are linked to a cell elsewhere in the model, Blue Ridge checked the link to make sure that the cell was properly linked within the model. For values that are hard-coded in the model, Blue Ridge attempted to discern the source of the value, and if the source could not be determined, Blue Ridge issued a data request on the Company seeking explanations and/or source documentation.

Blue Ridge requested a significant number of source documents for values and calculations in the model that could not be verified or duplicated in Blue Ridge's preliminary review. Blue Ridge issued more than 40 data requests⁹ to the Company seeking either explanation and/or supporting documentation for hard-coded values and calculations in the revenue requirement model.

Blue Ridge reviewed the information provided by the Company in response to these data requests to determine whether the numbers used in the Company's model tie to that source documentation and the calculations that flow from those numbers are accurate.

⁷ *PUCO Gas SFRs.xls*, obtained from Data Request BRCS-WF-01-001.

⁸ *Id.*

⁹ These data requests are listed in Blue Ridge's Document Management System (DMS), which is provided as Appendix 2.

Blue Ridge also held interviews with Company personnel to better understand the revenue requirement model,¹⁰ and held follow up discussions with Company personnel regarding hard coded values to better understand how values were derived from sources cited by the Company in discovery responses.¹¹ For calculations or values that Blue Ridge could not tie back to the source cited, Blue Ridge worked with the Company to verify that the value did indeed come from the source, or issued a follow up data request seeking clarification.

As Blue Ridge performed this mathematical accuracy check, it tracked values in the revenue requirement model via a color code/comment system. The results are provided in Blue Ridge's workpaper *A(3)_Math.Accuracy Test.xls*. As indicated in the key for Blue Ridge's workpapers,¹² the notations in Blue Ridge's workpapers are defined as follows:

- Blue: indicates a value that is developed elsewhere in the revenue requirement model and Blue Ridge verified that the value ties to the linked source.
- Light Green: indicates a value derived through a calculation/formula and Blue Ridge determined the calculation/formula checks.
- Bright Yellow:¹³ indicates a hard-coded value derived outside the revenue requirement model and Blue Ridge determined the source from where the input was taken.
- Tan: indicates comments from Blue Ridge. Comments are added to describe sources, calculations, etc.
- Red: indicates a value that either could not be tied back to the source cited by the Company or that Blue Ridge found the cell contained an error.
- Bright Green: indicates a value that Blue Ridge changed as a result of the mathematical accuracy evaluation. This only applies to Blue Ridge's workpaper *A(3)_Math. Accuracy Test – INPUT CHANGES.xls*, described below.

The following example illustrates the color code system used in Blue Ridge's mathematical accuracy verification workpapers. Lines 3, 5, 6, 9, and 16 are highlighted in blue and are based on numbers linked from elsewhere in the model. Lines 4, 7, 10, 12, 14, and 18 are highlighted in light green and are the result of a calculation or formula that Blue Ridge has checked. Lines 11 and 13 are highlighted in yellow and are hard-coded numbers in the model from another source, and the value has been tied to that source. The source of the hard-coded values is also described in the workpapers in the comments

¹⁰ For example, see Interview of Ted Czupik, Rate Coordinator – Revenue Requirement Dept., 9/27/07 and Interview of Bob Parsons, Rate Coordinator – Revenue Requirement Dept., 11/12/07 and 11/14/07.

¹¹ One example of this is Tab SCH_C9.1 of the Company's revenue requirement model, wherein several values were sourced to filename *2005 & 2006 actual 2007 a&b labor cg&e*, provided with the Company's response to Data Request BRCS-WF-04-009(27). To derive some of the revenue requirement model inputs on Tab SCH_C9.1 taken from the above file, an explanation from the Company was needed on changes to pivot tables, numbers to be included in calculations, etc.

¹² Workpaper *A(3)_Math. Accuracy Test.xls*, Tab LOGO.

¹³ There are also several light yellow cells indicating 100% allocation to gas.

section, which are highlighted in Tan. See notes (1) and (2) on the following table as an example.

Figure 1-Sample of Mathematical Accuracy Verification Color Coding

DUKE ENERGY OHIO GAS DEPARTMENT CASE NO. 07-589-GA-AIR SCHEDULE OF PROPERTY TAXES BASED ON PLANT AT MARCH 31, 2007		WPC-3.8a WITNESS RESPONSIBLE: W. D. WATHEN 11/15/07	
LINE NO.	DESCRIPTION	SCHEDULE/ WORK PAPER REFERENCE	JURISDICTIONAL AMOUNT (\$)
1	Ohio Property Tax		
2			
3	Original Cost @ 3-31-07	Sch B-1	
4	Ohio Materials & Supplies	WPB-5.1c	1,669,331
5	Ohio Fuel Stock	WPB-5.1b	
6	Gas Stored in Ohio - Current	WPB-5.1f	
7			1,166,739,920
8			
9	Estimated Valuation Percent (A)	WPC-3.8b	
10	Property Valuation		171,775,878
11	Average Tax Rate Per \$1,000 Valuation (B)	WPC-3.8c	\$87.453
12	Property Tax - Ohio		15,022,316
13	Property Tax - West Virginia	WPC-3.8d	272,529
14	Total Property Taxes - Gas Operations		15,294,845
15			
408015	16 Less: Test Year Property Tax Expense	Sch C-2.1	
408035	17		
408075	18 Annualization Adjustment to Property Tax	To Sch C-3.8 <-----	(451,759)
408090			
408095			

(A) 2006 Ohio Valuation is 14.85% of Original Cost @ 12/31/05.
(B) Ohio Average Distributable Rate for 2007: \$87.453 per \$1,000 valuation.

Note (1): Cell \$62 sourced at WPC-3.8c is Calculation of Average Property Tax Rate (Supplemental C(7), pp. 69-75). Page 7 of 7 shows that the Average Gas Property Tax Rate is 8.7453% (calculated as 13262319 Gas Personal divided by 151651470 assessed value of Gas Personal Property).

Note (2): Cell \$54 source of WPC-3.8d shows Duke Energy Ohio, Inc. WV Underground Gas Property Tax Estimate, shows 2007 tax paid (estimate) as \$272,531. This was calculated as 31,325,215*.87% = 272529. 31,325,215 is value reported 2007 at 3.8d. WPC3.8d was received later providing more precise information, but SFR not updated.

Blue Ridge also performed on-site tests of underlying data on which the Company's revenue requirement model relies. Specifically, Blue Ridge tested the data source underlying the Company's proposed labor expense as well as the data source underlying its Total CG&E Gas O&M FAS 106 payments,¹⁴ each of which is described below related to Tasks 5, 6, and 7 in Section C.

Findings

Overall, Blue Ridge was able to verify the mathematical accuracy of the vast majority of the values in the Company's revenue requirement model and trace those values back to cited sources. However, Blue Ridge did discover a number of errors.

Blue Ridge created an exceptions list (shown below) containing a list of errors found in the Company's filing for which corrections should be made to increase the accuracy of the filing. The list below is a summary of the errors discovered and their impact on the Company's revenue requirement calculation. Each error and associated correction is described in more detail in workpapers A(3), C(13) *Exceptions List.doc.*

¹⁴ PUCO Gas SFRs.xls, Tab B6WP, Schedule WPB-6.1c obtained from Data Request BRCS-WF-01-001.

Exceptions List – Errors/Corrections to the Revenue Requirement Model

1. Due to errors in formulae underlying labor expense, the Company allocates 0% of Regular Part Time - UWUA employee labor expense to DE-Ohio, which has the effect of calculating \$18,645 less in Total DE-Ohio Gas O&M Labor expense than would otherwise be calculated if the error were corrected.
2. The Company reports an incorrect amount for Non-Jurisdictional Labor, resulting in Non-Jurisdictional labor being \$180,901 higher than the correct amount.
3. The values from the Ohio Department of Taxation (ODT) used by the Company in the model are incorrect. For Ohio Fuel Stock and Gas Stored Underground, the Company uses values in the model that are 1% of the values in the ODT's valuation notice. There is also an error in the calculation of the Ohio Materials and Supplies, which when combined with the errors for fuel stock and gas stored underground, results in an overestimation of the valuation percentage of about 0.35%.
4. The Company's filing includes an estimated property tax for West Virginia that is slightly lower than the number in the source document provided by the Company. This error results in an increase of \$302 in the West Virginia property tax that is include in the total property tax for gas operations.¹⁵
5. The state unemployment tax allocated from Duke Energy Services, Inc. calculated in Schedule WPC-3.19d was found to be inaccurate and the Company provided a revised schedule in order for the mathematical calculations and numbers to be verified.¹⁶ Blue Ridge received that revised file from the Company and was able to tie out the revised WPC-3.19d to the cited sources with two exceptions – the state unemployment tax rates for Oklahoma and Tennessee. Correcting these errors with the revised Schedule WPC-3.19d increases the Company's "as filed" Pro Forma State Unemployment Tax Expense by \$34,379. The Company also calculates DE-Ohio Direct Labor Expense at a 0.2% state unemployment tax rate for Ohio instead of the correct 0.4% amount,¹⁷ which has the impact of doubling the Ohio state unemployment tax amounts. The changes described under Exception No. 5 combine to increase the Pro Forma Unemployment Tax Expense by 28.4% and increase the Pro Forma State Unemployment Tax Expense by 105.3%. This, in turn, changes the proposed adjustment to annualize unemployment taxes by \$7,595, which increases the jurisdictional adjusted payroll costs by 0.0934%.

¹⁵ Company Schedule WPC-3.8a, lines 13 and 14.

¹⁶ Data Request BRCS-WF-09-001.

¹⁷ Revised Company Schedule WPC-3.19d, line 11 showing Ohio's state unemployment tax rate as 0.4%.

6. Schedule WPC-3.14a of the Company's filing, which calculates the non-jurisdictional expenses to be eliminated, was found to be inaccurate and the Company provided a revised schedule in order for the mathematical calculations and numbers to be verified.¹⁸ Blue Ridge received the revised Schedule WPC-3.14a and was able to verify the numbers to the cited sources. The revised WPC-3.14a has the impact of changing the amount of non-jurisdictional operating expenses proposed to be eliminated by the Company by \$65,518. This also increases the Non-Jurisdictional Payroll Tax Expense¹⁹ filed by the Company by \$4,250, which in turn impacts the proposed adjustment to annualize payroll taxes. Finally, this change impacts the Non-Jurisdictional Benefits expense, reducing the Company proposed value by 38.5%, which in turn, impacts the adjustment to annualize pension and benefits expense (Tab SCH_C3.17) and the benefits adjustment factor applied to calculate total payroll costs.
7. The Company's response to discovery²⁰ indicates that the Customers' Advances for Construction value used in the Company's model is incorrect, and the Company provided support for the correct amount. Correcting for this error increases the Jurisdictional Rate Base by \$780,564, or 0.11%.
8. Two of the Retirement Work in Progress (RWIP) account balances for the year-end 2006 were found to be incorrect. Blue Ridge subsequently confirmed the correct year-end 2006 balances for these accounts on the Company's books. Correcting for these errors slightly increases total general plant balance and decreases common plant.

Blue Ridge developed two Microsoft ExcelTM-based workbooks, which constitute the workpapers associated with verification of the revenue requirement. One workbook – *A(3)_Math.Accuracy Test.xls* – provides the results of Blue Ridge's validation and verification process in accordance with the color code/comment system discussed above. The second workbook, *A(3)_Math. Accuracy Test – INPUT CHANGES.xls*, is similar to the first, but also includes the corrections listed above in Blue Ridge's exceptions list. The comments and color-coding system used in this workpapers identifies the noted exceptions and shows the impact on the Company's filing of correcting the errors. The impact of the corrections to the model on the Company's overall rate filing are summarized in the following table²¹:

¹⁸ Data Request BRCS-WF-09-001.

¹⁹ Tab SCH_C3.18 in Company Schedule WPC-3.18a, line 18, column T (excel cell T57).

²⁰ Data Request BRCS-WF-04-009(9).

²¹ Workpaper *A(3)_Overall Rate Impact Table.xls*.

**Table 1-Summary of the Impact of Changes
to Company's Revenue Requirements Model**

Line #	Description	Supporting Schedule Reference	Jurisdictional Proposed Test Year			
			"As Filed" Results	Revised Results	\$ Change	% Change
1	Rate Base	B-1	702,414,915	703,294,171	879,256	0.13%
2	Current Operating Income	C-1	39,491,958	39,833,384	341,426	0.86%
3	Earned Rate of Return (Line 2 / Line 1)		5.62%	5.66%	NA	0.71%
4	Requested Rate of Return	D-1A	8.73%	8.73%	NA	0.00%
5	Required Operating Income (Line 1 x Line 4)		61,320,822	61,397,581	76,759	0.13%
6	Operating Income Deficiency (Line 5 - Line 2)		21,828,864	21,564,197	(264,667)	-1.21%
7	Gross Revenue Conversion Factor	C-10	1.5641209	1.5641209	NA	0.00%
8	Revenue Deficiency (Line 6 x Line 7)		34,142,982	33,729,011	(413,971)	-1.21%
9	Revenue Increase Requested	C-1	34,142,702	33,729,011	(413,691)	-1.21%
10	Adjusted Operating Revenues	C-1	597,573,805	597,573,805	0	0.00%
11	Revenue Requirements (Line 9 + Line 10)		631,716,507	631,302,816	(413,691)	-0.07%
	Percent Increase		5.71%	5.64%		

Conclusions and Recommendations

The mathematical errors discovered by Blue Ridge overstate the revenue deficiency by \$413,917 and overstate the revenue requirement calculated by the Company by \$413,691. Blue Ridge recommends that Staff propose an adjustment to the Company's filing and that the Company make the corrections and updates listed above.

General Requirements Task A.4

Task A.4-Review the Staff Report of Investigation in the Applicant's last base rate case.

Blue Ridge reviewed the Staff Report of Investigation in the Applicant's last base rate case and concluded that the accelerated main replacement program was the only significant carry over issue. No other significant or carry over issues were identified.

General Requirements Task A.5

Task A.5-Review the Opinion and Order from the Applicant's last base rate case.

Blue Ridge reviewed the opinions and orders from the Company's last base rate case (01-1228-GA-AIR). A list of compliance issues are included in the workpapers in the file labeled *A(5)_Compliance Issues Last Case.doc*. Blue Ridge did not identify any carryover compliance issues that affect this rate case.

General Requirements Task A.6

Task A.6-Review the audit report and Opinion and Order from the Company's most recent gas cost recovery case.

The audit report from the Company's most recent gas cost recovery case and the Opinion and Order were reviewed and discussed with Staff. It was determined that no crossover issues from the most recent gas cost recovery case will affect this base rate filing.

General Requirements Task A.7

Task A.7-Develop a comparison of the revenue requirement from the Opinion and Order in the last base rate case to the current revenue requirement (pro forma) in the current case, to assist in identifying what costs are driving the requested increase.

Blue Ridge reviewed the revenue requirement from the Opinion and Order in the last base rate case²² and compared its revenue requirement to the revenue requirement in the current case.²³ The following is a summary²⁴ of the major differences in the revenue requirements from the prior and current proceeding:

**Table 2-Variances in Revenue Requirements from
Last Rate Case and Current Case**

Item	01-1228-GA-AIR LAST CASE	Company Source Schedule	07-589-GA-AIR CURRENT CASE	Company Source Schedule	Variance %	Variance Detail
Jurisdictional Rate Base	415,762,603	B-1	702,414,915	B-1	68.95%	
Plant In Service	709,053,208	B-1.2	1,103,871,272	B-2	55.68%	
Distribution	841,334,000	B-2	1,036,945,703	B-2	61.69%	
Material and Supplies	25,244,410	B-5	52,715,085		108.82%	Gas stored U/G - current=\$49.3 million; last=\$19.3 million
Customer Service Deposits	-2,507,294	B-6	-5,654,204	B-5; WPB 5.1e	125.51%	Current based on 38.61% gas allocation of monthly ave \$14,644,402 (13 month ave Mar06-Mar07); Last based on Applicant workpapers B-5 (accepted by Staff)
Deferred Income Taxes	-44,941,487	B-6	-116,742,026	B-6	159.76%	Acct 282050 more than doubled; Acct 283050 increased almost 600%
Adjusted Operating Revenues	411,203,196	C-1	597,573,805	C-2	45.32%	53% increase in base and 64% increase in gas costs revenue
Base Revenue and Riders	149,240,351	C-2	228,024,651	C-2	52.79%	over 70% of difference is in the Riders
Gas Costs Revenue	256,498,979	C-2	365,743,749	C-2	42.59%	Gas costs up in all categories
Operation & Maintenance	312,653,548	C-2	462,531,268	C-2	47.94%	Over 80% of difference due to gas costs
Other	325,380	(1) below	1,360,323	C-2	318.07%	Rents \$63K to \$125k; Misc Exp \$52k to \$178k; Adjustments - plus \$502k
Customer Serv & Info Exp	662,108	(1) below	2,944,381	C-2	344.70%	Info Adv \$37k to \$160k; Misc \$0 to ~\$1.8m after adj
A&G Expense	25,896,302	(1) below; C-3	40,930,631	C-2	58.06%	Salaries up \$4.4m (73%); Supplies up \$3.8m (66%); Outside Serv up \$1.1m (63%); Prop Ins up \$455k (147%); Inj & Damages up \$366k (137%); Pension & Bene up \$5.4m (68%); State Comm Exp up \$291k (45%); Misc up \$233k (370%)

(1) Application Volume 8, 2nd Supplemental Filing, 10/5/01, p.24

General Requirements Task A.8

Task A.8-Interview the Applicant's management personnel and review both internal and published financial reports to assure understanding of the Applicant's operation and organization.

Interviews were conducted with the Company's management personnel to review both the internal and published financial reports and to understand and verify the processes in place that led to the development of the rate application documents. The following table contains the names of the Company personnel interviewed, their respective titles and the subject matter covered. Interview summary notes are included within the workpapers.

²² Case No. 01-1228-GA-AIR, Opinion and Order, dated 4/15/02 and Staff Report, dated 1/18/02.

²³ Workpaper A(7)_Rev Req Comparison.xls

²⁴ Workpaper A(7)_Rev Req Comparison Summary.xls.

Table 3-Company Personnel Interviewed

#	Name	Title	Subjects
1	Sandra Meyer	President, DE-Ohio	Budget Process and Rates
2	Paul Colbert	Associate General Counsel – State Regulatory Affairs	Affiliate Transactions
3	Joe Peak	Internal Auditor	Budget and Audits
4	Lynn Good	Sr VP and Treasurer	Management Oversight, Budget Process, and Budget Variance Analysis
5	Todd Arnold	Sr. VP, Customer Service	Customer Service / Billing
6	Patty Walker	Sr. VP of Ohio and Kentucky Gas Operations	Budget Process, Shared Services Monitoring, and Rate Case Process
7	Dwight Jacobs	VP FE&G Accounting and FE&G CFO	Budget and Role in Rate Case
8	Paul Smith	VP Rates	Budget Process
9	Ron Reising	VP Supply Chain and Chief Procurement Officer	Supply Chain and Materials Management
10	Don Wathen	Director, Revenue Requirements	Revenue Requirements and Operating Income
11	Gwen Pate	Director of General Accounting Midwest	Budget Process, Budget Variance Analysis, and Cost Allocation
12	Jeff Setser	Director, Corporate Accounting	Actuarial Reports and Service Company Allocators
13	Amy Dlugokecki	Director, Gas Performance Support	Budget Process
14	Steve Lee	Director of Financial Planning & Analysis	Budget Process
15	Brian Davey	General Mgr, Financial Planning and Analysis	Budget Process
16	Gary Hebbeler	General Manager Gas Engineering	Capital Budgeting, Engineering, Procurement, Construction Mgt.
17	Bill Currens	General Mgr, Reporting and Analysis	“Simply the Best” Initiative
18	Janice Yeargin	Mgr Accounting – Financial Accounting – Analysis & Projects	Shared Services Costs and Budget
19	Jim Riddle	Manager, Load Forecasting	Load Forecasting
20	Peggy Laub	Manager, FE&G Accounting	Budget Variance Analysis / Cost Allocation
21	Charles Session	Manager, Meter Reading	Meter Reading
22	Adriaenne McMahan	Manager, Meter Operations	Meter Testing
23	Tiffany Moore	Manager Payments and Controls	Billing
24	Jim Dean	Supervisor – Plant Accounting	Capital Projects
25	Nancy Kemper and Ralph Pfister	Analyst, Gas Engineer	Capital Projects and Budget
26	Ted Czupik	Rate Coordinator	Labor Expense workpapers
28	Bob Parsons	Rate Coordinator – Revenue Requirements	Revenue Requirements Model

General Requirements Task A.9

Task A.9-Issue data requests for information to complete the following specific items. Each of these items will be review and incorporated within the analyses, findings and conclusions related to our assessment of the accuracy and validity of the Company's filing.

Blue Ridge submitted 280 data requests during this project. With Staff's concurrence, Blue Ridge's document management system was used to track the data requests and responses. A list of all the data requests is provided in Appendix 2 and copies of the provided responses to the data requests are included in the workpapers to the report.

Blue Ridge reviewed documents to understand the overall management of the Company and to conduct tests of accuracy of information contained within certain records. The following is a topical list of the information reviewed. Any findings related to these areas are discussed in its appropriate section.

Table 4-Company Filing Subject Areas Reviewed for Accuracy and Validity

#	Item	Data Request	Confidential Document
1	Actuarial reports for pensions and other than pensions	GPR-01-001	Yes
2	Affiliate Agreements for Inter-affiliate Transactions	GPR-01-002	
3	Audit Committee Minutes	GPR-01-003	
4	Billing Records (registers, etc.)	GPR-01-004	
5	Board of Director Minutes	GPR-01-005	Yes
6	Chart of Accounts and Accounts Manual	GPR-01-006	
7	Construction Work Orders	GPR-01-007	Yes
8	Construction Budgets	GPR-01-008	
9	Continuing Property Record (CPR)	GPR-01-009	
10	Corporate Budget by Month and by Function	GPR-01-010	
11	Current Labor Contract	GPR-01-011	
12	External Independent Audit Reports and Workpapers	GPR-01-012	Yes
13	Franchise Fee Records (collection and payment)	GPR-01-013	
14	Forecast Assumptions	GPR-01-014	
15	General Ledger and Subsidiary Ledgers	GPR-01-015	Yes
16	Income Tax Returns	GPR-01-016	Yes
17	Internal Audit Reports and Workpapers	GPR-01-017	Yes
18	Invoices	GPR-01-018	
19	List of Property Units	GPR-01-019	
20	FERC General Advertising Expense Acct. 930.1	GPR-01-020	
21	FERC Miscellaneous General Expense Acct. 930.2	GPR-01-021	
22	Monthly or Quarterly Operating/Financial Reports	GPR-01-023	
23	Monthly or Quarterly Trial Balances	GPR-01-024	Yes
24	Monthly Sales by Rate Schedule and/or Customer Class	GPR-01-025	
25	Organizational Charts (corporate and internal reporting lines and departments)	GPR-01-026	
26	Payroll Records	GPR-01-027	
27	Property Tax Statements	GPR-01-028	
28	Risk Committee Minutes and Documentation	GPR-01-029	
29	Sample of Customer Bills (to verify rates and information)	GPR-01-030	
30	Standard Journal Entries	MTD-01-028 MTD-02-009	

B. ALLOCATIONS

Audit Team

1. Michael J. McGarry, Sr. – Lead
2. Dan Salter
3. Tracy Mullinax – Support

Audit Objectives and Scope

Blue Ridge's audit objectives and scope as provided in the approved work plan included an evaluation of the following:

Task B.1-The auditor selected shall review the applicant's Corporate Allocation Manual (CAM) and verify that it has been properly applied to the test year and date certain valuations.

Review the information previously provided during these proceedings that related to this issue. Review the accounting for a representative sample of transfers of supplies and services from the utility to the non-regulated affiliates and confirm that the cost includes the energy utility's authorized rate of return and all overheads. Review the accounting for a representative sample of transfers of supplies and services from non-regulated affiliates to the utility and confirm that the cost includes the energy utility's authorized rate of return and all overheads. Identify the overheads applied by the utility to its labor loadings each year of the study period. Compare the sampled transactions to the overheads applied by the utility to its labor loadings, document and annotate findings and progressively sample until a clean sample is found. Sample a number of employee time sheets for those who have interacted with affiliates.

Task B.2-The auditor selected shall review any operating income and rate base jurisdictional allocation factors (state/federal), determine the basis of each factor, and render an opinion regarding the appropriateness of the allocation factor.

Request backup support for all allocators, validate calculations with underlying documentation, and compare to previous case and note any changes.

Background

Costs are allocated between and among affiliate organizations based on jurisdictional, organizational, functional, and cost of service considerations. These allocations must be in accord with regulatory requirements and organizational guidelines to ensure that none of the regulated entities and its ratepayers are charged with costs that do not reflect the value of the service provided by an affiliate organization.

Blue Ridge reviewed the various Nocase documentation related to cost allocation including the rate application, witness testimony and previous case history. Additionally,

fourteen initial data requests concerning the issue of Allocations were submitted to the Company.

Allocations Task B.1

Task B.1-The auditor selected shall review the applicant's Corporate Allocation Manual (CAM) and verify that it has been properly applied to the test year and date certain valuations.

Blue Ridge began its verification of the allocation issue by determining that the Company has properly applied the CAM to affiliate transactions. Blue Ridge requested access to the CAM and any associated orders, rules, regulations, plans, policies, or guidelines. The CAM²⁵ contains a compilation of affiliate agreements and sections of the Ohio Administrative Code (OAC) that specify the required contents of the CAM, including governance of affiliate transactions. The Service Company Utility Services Agreement, also a part of the CAM, specifies the functional allocators by which both Duke Energy Shared Services (DESS) and Duke Energy Business Services (DEBS) distribute their services to affiliates including DE-Ohio-Gas.

Blue Ridge initially requested that the Company provide all transactions between Duke Energy affiliates and DE-Ohio²⁶ from which to select a sample set of transactions for review and validation. This sample review was intended to verify (1) that labor loadings were properly applied, (2) that functional allocations were correctly applied, and (3) that DE-Ohio's transaction costs included the authorized rate of return. In discussions with Company representatives, Blue Ridge learned that the Company does not make the functional allocation at the transaction level, thus rendering the source records inadequate for the functional allocation verification portion of the analysis.

In an interview, the Senior Vice President of Ohio and Kentucky Gas Operations²⁷ showed Blue Ridge a monthly report with functional allocations charged to DE-Ohio. A follow up data request²⁸ was submitted requesting this monthly report. The Company responded by stating that only a quarterly analysis was performed of the 900 series of FERC accounts (shared services accounts) and that quarterly analysis was performed on Duke Energy Ohio/Kentucky (Consolidated) in total. Accounting, however, does an annual study to review Shared Service organization allocations and makes appropriate adjustments at that time.

The Company supplied a report²⁹ containing summaries of transactions. To verify that labor loadings were properly applied, Blue Ridge requested the top ten transactions from four categories in the supplemental filing.³⁰ These four categories included:

1. DE-Ohio services provided to utility affiliates for the 12 months ended 12/31/06

²⁵ Response to Data Request BRCS-DWS-01-002.

²⁶ Data Request BRCS-DWS-01-008.

²⁷ Interview with Patricia Walker.

²⁸ Response to Data Request BRCS-MJM-04-004.

²⁹ Response to Data Request BRCS-DWS-01-008.

³⁰ Data Request BRCS-DWS-07-001.

2. Duke Energy Shared Services provided to DE-Ohio for the 12 months ended 12/31/06
3. DE-Ohio services provided to non-utility affiliates for the 3 months ended 3/31/07
4. Duke Energy Business Services provided to DE-Ohio for the 3 months ended 3/31/07

Application of Labor Loadings

The Company provided for each of the selected categories breakdowns by period for resource codes (e.g., labor, payroll taxes, etc.).³¹ While not at the transaction level, Blue Ridge was able to determine the labor loadings percentages used and compare them with the labor loadings applied to the test year (See Blue Ridge workpaper *B(1)_Labor Loadings.xls*). The table below summarizes the values and labor loading percentages for services DE-Ohio provided to non-utility affiliates. Note that the labor loadings (Fringe Benefits – 47%, Indirect Labor [Union] – 32%, and Payroll Taxes – 7%) match the labor loadings for the test year.³²

Table 5-Verification of Labor Loadings

**Services provided by DEO to Non-Utility Affiliates
3 Months Ended March 31, 2007**

(Amounts from Exhibit K - DEO Gas Breakdown)

Action	Union	OT Union
Labor	1,826.17	1,744.52
	47.50%	47.50%
Fringe Benefits	867.42	828.65
	32.00%	32.00%
Indirect Labor	584.37	558.26
	7.50%	7.50%
Payroll Taxes	136.94	130.83

Blue Ridge found that the labor loadings by resource code were consistent with the labor loadings applied to the test year.

Application of Functional Allocations

The Company supplied a report of Service Company (DESS and DEBS) costs by responsibility center³³ listing the responsibility center costs for January, February, and March 2007. The information included a breakdown of the responsibility center amount by FERC account.³⁴ This information was used to verify that functional allocations were

³¹ Response to BRCS-DWS-07-001.

³² Response to BRCS-DWS-01-012.

³³ Data Request BRCS-DWS-03-002; the responsibility center or Line of Business is a business grouping breakdown of Duke Energy Corporation.

³⁴ Data Requests BRCS-DWS-06-001 and BRCS-DWS-006-002.

correctly applied. Blue Ridge used the table in the attachment to the Company's response³⁵ to create a table of Service Company A&G costs by FERC account as a percentage of total A&G costs in the test year's date certain valuation months of January through March 2007.³⁶ The following chart displays the January 2007 DESS and DEBS A&G charges in relation to the total DE-Ohio amounts. Additional information is provided with the workpapers file *B(1)_Aff Trans - Service Company Costs.xls*.³⁷

Table 6-Verification of Functional Allocations – January 2007

DESS and DEBS Charges to A&G Accounts (Jan 2007)

JANUARY 2007					
Account	FERC	Description	Service Companies Actuals	DE-Ohio Total Actuals	Service Companies Percentage
920000	920	ADMIN & GENERAL LABOR	1,234,161	1,172,603	
921000	921	ADMIN & GEN OFF SUPP & EXP	714,040	798,210	89.5%
921100	921	A/G OPERATIONS EXPENSE	10,718	10,718	100.0%
922000	922	DUPLICATE CHARGES CREDIT	-200	-200	100.0%
923000	923	SPECIAL SERVICES	87,005	117,963	73.8%
924000	924	PRPTY INSUR - PUB LIABILITY	0	0	0.0%
924503	924	Property Insurance - DENA I/C	0	97,731	0.0%
925000	925	INJURIES & DAMAGES	194	194	99.8%
925503	925	I/C I&D Insurance Amortization - Duke	0	0	0.0%
925990	925	GENL FRNG BENFTS FRM PSI-JOINT	0	-1,543	0.0%
926000	926	FRINGE BENEFITS	102,808	103,939	98.9%
926110	926	PENSION COST ADJ - CR	251,077	926,934	27.1%
928000	928	STATE REG COMM PROCEEDING	0	75,602	0.0%
929030	929	JOBBYING OVERHEADS	0	-209	0.0%
929110	929	SERVICE USED BY OWN DEPT CR -	0	-30,248	0.0%
930000	930	GENERAL & MISC MEDIA	0	0	0.0%
930202	930	GENERAL MISC	35,383	37,948	93.2%
931000	931	RENTS	264,800	275,847	96.0%
935000	935	MAINT OF GENERAL PLANT	18,938	36,026	52.6%
			2,718,925	3,621,515	75.1%

Additionally, Blue Ridge reviewed and validated the functional allocation factors used in distributing service organization costs to DE-Ohio. Blue Ridge requested and the Company provided a listing of functional allocation percentages for DE-Ohio Gas Operations.³⁸ Using the listing, Blue Ridge created a table of the functions applicable to DE-Ohio Gas, which includes their allocation rates.³⁹ These functional allocations were validated by reviewing their developmental calculations provided in a report entitled

³⁵ Response to BRCW-DWS-06-002 Attachment A.

³⁶ Workpaper *B(1)_Aff Trans - Service Company Costs.xls*.

³⁷ The designation "Service Companies" includes both Duke Energy Shared Services and Duke Energy Business Services.

³⁸ Workpaper *B(1)_Summary CAM - CGE Gas.xls*.

³⁹ Workpaper *B(1)_Functional Allocations*.

Service Company Allocation Charging Information.⁴⁰ The following is a summary table of the functional allocations. As shown, the Service Company costs make up a significant portion of DE-Ohio's total 900 series accounts.

Table 7-Summary of Functional Allocations

Function	Function Description	Allocation Method	DE-Ohio Gas Allocation %		
			Utility	Enterprise	Governance
1 Info Systems	Development/support of mainframe software	# of CPUs	4.95%	4.14	
	Procurement/support of PCs & network/software	# of PC Workstations Ratio	3.39%	1.98	
	Development/support of distributed software applications	# of IS Servers Ratio	7.51%	4.02	
	Installation and operation of communications systems	# of Employees Ratio	4.92%	2.35	
	Info systems management and support services	3 Factor Formula	4.16%	3.2	
2 Meters	Procures, tests and maintains meters.	# of Customers Ratio	9.77%		
3 Transportation	Procures and maintains vehicles and equipment.	# of Employees Ratio	4.92%		
	Procures and maintains aircraft and equipment.	3 Factor Formula		3.2	3.2
4 Marketing	Design/admin of sales & demand-side mgmt programs	Sales Ratio	13.91%		
	Customer services and processing	# of Customers Ratio	9.77%		
5 Human Resources	Establishes and administers policies	# of Employees Ratio	4.92%	2.35	2.19
6 Materials Mgmt	Procurement of materials & services and pay processing	Procurement Spending %	0.68%	2.11%	
7 Facilities		3 Factor Formula	4.16%	3.20%	
	Charlotte GO	Square Footage Ratio			1.58%
	Cincinnati	Square Footage Ratio			6.71%
	Plainfield	Square Footage Ratio			4.84%
	DP Field	Square Footage Ratio			0.01%
8 Accounting	Bookkeeping, reporting, tax	3 Factor Formula	4.16%	3.20%	3.02%
9 Public Affairs	Prepares and disseminates information	3 Factor Formula		3.20%	3.02%
	Utility Specific Activities	Weighted Avg of # of Customers Ratio and # of Employees Ratio	6.16%		
10 Legal	Renders services relating to legal matters	3 Factor Formula	4.16%		3.02%
11 Rates	Determines Client Companies' rev requirements & rates	Sales Ratio	13.91%		
12 Finance	Renders financial services to Client Companies	3 Factor Formula	4.16%	3.20%	3.02%
13 Internal Auditing	Reviews internal controls and procedures	3 Factor Formula	4.16%		3.02%
14 Env'r, Health & Safety	Establishes policies and procedures EHS compliance	3 Factor Formula		3.20%	3.02%
	Utility Specific Activities	Sales Ratio	13.91%		
15 Investor Relations	Provides comm to investors & financial community	3 Factor Formula			3.02%
16 Planning	Prep of strategic & operating plans	3 Factor Formula	4.16%	3.20%	3.02%
17 Executive	Provides general admin and exec mgmt services	3 Factor Formula	4.16%	3.20%	3.02%

Blue Ridge found that the functional allocations are appropriately documented in the CAM. However, the allocations are not applied at the individual transactions, but rather after aggregating charges at the line of business (LOB) or responsibility center (RC) level. As a result, individual managers who are assigned the Shared Services and Business Services costs in aggregate, have difficulty matching charges to services received.

Furthermore, individual managers have little input to their budgets with regard to Service Company⁴¹ costs. Management analysis is limited to actual to budget variances. The only real managers of Service Company costs are the functional managers within the Service Company organizations.

The result is that DE-Ohio has limited control over Service Company cost in application to the test year. While senior management at the franchise electric and gas organizational

⁴⁰ Response to BRCS-MJM-06-003, including Attachments A through M.

⁴¹ The term Service Company refers to both Duke Energy Shared Services and Duke Energy Business Services.

level may be able to influence certain Service Company charges, a number of middle managers clearly indicated that they manage budget to actual variances at their respective responsibility centers and not whether there are getting a good value for those functional services and related allocations.

Blue Ridge's scope for the project was to review the applicant's Corporate Allocation Manual (CAM) and verify that it has been properly applied to the test year and date certain valuations. However, in performing our assigned task, we discovered how difficult it is to understand how the costs are allocated to the individual operation entities such as Duke Energy – Ohio gas. Based on our limited review of the Service Company charges and in concert with our findings related to the Liberty Consulting Affiliate Transactions Audit of the Duke Energy – Carolinas (see below), the Commission may want to consider conducting a more thorough review of the Service Company charges and allocations.

Authorized Rate of Return

To verify that DE-Ohio's transaction costs reflect the authorized rate of return, Blue Ridge first verified that the CAM specified that this reflection be in place. The CAM states that under the Operating Companies Service Agreement "the company receiving services (Client Company) shall pay the service provider the fully embedded cost thereof (i.e., the sum of (i) direct costs, (ii) indirect costs and (iii) costs of capital)...."⁴² A similar statement is contained within the Operating Company / Non-utility Companies Service Agreement. By this statement, it is evident that the Company's directives dictate including the authorized rate of return in service transactions provided to affiliates.

To verify this practice, Blue Ridge viewed a transaction in which this "fully embedded cost" was shown.⁴³ The Company provided transaction services of DE-Ohio to a non-regulated affiliate breaking out labor, fringe benefits, indirect labor, and payroll taxes.⁴⁴

The transaction did not include a breakout of the authorized rate of return and, therefore, Blue Ridge could not verify the application of the authorized rate of return. The CAM guidelines, however, specify that transactions include fully embedded costs.

Employee Time Charges

Blue Ridge observed the Company's employee time entry process to validate that affiliate allocations were properly applied. Blue Ridge initially requested a list of employees who charge to affiliates.⁴⁵ From the list provided in response,⁴⁶ a random sample of 77 employee IDs were selected and their source records requested⁴⁷ to review the accuracy of time charge allocations in the first quarter of 2007. The source records for these

⁴² DE-Ohio Cost Allocation Manual, p.11.

⁴³ Response to Data Request BRCS-DWS-11-001.

⁴⁴ Response to Data Request BRCS-DWS-11-001 Attachment A.

⁴⁵ Data Request BRCS-DWS-03-001.

⁴⁶ Response to Data Request BRCS-DWS-03-001.

⁴⁷ Data Request BRCS-DWS-05-001.

employees, however, did not include labor loadings and allocation.⁴⁸ Based on informal discussions with the Company, Blue Ridge learned that labor loadings are applied at an aggregated level above the source records after grouping Company data.

Blue Ridge observed a demonstration of the time entry process as DE-Ohio personnel entered time for employees into the system.

Blue Ridge found that the entry clerks entered organizational allocation codes consistently with the time sheet requirements. The automation of labor loadings occurs at a level beyond the source time record, which groups Company data.

Training

Blue Ridge also reviewed affiliate transaction training to verify that the Company was providing personnel with the knowledge of proper reporting requirements.

In response to requests concerning the training process for affiliate transactions, the Company provided training materials in its Codes of Conduct, Affiliate Rules, and an online course for the FERC Code and Standard of Conduct.⁴⁹ Over 7200 employees had been identified for the online FERC training to be completed in 2007. Training for new employees is being developed and should be finalized by the end of this year.

Compliance Assurance

Blue Ridge also reviewed the Company's internal and external audit list⁵⁰ to see whether an affiliate transactions audit had been conducted for Duke Energy Ohio since the merger. No audits of this nature were included on the lists post merger. However, one audit was conducted in 2005 when the Services Company was Cinergy Shared Services, Inc. No significant findings were reported at that time.⁵¹

During the period of this audit, The Liberty Consulting Group issued its final report (Liberty Report), dated October 1, 2007, for an Affiliated Transactions audit of DE-Carolinas that had been ordered by the North Carolina Utilities Commission.⁵² Although the Liberty Report concentrated specifically on DE-Carolinas, certain conclusions in the report may have an impact on DE-Ohio.

DE-Ohio has no formalized program for checking compliance with affiliate transaction guidelines other than what the Internal Auditing organization may decide each year to perform. Informally, personnel may report potential violations to a supervisor or through the EthicsLine after which the appropriate attorney or compliance person would

⁴⁸ Response to BRCS-DWS-05-001 Attachments A and B.

⁴⁹ Response to BRCS-DWS-01-011.

⁵⁰ Response to BRCS-DWS-01-005 (which referenced the responses to BRCS-GPR-01-012 and BRCS-GPR-01-017.

⁵¹ Response to BRCS-MJM-06-004 (Attachment CONFSUPP). Note: Cinergy Shared Services became Duke Energy Shared Services as part of the merger.

⁵² *Final Report Audit of Duke Energy Carolinas Affiliated Transactions*, The Liberty Consulting Group, North Carolina Public Utilities Commission Staff Docket No. E-7, Subs 795B and 828, October 1, 2007.

investigate. However, no informal reporting of compliance violations has been recorded since the merger.⁵³

Common Plant to Gas Allocators

Background

The Company uses allocation percentages to apportion common plant costs to its gas and electric operations for ratemaking purposes. The Company develops the allocation percentages using net plant balances as of the end of its prior fiscal year. Ensuring the accuracy of the allocation factor used for allocating costs to the gas operations is critical in ensuring that the rate base is accurate for revenue requirement purposes. If the common plant to gas allocator is too high, then too much of the common plant will be allocated to gas operations, and gas rates will be overstated.

Analysis

While verifying the accuracy of the Company's revenue requirement filing under Task 3 of the General Requirements section, Blue Ridge noted that the Company developed its common plant allocation factors using 2004 net plant balances instead of 2006 net plant balances. The Company uses an allocator of 18.68% to allocate common plant to gas operations for purposes of its rate filing. In other words, for common plant items that are used for both the Company's electric and gas operations (e.g., land and land rights, tools and shop/garage equipment, and others), the Company's rate filing recovers 18.68% of the total amount through gas rates⁵⁴ (with the remaining 81.32% being allocated to electric operations). The Company provided support for the 18.68% common plant to gas allocator in discovery,⁵⁵ which consists of the supporting calculations and pages from the Company's 2004 FERC Form 2.⁵⁶ The Company explains that the common plant to gas allocator is based on "Net Plant balances as of 12/31/04 adjusted for production assets transferred from DE-Ohio to DE-Kentucky in 2006."⁵⁷ Because the Company did not use the most recent FERC Form 2 data available⁵⁸ – or otherwise explain why 2004 data would be representative of the Company's test year – Blue Ridge sought an explanation from the Company in discovery and requested that the Company recalculate the allocator using data that are more recent.⁵⁹ The Company's response follows:

"Allocations are calculated and reviewed annually. The allocation rate for common plant is calculated using net plant balances. In 2005, the allocation rate was calculated using December 2004 balances, adjusted for production assets to be transferred from DE-Ohio to DE-Kentucky in 2006. The calculated rate was effective in 2006. In 2007, the rate allocation was calculated using 2006 net plant balances. The revised rate

⁵³ Response to Data Request BRCS-DWS-01-009.

⁵⁴ See, e.g., *PUCO Gas SFRs.xls*, Schedule B-2.1, p. 4 of 4, line 16.

⁵⁵ OCC-POD-04-034.

⁵⁶ See, Duke response to OCC-POD-04-034 Attachment, pp. 1-18.

⁵⁷ Response to Data Request Duke response to BRCS-WF-04-009(1).

⁵⁸ Year end 2006 is the most recent FERC Form 2 available.

⁵⁹ Response to Data Request BRCS-WF-08-013.

will be effective in 2008. See Attachment BRCS-WF-08-013 for the rate calculations using 2005 and 2006 net plant balances.”⁶⁰

This response shows that the common plant to gas allocator used in the Company’s rate filing was calculated in 2005 and was effective in 2006. This response also shows that the Company recalculated the common plant to gas allocator in 2007 based on year-end 2006 data, which will be effective in 2008. Though the Company’s response indicates that allocations are calculated and reviewed annually and discusses the calculated rates that were effective in 2006 and will be effective in 2008, the Company does not discuss in its response the calculated rate that is effective for 2007.

Findings and Conclusions

Blue Ridge notes this as a significant issue. The Company is using in its rate filing a common plant to gas allocator that was calculated two years ago, is not based on the most recent data available, and, perhaps more importantly, Duke has not explained how, if at all, the allocator relates to the 2007 test year in the Company’s rate filing. The common plant to gas allocators calculated by the Company using year-end 2004, 2005 and 2006 data are as follows: 18.68% (2004); 19.75% (2005); and 13.5% (2006).⁶¹ By using the 18.68% allocator based on 2004 data, the Company’s rate filing would effectively lock into gas rates a common plant allocation to gas that is not indicative of the current Company until the next gas rate case. The 13.5% allocator based on 2006 data is the most recent data available for the 2007 test year, and is more representative of a typical year for the Company due to the merger of Duke and Cinergy in April of 2006. The Company has undergone changes since the merger, some of which should have resulted in post-merger cost savings.⁶² Because the Company’s common plant to gas allocator is based on data prior to the time of the merger, it would not be reflective of the post-merger company or the changes or savings that have resulted. In addition, the Company’s response quoted above indicates that the allocator it uses in its rate filing was effective in 2006 – not 2007, which is the Company’s test year for this rate filing. The Company provided no explanation for this apparent inconsistency. Furthermore, the Company does not explain why there is a two-year lag between the vintage of data used in the calculations of the common plant to gas allocator and the effective period of that allocator. For the purposes of this rate filing, the Company has available to it year-end 2006 data that could be used to calculate the allocator for the 2007 test year. Using an allocator based on 2006 data would result in a reduction of the common plant to gas allocator by 5.18 percentage points – a reduction of 27.7%. This means that the Company’s use of 2004 data instead of more recent 2006 data results in more common plant being allocated to gas operations than would be allocated if the Company used more recent data, and in turn, higher gas rates.

⁶⁰ Duke response to BRCS-WF-08-013.

⁶¹ Response to Data Request BRCS-WF-08-013 Attachment.

⁶² See, e.g., “Duke Energy, Cinergy Complete Merger,” News Release, April 3, 2006. Available at: <http://www.duke-energy.com/news/releases/2006/apr/2006040301.asp>.

Recommendations

Staff should consider a regulatory adjustment to modify the common plant to gas allocator from the 18.68% used in the Company's filing (based on 2004 data) to 13.5% (based on 2006 data).

Allocations Task B.2

Task B.2-The auditor selected shall review any operating income and rate base jurisdictional allocation factors (state/federal); determine the basis of each factor, and render an opinion regarding the appropriateness of the allocation factor.

DE-Ohio – Gas Operations has no jurisdictional allocation. Therefore, it was not necessary to validate a jurisdictional allocator.

Blue Ridge reviewed and validated DE-Ohio's allocation factors which are used to allocate revenues and costs within the Company's customer classes used in the Company's class cost of service study.⁶³

Findings and Conclusions

Blue Ridge concludes that the documentation existing in the CAM provides adequate guidelines-for conducting affiliate transactions. Furthermore, Blue Ridge's analysis concludes that the CAM has been properly applied to the test year. Operating income and jurisdictional allocation factors appear appropriate.

Based on the interviews and other discussions with Company personnel, Blue Ridge learned that the functional allocations by the Service Company are not managed by DE-Ohio personnel at the transaction level. Monthly reports are produced showing charges allocated to lines of business or responsibility centers. However, management of Service Company costs at the transactional level is not done for DE-Ohio and management of the functional allocations is performed by Accounting for DE-Ohio only once per year.⁶⁴ As such, a retrospective review for accuracy and compliance by transaction is not possible.

Company personnel were satisfied that detailed management is not needed due to the automation of the allocation by the system. However, managing variances between budget and actual, while keeping costs at consistently reasonable levels, does not provide a means to determine whether outsourcing a particular functional service may be in the Company's best interests.

Blue Ridge's attempts to ensure that the proper rate of return was included in transactions to affiliates were not conclusive. Although Blue Ridge requested review of a transaction showing the detail for "the fully embedded cost thereof (i.e., the sum of (i) direct costs, (ii) indirect costs and (iii) costs of capital)," the response provided highlighted only the fringe benefits, indirect labor, and payroll tax labor loadings.

⁶³ Response to BRCS-DWS-01-014 Attachment – Allocation Factors worksheet 070925.

⁶⁴ Response to BRCS-MJM-04-004.

During the course of Blue Ridge's audit, The Liberty Consulting Group (Liberty) completed an Audit of Affiliated Transactions on Duke Energy Carolinas (DE-Carolinas) for the North Carolina Utilities Commission (NCUC). The audit was a regulatory condition established by the NCUC in approving the merger of Duke Energy and Cinergy. That audit covered the period between July 1, 2006 and June 30, 2007.

Blue Ridge determined that the Liberty Report's findings and conclusions, although the audit was performed specifically on DE-Carolinas, may have an impact on DE-Ohio operations. Blue Ridge has found that the following Liberty Report findings may have effect on DE-Ohio.⁶⁵

1. May not be consistently charging non-regulated affiliates of the higher of fully allocated cost or market and may not consistently be charged by non-regulated affiliates of the lower of fully allocated cost or market.
2. The Service Agreements do not cover all affiliate transactions.
3. The Service Company makes more than necessary use of general allocators.
4. The "spreading" approach in calculating allocation percentages may not reflect fully allocated costs.
5. A significant amount of the costs that flow through the Service Company to business units do not relate to the Service Company Utility Service Agreement.
6. Duke and Cinergy maintain separate accounting systems which complicates record-keeping.
7. The Service Company does not follow the procedure regarding monthly bills and payments.
8. Duke and Cinergy calculate some overtime hourly labor rates differently.
9. The Service Company's method for distributing its overhead costs does not provide a good match between use and cost of a service function.
10. Service Company employees rely too heavily on the use of default time distributions.
11. Some identified merger savings have not yet been realized.
12. The annual affiliate transaction report should have more formalized procedures.

The Liberty findings suggest that further investigation in DE-Ohio's affiliate transaction process may be warranted.

In addition, the Company is using in its rate filing a common plant to gas allocator that was calculated two years ago, is not based on the most recent data available, and, perhaps more importantly, Duke has not explained how, if at all, the allocator relates to the 2007 test year in the Company's rate filing.

⁶⁵ Findings in list were drawn from the Liberty Report, Executive Summary, pp.6-20.

Recommendations

Blue Ridge recommends that a formal process be established within DE-Ohio that will assure compliance to affiliate transaction guidelines.

Blue Ridge also recommends that an audit be conducted on the Service Company charges and allocations due to the current low level of control that DE-Ohio managers have on functional allocation of charges by both Duke Energy Shared Services and Duke Energy Business Services. This audit will help ensure that costs flowing through the Service Company to DE-Ohio are appropriate and accurate,

Blue Ridge recommends that Staff consider a regulatory adjustment to modify the common plant to gas allocator from the 18.68% used in the Company's filing (based on 2004 data) to 13.5% (based on 2006 data).

C. OPERATING INCOME

Audit Team

1. Warren Fischer, CPA – Lead
2. Patrick Phipps
3. Howard Solganick
4. James Webber
5. Hallie Lawrence
6. Tracy Mullinax – Support

Audit Objectives and Scope

Blue Ridge's audit objectives and scope as provided in the approved work plan included an evaluation of the following:

Task C.1-Prepare an operating income comparison of the test year to actual historical financial data. The comparison shall contain data for the five most recent historic years for which data is available to help determine whether the test year operating income is representative of historical trends. Abnormalities of the test year will be noted and investigated.

Develop a comparative analysis. Determine any potential non-recurring/one time expenses. Request support for/or explanation of any potential non-recurring expenses.

Task C.2-The auditor selected shall obtain through records, trial balances, or informational requests to the utility, a side-by-side spreadsheet of financial and operational monthly data for the twelve months of the test year. From this analysis, the auditor shall create a list of items to be further examined by obtaining invoices, payroll records, work orders, supporting budget documentation or other source documents.

Develop a comparative operational indicator analysis using accepted comparative analysis such as cost per customer, cost per employee, etc. Develop a list of potential issues requiring further review

Task C.3-The auditor selected shall work with Staff and develop an investigation audit plan directed at the significant issues of the case

Prepare an outline of a significant issue audit plan. Meet with Staff to discuss audit plan. Finalize audit plan.

Task C.4-Compare the final approved budget to five actual, historical years to determine whether the test year budgeted information is representative of historical trends. Abnormalities of the budget shall be noted and investigated.

Obtain and review the past budgets and compare to actual results for the previous five years. Request and review significant budget changes and the underlying reasons. Request and review company responses to data requests concerning the budget and significant budget variances.

Task C.5-Document the budget process

Request and review the company's budget procedures. Prepare a flow chart of the budget process noting the level of management approval required at various decision points and any deviations from accepted norms.

Task C.6-Interview Company personnel responsible for the compilation of the budgeted information

Interview the senior executive and manager responsible for the budget process to understand fully the Company's budget process and how priorities are established within that budget process.

Task C.7-Interview a select sample of company personnel (function heads) that had input into the budget and track their input through the budget process.

Interview the select senior executive and operational managers responsible for the budget process to access the how individual department budgets are completed and more fully understand the Company's budget process and how priorities are established within the budget process.

Task C.8-As actual information for the budgeted months becomes available, compare and analyze budgeted months to actual months. Significant variances shall be investigated.

Issue a standing data request for actual information as it becomes available for the test year. Update the budget vs. actual analysis for the test year. Issue data requests and review/assess responses on significant variances.

Task C.9-Compare most recent prior year budget to actual results and note significant variances.

Request budgeted data at sufficient level of detail to permit functional assessment of actual to budget. Understand any nuisances between FERC accounting and budgets. Create a budget to actual for previous budget year.

Task C.10-Prepare and analyze monthly test year and three historical years of monthly historical consumption data (sales) and customer count by tariff.

Request and review actual consumption for the test year and the last 3 years and customer counts by tariff. To the extent not electronically provided, create a spreadsheet with this data.

Task C.11-Review the Applicant's written summary explaining the forecasting (sales) methodology as it relates to the test year. (SFR Supplemental C-12).

Review the forecasting methodology, compare it to accepted industry norms and note any deviations.

Task C.12-Interview Applicant's personnel responsible for the sales forecast.

Request list of employees involved in sales forecast. Develop interview questions. Schedule interviews with personnel involved. Issue interview summary reports from interviews.

Task C.13-Review the applicant's proposed adjustments to operating income and trace them to supporting workpapers and source data.

Request and review back-up documentation to any pro forma adjustments included in the filing. Mathematically validate calculations and source data cross reference. Prepare a back-up book of supporting data

*Task D.15-The auditor will review and analyze the Applicant's proposed adjustments to operating income and rate base and trace them to supporting workpapers and source data.*⁶⁶

Validate the company's revenue requirement calculations and linkage to backup supporting document and note any exception.

Background

In this section, the audit focused on the Company's operating income and the validity of the information contained in the income statement and revenue requirements model. Blue Ridge also reviewed the past trends in expenses and budgets to determine if any anomalies or extraordinary issues impacted the revenues and/or costs included in the Company's filing.

To complete this analysis, Blue Ridge's team of certified public accountants, engineers, economists and regulatory analysts evaluated the operating income to determine if the information contained in that filing can be relied upon by the Public Utilities Commission of Ohio to set rates. We requested a significant number of source documentation through over 130 data requests and traced inputs in the filing back to source documentation. We obtained current organization charts by department to understand the lines of responsibility for each process tested. We validated information in the filing with source documentation and checked the validity of the revenue requirements model. We interviewed the Company's senior and operating level managers concerning how the information in the company is validated.

We also interviewed numerous Company executives and managers about the budget process used to prepare the 2007 budget, which is the source for 9 months of the test year

⁶⁶ Due to the similarities between Task C.13 and Task D.15, they will be discussed together in this report.

data.⁶⁷ Our interviews covered the budget process timeline from inception during the strategic planning phase through senior management and Board of Director approval.

The impact of post-merger integration efforts on the former Cinergy organizations was researched to ascertain changes in the budget process over the pre-merger Cinergy organizations. The Company's 2007 departmental budget guidelines were evaluated, and the overall budget preparation and approval process was documented in a flow chart.

Operating Income Task C.1

Task C.1-Prepare an operating income comparison of the test year to actual historical financial data. The comparison shall contain data for the five most recent historic years for which data is available to help determine whether the test year operating income is representative of historical trends. Abnormalities of the test year will be noted and investigated.

Background

Blue Ridge compared the test year filed by the Company with five prior years of actual results to identify unusual trends or variances in the test year values. Blue Ridge consolidated the Company's detailed account information at the FERC account level to facilitate meaningful comparisons to the Company's prior results. FERC account level analysis eliminates unnecessary confusion caused by changes in the recording of functionally equivalent revenue and expenses in different detailed-level accounts over the period of comparison. We submitted eight data requests seeking results for the five years prior in a comparable form the test year. Follow-up data request were issued to explain variances identified between the test year and the average of the prior five years.

Analysis

To compare Duke Energy Ohio's test year with prior year actual, Blue Ridge requested the Company's revenue and expenses by account for the years 2002 through 2006 in the same format as the test year data.⁶⁸ Blue Ridge performed an initial review of the test year data versus the average of results for the years 2002 through 2006 at the account level.⁶⁹ Blue Ridge identified specific accounts with variances representing an increase of greater than 10% over the 5-year average of actual results and 10% over 2006 results. We requested explanations for those variances from Duke Energy Ohio personnel and noted that many of the variances were caused by changes in account classifications over the 5-year period prior to the test year or expenses budgeted to certain accounts while actual results from prior years were recorded in other accounts. Certain account activities were mapped to different accounts over the period while other activities that were previously combined into one account were broken out among numerous accounts. For example, gas sales revenue was combined with gas cost recovery and other riders in the years 2002 through 2004. Starting in 2005, riders were recorded in separate accounts.

⁶⁷ The Company's proposed test year consists of 3 months actual (January – March 2007) and nine months of budget (April – December 2007).

⁶⁸ Data Request BRCS-WF-01-005 through BRCS-WF-01-011. See Appendix 2.

⁶⁹ Workpaper C(1)_Duke Test Year to Actual 5-Years Comparison.xls.

The Company provided explanations to the remaining variances identified by Blue Ridge.⁷⁰

To facilitate a viable comparison of the test year revenue and expenses to prior years, Blue Ridge summarized the revenue and expense at the FERC account level. Analytic review of the FERC level data was performed to identify the expected and unexpected trends given known trends in the industry such as declining consumption per customer and fluctuating gas commodity prices.

Blue Ridge also requested from the Company information related to any one-time, non-recurring expenses in the test year.⁷¹ The Company responded that with the exception of the expenses eliminated from the test year expenses under Schedule C3.14, related to donations, sponsorships, events and other expenses not recoverable in gas distribution rates, the Company is not aware of any other non-recurring, abnormal or extraordinary expenses incurred in the test year.

Results of this analysis were also used in Section C, Task 2 to facilitate preparation of per employee and per customer metrics for revenue, expenses, and operating income.

Findings

Comparisons of the projected test year to prior year actual results reveal the following trends.⁷²

1. Test year revenue is expected to increase 32% greater than the 5-year average revenue for the period 2002 through 2006 and 20% over 2006.
2. Total 2007 O&M expenses are expected to increase by 39% over the 5-year average O&M expenses for the period 2002 through 2006 and 19% over 2006. The primary reasons for this cost difference are summarized below.
 - a. Fuel Purchase Expenses are expected to increase 42% over the 5-year average expenses for the period 2002 through 2006 and 24% over 2006.
 - b. Operation Production Expenses are expected to decrease 28% from the 5-year average expenses for the period 2002 through 2006 and increase 2% over 2006.
 - c. Operation Distribution Expenses are expected to increase 16% over the 5-year average expenses for the period 2002 through 2006 and 6% over 2006.
 - d. Operation A&G expenses are expected to increase 35% over the 5-year average expenses for the period 2002 through 2006 and 1% over 2006.
 - e. Maintenance Distribution expenses are expected to increase 8% over the 5-year average expenses for the period 2002 through 2006 and 18% over 2006.

⁷⁰ *Id.*

⁷¹ Data Request BRCS-WF-01-012.

⁷² Workpaper C(1)_Duke Test Year to Actual 5-Years Comparison.xls, tab Summary by FERC Account.

Conclusions and Recommendations

Test year revenue and fuel purchase expenses appear to be reasonable compared with actual results from prior years based on known increases in gas purchase costs and the resulting gas cost revenue earned from customers to pay for gas purchase costs. The Company confirmed that the increases were due to changes in gas cost, changes in unbilled revenue and the Rider AMRP increase in May 2007.⁷³ Operating & Maintenance expenses appear reasonable when evaluated at a category level such as total production, transmission or distribution expenses. However, we noted variances greater than 10% over 2006 amounts on a number of accounts. Although many of these variances are not material on a total dollar basis, we provided our analysis to the Company informally and requested explanations for the variances. The Company's explanations are incorporated into our workpaper for this task. Consequently, through the review, Blue Ridge confirmed that the Company did not have any non-recurring, abnormal or extraordinary expenses that were not explained adequately through discussions and data responses.

Operating Income Task C.2

Task C.2-The auditor selected shall obtain through records, trial balances, or informational requests to the utility, a side-by-side spreadsheet of financial and operational monthly data for the twelve months of the test year. From this analysis, the auditor shall create a list of items to be further examined by obtaining invoices, payroll records, work orders, supporting budget documentation or other source documents.

Background

While financial data – even time series data – may be helpful in terms of understanding how a company is operating, such data in isolation do not necessarily provide enough context through which the company's operations can be fully understood. Indeed, comparative statistics including both financial and operational data must be analyzed to gain the proper perspective needed to understand fully trends in revenues, expenses and operating income. For this task, the Blue Ridge team requested both operational and financial data pertaining to the test year and the five years prior the test year in order that comparative operational and financial analyses could be conducted. Workpaper C(2)_Operational Data Comparison.xls comprises comparative analyses including employee, customer, sales and financial data.

Analysis

To analyze Duke Energy Ohio's financial data, we requested the Company's revenue and expenses by account for the years 2002 through 2006 in the same format as the test year data.⁷⁴ As described in Section C Task 1 above, Blue Ridge performed an initial review of the test year data versus the average of results for the years 2002 through 2006 at the account level. Monthly revenues and expenses by account are likewise included within

⁷³ *Id.*

⁷⁴ Data Request BRCS-WF-01-005 through BRCS-WF-01-011. See Appendix 2.

that analysis.⁷⁵ We also obtained and analyzed employee and customer related data for the years 2002 through 2006 so that trends in these data could be observed and data could be used to develop per customer and per employee revenue, expense, and income related statistics.

The Company's responses to discovery related to employee counts contributed to the development of the table below, which provides employee counts by month throughout the relevant time periods.⁷⁶

Table 8-Active Employee Count 2002-2007

Case No. 07-589-GA-AIR
Active Employee Count
2002 through 2007

	2002	2003	2004	2005	2006	2007
January	1,454	1,339	1,892	1,901	1,904	
February	1,452	1,334	1,897	1,895	1,910	
March	1,445	1,330	1,910	1,904	1,913	
April	1,449	1,338	1,901	1,896	1,897	1,740
May	1,449	1,329	1,892	1,879	1,891	
June	1,433	1,338	1,892	1,872	1,876	
July	1,419	1,336	1,895	1,859	1,891	
August	1,411	1,334	1,894	1,861	1,876	
September	1,430	1,353	1,919	1,865	1,866	
October	1,384	1,353	1,913	1,873	1,865	
November	1,362	1,360	1,908	1,876	1,868	
December	1,361	1,350	1,910	1,911	1,867	
Average Monthly Active Employee Count	1,421	1,341	1,902	1,883	1,885	1,740

The following table comprises actual monthly customer counts as well as the associated growth rates from 2002 through the first eight months of the test year.⁷⁷

⁷⁵ Workpaper C(1)_Duke Test Year to Actual 5-Years Comparison.xls.

⁷⁶ Workpaper C(2)_Operational Data Comparison.xls, Tab Employees.

⁷⁷ These data are taken from the Company's response to Data Request BRCS-WF-01-014.

Table 9-Customers by Month 2002-2007

Duke Energy Ohio
Case No. 07-589-GA-AIR
Customers by Month
2002 through 2007

	2002	2003	2004	2005	2006	2007
January	405,566	410,671	415,878	420,074	423,594	425,698
February	406,257	411,324	414,377	418,503	422,191	424,417
March	406,542	411,810	416,264	420,776	424,036	426,356
April	405,635	411,076	415,691	420,236	422,877	423,643
May	407,130	410,044	414,487	418,682	421,468	424,513
June	404,306	409,140	413,184	417,147	419,835	422,874
July	404,319	409,058	412,038	416,091	419,083	422,127
August	403,894	408,335	411,240	415,607	417,826	421,323
September	403,765	407,922	411,036	415,158	417,545	-
October	405,140	409,454	412,575	416,266	419,150	-
November	406,979	411,361	415,037	419,139	422,027	-
December	409,316	408,971	418,932	420,326	424,379	-
Total Annual	4,868,849	4,919,166	4,970,739	5,018,005	5,054,009	3,390,951
Average Customers Per Month (2002-2007)	405,737	409,931	414,228	418,167	421,167	423,869
Percent Change		1.03%	1.05%	0.95%	0.72%	0.64%

Revenues, expenses and operating income are expressed on a per-employee and per-customer basis in the following table.⁷⁸

Table 10-Per Customer and Per Employee Metrics 2002-2007

Duke Energy Ohio
Case No. 07-589-GA-AIR
Per Customer and Per Employee Metrics
2002 through 2007

	2002	2003	2004	2005	2006	2007
Revenue	\$ 345,805,194	\$ 507,475,831	\$ 560,462,533	\$ 630,957,530	\$ 577,904,886	\$ 592,876,898
Expense	\$ 250,613,210	\$ 382,179,275	\$ 430,647,414	\$ 507,147,880	\$ 477,913,996	\$ 568,071,129
Operating Income	\$ 28,900,671	\$ 38,717,213	\$ 51,671,461	\$ 24,122,184	\$ 30,885,192	\$ 28,404,220
Average Monthly Customers	405,737	409,931	414,228	418,167	421,167	423,869
Average Employees Per Month	1421	1341	1902	1883	1885	1740
Revenue per Customer	\$ 852	\$ 1,238	\$ 1,353	\$ 1,509	\$ 1,372	\$ 1,634
Revenue per Employee	\$ 243,396	\$ 378,384	\$ 294,683	\$ 335,140	\$ 306,527	\$ 398,090
Expense per Customer	\$ 618	\$ 932	\$ 1,040	\$ 1,213	\$ 1,135	\$ 1,340
Expense per Employee	\$ 176,395	\$ 284,960	\$ 226,428	\$ 269,377	\$ 253,490	\$ 326,478
Operating Income per Customer	\$ 71	\$ 94	\$ 125	\$ 58	\$ 73	\$ 87
Operating Income per Employee	\$ 20,342	\$ 28,868	\$ 27,168	\$ 12,813	\$ 16,382	\$ 16,324
		33%	32%	-54%	27%	-9%

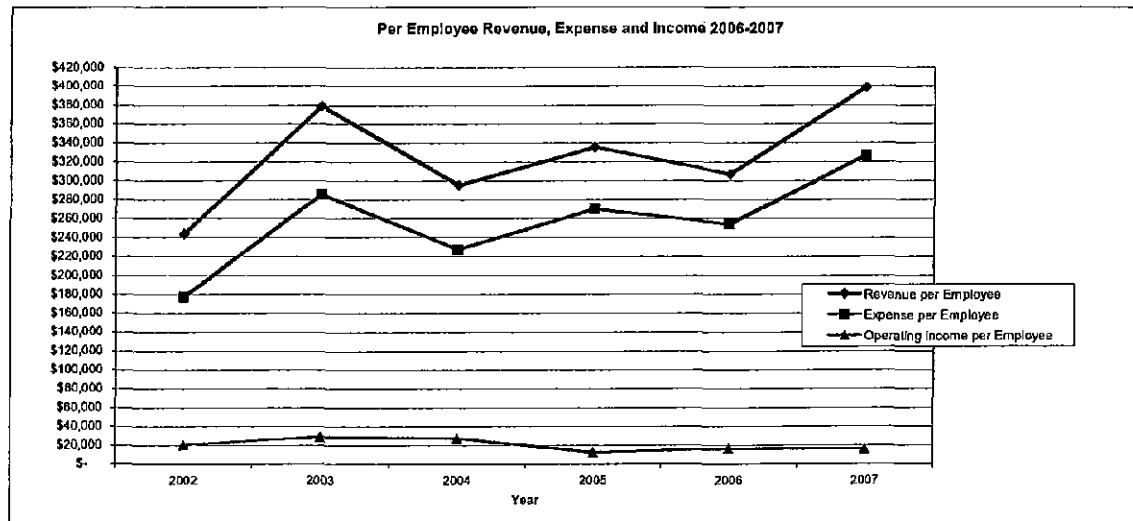
Findings

While revenues, both on a per-employee and per-customer basis, have generally been trending upward, expenses have generally been trending upward as well. The notable exception is from 2005 to 2006 where revenues actually declined roughly 10% on a per customer basis. Total MCF sales and natural gas purchase expenses declined by similar

⁷⁸ Workpaper C(2)_Operational Data Comparison.xls, Tab Per Customer_Employee Metrics.

amounts during that period.⁷⁹ Operating income per customer is expected to decline by approximately 9% from 2006 to 2007.

Figure 2-Per Customer Revenues, Expense, and Income 2002-2007



Conclusions and Recommendations

The per-customer and/or per-employee data analyzed within Section C Task 2 do not indicate a need for further analysis.

Operating Income Task C.3

Task C.3-The auditor selected shall work with Staff and develop an investigation audit plan directed at the significant issues of the case.

Through the course of the audit, Blue Ridge monitored for any issues (e.g., management, operational, and/or financial) that could have a significant impact on the costs included in the test year or may have long-term cost impacts for the Company and its customers. No significant operational or financial issues were noted that warrant additional scrutiny.

From a management perspective, the allocation and management of Duke Energy Shared Services Company costs at the individual business unit level may warrant additional review. Additionally, we found that there is a potential that the audit findings from the Liberty Consulting Group report on Affiliate Transactions in Duke Energy – Carolinas may have an impact on those costs in Duke Energy – Ohio.

Blue Ridge met with PUCO Staff to discuss our findings concerning the shared service issue and affiliates transactions. Our findings, conclusions and recommendations are more fully discussed in Section B.1 above.

⁷⁹ Workpaper C(2)_Operational Data Comparison.xls, Tabs MCF Sales and Yearly Financial Data.

Operating Income Task C.4

Task C.4-Compare the final approved budget to five actual, historical years to determine whether the test year budgeted information is representative of historical trends. Abnormalities of the budget shall be noted and investigated.

Background

Blue Ridge compared the 2007 budget prepared by the Company with five prior years of actual results to identify unusual trends or variances in the test year values. Similar to Blue Ridge's analysis of the test year, we consolidated the Company's detailed account information at the FERC account level to facilitate meaningful comparisons to the Company's prior results. FERC account level analysis eliminates unnecessary confusion caused by changes in the recording of functionally equivalent revenue and expenses in different detailed-level accounts over the period of comparison. Blue Ridge submitted two data requests seeking results for the five years prior in a comparable form the test year. Follow-up data request were issued to explain variances identified between the test year and the average of the prior five years.

Analysis

Blue Ridge obtained budget data for calendar year 2007 from Supplemental Information (C)(38). Using the analysis prepared for Section C Task 1 as a starting point, Blue Ridge prepared an analysis comparing the 2007 budget to five years of prior actual results for the period 2002 through 2006. The only structural difference between this analysis and the analysis prepared for Section C, Task 1 is the data used for the months of January through March 2007. Section C, Task 1 uses actual data for the first three months of 2007 and budget data for the remaining nine months – *i.e.*, the Company's test year. The analysis for Task 4 uses budget data for all 12 months of 2007 and is contained in Blue Ridge's workpapers.⁸⁰

Similar to our testing of test year variances from prior actual results, we identified specific accounts with variances representing an increase of greater than 10% over the 5-year average of actual results and 10% over 2006 results. We requested explanations for those variances from Duke Energy Ohio personnel. We noted that many of the variances were caused by changes in account classifications over the 5-year period prior to the budget year or expenses budgeted to certain accounts while actual results from prior years were recorded in other accounts. The Company provided explanations to the variances identified by Blue Ridge.⁸¹

Findings

Comparisons of the 2007 budget to prior year actual results reveal the following trends.⁸²

1. 2007 budget revenue is expected to increase 29% greater than the 5-year average revenue for the period 2002 through 2006 and 17% over 2006.

⁸⁰ Workpaper C(4)_ Duke 2007 Budget to Actual 5-Years Comparison.xls.

⁸¹ *Id.*

⁸² *Id.*, tab Summary by FERC Account.

2. Total 2007 O&M expenses are expected to increase by 41% over the 5-year average O&M expenses for the period 2002 through 2006 and 17% over 2006. The primary reasons for this cost difference are summarized below.
 - a. Fuel Purchase Expenses are expected to increase 39% over the 5-year average expenses for the period 2002 through 2006 and 21% over 2006.
 - b. Operation Production Expenses are expected to increase 7% over the 5-year average expenses for the period 2002 through 2006 and decrease by 5% from 2006.
 - c. Operation Distribution Expenses are expected to decrease 2% from the 5-year average expenses for the period 2002 through 2006 and increase by 9% over 2006.
 - d. Operation A&G expenses are expected to decrease 1% from the 5-year average expenses for the period 2002 through 2006 and increase by 2% over 2006.
 - e. Maintenance Distribution expenses are expected to decrease by 4% over the 5-year average expenses for the period 2002 through 2006 and increase by 23% over 2006.

Conclusions and Recommendations

Test year revenue and fuel purchase expenses appear to be reasonable compared with actual results from prior years based on known increases in gas purchase costs and the resulting gas cost revenue earned from customers to pay for gas purchase costs. The Company confirmed that the increases were due to changes in gas cost, changes in unbilled revenue and the Rider AMRP increase in May 2007.⁸³ Operating & Maintenance expenses appear reasonable when evaluated at a category level such as total production, transmission or distribution expenses. However, we noted variances greater than 10% over 2006 amounts on a number of accounts. Although many of these variances are not material on a total dollar basis, we provided our analysis to the Company informally and requested explanations for the variances. The Company's explanations are incorporated into our workpaper for this task.⁸⁴ Consequently, through our review, we confirmed that the Company did not have any non-recurring, abnormal or extraordinary expenses that were not explained adequately through discussions and data responses.

Operating Income Task C.5, C.6, and C.7

Tasks C.5, C.6 and C.7 – Document the budget process. Interview Company personnel responsible for the compilation of the budgeted information. Interview a select sample of company personnel (function heads) that had input into the budget and track their input through the budget process.

⁸³ *Id.*

⁸⁴ *Id.*

Background

To complete the analysis for Tasks 5, 6 and 7, Blue Ridge reviewed the information provided with the Company's filing, interviewed no fewer than 10 key personnel involved in the budget formulation and approval process, issued more than 35 data request's related to the Company's budget process and reviewed the information provided by the Company in response, and worked with the Company to develop a flow chart of the budget process.

The Company's budget process is largely a "bottoms up" approach, but senior management sets target goals based upon historical analysis and then evaluates whether those goals are met throughout the year.⁸⁵ This is done on a franchise basis rather than on a state operating company basis. Targets are given to each business unit in terms of margin objectives. In the strategic planning phase, each business unit looks at its potential for the next three to five years focusing on capital investment needs, expenses and growth opportunities. Targets are then set for the next three years for each of these budget areas. The targets for year one then become the objectives for the current budget. The business units then develop their budgets on a "bottoms up" approach to meet target objectives set by senior management. The budget processes, procedures, and tools used for the 2007 budget in the Company's rate filing are those historically used by Cinergy prior to the merger with Duke Energy.⁸⁶ Due to the Company's use of nine months of budget data for the test year, it is important that the process used to develop that budget information is understood and documented. The purpose of Section C Tasks 5, 6 and 7, therefore, is to understand and document the Company's budget process.

The Company's Capital Budget is driven primarily by past history (generally three years), the infrastructure plans of governmental entities, various analyses of the impact of load growth, pipeline integrity, and other inputs. The Capital Budgeting process is defined and controlled by a multi-level process with defined approval levels and is developed between March and June of the previous year. Major projects are "sponsored" and those sponsors are independent from the individuals responsible for construction supervision and inspection. There are two categories, blankets and specifics (over \$500,000), further subdivided by load growth, equipment replacement, governmental mandated projects and other. The Company has a formal Project Assessment Form for the budget that covers description, timing, costs and a justification/risk analysis to support the project request. Additionally, there is a formal Standards review process with a wide range of areas represented as well as an on-going cost review process during construction with specific trigger points.

The Company's Load Forecasting process is addressed in Tasks 11 and 12 below.

Analysis - Non Capital Related Budget

Blue Ridge reviewed the Duke Energy Midwest 2007 Budget Departmental Guidelines filed by the Company⁸⁷ as well as the 2008 Budget Guidelines and Assumptions,⁸⁸ and

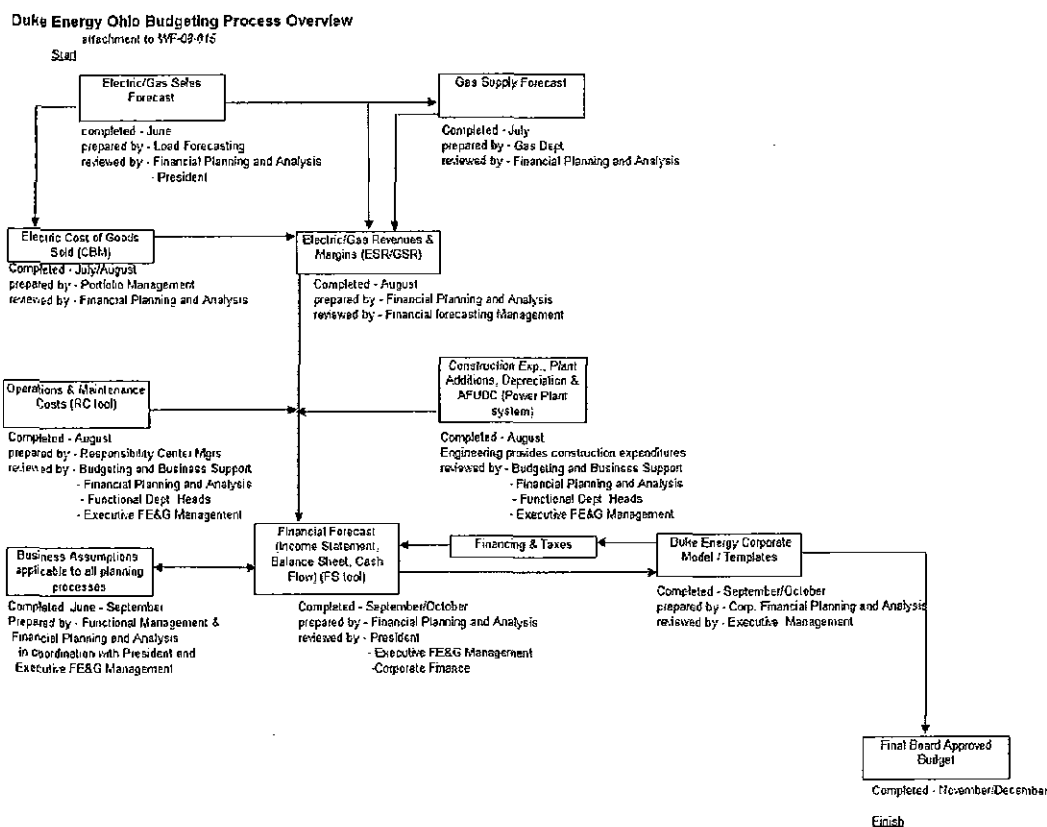
⁸⁵ Per interview with Lynn Good, Senior Vice President & Treasurer, October 31, 2007.

⁸⁶ The budget tools of the post-merger Duke Energy companies will be consolidated in 2008/2009.

⁸⁷ Supplemental Information C(12).

requested the Company's budget procedures in discovery in the format of a flow chart.⁸⁹ The Company initially provided a timeline⁹⁰ (as opposed to a flow chart) for its 2007 budget process, including milestones, timeframes and approval points. Based on Blue Ridge's understanding of the Company's budget process from its Budget Departmental Guidelines and information elicited during interviews with Company personnel, Blue Ridge developed a draft flow chart of the Company's budget process⁹¹ and submitted it to the Company for its review and revisions. The Company's response provides a flow chart of its budget process, identifying timing, workgroups involved in preparation and review, and approval/decision points along the way. The flow chart of the Company's budget process is provided below and in Blue Ridge's workpapers.⁹²

Figure 3-Budget Process Overview



For Tasks 6 and 7, Blue Ridge conducted interviews with senior executives and managers of the Company responsible for the budget process and compilation of the budgets from

⁸⁸ Response to Data Request BRCS-MJM-05-003.

⁸⁹ Response to Data Request BRCS-WF-01-025.

⁹⁰ Workpaper C(5) *Budget timeline*.

⁹¹ Blue Ridge first confirmed that the Company did not already have a flow chart of its budget process. Data Request BRCS-WF-04-001. The Company confirmed that "[n]o flow charts have been prepared."

⁹² Workpaper C(5,6,7) *Financial Planning Process.xls*.

various departments to understand fully the budget process, determine how priorities are established, and how budgets for individual department budgets are completed.⁹³

Per our discussions with senior management and the Financial Planning and Analysis group charged with pulling the budget together from the business units, the load forecast and gas supply forecast are completed first so that the Company's projected revenue and margins can be ascertained. Management then sets target goals based on historical analysis and evaluates the business units' success of reaching those goals. This level of planning is done on a franchise basis rather than just on an Ohio basis. The capital budgets, O&M, and service company expense portions of the budget are then developed by the business units and Duke Energy Shared Services.⁹⁴

Findings - Non Capital Related Budget

Blue Ridge noted no major exceptions to the Company's budget process. Blue Ridge learned from discovery responses that the Company did not previously have a flow chart of its budget process that tied the entire flow and interaction of various departments included in the budget process together from beginning to end. This issue was addressed by Blue Ridge working with the Company to produce a flow chart of the Company's budget process demonstrating the overall flow of the budget process, along with timelines and approval points. As shown in the budget flow chart⁹⁵ and timeline,⁹⁶ the Company has specific timeframes within which key budget milestones are achieved, identifies responsibility for preparation and approval at each step of the process, and identifies the flow of information culminating in the final budget presented to the Board of Directors for approval. This is in addition to the guidelines for the 2007 budget that informs Company personnel about how to use the budget tools, and provides instructions on developing budgets for 2007 and budget reporting.⁹⁷

Analysis - Capital Related Budget

Blue Ridge's analysis of the Company's Construction Budget process involved a number of steps. To understand the process of capital budgeting and construction, the audit plan for this area included a review of the Company's discovery related to the capital budget,

⁹³ Interviews conducted per Section C Tasks 6 and 7 of Blue Ridge's proposal. See workpapers for Interview Questions and Summaries. Blue Ridge interviewed the following Company senior executives and managers related to the budget process: Lynn Good (Senior Vice President & Treasurer), Sandra Meyer, (President of Duke Energy Ohio), Patty Walker (Senior VP of Ohio and Kentucky Gas Operations), Dwight Jacobs (VP Franchised G&E Accounting/CFO of Franchised Gas and Electric), Joe Peak (VP Franchised G&E Accounting/CFO Franchised G&E), Jeff Setser (Director, Corporate Accounting), Gwen Pate (Director, General Accounting – Midwest), William Wathen, Jr. (Director, Revenue Requirements), Brian Davey (General Manager – Financial Planning & Analysis), and Peggy Laub (Manager, FE&G Accounting).

⁹⁴ See interviews with Lynn Good, Senior Vice President & Treasurer, October 31, 2007, and Brian Davey, General Manager, Financial Planning & Analysis, September 25, 2007, as well as the flowchart provided in response to BRCS-WF-08-015. See, Workpaper C5_Budget Flow Chart.

⁹⁵ Data Request BRCS-WF-08-015. See, Workpaper C5_Budget Flow Chart.

⁹⁶ Data Request BRCS-WF-01-025. See, Workpaper C5_Budget Timeline.

⁹⁷ 2007 Budget Departmental Guidelines, Supplemental C(12).

field visits to see selected sites, a series of initial pre-interview data requests for the Company to understand the basis for the capital budget and EPC.

Blue Ridge developed structured questions for the planned interviews and in conjunction with the Company determined the appropriate interviewees. Through the interview process, Blue Ridge generated and documented follow-up data requests and interview notes that memorialized the subject of the interview.⁹⁸

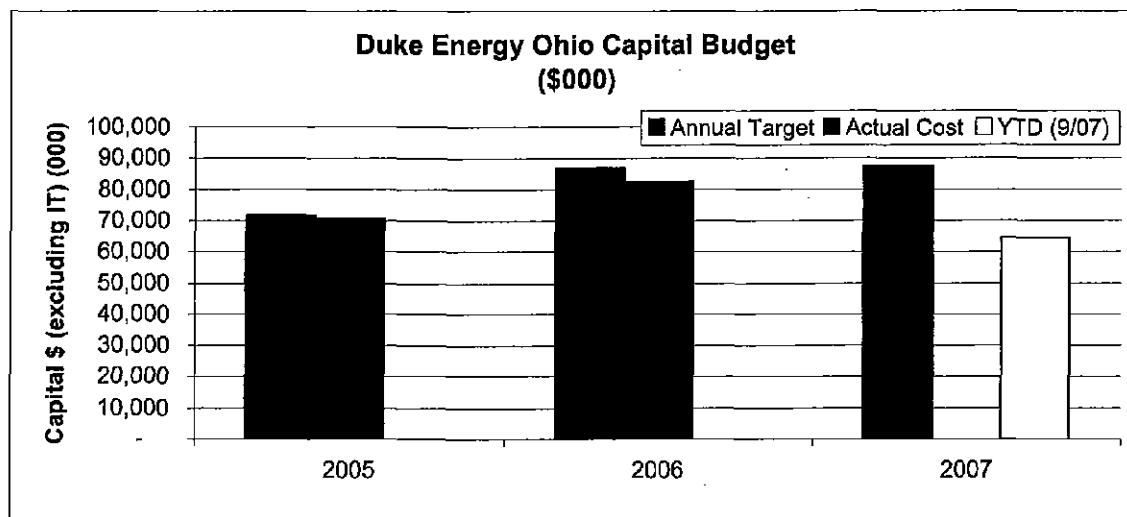
Blue Ridge reviewed the data responses received after the interview, compared and contrasted the Company's capital budget and Engineering, Procurement and Construction (EPC) processes to the best case or best practice budgeting, engineering, procure and construct processes and determined if any missing elements are material or relevant.

Findings - Capital Related Budget

Blue Ridge found that the Company originally had not produced a flow chart of the Company's budget process. At our request, the Company produced such a budget flow chart. We found no major shortcomings in the Company's budget process or deviations from accepted norms.

The Company has generally met its budget targets for the capital expenditures⁹⁹ as depicted below.

Figure 4-Capital Budget vs. Actual Cost 2005-YTD 2007



The Company's Key Performance Indicators (KPI) for Gas Operations include Capital Expenditures, AMRP Capital Expenditures with a specific focus on under budget

⁹⁸ See workpapers for all interviews.

⁹⁹ Workpaper C(5,6,7)_Capital Budget Comparison.xls.

performance. The KPI also include components for the Pipeline Integrity Management Program, Reliability and three safety parameters.¹⁰⁰

Conclusions and Recommendations

Blue Ridge's assessment of the Company's budget process is that it is sound and can reasonably be relied upon to produce accurate budgeted revenues and expenses.

Blue Ridge has reviewed the Company's Project Assessment Forms and noted that the project justifications meet generally accepted utility practice. The Company's KPI are multi-faceted and reasonable and meet generally accepted utility practice. Additionally, the Company's capital budget and EPC processes appear to be well managed, documented, and subjected to reasonable controls. Similarly, the rate base as of March 31, 2007, appears to have been arrived at via a sound process.

Operating Income Task C.8

Task C.8-As actual information for the budgeted months become available, compare and analyze budgeted months to actual months. Significant variances shall be investigated.

Background

Blue Ridge issued a standing data request for the Company to provide updates to actual results for the year 2007 as it becomes available. Because the Company uses budget data for the nine-month period of April through December 2007, we can compare actual data for those months as they become available to determine whether there are significant variances between the operating revenues and expenses the Company used in its test year and the operating revenues and expenses the Company actually incurred. The most recent month that was available as this report was written is August 2007. Blue Ridge updated the budget to actual comparison for the year 2007 to incorporate the most recent month available, compared the budget data for these months to the actual data for these months, and requested explanations from the Company on significant variances between the test year budget information and actual results.

Analysis

Blue Ridge prepared an analysis comparing year-to-date actual results for 2007 with year-to-date budget amounts for the same months.¹⁰¹ This analysis assesses whether the Company's budget for 2007 is reasonably accurate compared with actual results and whether the budget data included in the test year can be relied upon to set rates. This analysis was prepared with data from the Company's revenue requirement model and data provided in response to discovery.¹⁰²

¹⁰⁰ Response to Data Request BRCS-HS-03-016.

¹⁰¹ Workpaper C(8) 2007 Actual vs. Budget Comparison.xls.

¹⁰² Actual data for January through June: BRCS-WF-1-24, Filename: OCC-INT-02-015.xls. July and August actuals from BRCS-WF-05-001a attachment. April - December Budget from PUCO Gas SFRs.xls, Tab ACCTABLE. January - March 2007 Budget from Supplemental C(38), Corporate Budget by Month and Account.

Findings

Year-to-date through August 2007, actual revenue is \$16 million greater than budgeted revenue, fuel purchase costs are \$9 million greater than budgeted fuel costs, other O&M costs are \$5.3 million less than budget, and operating income is \$6.2 million greater than budget.¹⁰³

Conclusions and Recommendations

The 2007 Duke Energy Ohio budget may be slightly understating the revenue and resulting operating income used in its test year calculation. This current trend in year-to-date results may not be sufficiently reliable to draw definitive conclusions, as Duke Energy personnel advised the Blue Ridge team that analyses of month-by-month variances between budget and actual results are likely due to timing differences. Blue Ridge notes that the Company intends to improve the accuracy of its monthly budget amounts through new procedures beginning with its 2008 budget preparation. The 2008 Budget Guidelines and Assumptions, Section 1.4 Budget Development, state the following:

“Budgets should be prepared on an accrual basis. This should include an increased focus on accurate budgeting by month. The goal is to reduce actual versus budget timing variances for 2008 reporting by placing budget dollars in the months they are expected to be spent or accrued.”¹⁰⁴

Operating Income Task C.9

Task C.9-Compare most recent prior year budget to actual results and note significant variances.

Background

Blue Ridge compared the Company's 2006 actual results with its 2006 budget to ascertain how accurate the Company's budget process was in determining its projected costs for a recent year. A positive correlation in the prior year should provide the Commission a high degree of comfort with the Company's 2007 budget process since there were no significant changes in the process between 2006 and 2007. Initial data requests were issued to obtain the schedules containing 2006 budget and actual results. Informal discussions were held with Company personnel to get answers to questions on variances.

Analysis

Blue Ridge compared the Company's 2006 budget with 2006 actual results to ascertain the reliability of the Company's budget process compared with a full year of actual

¹⁰³ Workpaper C(8)_2007 Actual vs. Budget Comparison.xls, tab Actual vs. Budget.

¹⁰⁴ Response to Data Request BRCS-MJM-05-003 Attachment.

results. Actual and budget data by month was obtained through discovery.¹⁰⁵ This analysis is contained in Blue Ridge's workpapers.¹⁰⁶ Similar to the analyses prepared for Section C Tasks 1 and 4, detailed account level data were summarized at the FERC account level to facilitate comparisons among the accounts.

We identified specific accounts with variances representing an increase of greater than 10% over the 2006 actual results to 2006 budget and requested explanations for those variances from Duke Energy Ohio personnel. The Company provided explanations to the variances identified by Blue Ridge.¹⁰⁷

Findings

Comparisons of 2006 actual results to 2006 budget reveal the following variances.¹⁰⁸

1. 2006 actual revenue was 28% less than the 2006 budget due primarily to lower gas cost revenue than projected.
2. Total 2006 actual O&M expenses were less than the 2006 budget by 39%. The primary reasons for this cost difference are summarized below.
 - a. Fuel Purchase Expenses were 35% less than budgeted.
 - b. Operation Production Expenses were 4% over the 2006 budget amount.
 - c. Operation Distribution Expenses were 2% over the 2006 budget.
 - d. Operation A&G expenses 55% less than 2006 budget. This is primarily due to the 2006 budget including costs common to both the electric and gas operations of Duke Energy Ohio. The Company confirmed this was true and noted that 2006 budget could not be broken down to the gas operations only for the common cost accounts without a special analysis.¹⁰⁹
 - e. Maintenance Distribution expenses were 1% less than the 2006 budget.
 - f. Depreciation expenses were 39% less than the 2006 budget due to inclusion of expense attributable to both the gas and electric operations in the budget. Gas only budget expense could not be separately identified without a special analysis.
 - g. Taxes Other Than Income Taxes were 114% less than the 2006 budget due to inclusion of taxes attributable to both the gas and electric operations in the budget. Gas only budget expense could not be separately identified without a special analysis.

Conclusions and Recommendations

Except for significantly lower gas cost revenue and offsetting fuel purchase expenses and the Company's inclusion of unallocated shared costs in the 9XX accounts for the 2006 budget, the Company's actual O&M expenses tracked very close to the 2006 budget for most of the individual accounts. However, we noted variances greater than 10% over

¹⁰⁵ Responses to BRCS-WF-01-022 for 2006 budget data by month and BRCS-WF-01-023 for actual results by month.

¹⁰⁶ Workpaper C(9)_Duke 2006 Actual to Budget Comparison.xls, tab Summary by FERC Account.

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

¹⁰⁹ November 26, 2007 e-mail response from Ted Czupik.

2006 amounts on a few accounts. Although many of these variances are not material on a total dollar basis, we provided our analysis to the Company informally and requested explanations for the variances. The Company noted that actual expenses may be recorded in different accounts than in the approved budget making comparisons at the account level difficult.¹¹⁰ Consequently, the Company recommended evaluating variances at expense group or category level such as total production, distribution and transmission expenses. Given the merger closing in April 2006, the results of this analysis indicate that the Company's budget process was robust enough to overcome any integration issues that may have occurred in 2006.

Operating Income Task C.10

Task C.10 – Prepare and analyze monthly test year and three historical years of monthly historical consumption data (sales) and customer count by tariff.

Background

This section of the audit focuses on trends in consumption and customer related data. Changes in consumption patterns and/or customer counts may help to explain observed deviations in capital related expenditures, recurring expenses and revenue related data. Hence, consumption and customer related data must be obtained and understood such that revenue and expense related data contained throughout the company's revenue requirements model may be put into proper context.

Blue Ridge requested consumption and customer related data through multiple data requests and created a spreadsheet comparing monthly consumption and customer count data for the test year and five prior years.

Analysis

Blue Ridge requested the test year and five prior years' historical monthly consumption and customer data through data requests.¹¹¹ The Company's responses¹¹² included actual MCF data by month and customer group/tariff. These data also include the company's interdepartmental usage of gas (*i.e.*, that which supports the company's electric operations). The table below comprises Total Sales and Transport in MCF by tariff for the test year (2007) and the five preceding years. Blue Ridge's workpapers contain these same data disaggregated by month from January 2002 through August 2007.¹¹³

¹¹⁰ November 27, 2007 e-mail response as documented in workpaper C9_ *Duke 2006 Actual to Budget Comparison.xls*, tab Summary by FERC Account.

¹¹¹ Data Requests BRCS-WF-01-05, BRCS-WF-01-13, and BRCS-WF-01-14.

¹¹² Data Request BRCS-WF-01-013.

¹¹³ Workpaper C(10)_ *MCF and Customers 2002 – 2007.xls*.

Table 11-Actual MCF Volume by Tariff by Rate Schedule 2002-2007

Duke Energy Ohio
Case No. 07-589-GA-AIR
Actual MCF Volume by Tariff
By Rate Schedule

	2002	2003	2004	2005	2006	2007
Rate RS Residential (MCF)	29,008,868	31,256,448	29,887,354	30,338,540	26,101,116	19,751,417
Rate GS Commercial (MCF)	12,282,866	13,401,138	12,121,720	11,980,235	10,617,732	7,733,919
Rate GS Industrial (MCF)	2,428,394	2,544,643	2,189,740	2,002,650	1,783,385	1,269,341
Rate GS OPA (MCF)	1,740,145	1,692,141	1,234,249	1,153,734	1,053,557	755,456
Rate RFT (MCF)	3,844,084	3,728,106	2,601,019	2,623,802	2,550,040	3,229,045
Rate FT (MCF)	8,089,012	8,292,134	9,081,786	9,674,584	8,293,038	7,131,106
Special contract FT (MCF)	-	-	-	-	-	16,447
Total FT (MCF)	8,089,012	8,292,134	9,081,786	9,674,584	8,293,038	7,147,553
Rate IT (MCF)	17,034,942	15,428,883	16,032,808	15,232,348	15,303,897	9,686,868
Special Contract IT (MCF)	2,828,630	2,646,065	2,141,783	2,651,264	2,169,721	1,658,707
Total IT (MCF)	19,863,572	18,074,948	18,174,591	17,883,612	17,473,618	11,325,575
Interdepartmental (MCF)	227,486	140,567	68,149	57,331	99,685	43,628
Total (MCF)	77,484,427	79,130,125	75,358,608	75,714,488	67,972,171	51,255,934

At the time this report was prepared, eight months of actual data from 2007 were available (i.e., January through August), which causes the 2007 numbers in the table above to be lower than the 2002-2006 data (which represent 12 months of data). The table below expresses consumption data for the same period over for eight months of the year (January – August) so that a more meaningful comparison can be performed.

Table 12-Actual MCF Volume January-August 2002-2007

Duke Energy Ohio
Case No. 07-589-GA-AIR
Monthly Detail of Actual MCF Volume (January - August)
By Rate Schedule

	2002	2003	2004	2005	2006	2007
Rate RS Residential (MCF)	2,562,823	2,938,187	2,874,023	2,810,598	2,362,908	2,468,927
Rate GS Commercial (MCF)	1,059,863	1,271,037	1,160,619	1,095,004	957,772	966,740
Rate GS Industrial (MCF)	199,145	244,123	211,089	182,957	163,006	158,668
Rate GS OPA (MCF)	150,963	168,005	119,111	103,452	95,769	94,432
Rate RFT (MCF)	335,170	380,660	250,221	249,321	198,386	403,631
Rate FT (MCF)	716,680	724,391	824,710	874,715	711,042	891,388
Special contract FT (MCF)	-	-	-	-	-	2,056
Total FT (MCF)	716,680	724,391	824,710	874,715	711,042	893,444
Rate IT (MCF)	1,376,816	1,270,119	1,352,774	1,260,232	1,278,907	1,208,359
Special Contract IT (MCF)	246,868	234,528	156,068	228,329	176,768	207,338
Total IT (MCF)	1,623,685	1,504,647	1,508,842	1,488,561	1,455,676	1,415,697
Interdepartmental (MCF)	8,926	15,582	6,627	5,220	8,184	5,454
Average Monthly (MCF) (Jan-Aug)	6,657,254	7,246,631	6,955,242	6,809,827	5,952,742	6,406,992

Customer data are summarized in the next table.¹¹⁴

¹¹⁴ Customer data was provided in response to Data Request BRCS-WF-01-014.

Table 13-Customer Data 2002-2007

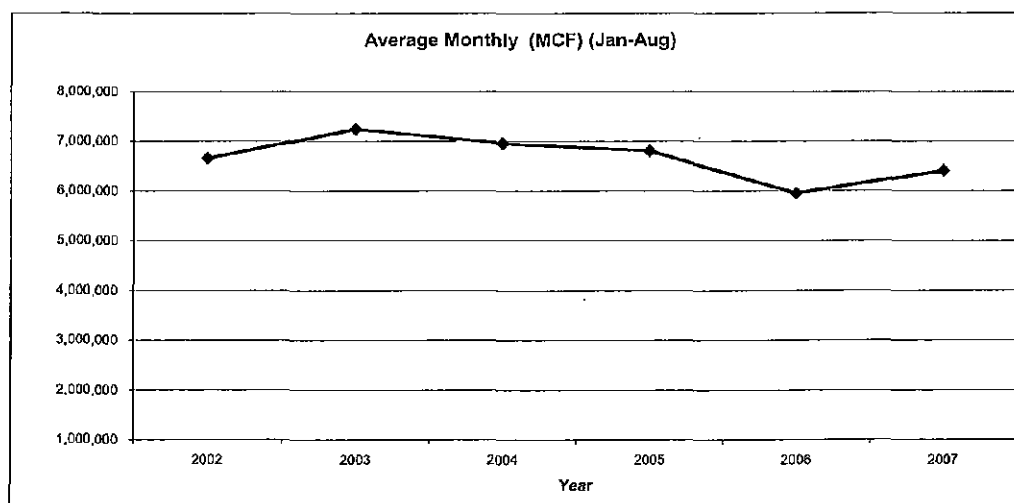
Duke Energy Ohio
Case No. 07-589-GA-AIR
Customers by Month
2002 through 2007

	2002	2003	2004	2005	2006	2007
January	405,566	410,671	415,878	420,074	423,594	425,698
February	406,257	411,324	414,377	418,503	422,191	424,417
March	406,542	411,810	416,264	420,776	424,036	426,356
April	405,635	411,076	415,691	420,236	422,877	423,643
May	407,130	410,044	414,487	418,682	421,466	424,513
June	404,306	409,140	413,184	417,147	419,835	422,874
July	404,319	409,058	412,038	416,091	419,083	422,127
August	403,894	408,335	411,240	415,607	417,826	421,323
September	403,765	407,922	411,036	415,158	417,545	-
October	405,140	409,454	412,575	416,266	419,150	-
November	406,979	411,361	415,037	419,139	422,027	-
December	409,316	408,971	418,932	420,326	424,379	-
Total Annual	4,868,849	4,919,166	4,970,739	5,018,005	5,054,009	3,390,951
Average Customers Per Month (2002-2007)	405,737	409,931	414,228	418,167	421,167	423,869
Percent Change		1.03%	1.05%	0.95%	0.72%	0.64%

Findings

As depicted in the graph below¹¹⁵, average MCF consumption for the months of January through August declined slightly each of the three years prior to the test year and the test year data reflect an approximate average of 6.4 million MCF per month, compared to an average monthly consumption of 6.7 million MCF for the months January through August in the five years prior to the test year.

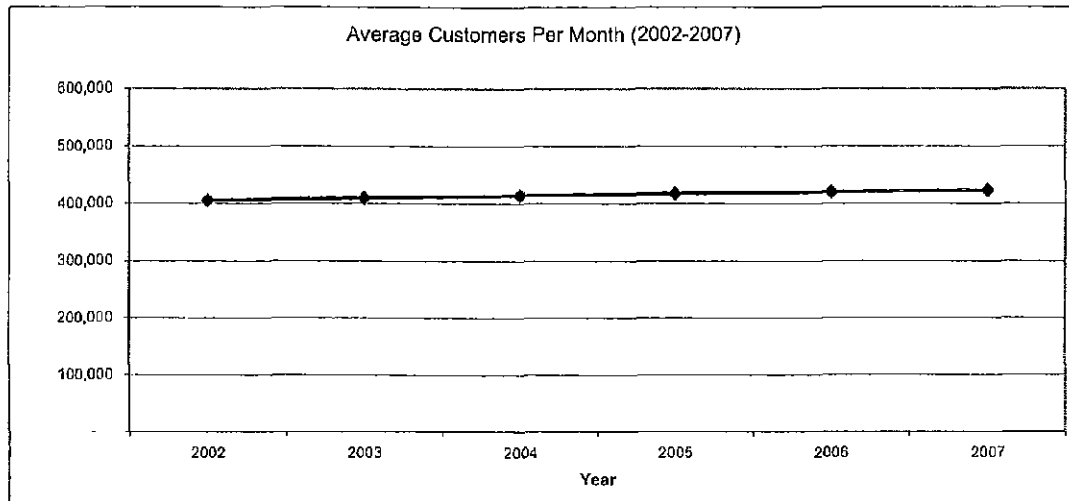
Figure 5-Average Monthly MCF 2002-2007



¹¹⁵ Workpaper C(10)_MCFs and Customers 2002-2007.xls.

The trend in customer counts shows a slight increase, averaging 0.88% per year since 2002.

Figure 6-Average Customers per Month 2002-2007



Consumption per customer has declined slightly consistent with reasonable expectations given the increasing efficiency of equipment reliant upon natural gas. Specifically, average consumption from 2002 through 2006 was approximately 16.26 MCF per customer per month for the first 8 months of the year (January through August). The test year data are reflective of 15.12 MCF per customer per month for those same months of 2007.

Table 14-Average Total Monthly Sales and Transport MCF Per Customer

Duke Energy Ohio
Case No. 07-589-GA-AIR
Average Total Monthly Sales and Transport MCF (Jan-Aug) Per Customer
2002 through 2007

	2002	2003	2004	2005	2006	2007
Average Total Monthly Sales and Transport MCF (Jan-Aug) Per Customer	16.41	17.68	16.79	16.28	14.13	15.12
Percent Change		7.74%	-5.02%	-3.01%	-13.21%	6.94%

Conclusions and Recommendations

These data do not indicate the existence of any anomalies. And as indicated in the Load Forecasting discussion in Section C Tasks 11 and 12, the Company's data and procedures appear to be reasonable and consistent with industry standards.

Operating Income Task C.11 and C.12

Tasks C.11 and C.12 - Review the Applicant's written summary explaining the forecasting (sales) methodology as it relates to the test year. (SFR Supplemental C-12) Interview Applicant's personnel responsible for the sales forecast.

Background

A utility load forecast forms the underlying foundation for a wide range of planning tasks. The commodity portion of the forecast supports the utility's commodity sourcing and/or production functions. The peak forecast supports the utility's transportation and transmission planning and may provide planning information for system operations. The forecast also provides the number of customers by class and can provide, at a high level, information for the capital budgeting process at the transmission and distribution level. The combination of number of customers, commodity sales, and peak forecast provides the basis for the utility's expected revenue stream.

All utility forecasting models assume "normal" weather and the output sales and peak forecast is for normal weather conditions. Many utilities used a thirty-year weather period to develop "normal" weather. Recent weather trends have demonstrated that the thirty-year time horizon may be too long and many utilities have shifted to a ten-year period. Before the shift is made, the utility should analyze weather trends and compare them to present practices. Weather data is usually derived from the National Weather Service and its local stations. High and low daily temperatures are used for most forecasts and humidity and wind data may supplement that as appropriate.

Utility load forecasts are generally driven by economic models of the national economy, which are usually purchased on a subscription basis from an economic forecasting firm. The national model is then broken down into a relevant area such as a state, Consolidated Metropolitan Statistical Area or a number of selected counties to create an input data set for the utility forecasting model. The required inputs are determined by the utility's forecasting model(s).

Utility forecasting models are often a combination of three types of sub models: (1) regression model, (2) end use model, and (3) surveys. A regression model uses statistical techniques to determine the data inputs that provide the best forecast of past, actual consumption. Typical inputs may include number of dwelling units, housing starts, economic data such as household income, appliance saturations, costs of alternate or competitive fuels, building construction, commercial and industrial activity, past consumption, and weather. An end use model uses estimates of end use appliances and energy consuming equipment to forecast commodity consumption. Typical inputs for an end use model may include appliance saturations, industrial information, and building area. Some utilities with specific large customers use periodic surveys or other data gathering methods to determine the expected consumption of large commercial or industrial customers that may be planning additions or closures that are not accurately detailed using economic data.

Utility forecasting is validated by "backcasting," which is the process of applying real economic data from past periods and determining how accurately the model "predicts" sales that have actually occurred.

Blue Ridge reviewed the Company's summary explaining the sales forecasting methodology as it relates to the test year, comparing it to industry norms, and interviewed Company personnel responsible for the sales forecast.

Analysis

Blue Ridge's analysis of Company's load forecasting process involved a number of steps. To understand the process of load forecasting, Blue Ridge reviewed the Company's written summary explaining the forecasting (sales) methodology as it relates to the test year. Blue Ridge developed initial pre-interview data requests for the Company to understand the basis for its forecasting process, developed structured questions for the planned interviews, determined the appropriate interviewees in conjunction with the Company, reviewed the data responses available before the interview. Blue Ridge conducted interviews with Company personnel, took notes during the interview, developed and reviewed the interview notes and developed and reviewed follow up data requests/responses. Blue Ridge compared and contrasted the Company's forecasting process to the best case or best practice load forecast process to determine if any missing elements are material or relevant.

Blue Ridge determined that the Company uses regression models to prepare its commodity load forecast supplemented with information about large or important customers provided by the Company's key account force.¹¹⁶ The forecast is documented¹¹⁷ and is performed on a class basis with interruptible customers' load separate from firm customers. Economic data is obtained from economy.com, a recognized provider of economic information. Economy.com, a division of Moody's, was founded in 1990 and was previously known as Regional Financial Associates. Forecast data provided includes Employment, Income, Population and Production.

The Residential class is forecasted using customers population times space heating saturation and use per customer. Usage per customer has been a downward trend due to equipment efficiencies, weather trends, and the influence of marginal gas prices (elasticity). This effect is not uncommon and Blue Ridge has seen this long-term trend at a number of gas utilities. The Commercial class is forecasted as firm and interruptible, using commercial employment, weather, and marginal gas prices. The Firm Industrial class is forecasted using aggregate manufacturing employment, weather, and the relative price of gas compared to oil. The Interruptible Industrial class is forecasted using aggregate industrial production, weather, the relative price of gas to the wage rate and the relative price of gas compared to oil. The Other Public Authorities Gas Deliveries class is forecasted as firm and interruptible using governmental employment, weather, and

¹¹⁶ Blue Ridge did not review and confirm the input data, statistical regressions and other calculations inherent in the forecast models as that investigation would be extensive.

¹¹⁷ A 16-page narrative of the forecasting process was provided in the response to Data Request BRCS-HS-03-001.

marginal gas prices. The Peak Load forecast is driven by the monthly weather normalized commodity or send out modeling and weather (including temperature and wind speed).

Weather data is from the local airport (Covington) and uses both morning and afternoon data including temperature and wind speed. Within the past five years, the Company moved to a ten-year rolling average of weather data.¹¹⁸

Blue Ridge determined that the Company's regression models are updated annually. The key account force is not "polled", but provides its information as they may receive it. The Load Forecasting department receives a monthly report of actual versus forecast sales. Blue Ridge reviewed the monthly data for 2006 and 2007 year to date to determine the accuracy of the forecast and validation performed by the Company.

Residential customers are surveyed by Marketing every three years with a 30-40% response rate. Commercial and Industrial customers are not surveyed on a periodic basis although Load Forecasting may receive notice of a significant change.

Economic data is provided as a Consolidated Metropolitan Statistical Area for both Ohio and Kentucky and then split based on five-year historical ratios. The data is reviewed, and if changes are suggested, the department heads of both Load Forecasting and Customer Market Analytics approves them. Blue Ridge reviewed the response to a data request¹¹⁹ to determine the extent of changes, if any, made by the Company in the past. The Company indicated that no changes were made.

Market prices for competitive energy are derived from the existing gas tariff, NYMEX projections, and data from Economy.com.

Blue Ridge determined that the Company has explored the effects of elasticity and relative gas prices (average and marginal) within the modeling process. At Blue Ridge's request, the Company provided its annual back casting results for 2002-2006.¹²⁰

Forecasts are reviewed with the Managing Director of Customer Market Analytics, and then presented to senior management (Senior Vice President, Strategy and Planning and the President). There is no formal written approval by senior management before the forecast is sent to other departments. Blue Ridge specifically asked if there has been any pressure to change or modify the sales forecast or process. There has been no pressure or influence exerted.

¹¹⁸ The analysis of this change has been detailed in the testimony of James A. Riddle (Case No. 07-589-GA-AIR).

¹¹⁹ Response to Data Request BRCS-HS-05-001.

¹²⁰ Data Request BRCS-HS-03-004. The Company's load forecasting testimony (James Riddle Case No. 07-589-GA-AIR) provides further details of issues such as weather normalization.

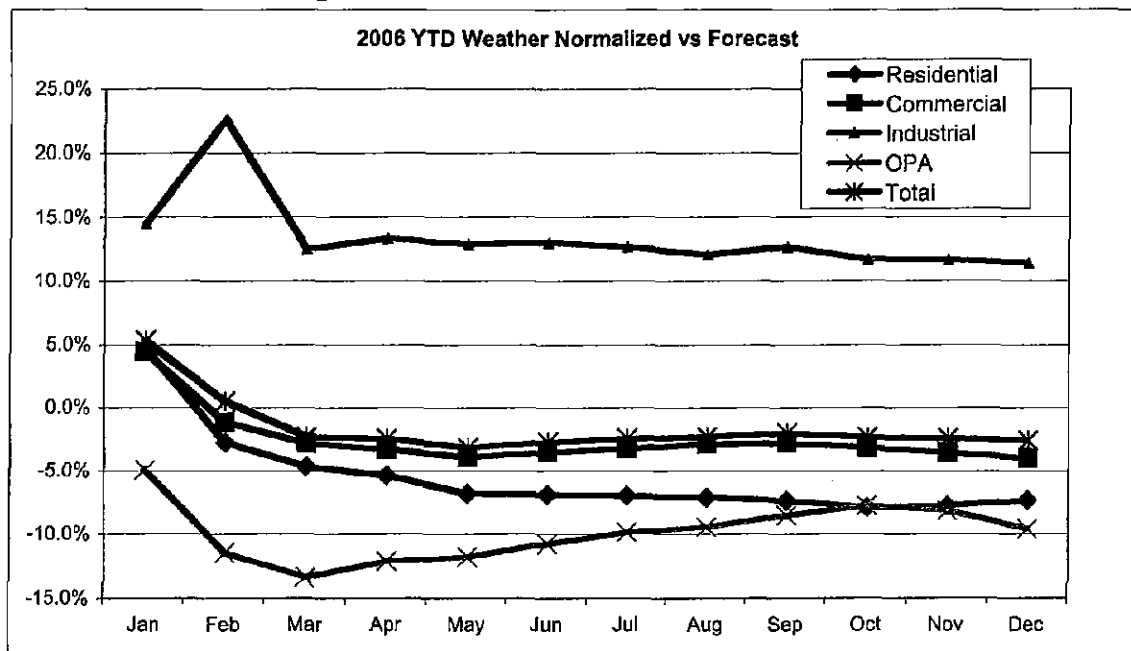
Gas Supply uses the forecast for its purchasing needs. Budgets/Forecast converts the forecast volumes into revenue using realization and then uses the revenue in the Company's budgeting process.

The Load Forecasting Department's plan for improvement include continuing to update the forecasting model annually and working with economy.com to obtain the best economic forecast for the Company. Additionally, the department would like to stabilize the schedule for the forecast.

Findings

Blue Ridge reviewed the Company's Load forecasting process and determined that it uses generally accepted processes, data inputs, data sources and statistical techniques to produce a weather normalized load forecast. The Company's backcasting analysis demonstrates that, at the Company level, the forecast provides a reasonable estimate of sales.

Figure 7- Weather Normalized vs. Forecast



Blue Ridge finds that Commercial and Industrial customers are not surveyed on a periodic basis although Load Forecasting may receive notice of a significant change.

Blue Ridge finds that although forecasts are reviewed with Managing Director of Customer Market Analytics and then presented to senior management, there is no formal written approval by senior management before the forecast is sent to other departments. Blue Ridge specifically asked if there has been any pressure to change or modify the sales forecast or process. There has been no pressure or influence exerted.

Blue Ridge also finds that usage per customer has been a downward trend due to equipment efficiencies, weather trends and the influence of marginal gas prices (elasticity).

Conclusions and Recommendations

The Company's load forecasting process provides appropriate attention to the complex nature of prices and elasticity, and no deviations from accepted industry norms were observed. The Company's weather normalization process as detailed within its filing and the provided narrative includes generally accepted processes and Blue Ridge considers the results reasonable.

It is unclear if the Company's ad hoc process for understanding potential changes at large customers is effective. Some utilities have a more formalized survey process to ensure that large volume users have been surveyed.

The Company should require formal senior management approval of the load forecast before it is distributed to other departments because it is one of the most important components of the forecasting process.

Operating Income Task C.13 and Rate Base Task D.15

Task C.13-Review the applicant's proposed adjustments to operating income and trace them to supporting workpapers and source data.

Task D.15-The auditor will review and analyze the Applicant's proposed adjustments to operating income and rate base and trace them to supporting workpapers and source data.

Background

In these sections, the audit focused on verifying the Company's pro forma adjustments to operating income and rate base for the test year. The Company proposed numerous adjustments to test year operating income (revenues and expenses) and rate base, each of which Blue Ridge reviewed, verified for mathematical accuracy, and traced back to source documentation. Section C Task 13 and Section D Task 15 deal with the Company's proposed adjustments to the test year. Section C Task 13 addresses the review of the Company's proposed adjustments to test year operating income and tracing those adjustments to source documents and workpapers.

Section D Task 15 addresses the review of the Company's proposed adjustments to operating income *and* rate base and tracing them to source documents and supporting workpapers. Due to this overlap (i.e., reviewing proposed adjustments to operating income and tracing them back to source documentation), these tasks will be discussed together. In addition, as shown in the work steps for these tasks, which discuss verification of mathematical accuracy of the adjustments, there is a degree of overlap between these tasks and Section A Task 3, related to verifying the mathematical accuracy of the Company's filing.

To complete these tasks, Blue Ridge performed a mathematical accuracy check of the proposed adjustments, identified hard-coded values, requested source documentation for hard-coded values,¹²¹ reviewed the supporting documentation and traced the adjustment inputs to the supporting documentation. Blue Ridge also conducted tests of Company systems to determine whether the data used in the Company's filing (which come from these systems) is accurate. Blue Ridge created an exceptions list for values that it could not verify in relation to supporting documentation.¹²²

From the supporting documentation provided by the Company for its proposed adjustments, Blue Ridge created a pro forma backup book that provides supporting

¹²¹ Blue Ridge issued more than 40 data requests (some of which were multi-part requests) regarding source documentation for values in the Company's filing.

¹²² Workpaper A(3), C(13) Exceptions List.

documentation necessary to trace each of the Company's proposed adjustments to their underlying source documentation, with a separate tab for each adjustment.¹²³

Analysis

Blue Ridge first identified the Company's proposed adjustments to operating income and rate base¹²⁴ and verified each of the calculations used to derive the numbers for mathematical accuracy and proper flow through the model. Blue Ridge requested and reviewed extensive discovery on the support for numerous values that are used in the formulation of the Company's proposed adjustments that could not be verified in Blue Ridge's preliminary analysis. Blue Ridge then traced the numbers underlying each of the adjustments back to their source documentation. Once the source documentation was located for a particular value, this source was logged into Blue Ridge's mathematical accuracy test workpapers¹²⁵ and that source document was added to the pro forma backup book. For any values underlying the proposed adjustments that could not be traced to supporting documentation, an exception was noted.

Blue Ridge created a backup book of the proposed adjustments, which is a book containing supporting documentation for the values that serve as the basis of the Company's proposed adjustments. This back up book is a PDF document with a separate tab for each adjustment to operating income.¹²⁶ The first page of each tab is the proposed adjustment of the Company from the tab in the revenue requirement model, and the remaining pages of each tab contain the supporting documentation for the inputs that make up that proposed adjustment. The workpapers are annotated, showing the source of the data within the backup book. This back up book is designed to allow each adjustment (and the inputs that make up that adjustment) to be traced back to its source document(s) all within one document.

Blue Ridge conducted interviews with Company personnel to verify the mathematical accuracy of the proposed adjustments, and to assist in tracing the information to source documentation.¹²⁷ Blue Ridge also met with Duke personnel to better understand how FAS 106 payments data traces from the Company's filing back to actuary reports requested under Section A(9) and the Company's systems, and performed an on-site test of the payroll system underlying the Company's proposed labor expenses. These two tests are described in detail below.

¹²³ Workpaper C(13)_Pro.pdf.

¹²⁴ Those adjustments are found in the Company's revenue requirement model at Tabs C3.1 through C3.21 and Tabs B2.2 and B3.1.

¹²⁵ Workpaper A(3)_Math. Accuracy Test.xls.

¹²⁶ The tabs of the pro forma back up book are set up according to the operating income adjustments on Tabs C3.1 through C3.21 of the Company's revenue requirement model. That is, Tab C3.1 of the back up book corresponds to adjustment C3.1 of the Company's model. The adjustments to rate base on Tab B2.2 and B3.1 are also included in the backup book under Tab C3.5 at pages 3.5-66 through 3.5-69.

¹²⁷ See, e.g., Interviews with Ted Czupik, Bob Parsons and Jeff Setser.

Actuary Data Test

On October 25, 2007, Blue Ridge interviewed the Director of Corporate Accounting – Corporate Controllers Department in the Company’s Charlotte, North Carolina office, which included an explanation of how the actuary report data found in the Company’s revenue requirement model¹²⁸ and is used to develop Total CG&E Gas O&M FAS 106 Payments ties to the Company’s actuarial reports and the Company’s systems. The Company was able to verify the numbers in the model and Blue Ridge issued a follow up data request seeking copies of the pages of the actuarial notebook that were discussed during this test, which were provided by the Company.¹²⁹ Blue Ridge has no exceptions to report from this test.

Payroll Test

One of the tests that were performed to validate the accuracy of the Company’s model is a payroll test, conducted at the Company’s offices in Plainfield, Indiana, to test the accuracy of the employee and hourly rate data that underlies the Labor Expense calculated by the Company.¹³⁰ Labor expense dollars are calculated by type of Duke company (i.e., Duke Energy – Ohio Direct Labor expense and labor expense allocated from Duke Energy Services, Inc.) and by type of employee (i.e., Non-exempt, Exempt, IBEW 1347, IBEW 1393, UWUA, USWA 12049 and USWA 5541, full time, part-time, temporary, and summer help). These labor expense dollars roll up to the Annualized Test Year Gas O&M Labor Expense¹³¹ and flow through the revenue requirement model into a number of adjustments.¹³²

Blue Ridge requested in discovery documentation supporting the Company’s labor expense calculations.¹³³ Included in the documentation provided by the Company was the source for the data related to number of employees and average hourly rate underlying the Company’s labor expense calculations.¹³⁴ This documentation is an extract from the Company’s *PeopleSoft* system, used to track payroll information on employees from Duke Energy Ohio (CGE) and Duke Energy Shared Services (CSC), and includes an entry for each of the CSC and CGE employees. For each entry (or

¹²⁸ Data Request BRCS-WF-01-001, *PUCO Gas SFRs.xls*, Tab B6WP, Schedule WPB-6.1c.

¹²⁹ Data Request BRCS-MJM-06-002.

¹³⁰ The primary labor expense development is found in the revenue requirement model at Data Request WF-01-001, *PUCO Gas SFRs.xls*, Tab SCH_C3.4. The Company calculates labor expense by multiplying the number of employees by the number of straight time hours to derive total straight time hours, and then multiplies this product by the average hourly rate to develop total straight time labor dollars, to which overtime hours are added to calculate Total Labor Dollars. Two allocators are then applied to the total labor dollars to first allocate total labor dollars to Total DE-Ohio labor expense, and then to allocate total DE-Ohio labor expenses to Gas O&M.

¹³¹ *PUCO Gas SFRs.xls* Tab SCH_C3.4, Schedule WPC-3.4a, line 6 (excel cell S55).

¹³² Adjustment on Tab SCH_C3.4 (to reflect base payroll costs for full-time, part-time and temporary employees as of April 23, 2007 using wage rates in effect at April 23, 2007), adjustment on Tab SCH_C3.18 (to annualize payroll taxes based on annualized wages as of April 23, 2007), and adjustment on Tab SCB_C3.17 (to annualize pension and benefits expense based on annualized wages as of April 23, 2007).

¹³³ Data Request BRCS-WF-01-016.

¹³⁴ *Rate Case Avg Hrly Rate-4-23-07.xls*. This file is a work book file included in the response to Data Request BRCS-WF-01-016.

employee), the following information is provided: (i) Company (CGE or CSC), (ii) Group Code,¹³⁵ (iii) Union Code (if applicable),¹³⁶ (iv) hourly rate, (v) regular/temporary, (vi) full/part time, (vii) standard hours per week, (viii) status (e.g., active, on leave), (ix) location, and (x) description of location. This workbook also summarizes the data from the Query Results tab into employee counts and hourly rate by Company and type of employee. To test the accuracy of this data, Blue Ridge visited the Company's Plainfield, Indiana office to test the extent to which the information shown in the workbook provided by the Company in discovery matched with the information in the Company's payroll software – PeopleSoft.

To look up particular records/employees in PeopleSoft, one must have the employee name and/or employee ID number, though the Company redacted employee name and identification numbers from the *PeopleSoft* extract provided in response to discovery. When Blue Ridge informed the Company that it would need to review this information on-site when conducting the payroll test, the Company indicated that the original *PeopleSoft* extract with the employee name/ID information had not been retained, and the Company was unable to retroactively run a query from PeopleSoft that identically matched the data extracted on 4/23/07 for the file used in the Company's filing. As a result, Blue Ridge issued a follow-up discovery question¹³⁷ seeking an updated query from the *PeopleSoft* system to extract information comparable to that provided in response to discovery and requested the Company retain a copy of the file on location in Plainfield so that employee ID information would be available for the payroll test.¹³⁸ It is from this updated file that Blue Ridge created the sample for the payroll test.

The payroll test was performed at the Company's Plainfield office on Monday October 29, 2007, and with a representative from the Company's Payroll Department.¹³⁹ During this test, Blue Ridge determined the extent to which the payroll information for the 77 Sample ID Nos. randomly selected for the payroll test¹⁴⁰ matched the payroll information for the 77 associated employee ID numbers in the Company's payroll system. Once Blue

¹³⁵ Group codes indicate frequency of payment and employee type. For instance group code BN2 refers to a nonexempt employee (N) that is paid biweekly (B); BU2 refers to a Union employee (U) that is paid biweekly (B); SM2 is a Exempt employee that is paid semi-monthly.

¹³⁶ Union codes are: 1 – IBEW 1393; 2 – IBEW 1347; 6 – UWUA; 7 – USWA 12049; and 8 – USWA 5541.

¹³⁷ Data Request BRCS-WF-05-004.

¹³⁸ In response to BRCS-WF-05-004, the Company provided an updated document to Blue Ridge and retained a confidential file with employee ID information on-site in Plainfield. The Company provided file "avg hrly rate 10-19-2007 cge csc rate.xls" in response to WF-05-004, and from this file Blue Ridge created a testing sample and conducted its payroll test.

¹³⁹ *Workpaper C(13) Payroll Test Workpaper.xls*.

¹⁴⁰ The 10/29/07 file contained 4,405 entries (a difference of (28) entries from the 4/23/07 extract. From these entries, Blue Ridge created a sample size of 77 – reflecting the following: (i) assumes 10% risk of assessing control risk too low, (ii) 0.25% expected population deviation rate, and (iii) 5% tolerable deviation rate. Blue Ridge assigned a Sample ID No. to each entry in sequential order in which they appeared in the Company's spreadsheet, and then created a random sample of 77 Sample ID Nos. using the Excel-based random sample function. =RANDBETWEEN(X,Y). These 77 entries were highlighted in the redacted *avg hrly rate 10-19-2007 cge csc rate.xls* file, and then matched up to the associated 77 Employee ID numbers in the Company's confidential file on location in Plainfield.

Ridge had the employee ID numbers associated with its sample, the Company assisted Blue Ridge in logging into the Company's PeopleSoft system, and explaining how the system is used to look up employee information. With this information, Blue Ridge was able to search the PeopleSoft system for each of the 77 employee ID codes in its sample. This consisted of typing each Employee ID code into a search box within PeopleSoft, and viewing screens from that search result to determine whether the information retrieved by the system for that entry/employee matches up with the Company's updated *PeopleSoft* extract.¹⁴¹ Blue Ridge performed this search and verification process for each of the 77 entries in its sample. Blue Ridge determined that in each of the 77 instances in its sample, all of the information provided in updated payroll file provided in discovery matched the information in the Company's PeopleSoft system.¹⁴² There are no exceptions to report from the payroll test. It should be noted, however, that a limitation of the payroll test is that it was conducted on the updated file based on a *PeopleSoft* extract dated 10/19/07 rather than the *PeopleSoft* extract dated 4/23/07 (which serves as the basis for the Company's labor expense calculations). Blue Ridge is confident that the results of the test performed on the updated file is indicative of the results that would have resulted from performing the same test on the 4/23/07 extract if that data would have been available.

Findings

Blue Ridge's exceptions regarding mathematical errors in the Company's filing are discussed in Section A Task 3. The impact of correcting those errors on the proposed adjustments is summarized in the following table. Only adjustments that are impacted are shown.

Table 15-Impact of Error Corrections on Revenue Requirements Model

<u>Adjustment</u>	<u>"As Filed"</u> <u>Results</u>	<u>Revised Results</u>	<u>\$ Change</u>	<u>% Change</u>
C-3.4	(\$5,899,790)	(\$6,062,046)	(\$162,256)	2.75%
C-3.8	(\$451,759)	(\$805,518)	(\$353,759)	78.31%
C-3.10	\$320,188	\$312,187	(\$8,001)	-2.50%
C-3.14	(\$425,316)	(\$359,798)	\$65,518	-15.40%
C-3.17	(\$413,534)	(\$489,776)	(\$76,242)	18.44%
C-3.18	(\$682,644)	(\$677,345)	\$5,299	-0.78%
C-3.19	(\$67,513)	(\$59,918)	\$7,595	-11.25%

The table above shows the impact on the Company's proposed adjustments from correcting errors identified by Blue Ridge. These corrections do not impact the rate base adjustments related to the portion of the Hartwell Recreational facilities not used by the Company. Seven proposed adjustments have been found to be inaccurate. The impacted adjustments are listed and described below:

¹⁴¹ avg hrly rate 10-19-2007 cge csc rate.xls.

¹⁴² This included a verification of the following for each entry: Company, Employee Group, Union Code, Hourly Rate, Reg/Temp, Full/Part Time, Std. Hrs/Wk, Status, Location and Description of location.

1. C3.4: To reflect base payroll costs for full-time, part-time and temporary employees as of April 23, 2007 using wage rates in effect at April 23, 2007.
2. C3.8: To reflect the change in expense if property taxes were calculated in accordance with SB 287 and based on plant in service as of March 31, 2007.
3. C3.10: To reflect federal income taxes at 35% due to interest deductible for tax purposes being based on rate base at March 31, 2007 as shown on Schedule B-1 and the weighted cost of debt of 2.6% as shown on Schedule D-1, as well as to reflect the elimination of federal deferred tax expenses related to Allowance for Funds Used During Construction and Capitalized Interest.
4. C3.14: To eliminate non-jurisdictional operating expenses.
5. C3.17: To annualize pension and benefits expense based on annualized wages as of April 23, 2007.
6. C3.18: To annualize payroll taxes based on annualized wages as of April 23, 2007.
7. C3.19: To annualize unemployment taxes based on annualized wages as of April 23, 2007.

Blue Ridge also created an exceptions list for values in the Company's filing that could not be tied back to supporting documentation. The second exceptions list (unlike the exceptions listed discussed in Section A Task 3) identifies issues that do not at this time warrant a correction to the revenue requirement model. These exceptions are summarized below and described in more detail in Blue Ridge's workpapers.¹⁴³

Exceptions List – Unable to Tie to Source Documents¹⁴⁴

1. Unable to verify the monthly amortization amounts for three accounts in the Company's annualization of amortization of PISCC.¹⁴⁵
2. Unable to tie test year information for two accounts – Accounts 880200 and 929110 – to source information.
3. Unable to verify the straight-time hours for Non-Exempt Temporary Part Time employees and straight time hours for UWUA Temporary Part Time employees allocated from Duke Energy Services, Inc.
4. Unable to verify percentages used to calculate taxes other than income taxes.

Blue Ridge finds that the successful results of the payroll test indicates that the employee count and average hourly rate information used by the Company in its rate filing is reasonably accurate and can be relied upon to calculate labor expenses.

Conclusions and Recommendations

The errors discovered by Blue Ridge in the Company's model causes seven proposed adjustments to be inaccurate. Blue Ridge recommends that the Company make the

¹⁴³ Workpaper A(3), C(13) *Exceptions List.xls*.

¹⁴⁴ In addition to the following list, Blue Ridge was unable to tie cells H21, H24, H30 and H56 in Tab SCH_C11.2 to the cited source. However, these numbers do not impact the Company's filing and will not be discussed in detail here.

¹⁴⁵ Data Request BRCS-WF-01-001, *PUCO Gas SFRs.xls*, Tab SCH_C3.20, column Y.

corrections/updates listed in Blue Ridge's workpaper *A(3),C(13)_Exceptions List* as illustrated in workpaper *A(3)_Math.Accuracy Test-INPUT CHANGES.xls*. The mathematical accuracy of the remaining adjustments to operating income and rate base are reasonably accurate.

It is also difficult to validate a small subset of values that underlie the Company's proposed adjustments. For the exceptions related to values that could not be traced to source documentation,¹⁴⁶ the Company should be required to demonstrate that the value ties to the source cited, or if the source cannot be tied to the source cited, explain why the input is reasonable.

¹⁴⁶ Workpaper *A(3), C(13)_Exceptions List.xls*.

D. RATE BASE

Audit Team

1. Howard Solganick – Lead
2. Michael T. Dryjanski
3. Donna Mullinax
4. Dan Salter
5. Tracy Mullinax – Support

Audit Objectives and Scope

Blue Ridge's audit objectives and scope as provided in the approved work plan included an evaluation of the following:

Task D.1-The auditor selected shall prepare a balance sheet comparison of the date certain to actual historical financial data. The comparison shall include historic data for the most recent five years for which data is available to determine whether the rate base is representative of historical trends. Abnormalities in the date certain balance sheet shall be noted and investigated.

Develop a comparative analysis of balance sheet. Determine significant increases in rate base and investigated cause. Request support for/or explanation of significant increases.

Task D.2-The auditor selected shall prepare a comparison to identify plant additions by year, by account. Major additions shall also be identified by project description.

Request a list of major plant additions. Request project descriptions. Prepare summary report of major additions

Task D.3-The auditor shall sample projects directed at the major additions since date certain in the previous case and examine work orders and other source documents. Primary efforts shall be directed toward the significant issues of the case.

Determine major plant related issues in case (Known and certain: case iron replacement program). Select projects for review (at random). Develop a requirements list of supporting documentation for projects. Request and physically review project files including work orders and supporting documentation. Note any discrepancies or missing documents. Validate that supporting document is appropriate, valid and adequately supports costs being incurred. Note any exceptions.

Task D.4-The auditor shall conduct field investigations to physically inspect sample projects.

Conduct field visits noting project completion and whether the facility meets the Commission's standards for used and useful.

Task D.5-The auditor selected shall review major additions, retirements, transfers, and adjustments to current date certain value of plant in service that have occurred since the date certain from the last rate proceeding.

Request and prepare an analysis of additions, retirements, transfers and adjustments for the purpose of establishing the validity of current rate base level proposed in case.

Task D.6-The auditor shall review annual plant balances, plant retirements, and their corresponding salvage and cost of removal.

Request and prepare an analysis of annual plant balances, plant retirements, and their corresponding salvage and cost of removal for the purpose of reviewing accumulated depreciation amortization

Task D.7-The auditor selected shall review current Commission approved amortization of reserve deficiency (if applicable).

Request and understand the PUCO's current approved amortization of the reserve policies and rules. Assess whether the Company's filing complies with these policies and rules and note any exceptions.

Task D.8-The auditor shall verify that plant retirements have been reflected in plant in service and depreciation reserve.

Validate plant retirements have been appropriately reflected

Task D.9-The auditor shall verify that amortization expense of capital leases corresponds with the capitalized amount and is amortized at the proper rate.

Request a list of capital leases. Validate proper recording on accounting system
Validate appropriate depreciation rate. Validate amortization calculation.

Task D.10-The auditor shall analyze Allowance for Funds used During Construction (AFUDC), or Interest Used during Construction (IDC) to ensure a proper calculation.

Request a list of projects currently in CWIP. Request company's procedures for applying AFUDC/IDC. Validate AFUDC/IDC rate calculation. Validate applicability of AFUDC/IDC to project list. Validate calculation of AFUDC/IDC on project list.

Task D.11-Any major sale of plant or equipment since the Applicant's last base rate case shall be reviewed to determine if gains or losses from the sale are treated properly.

Request a list of sale of major plant equipment (greater than (\$100,000). Request and review transaction report and journal entries related to list. Note amounts of

gains and losses and follow through to GL. Validate appropriate amounts flowing through to income statement/balance sheet as appropriate. Note any exceptions

Task D.12-The auditor shall verify the Applicant's inventory of Material and Supplies (M&S) included in the application is for repair or replacement of existing plant and equipment and not for construction projects.

Request list of M&S making up the inventory balance included in the company's filing. Develop a list of "what should be there" for select store rooms. Request field visit of select store rooms and physically inspect inventory looking for presence of specified M&S. Interview store keepers to determine the layout of stores and how M&S is differentiated repair/replace and construction. Note possible exceptions.

Task D.13-The auditor shall become familiar with any regulatory assets, the nature of the entries, dollar amounts, reason for the deferrals, and whether regulatory approval has primarily been obtained for the deferrals.

Request list of all regulatory assets and the underlying basis. Determine which have specific regulatory approval. Note any exceptions.

Task D.14-The auditor shall investigate the accounting for income taxes and verify that the Applicant has properly accounted for the differences on the balance sheet.

Review the tax accounting procedures/rules for Ohio. Review and validate Company's underlying calculations and underlying support documentation. Note any possible exceptions.

Task D.15-The auditor will review and analyze the Applicant's proposed adjustments to operating income and rate base and trace them to supporting workpapers and source data.¹⁴⁷

Validate the company's revenue requirement calculations and linkage to backup supporting document and note any exception.

Task D.16-Other independent analyses will be performed as the auditor and/or Staff consider necessary under the circumstances.

Background

The capital investment installed by a utility forms one leg of the rate case triad of rate base, revenue, and expenses. Thus, the verification of the utility's rate base is essential to the ratemaking process. Rate base verification can be a challenging process because the investment has been conceived, designed, procured, installed, and commissioned *before* the utility requests approval to recover those costs in rates. Verification of a gas utility's

¹⁴⁷ Due to the similarities between Task C.13 and Task D.15, they will be discussed together in this report. See the discussion for Task C.13 in Section C. Operating Income of this report.

assets provides additional challenges because many are buried for operational and safety reasons and generally cannot be disturbed for inspection or verification.

A multi-faceted approach to the audit of rate base overcomes many of the challenges described above. These facets include:

- Review of the utility's plant accounts (rate base)
- Review of the capital planning/budgeting process
- Review of the Engineering, Procurement and Construction (EPC) process
- High level review of the Accelerated Main Replacement Project (AMRP)
- Review of the installed plant in the field
- Interviews with company personnel involved in the tracking of plant activity and related transactional activity such as AFUDC, depreciation expense¹⁴⁸ and the initiation and tracking of gas related work orders¹⁴⁹
- A transactional review of capital additions

The accounting review forms a significant portion of the rate base audit. The utility's process for the recording of the value (or cost) of the assets must be explored in depth. That review includes appropriate documentation, cost estimation, validation of the cost components and charges, timeliness of plant in service categorization, and proper and timely recognition of plant retirements.

A review of a utility's plant-in-service cost transactions is designed to consider the reasonableness and appropriateness of a company's plant additions, retirements, transfers, and sales of utility assets. This review begins with the planning process, which starts with the load forecast and includes the annual capital budget process. The utility should have a rational, well thought out capital budget process in place that has been tested over time. Approval points should be well defined and executed. Significant deviations from the capital budget should be investigated and understood by management. This review is included with the review of the budgeting process.

The review of the EPC process (i.e., engineering, procurement, and construction) ensures that the funds spent on capital investments are properly determined and appropriately expended. Facilities with long-term excess capacity are of little value to the utility and its customers, and, thus, engineering should be grounded in reasonable needs and standards.

The procurement process should focus on the lowest reasonable evaluated long-term cost. Driving a "hard bargain" is the surest way to guarantee problems over the long term. In contrast, paying top dollar due to lack of real competition and/or lax procurement methods offers no benefits to the utility.

The construction process must be properly supervised, appropriately inspected, and focused on safety during construction and long-term operations. Additionally, the "as

¹⁴⁸ Interview with Supervisor – Plant Accounting

¹⁴⁹ Interview with Analyst – Gas Engineering and Sr. Engineer – Gas Engineering

built" conditions must be accurately recorded and documented for safe operation and correct payments to constructors.

Post construction physical inspection reviews provide limited information, and, thus, the audit is dependent on the process reviews described above to determine if a reasonable process is in place wherein one can conclude that the utility managed the process effectively to achieve reasonable and cost-effective/beneficial results.

Site visits to on-going/current construction offer the opportunity to view the utility's safety, supervision, inspection, and contractors practices during construction. The site visits also offer the opportunity to confirm that process is operating as described during interviews and in data requests.

Intangible or "soft" assets such as software systems and other business processes are also rate base investments, and they must be "viewed" and explored for reasonableness.

Other aspects of the Company's rate base include capitalized leases, AFUDC, gains/losses on sales, and regulatory assets.

Capitalized leases are typically associated with leasehold improvements in which a company makes improvements associated with properties, which it does not own, but has the right to use for a longer period of time, and the expenditures are depreciated or amortized over the life of or the remaining life of the lease.

AFUDC is one of the components of the cost of construction that is specifically addressed in the Uniform System of Accounts and for which a formula is provided to those utilities that are governed by FERC. This formula has also been adopted by most state commissions

As utilities restructure and streamline, they regularly consider the best use of assets such as corporate buildings and service center operations. Should assets be sold, a gain or loss may be recorded on the company's books. A review of the sales transactions are necessary to ensure that the proceeds from sale and the resultant gain or loss are reasonably assigned to the appropriate components of the transaction, that the gain or loss is calculated and properly recorded, and that the transaction result is properly recorded, i.e., that the retirement is recorded.

A regulatory asset is created when a company capitalizes all or part of an incurred cost that would otherwise be charged to expense when it is probable that future revenue at least equal to the capitalized cost will result from the ratemaking process, and that future revenue will be provided to permit recovery of the previously incurred costs.

Construction activity is not all about the additions of plant. In today's environment, utility assets are often subject to outside influences, wear and tear, technological obsolescence and other factors, which result in replacement of assets. Thus, a review of

records must include consideration whether or not the utility is recording the retirement of plant in a timely manner.

Material and supplies inventories used to support ongoing construction activity is another aspect of rate base that can impact a utility's filing depending upon the order of magnitude of the dollar amounts involved.

The discussion that follows contains Blue Ridge's Analysis, Findings, Conclusions, and Recommendations related to Duke Energy – Ohio's date certain rate base included in the filing in Docket No. 07-0589-GA-AIR.

Rate Base Task D.1

Task D.1-The auditor selected shall prepare a balance sheet comparison of the date certain to actual historical financial data. The comparison shall include historic data for the most recent five years for which data is available to determine whether the rate base is representative of historical trends. Abnormalities in the date certain balance sheet shall be noted and investigated.

Background

The Company is obligated to provide the information related to its assets and liabilities in a manner by which the Commission and interested parties can evaluate the Company's investments in those assets that are being used to service customers directly (i.e., gas plant in service) and indirectly (i.e., common plant, such as offices and related administrative space, and intangible plant, such as computer systems). In addition, other balance sheet asset items, including current and accrued assets (e.g., cash, prepayments, accounts receivable, working funds, materials and supplies, etc.) are examined for their inclusion and/or effect on rate base. The liabilities are important to understand the way the Company's debt and other obligations are structured so that rates are set to provide sufficient interest coverage.

Analysis

As part of our review of the mathematical accuracy of the Company's revenue requirement calculations, Blue Ridge reviewed and validated all mathematical computations and data included in the balance sheet.

Blue Ridge reviewed the Revenue Requirements Model provided by the Company, including Schedule C11.1,¹⁵⁰ which provides a balance sheet comparison of "Date Certain" balances and year-end balances for each of the calendar years 2002 through 2006.

The following table¹⁵¹ shows the aggregate balance sheet comparison with highlights of the major differences.

¹⁵⁰ Standard Filing Requirement, Schedule C11.1

¹⁵¹ Workpaper D(1)_Balance Sheet Comparison.xls.

Table 16-Comparative Balance Sheet

DUKE ENERGY OHIO
CASE NO. 07-589-GA-AIR
COMPARATIVE BALANCE SHEETS
AS OF MARCH 31, 2007 AND DECEMBER 31, 2002-2006

= Out of line with previous history

Source: SCHEDULE C-11.1

DESCRIPTION	DATE CERTAIN	MOST RECENT FIVE CALENDAR YEARS				
		2006	2005	2004	2003	2002
ASSETS						
UTILITY PLANT						
UTILITY PLANT		8,385,084,754	8,309,868,075	8,814,040,280	6,607,829,525	6,290,592,432
NET UTILITY PLANT		6,130,477,931	6,077,468,571	4,321,255,039	4,092,986,426	3,982,584,028
TOTAL OTHER PROPERTY AND INVESTMENTS		880,141,990	976,888,753	229,172,691	252,829,629	255,854,818
MISCELLANEOUS DEFERRED DEBITS		2,441,000,345	2,450,697,957	61,890,557	65,464,424	54,909,595
TOTAL DEFERRED DEBITS		3,114,989,462	3,127,850,218	754,555,222	800,691,769	920,094,064
						923,703,161
TOTAL ASSETS		10,800,839,796	10,967,418,692	6,912,284,806	5,959,601,053	5,680,516,408
						5,620,011,579
DESCRIPTION	DATE CERTAIN	MOST RECENT FIVE CALENDAR YEARS				
		2006	2005	2004	2003	2002
LIABILITIES AND NET WORTH						
PROPRIETARY CAPITAL						
OTHER PAID-IN CAPITAL		5,605,406,639	5,601,303,731	262,541,995	243,469,113	245,820,585
TOTAL PROPRIETARY CAPITAL		6,420,872,031	6,379,198,504	1,995,916,704	1,938,197,571	1,926,677,578
TOTAL LONG TERM DEBT		1,530,532,468	1,530,425,329	1,612,623,383	1,611,428,351	1,626,221,882
TOTAL OTHER NONCURRENT LIABILITIES		201,185,088	197,192,147	147,510,443	106,093,207	99,405,278
TOTAL CURRENT AND ACCRUED LIABILITIES		929,859,054	1,123,758,773	1,823,194,572	933,383,151	631,986,170
TOTAL DEFERRED CREDITS		1,718,391,155	1,736,843,939	1,333,039,704	1,369,498,773	1,396,225,500
						1,326,560,282
TOTAL LIABILITIES AND NET WORTH		10,800,839,796	10,967,418,692	6,912,284,806	5,959,601,053	5,680,516,408
						5,620,011,579

Findings

Blue Ridge found that Year 2006 showed an overall increase from prior years of about \$4 billion (a 59% increase from 2005). The balance sheet comparison reflects historical trend except for two significant asset increases: \$1.5 billion in Utility Plant and \$2.4 billion in Miscellaneous Deferred Debits (matched on the liability/capital side by Proprietary Capital – Other Paid-In Capital). The significant increase to Utility Plant has to do primarily with Electrical Plant increase.¹⁵² The Miscellaneous Deferred Debit increase is primarily attributed to Goodwill.¹⁵³

Conclusions and Recommendations

Blue Ridge concludes that the balance sheet as presented in the Revenue Requirements Model (Schedule C11.1) for the most part reflects historical trend. As noted above, the anomalous change from 2005 to 2006 was due to Electrical Plant increase and Miscellaneous Deferred Debit (Goodwill), both of which resulted from the merger.

¹⁵² CG&E FERC Form 2, 2005 and DE-Ohio FERC Form 2, 2006, p.201.

¹⁵³ CG&E FERC Form 2, 2005 and DE-Ohio FERC Form 2, 2006, p.233.

Rate Base Task D.2

Task D.2- The auditor selected shall prepare a comparison to identify plant additions by year, by account. Major additions shall also be identified by project description.

Background

Through the rate case process, a utility is allowed the opportunity to earn a return on its investment in those assets that are deemed “used and useful” in serving the needs of the regulated utility’s customers. As noted above, the utility typically makes the investment in the assets, constructs the facilities and places them in service *before* seeking approval to include those assets in rate base and thus be allowed an opportunity to earn a return on that investment. The rate case process is a cumulative process wherein previously approved assets are presumed used and useful until their retirement or transfer from rate base.¹⁵⁴ However, plant additions between rate cases is of special interest since these assets have not been reviewed as to whether they are used and useful to the utility’s customers.

This task examined those assets that have been added to Duke Energy – Ohio’s plant in service since its last rate case.

Analysis

Blue Ridge reviewed the Revenue Requirements Model provided by the Company and examined Schedule B-2.3 and the associated workpaper WPB-2.3.¹⁵⁵ The WPB-2.3 workpaper provided plant additions for each year by Company account. Blue Ridge developed a reorganized spreadsheet to compare year-to-year changes.¹⁵⁶ The following table reflects the plant additions comparison¹⁵⁷ by year and FERC Account.

¹⁵⁴ Transfers can occur because of among other things, sale of the asset.

¹⁵⁵ Standard Filing Requirement, Schedule B-2.3 and WPB-2.3.

¹⁵⁶ Workpaper D(2,6)_Plant Additions Comparison.

¹⁵⁷ Workpaper D(2)_Plant Additions Projects.xls.

Table 17-Plant Additions by Year and Company Account 2002-2006

		(Amounts in 000s)						
COMPANY ACCT NO.	COMPANY ACCT DESCRIPTION	Year						Jan-Mar 2007
		Apr-Dec 2001	2002	2003	2004	2005	2006	
MANUFACTURED GAS PRODUCTION PLANT								
2050	Structures & Improvements	0.00	274.56	10.41	231.79	96.09	0.00	11.13
2110	Liquefied Petroleum Gas Equipment	0.72	112.87	607.69	537.32	109.31	32.19	0.00
2200	Other Equipment	0.00	0.00	2.90	32.21	-35.11	0.00	0.00
TOTAL		0.72	387.42	621.00	801.31	170.29	32.19	11.13
GAS DISTRIBUTION PLANT								
2740	Land and Land Rights	0.00	0.00	0.00	0.00	-188.70	0.00	0.00
2741	Rights of Way	0.00	0.00	4.20	15.64	4,518.36	88.89	15.10
2750	Structures & Improvements	0.00	0.00	0.00	228.36	56.47	58.71	-2.83
2761,62,63	Mains	15,364.25	8,108.25	9,273.64	12,803.64	8,172.45	12,909.19	2,528.59
2764,65,66	Mains	83.59	4,134.97	11,695.47	8,327.32	-2,148.28	867.49	613.37
2767,68,69	Mains	6,503.71	36,541.57	43,653.92	37,559.41	40,466.34	43,848.45	3,441.97
2780	Sys Meas & Reg Station Equip - Gen	487.50	-51.04	664.66	2,611.28	159.20	458.12	61.13
2781	Sys Meas & Reg Station Equip - Elec	40.23	868.81	145.55	169.81	258.45	202.73	78.01
2782	District Regulating Equipment	30.69	2.62	80.06	-27.82	7.45	120.72	29.77
2801,02,03	Services	9,908.27	9,943.08	7,499.65	8,680.13	8,350.16	11,721.76	2,028.24
2804,05,07	Services	781.37	779.48	5,877.10	8,638.26	8,529.44	5,025.16	1,031.34
2810, 2811	Meters	777.96	1,264.41	1,548.30	1,376.26	1,039.43	1,402.64	215.87
2820, 2821	Meter Installations	376.68	715.71	1,054.23	2,199.11	1,028.38	1,512.73	158.81
2830,31	House Regulators	574.93	1,013.25	1,380.34	1,799.40	2,008.48	1,080.23	296.42
2840,41	House Regulator Installations	427.48	812.24	1,196.41	749.76	1,483.63	1,006.59	317.61
2850	Large Industrial Meas & Reg Equip	3.71	5.56	3.50	-26.61	136.27	54.28	2.07
2851	Large Ind Meas & Reg Equip - Comm	0.00	0.00	0.00	308.81	0.12	0.00	0.00
2870	Other Equipment - Other	0.00	0.00	0.00	-136.58	56.26	0.00	0.00
2871	Street Lighting Equipment	0.00	0.12	0.00	0.00	0.00	0.00	0.00
101 ARO	Gas ARO	0.00	0.00	0.00	0.00	6,305.21	0.00	0.00
TOTAL		35,360.38	64,138.82	84,077.01	85,273.96	80,239.11	80,357.66	10,815.47
GAS GENERAL PLANT								
2030	Miscellaneous Intangible Plant	1,051.64	134.66	-0.69	1,045.78	0.00	0.95	165.15
2900	Structures & Improvements	0.00	-20.69	33.54	672.19	47.35	7.95	89.27
2910	Office Furniture & Equipment	294.37	-5.95	0.00	24.92	-10.60	0.00	0.00
2921	Trailers	133.50	0.00	0.00	9.87	0.00	0.00	30.87
2940	Tools, Shop & Garage Equipment	306.48	163.68	243.09	104.51	335.24	158.52	94.04
2970	Communication Equipment	99.08	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL		1,885.08	271.69	275.94	1,857.27	371.99	167.42	379.33
COMMON PLANT (Allocation of 18.68% to DE-Ohio Gas applied)								
1030	Miscellaneous Intangible Plant	939.93	3,134.20	3,695.03	232.06	1,388.07	291.56	59.81
1900	Structures & Improvements	1,068.63	416.74	473.13	385.58	1,375.33	166.95	140.16
1910	Office Furniture & Equipment	52.47	172.75	-33.23	0.25	3.08	0.00	0.00
1911	Electronic Data Processing Equip	0.00	0.00	0.00	51.99	0.00	0.00	0.00
1920	Transportation Equipment	0.81	4.65	0.00	0.00	0.00	0.00	0.00
1921	Trailers	17.92	0.00	11.31	14.51	0.00	5.88	0.00
1940	Tools, Shop & Garage Equipment	2.50	1.22	3.36	0.92	71.28	0.57	1.61
1970	Communication Equipment	60.34	17.64	18.05	234.25	116.82	1,144.65	87.27
1980	Miscellaneous Equipment	0.00	0.00	34.49	0.00	15.35	0.00	0.00
TOTAL		2,152.60	3,747.19	4,202.14	919.56	2,969.93	1,609.61	288.84
ANNUAL TOTAL		39,398.78	68,545.12	89,176.08	88,852.10	83,751.33	82,166.88	11,494.77
GRAND TOTAL		463,385.08						

Note: This table represents Plant Additions only exclusive of Retirements and Transfers.

Blue Ridge also requested and received sample major capital work orders for the past five years.¹⁵⁸ Those work orders totaling over \$1 million are included in Blue Ridge's

¹⁵⁸ Response to Blue Ridge-MTD-01-007.

Workpaper D(2,6)_Plant Additions Comparison under the tab "Major Projects."¹⁵⁹ The following table¹⁶⁰ lists the top ten capital project work orders in terms of cost.

Table 18-Ten Largest Capital Addition Projects 2002-2006¹⁶¹

WO #	Project Description	Estimated start date	In-service date	Project Cost
A7351	M-C SERVICES IN OHIO FOR CIBS MODULES	09/17/01	12/31/01	31,832,857.77
31948	CUSTOMER MANAGEMENT SYSTEM		05/01/03	16,492,627.81
B3041	C314/INSTL 56496 FT OF GAS MAIN/NEW/PRI/02-3600-0/GH	01/06/03	11/14/03	11,162,118.57
C5495	CG&E GAS SERVICES-TO CLOSE BLANKET WORK ORDER 20047	01/01/01	12/31/01	9,321,712.58
C5498	CG&E GAS SERVICES-TO CLOSE BLANKET WORK ORDER 20047	01/01/04	12/31/04	8,379,337.66
20047	INST. 3/4", 1" OR 1 1/4" NEW SERVICES OR RENEW WIT1" OR 1 1/4" PL. IN VARIOUS LO		01/01/07	8,267,253.80
C5499	CG&E GAS SERVICES-TO CLOSE BLANKET WORK ORDER 20047	01/01/05	12/31/05	8,120,119.44
C5496	CG&E GAS SERVICES-TO CLOSE BLANKET WORK ORDER 20047	01/01/02	12/31/02	7,808,839.78
C5497	CG&E GAS SERVICES-TO CLOSE BLANKET WORK ORDER 20047	01/01/03	12/31/03	7,307,416.51
20064	TO INCLUDE ALL LABOR MATERIALS AND OTHER COSTS FORTHE INSTALLATION OF GAS METERS		12/01/06	7,148,448.04

Findings

By reviewing the Blue Ridge Workpaper D(2,6)_Plant Additions Comparison, Blue Ridge found that plant additions as a whole have been consistent since the last rate case with the exception of 2002, which is slightly less than succeeding years.

Conclusions and Recommendations

Blue Ridge used the Plant Additions comparison by year and major projects listing prepared in this task to perform other tasks in this section.

Rate Base Task D.3

Task D.3-The auditor shall sample projects directed at the major additions since date certain in the previous case and examine work orders and other source documents. Primary efforts shall be directed toward the significant issues of the case.

Background

The utility business, by its nature, is a capital-intensive operation. Assets are purchased, constructed, and installed to serve generations of customers. As such, the Company's investment in plant is a major driver behind a rate case and affects the two major contributors to its revenue requirement—the Return on Investment and depreciation expense recorded in the Operating Expenses of the Company.

The purpose of this task is to validate that the major additions to the Company's plant-in-service, that is, those facilities used to provide service to customers, are properly supported with appropriate documentation. As such, it is necessary to investigate the

¹⁵⁹ Workpaper D(2,6)_Plant Additions Comparison.

¹⁶⁰ Workpaper D(2)_Plant Additions Projects.xls.

¹⁶¹ Table of top ten drawn from Workpaper D(2,6)_Plant Additions Comparison, tab Major Projects.

details of the plant-in-service additions in order to determine that the plant additions are used and useful and are properly classified in the Company's books and records.¹⁶²

As presented by the Company, major plant additions are not detailed in the supporting schedules nor specifically addressed in testimony, but rather are summarized in the Standard Filing Requirement Schedule B-2.3 and supporting workpapers. To validate the cost information contained in DE-Ohio's filing, Staff requested a review of the support work orders.

Analysis

Because of the volume of records, Staff, in its design of the project, recognized that Blue Ridge would randomly sample the documentation to test for compliance with accepted accounting methods and standards. Blue Ridge focused on the DE-Ohio's plant additions for the period from the last rate case to the date certain of March 31, 2007.

To sample the documentation of capital projects for the period 2002-2006, Blue Ridge established a dollar threshold of \$100,000¹⁶³ for the identification of major work orders. The Company identified almost 600 major plant addition work orders¹⁶⁴ that met this criterion since the date certain of the previous case. This work order list addressed transactional dollars totaling over \$467 million dollars that included both specific work orders and blanket work orders. This population of work orders represented 47.9% of the total plant additions before allocation of Common Plant since the Company's last rate case.

Table 19-Plant Additions Work Order Summary¹⁶⁵

Plant Additions Summary (before Common Allocation)	Amount
Years:	
4/1/2001-12/31/2001	84,130,831
2002	149,384,090
2003	192,167,329
2004	178,930,508
2005	177,089,801
2006	169,563,896
01/01/2007-03/31/2007	23,578,793
Total Gross Plant Additions	974,845,248
Work Orders >\$100,000 List	467,105,192
% of WOs to Plant Additions	47.9%

The Company's plant additions are segmented into four major functional classifications. These classifications are Manufactured Gas Plant, Gas Distribution Plant, Gas General Plant, and Common Plant. The Manufactured Gas Plant group consists primarily of the Company's investment in FERC Account 311 Liquefied petroleum gas equipment

¹⁶² Commonly referred to a "continuing property records" or CPR.

¹⁶³ Response to Data Requests BRCS-MTD—01-007 and BRCS-MTD-02-001.

¹⁶⁴ Response to Data Requests BRCS-MTD—01-007 and BRCS-MTD-02-001.

¹⁶⁵ Workpaper D(3) *Summary of Plant Addition Work Orders.xls* developed from Workpaper D(2)*Recon Plant Balances.xls*.

(equipment used for the production of gas from petroleum derivatives, such as propane, butane, or gasoline) and FERC Account 305 Structures and improvements (of structures and improvements used in connection with manufactured gas production).¹⁶⁶ Gas Distribution includes distribution mains, regulating stations, service, and other accounts related to the distribution system. Gas General Plant and Common Plant are similar in that both contain similar accounts (i.e., structures and improvements, communication equipment, and other related accounts). However, Gas General Plant is not subject to allocation to any other lines of business. The first three classifications are deemed to be fully dedicated to gas, whereas Common Plant is allocated among various Duke-Energy entities—both regulated and un-regulated—and are subject to the Common Plant to Gas Allocators as discussed in Section B of this report.

Blue Ridge determined that a statistically valid population from the approximately 600 work orders consisted of 45 work orders. We randomly selected these 45 projects to test the procedural and documentation requirements for the work orders. In addition, the selected work orders included those which encompassed our field reviews (see Task D.4 below) and provided a cross selection of work orders in each of the functional categories of Manufactured Gas Plant, Gas Distribution Plant, Gas General Plant, and Common Plant. The selected list was designed to cover all of the subject plant accounts.

For the 45 selected work orders, Blue Ridge requested documentation to determine that the Company managed, maintained, monitored, and controlled the information and costs of these major additions.

Information requested¹⁶⁷ for the sampling of the work orders included:

- Original and revised cost estimate information and budget
- Justification documents
- Project management, status, engineering, and budget variance reports
- Summary of costs closed to plant in service
- Breakdown of costs by major cost components, i.e., outside contractor labor, internal labor, materials, etc.
- Summary of cost of retirement
- Amount of Plant Retired, if appropriate

Cost transaction documentation is a high volume component of each work order. In order to obtain a cross selection of transaction types, Blue Ridge selected transactions from each of the 45 sampled work orders to obtain a cross selection of charge types such as direct and indirect labor, overheads, materials and supplies, and others. Blue Ridge requested documentation supporting these cost transactions for the addition as well as the cost of retirement for overheads, charge backs, company material, contract labor, contract material, company payroll / labor, labor special payments, non-stock material, journal entry transactions, outside services, to ensure a sampling of source document types. This

¹⁶⁶ FERC-18CFR Parts 1-399 Rev.040102.

¹⁶⁷ Response to Data Request BRCS-MTD-01-007 Supplemental.

documentation was then reviewed and evaluated for compliance to the generally accepted accounting practices.

Findings

With respect to the 45 work orders that were selected for documentation and support sampling, the Company provided a CD,¹⁶⁸ which contained the status and transactional summaries from its PowerPlant system, a summary report in Excel format, along with available justification documents and any related project management reports for several of the work orders in the sample. The review of this information is summarized in Workpaper *D(3)_WO Sampling and Documentation.xls*. Blue Ridge's review indicates that cost estimates are reviewed and occasionally updated, plant retirements are readily identified, and that the Company utilizes management statusing during the process on major work such as for the Radio System Replacement work done on Work Order B6415.

Within the group of 600 work orders identified for the sample period, several work orders are blanket work orders. This type of work order includes activities that are of short duration, do not exceed certain dollar expenditure limitations,¹⁶⁹ and are recurring in nature. In order to facilitate a cost collection process, the Company uses these work orders from year to year maintaining the identifying number from year to year.

However, while the individual transactions are relatively small (not to exceed \$50,000), the composite of the cost transactions are material and substantive. In our sample of 600 work orders which had a total value of \$467 million, blanket work orders accounted for 12% or \$56.1 million.

As one of the ten Largest Capital Addition Projects – 2002-2006, Blanket Work Order A7351 M-C SERVICES IN OHIO FOR CIBS MODUL (Meter to Curb Services) totaled \$31.8 million or 6.81% of the \$467 million, whereas the largest single specific project work order, 31948 - Customer Management System represented \$16.5 million or 3.53% of the total for the review period. As such, the use of blanket work orders is significant when evaluating the major plant additions that the Company has incurred since the last rate case.

Blue Ridge found a number of large journal entries that the Company initiated and processed in an attempt to process and group charges according to the work order scope and in-service dates.¹⁷⁰ This resulted in a significant delay in recording the value of the asset being recorded on the Company's continuing property records and, thus, its plant-in-service.

¹⁶⁸ Blue Ridge-MTD-01-007 Supplemental.

¹⁶⁹ The maximum value of an individual task within a blanket work order can vary but will not typically exceed \$50,000. – Duke Energy Capitalization Guidelines, p. 43 (BRCS-MTD-01-019).

¹⁷⁰ Work Order A7351, Other - JE Ovhd Expt, (\$23,757,472.72) (BRCS-MTD-01-007 Supplemental Request, Item 60).

For example, journal entry JEID: 118144 to record the reclassification from the initial blanket work order A7351 - M-C SERVICES IN OHIO FOR CIBS MODUL, which had an in-service date of 2001, was not processed until 2006. This journal entry transferred \$23,757,472 from Work Order A7351 to various other work orders. This indicates that the Company is reviewing its transactional details for appropriateness of charges. However, the backlog of work orders to be processed has delayed investigation by the Company. Other blanket work orders may also have problems.

From the 45 work orders selected for review, Blue Ridge selected 123 transactional line items included in these work orders. Two of the items reviewed were related to Labor Special Payments. The documentation for these two transactions agree with the work order charges recorded to Work Order 31948 – Customer Management System. However, in our opinion, the documentation does not provide the basis or justification for the charges. The total of Labor Special Payments included in the work order is over \$1.2 million or 7% of the total work order charges in a \$16.5 million project. Because of the lack of documentation and justification, Staff should consider whether this type of charge warrants further investigation. Further, we identified two work orders with payroll charges months after the work order was processed to plant in service.

Generally, our review of the remaining 108 transactional line items found them properly supported. However, we noted several instances where the Company provided a copy of a payment screen as back up and did not provide the supporting invoices. The Company indicated that in some instances the supporting documentation (primarily vendor invoices) is maintained by the department responsible for the work order in its project file rather than with the accounts payable files. Gas Engineering personnel indicated that invoices are reviewed by their department where the accounting distribution or coding is assigned. A payment request is then sent to Accounts Payable who, in turn, issues the payment to the vendor. However, in some cases, Accounts Payable is not provided invoices as support for the payments.

Conclusions and Recommendation

Blanket work orders include a high volume of transactions and dollars. The use of blanket work orders is a commonly used process in the industry. The Company has reviewed work orders for logic and appropriateness. However, the long accounting delay for recording journal entries associated with blanket work orders and the re-classification from one blanket work order to another indicates that the Company may have weak controls with respect to blanket work order activity. Blue Ridge recommends that DE-Ohio initiate a more detailed and timely review of the processes related to charging blanket work orders.

The Company generally maintains a reasonably supportive set of documents for specific work orders. However, some payment supporting documentation is left with the controlling (or initiating department) instead of with Accounts Payable where it should reside. Blue Ridge recommends that DE-Ohio's Accounts Payable section strengthen its adherence with proper documentation procedures.

With respect to the detailed cost documents that are not maintained or included with the accounts payable files, this is an indication of potential internal control problems. Blue Ridge recommends that the Company review its processes and implement or enhance procedures to include appropriate supportive source documentation in its accounts payable files.

Rate Base Task D.4

Task D.4-The auditor shall conduct field investigations to physically inspect sample projects.

Field visits are a complementary to the accounting portion of the rate base audit. The field visits are designed to verify physically that the assets exist and are operational. Field visit are limited somewhat when the assets are located underground as would be expected for a gas utility.

Field visits were selected for both physical assets and intangible assets such as computer systems. The selection was coordinated with the accounting review so that any findings from the field visits are fed into the accounting review. The field visits are separately described for the AMRP and computer systems.

Accelerated Main Replacement Program ("AMRP")

Background

As with many gas utilities, Duke Energy - Ohio has a long-term continuing process to replace cast iron and bare steel mains with more modern and reliable plastic pipe. Additionally, the Company has determined that certain service risers¹⁷¹ should also be replaced. To support this process the Commission has authorized the AMRP including specialized rate treatment of the increasing rate base and any offsetting expenses reductions. The Commission has a clearly defined process to administer the AMRP defined by the order detailing the tracking mechanism (Rider AMRP, May 30, 2002). The AMRP regulatory process also includes Commission oversight in the field and a participatory hearing process supported by annual Commission orders.

Due to the high level of oversight and involvement of the Commission, its Staff and other parties since the inception of the program in 2002, Blue Ridge examined, at a high level, the relevant Staff reports, regulatory history, and Commission orders to understand how the AMRP is structured and how the Company expects the program to work. Blue Ridge structured its interviews and field inspections to add another layer of review to the AMRP. By reviewing the AMRP as it was designed to work, then performing field visits to two active AMRP work sites and interviewing Company engineering management, field supervisors and field inspectors, Blue Ridge was able to draw several conclusions about the AMRP.

¹⁷¹ The service riser is that section of the piping that rises out of the ground and connects to the meter assembly.

The Company's AMRP process, specifically the contracting and regulatory review, is managed on a calendar year basis. Work sites are selected based on predictive models, module work, street improvements initiated by governmental bodies, and are designed to minimize community impact.¹⁷²

Vendors are pre-qualified and assigned the opportunity to competitively bid on future work packages based upon their prior performance. Thus, the incentive for good work is the opportunity (not a guarantee) for additional work. After an initial contractor information meeting held in the preceding fall, work packages are bid through the year and vendors are evaluated on their unit prices for specific work items. Although certain work may be negotiated with a contractor already on site or nearby, the Company endeavors to bid competitively most work. If a work package is not assigned to the low bidder then an additional approval must be obtained. Materials are managed, supplied, and delivered by the Company or its material vendors.¹⁷³

Construction employees performing critical functions, such as pipe welding, are certified (Office of Pipeline Safety Operator Qualification) and must receive annual training. All contractors are union. The Company monitors performance and insists that only qualified workers perform specific tasks. There is an overriding emphasis on safety for crews, the Company and the public.¹⁷⁴

Construction costs are based on the competitively bid unit costs times the actual units installed. Daily sheets record the units installed, are tracked with a numbering system, and are part of a Company-contractor sign off system. There is a formal process to authorize payment to a contractor. If a street improvement (not previously planned or disclosed by a governmental body) is constructed adjacent to a planned and competitively work module The Company will attempt to negotiate the same unit cost as the adjacent work.¹⁷⁵

Analysis

To review the process of replacing cast iron and steel mains and the associated curb to meter services, the audit plan for this area included a review the Company's written testimony explaining the AMRP. Blue Ridge then planned field visits to see main replacement in progress at selected work sites, meet with Company supervisors and inspection staff, and take illustrative pictures at the selected work sites.

To understand the AMRP process, Blue Ridge developed initial pre-interview data requests for the Company, developed structured questions for the planned interviews, and, in conjunction with the Company, determined the appropriate interviewees. We reviewed the data responses available before the interview, conducted a detailed interview, and memorialized the major points discussed in an interview summary (see

¹⁷² Interview General Manager Gas Engineering.

¹⁷³ Interview General Manager Gas Engineering.

¹⁷⁴ Personal observations during filed visits by Blue Ridge Auditor and Interview General Manager Gas Engineering.

¹⁷⁵ Interview General Manager Gas Engineering.

workpapers). During the interview, Blue Ridge generated and documented follow-up data requests as needed to verify or obtain copies of information presented in the interview.

Blue Ridge reviewed the data responses received after the interview, compared and contrasted the Company's AMRP to field observations, compared and contrasted the Company's AMRP to the best case or best practice engineer, procure and construct processes and determine if any missing elements are material or relevant.

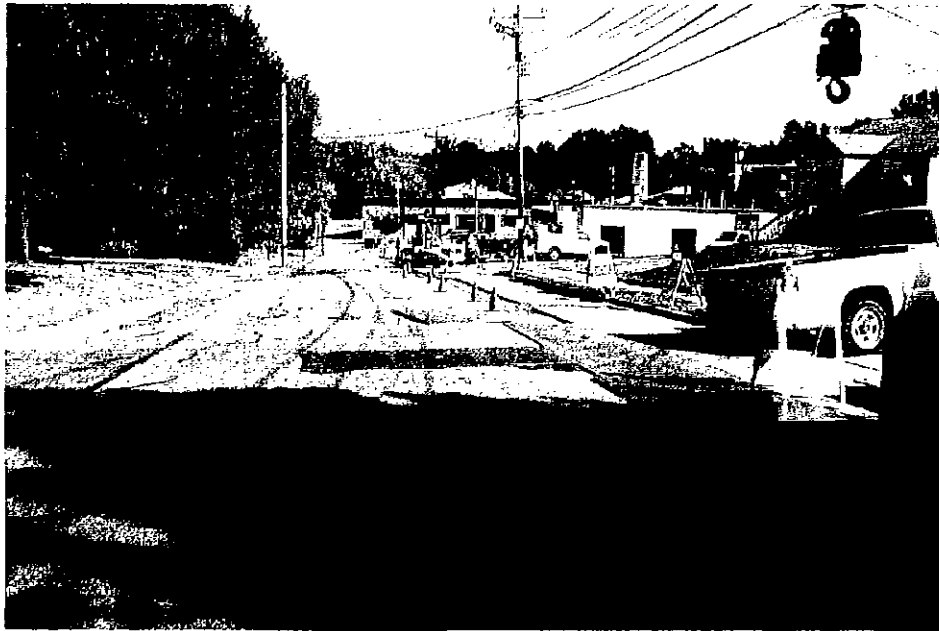
We observed that while individual contractors are free to establish work methods and perform their own supervision, the Company uses its own supervisors (six) to manage the contractors and their work products. Company supervisors travel between work sites during the day. On-site discussions with the Company construction supervisors by Blue Ridge personnel confirmed that they understand the Company's AMRP and its design. Additionally, Company inspectors (28), independently from the contractors, measure work quantities, prepare "as built" information in the field and inspect the on-going contractor work. There is a formal written process to measure contract quantities actually installed for payment.¹⁷⁶

Blue Ridge visited two AMRP work sites during the audit. Working conditions were clean and safety was an overriding concern by Company personnel. Work practices of the contractors were observed and corresponded to the Company process.

¹⁷⁶ Personal observations during filed visits by Blue Ridge Auditor and Interview General Manager Gas Engineering.

The amount of open trench was limited to the immediate work area.

Figure 8-Work Site Photo #1



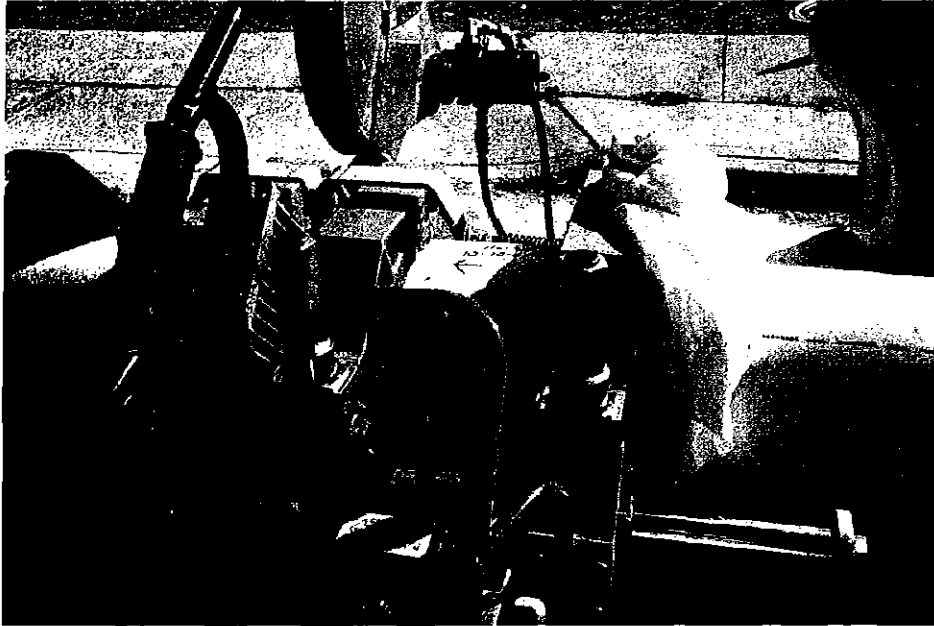
Note the warning cones and safety clothing in use at the work site. This site was quiet and had only one vehicle in transit during our visit.

Figure 9-Work Site Photo #2



For example, the Company indicated that each weld was to be marked with the date and operator information. Blue Ridge's field visit observed this practice.

Figure 10-Work Site Photo #3



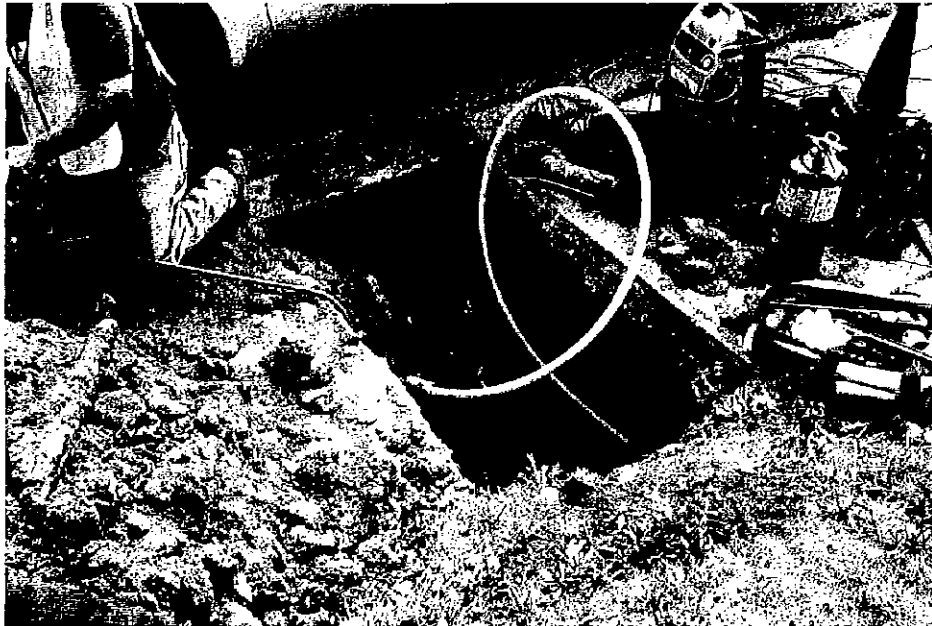
Process quality checks such as confirming welding machine temperatures were observed during Blue Ridge's field visit. (Note the steel plates covering the open trench.)

Figure 11-Work Site Photo #4



Service lines to customer's homes (curb to meter) are pressure tested. (Note the presence of safety equipment.)

Figure 12-Work Site Photo #5



The Company has designed the AMRP bidding process to keep a number of construction companies interested in bidding the work. The Company has established a target range (between five and twelve) for the number of contractors.

Findings

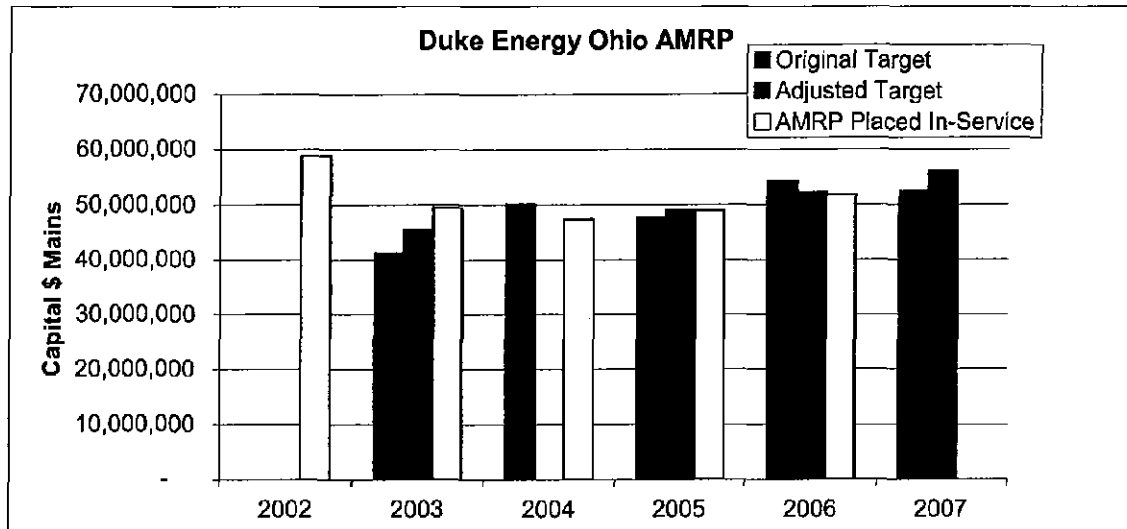
AMRP costs have not been static reflecting both the volume of work, increasing costs of materials (plastic and steel pipe), and the changing nature of the work packages.¹⁷⁷ Additionally, through a "lessons learned" process the Company has a policy of making annual changes to its standards (although in cases of safety or performance issues, the Company will make a change during a work year).¹⁷⁸

¹⁷⁷ Testimony of Gary J. Hebbeler, Case No. 07-589-GA-AIR, page 9, line 4.

¹⁷⁸ Testimony of Gary J. Hebbeler, Case No. 07-589-GA-AIR, page 9, line 12.

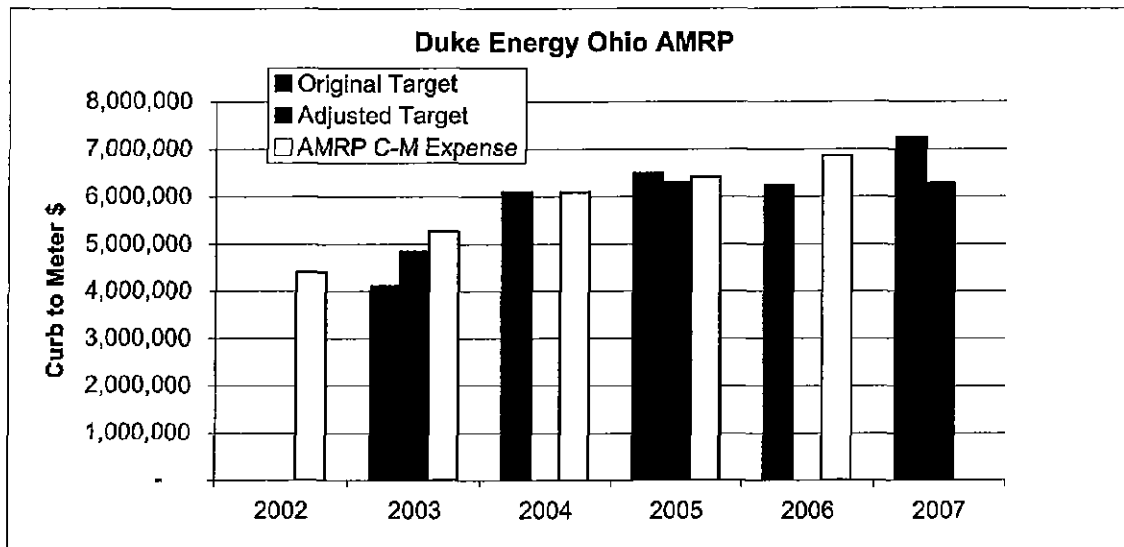
The following chart¹⁷⁹ illustrates the Original Target, Adjustment Target, and the Actual Capital Dollars for the AMRP from 2002 to 2007.¹⁸⁰

Figure 13-AMRP Capital Dollars Target vs. Placed in Service



The following table illustrates the Original Target, Adjusted Target and Actual Cost from Curb to Meter.¹⁸¹

Figure 14-AMRP Curb to Meter \$ Target vs. Actual



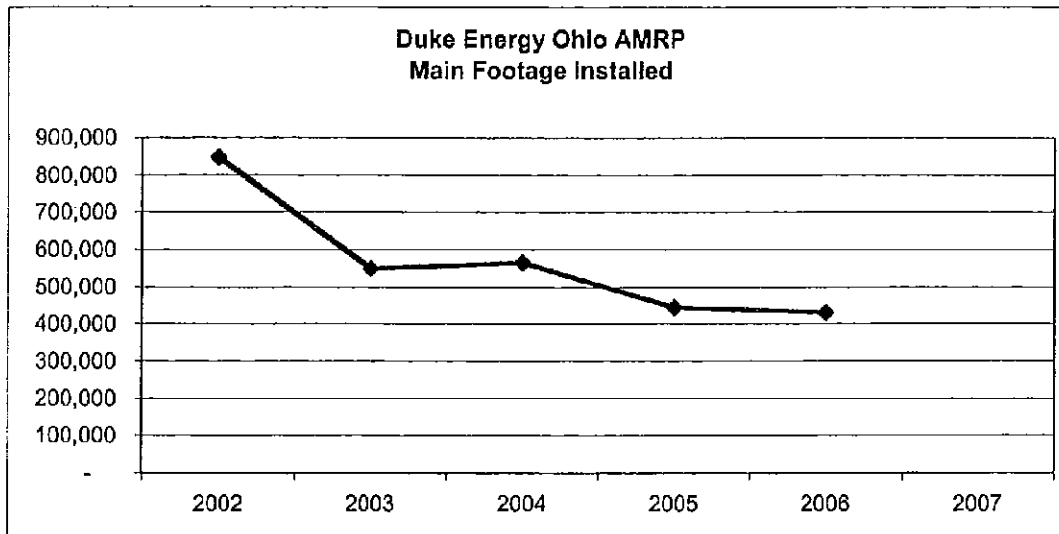
¹⁷⁹ Workpaper C(5,6,7)_Capital Budget Comparison.xls.

¹⁸⁰ Response to Data Request BRCS-HS-03-010.

¹⁸¹ Response to Data Request BRCS-HS-03-010. See Workpaper C(5,6,7)_Capital Budget Comparison.xls.

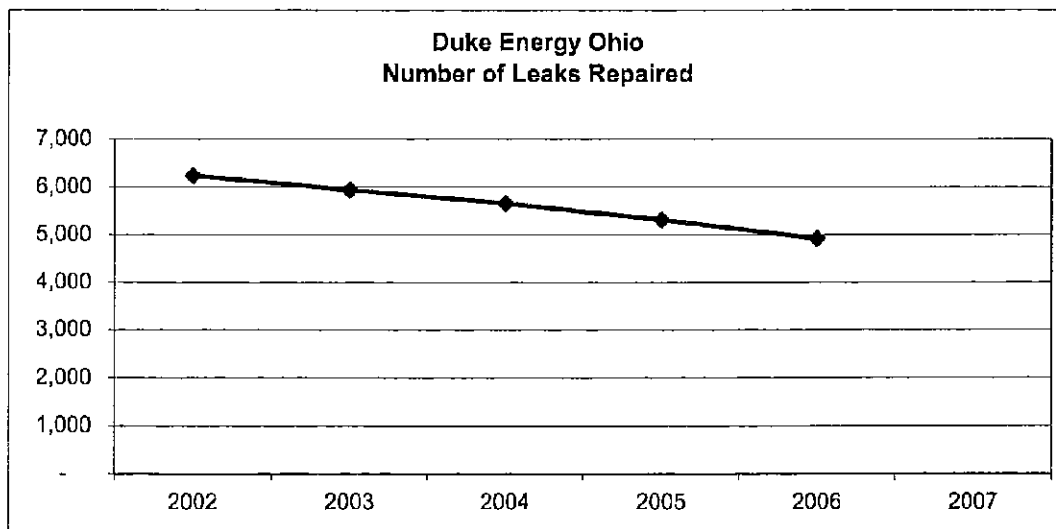
Since the imposition in 2003 of a target budgetary amount under the AMRP, the replacement of main footage has decreased somewhat as unit prices have increased.¹⁸²

Figure 15-AMRP Main Footage Installed 2002-2007



As shown in the following chart,¹⁸³ there has been a decrease in leaks repaired as the AMRP has progressed.¹⁸⁴

Figure 16-Leak Repairs 2002-2007



¹⁸² Interview General Manager Gas Engineering.

¹⁸³ Workpaper C(5,6,7)_Capital Budget Comparison.xls.

¹⁸⁴ Response to Data Request BRCS-HS-03-010.

Conclusions and Recommendations

Based on our reviews, observations and assessments, Blue Ridge determined that the Company uses generally accepted procurement practices and that the construction firms are selected by competitive bidding.

Blue Ridge reviewed the Staff reports for each of the calendar years 2003, 2004, 2005, and 2006 and noted that there were no significant deviations and that issues raised in prior years were resolved.

The Company uses a reasonable and positive process to maintain a qualified workforce and adequate number of contractors to support its long term AMRP and the desired competitive bid mechanisms.

The Company has a reasonable and positive attitude and takes significant efforts to have a safe work environment during AMRP construction.

The Company has implemented a reasonable and positive construction supervision, inspection and review process with predefined approvals and appropriate management oversight of the AMRP.

No deviations from accepted norms or good utility practice were observed.

Computer Systems

Background

Blue Ridge selected six computer systems for a field review. These systems were:

- CMS Software Products
- E-Commerce Initiative
- Pipeline Integrity Management
- SCADA Backup System
- Radio System Replacement
- LV Gas Software (Load Vision)

Analysis

The audit plan for this area included field visits to review the computer systems in place and operating at their locations (if appropriate or over the network if reasonable) and holding on-site discussions with Company personnel.

Blue Ridge developed structured questions for the field visits, conducted the on-site visit, and took detailed notes. During the field visit, Blue Ridge generated and documented follow-up data requests as needed. After the field visit, Blue Ridge formally reviewed the data responses received and determined if any missing elements are material or relevant.

CMS Software Products

CMS is the Company's customer management system, which is the Company's billing engine. It has been in use in Ohio since 1993. It is used for all customers including large industrials. Based on our knowledge of other CMS systems, DE-Ohio's system is a typical "green screen" CMS/CIS. The Company has developed a GUI interface by "screen scrapping" a common practice. Web capabilities include direct customer inquiry, customer entry of meter reading, and e-bill presentment. Customer bills are retained on line for 25 months along with a seven-year bill archive. Both customers and customer service representatives can view the actual bill in CMS.

Recent enhancements include the combination of security deposits on the customer's bill,¹⁸⁵ automation of Customer Choice (commodity),¹⁸⁶ and migration from Itron PP2 to PP4.¹⁸⁷

The system is used by the customer service representatives in two Company-owned call centers and by outsourced vendors. The CMS is maintained by IBM under the outsourcing contract using both onshore and offshore (India) resources. CMS does not schedule customer appointments but does handle the orders. Outage reporting is handled by another system.¹⁸⁸

Blue Ridge viewed CMS in operation and asked to see operations and customer information (customer agreement was obtained during the on-site visit, before viewing); the Company was able to answer all relevant operational questions. Company personnel described the break, fix, and enhancement request and implementation processes and the relationship to Sarbanes-Oxley controls over the CMS (billing) system.

Billing operations and key timing such as meter reading to bill presentment times discussed during the field visit matched with an independent interview under BR's revenue review.

No deviations from accepted norms or good utility practice were observed.

E Commerce Initiative

The E Commerce Initiative is a software portal designed to transmit a negotiated or contracted purchase order from the Company to a pre-qualified vendor, receive an acknowledgement, and track the electronic flow of information. The system transmits its information to Emporium (an electronic vendor marketplace and data exchange) from the existing purchasing system. The system has been in use since 2000 with updates as required such as the XML marketplace and acknowledgements. There is one Company

¹⁸⁵ Response to Data Request BRCS-HS-0-003.

¹⁸⁶ Response to Data Request BRCS-HS-0-003.

¹⁸⁷ Response to Data Request BRCS-HS-0-003.

¹⁸⁸ Discussion during field visit 11/07/07 see notes.

(employee) subject matter expert for the system, which is maintained by IBM under the outsourcing contract using both onshore and offshore (India) resources.¹⁸⁹

Blue Ridge viewed the system in operation, asked to see operations and management information, and the Company was able to answer all relevant operational questions.

No deviations from accepted norms or good utility practice were observed.

Pipeline Integrity Management

The Pipeline Integrity Management system is an analysis tool used by the Company to determine the impact of various risks (threats) to the Company's transmission and distribution system. These analyses are required under federal law and are administered by the state. The guiding principles are defined in a supplement to ASME Standard B31.8.¹⁹⁰

The system consists of four software tools developed by Sewall-Class Locator; HCA Calculator; Risk Calculator; and ASG Pipeline. Together these systems assisted by other engineering and mapping information and a large number of Company subject matter experts develops and displays potential impacts. These impacts can be used for prioritization of capital budgeting. The system is maintained internally along with a maintenance contract with Sewall.¹⁹¹

The system has been in operation since the Spring of 2005. Supporting information is provided by two four-person survey crews, the existing seven corrosion technicians, and additional input from the Company's Right of Way department.

Blue Ridge viewed the system in operation, asked to see operations and management information, and the Company was able to answer all relevant operational questions. A significant effort is made to document the process in detail.

No deviations from accepted norms or good utility practice were observed.

SCADA Backup System

The SCADA Backup System provides a redundant facility to manage the gas system should the control facility located in Cincinnati be disabled. The facility is located at a remote Company operations site. This site has emergency generation and communications capability. The facility includes dual servers (updated at a regular interval), UPS (uninterruptible power supply) and workstations in place and able to be used in a dedicated, windowless secure room within the Company's operating facility. While the facility appears comfortable, it is not lavish or over built.¹⁹² For example, workstations are placed on folding tables. Company practice is to have each system

¹⁸⁹ Discussion during field visit 11/07/07 see notes.

¹⁹⁰ Discussion during field visit 11/07/07 see notes.

¹⁹¹ Discussion during field visit 11/07/07 see notes.

¹⁹² Observation during field visit 11/07/07, see notes.

operator work at the backup facility for one day each month. An operator was working at the backup facility during the Blue Ridge visit.

Blue Ridge viewed the system in operation, discussed operations and management information, and the Company was able to answer all relevant operational questions.

No deviations from accepted norms or good utility practice were observed.

Radio System Replacement

The Radio System provides mobile communications between Company employees. Previous generation utility radio systems allowed only one conversation between a truck and a radio tower. This limitation precluded many operational efficiency improvements. The Radio System Replacement began in 1999 when the Company recognized that its radios were outdated and no spares were being manufactured.¹⁹³

The new system serves Ohio, Kentucky, and Indiana with 133 permanent towers, 2800 radios and equipment reading over 2000 system and interconnection meters. The new system can also be configured to be "interoperable" with emergency management personnel. A major switch for the system is installed in Indiana and was visited by Blue Ridge. A second switch is being installed in Cincinnati as a result of the merged company's decision to enhance reliability and survivability. Over time, the radio system will supplant existing employee cell phones, but offer similar capability at a lower cost.

The system switch is installed in a secure facility with the same backup capabilities as the electric system (grid) control center.

As a result of the installation of the new system there was a reduction in the number of Company communications employees required. The system is managed and supported by Company employees with a two-hour response backup from the vendor.

Blue Ridge viewed the system in operation, discussed operations and management information, and the Company was able to answer all relevant operational questions.

No deviations from accepted norms or good utility practice were observed.

LV Gas Software (Load Vision)

The LV Gas Software is no longer in service and has been fully amortized.¹⁹⁴

Conclusions and Recommendations

Blue Ridge has reviewed a selection of the systems installed or upgraded, and (with the exception of the LV Gas Software) these systems are in place, operating, and appear to be reasonable solutions for the needs expressed. No recommendations are required.

¹⁹³ Discussion during field visit 11/07/07, see notes.

¹⁹⁴ Response to Data Request BRCS-MTD-04-004.

Rate Base Task D.5

Task 5 – The auditor selected shall review major additions, retirements, transfers, and adjustments to current date certain value of plant in service that have occurred since the date certain from the last rate proceeding.

Background

In any rate case, a utility's request for an increase in rates is many times precipitated by the increase in the investment in the assets that are used to serve the utility's customers. When the value of the assets in the rate base increase disproportionately with the utilities revenues, the utilities opportunity to earn its allowed rate of return decreases (everything else being equal). Beyond the investment in plant, there are a number of other actions that can affect the "net value" of the utility's rate base, which is what is typically allowed to earn a return.

In addition to the increases in plant-in-service, a utility may have transfers of assets either in or out of rate base, retirements of assets that are no longer used and useful in serving customer needs, and other pro forma adjustments that could impact the value of the rate base and thus the amount of revenues the Company could be authorized to collect in rates in order to have the opportunity to earn its allowed rate of return.

Blue Ridge reviewed Duke Energy – Ohio's major additions, retirements, transfers, and adjustments to its gas plant to the current date certain value of plant-in-service that have occurred since the date certain from the last rate proceeding in Docket 01-1228-GA-AIR.

Analysis

Major Additions

Blue Ridge's review of the Company's major additions since the last rate case was discussed in Tasks D.2, D.3 and D.4 above.

Transfers

The investigation into transfers from accounts was initiated through a series of data requests regarding transfers over \$25,000.¹⁹⁵ In response, the Company identified transfers by year and by account. This information was then compared to the summary of transfers developed from SFR Schedule 2.3 for reasonableness.¹⁹⁶ Certain transfer transactions were further investigated for logic and support. Blue Ridge found that the Company processed the transfers consistently and appropriately classified the costs in the various plant accounts.

Retirements

The investigation into transfers from accounts was initiated through a series of data requests which requested information regarding retirements recorded over \$100,000 that

¹⁹⁵ Response to Data Requests BRCS-MTD-01-006, BRCS-MTD-03-002 and BRCS-MTD-03-003.

¹⁹⁶ Workpaper D(5)_Plant Transfers.xls.

were not associated with a corresponding construction project and work order associated with sales of plant which also generated retirements.¹⁹⁷

Based on our experience with the issue of retirements in other jurisdictions, Blue Ridge evaluated the way retirements are recorded. There are at least three aspects or components to this review of retirements.

1. Has the Company recorded retirements based on the scope of the work order?
2. Is the amount of plant retired reasonable or appropriate based on the data available and are these costs based on a reasonable estimate of original cost or has it been determined based on a direct identification?
3. Are the retirements of utility plant recorded in a timely fashion so that:
 - a. the presentation of the company's gross utility plant is not overstated as of the date certain of the filing, and
 - b. the determination of depreciation expense is not adversely affected?

With respect to the timeliness of recording plant retirements, the normal time lags associated with recording of a work order¹⁹⁸ to the Company's plant accounting system and continuing property records should be considered. Blue Ridge investigated two aspects of this process.

The first part of the investigation included a review of the sample of work orders that Blue Ridge developed to test documentation requirement compliance. We reviewed this documentation to determine the transaction date associated with the retirement in comparison to the in-service date of the assets added to plant.¹⁹⁹

The second part of the investigation was focused on the Company's balance of plant that is categorized in FERC Account 106 – Completed Construction Not Classified (CCNC). This produced a detailed list of work orders from which Blue Ridge began its analysis.²⁰⁰

In response to a data request,²⁰¹ DE-Ohio provided the following balances in Account 106 – Completed Construction Not Classified:

- | | |
|--|----------------|
| 1. Common Completed Const Not Classified (106100): | \$ 4,808,307 |
| 2. Gas Completed Const Not Classified (106200): | \$ 273,431,655 |

The amount of Gas Completed Construction Not Classified represents approximately 25% of the total gas plant in service.

DE-Ohio provided a list of over 1,000 work orders that were classified in Account 106 as of the date certain date of March 31, 2007.²⁰² As such, these work orders represent plant

¹⁹⁷ Response to Data Requests BRCS-MTD-01-008 and BRCS-MTD-01-009.

¹⁹⁸ The process of closing out a work order is referred to as "unitization."

¹⁹⁹ Blue Ridge-MTD-01-007 Supplemental.

²⁰⁰ Workpaper D(5)_BRCS-MTD-03-004-Acct 106-wps.xls.

²⁰¹ Response to Data Request BRCS-MTD-02-013.

additions that are included in the Company's rate base and affect the determination of test-year depreciation expense.

Included in this list are work orders, which specifically identify replacement of existing gas distribution plant among other work orders that may or may not have plant retirements. It should be noted that the in-service dates associated with the work orders in Account 106, in some cases date back to 1998. Several of the main replacement work orders date back to 2003.²⁰³

As an example, the following table presents a summary of the aging of the dollars that are included in Account 106.²⁰⁴ Over 75% of the cost is associated with work orders placed in service between the years 2000 and 2005.

**Table 20-Aging of Dollars Associated with Work Orders
in Account 106**

Accumulated Cost in Acct 106
As of March 31, 2007

In Service Yr	Total	% of Total	Cumulative Total	Age from 2007
1995	13,544	0.00%	0.00%	12
1997	22,626	0.01%	0.01%	10
1998	518,771	0.19%	0.20%	9
1999	442,656	0.16%	0.36%	8
2000	689,048	0.25%	0.61%	7
2001	25,898,746	9.31%	9.91%	6
2002	42,666,534	15.33%	25.25%	5
2003	52,576,667	18.90%	44.14%	4
2004	48,287,333	17.35%	61.50%	3
2005	50,852,014	18.28%	79.78%	2
2006	49,875,263	17.93%	97.70%	1
2007	<u>6,396,762</u>	<u>2.30%</u>	100.00%	0
Grand Total	278,239,963	100.00%		

Source: Company Response to MTD-03-004

This aging of work order dollars in Account 106 is significant because of the implications that it has on internal controls, data collection, maintenance of supporting documentation, loss of institutional knowledge with respect to the work order activities, and the potential misstatement of gross plant and the residual impact on depreciation expense. In addition, it is also indicative of concerns regarding sufficiency of current staffing in the Plant Accounting department.

²⁰² Response to Data Request BRCS-MTD-03-004.

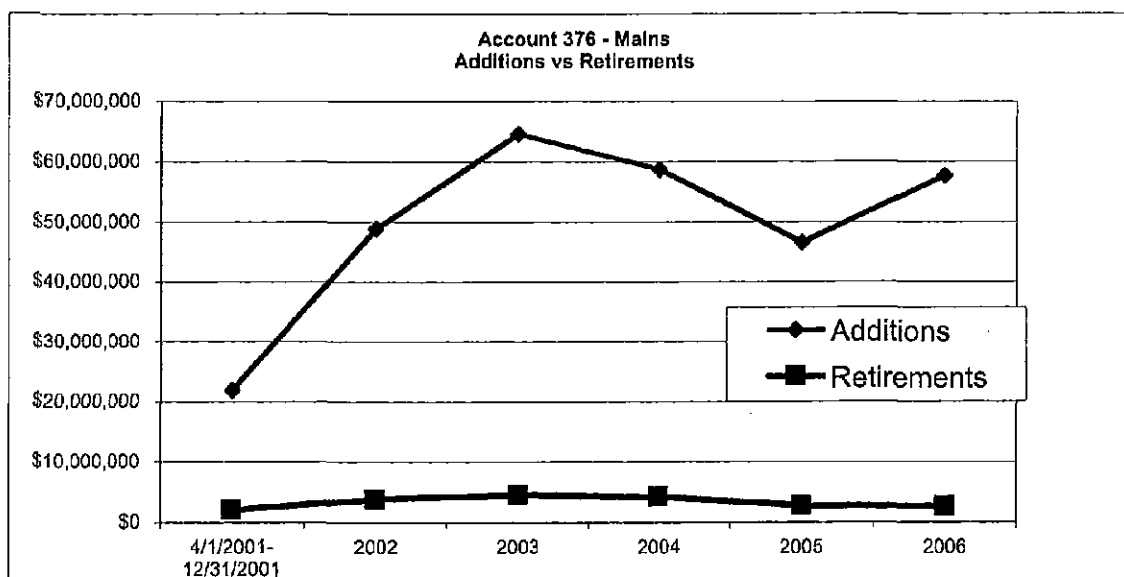
²⁰³ Response to Data Request BRCS-MTD-03-004.

²⁰⁴ Workpaper D(5)_BRCS-MTD-03-004-Acct 106-wps.xls.

Based on the information provided by the Company,²⁰⁵ recording work orders to the Company's continuing property records and processing of the associated retirements does not occur until the work order is processed. As noted, this recording can be at a considerable delay from when the work associated with work order is complete.

Due to the magnitude of the dollars (\$278.2 Million)²⁰⁶ in this classification in Account 106, Blue Ridge requested the plant retirements recorded after March 31, 2007, for work orders that were classified in Account 106 as of the date certain of the Company's filing.²⁰⁷ Blue Ridge computed a limited historical analysis of plant retired as a percent of plant additions for Account 376 – Mains.²⁰⁸ The following figure²⁰⁹ shows that retirements have been relatively flat, yet plant additions have grown tremendously from the time of the end of the last rate case to the end of 2006.

Figure 17-Additions vs. Retirements for Account 376-Mains 2001-2006



In response to our request to understand the apparent inconsistency this trend reflected, the Company's responded,

"Amounts retired out of blanket work orders can not be tracked as to whether the retirements were associated with plant in service at March 31, 2007 or after."²¹⁰

Therefore, it is difficult to provide an accurate analysis of retirements posted. However, the results provided by the Company's response indicate that approximately \$1.1 million

²⁰⁵ Interview Notes – Supervisor Plant Accounting.

²⁰⁶ Workpaper D(5)_BRCS-MTD-03-004 Acct 106-wps.xls.

²⁰⁷ Response to Data Request BRCS-MTD-09-002.

²⁰⁸ Workpaper D(5)_Account 376 Analysis-R2.xls.

²⁰⁹ Workpaper D(5)_Account 376 Analysis-R2.xls.

²¹⁰ Response to Data Request BRCS-MTD-09-002. Also Workpapers D(5)_BRCS-MTD-09-0002a Acct 106 Retirementss-wps.xls and D(5)_BRCS-MTD-09-002b-WOs Acct 106 Retirements-wps.xls.

of gas distribution plant was retired from non-blanket work orders and \$2.9 million were retired and associated with blanket work orders during the period April 1 through October 31, 2007.

In addition, the Company also provided information regarding the status of work order costs in Account 106 as of October 2007.²¹¹ Our evaluation indicates that, excluding blanket work orders, the Account 106 balance for work orders that were included as of March 31, 2007, has been reduced by only approximately \$1.9 million. Therefore, a large portion of the dollars—approximately \$264 million—are still classified in Account 106-Completed Construction Not Classified and are potentially subject to further recording of retirements.

It is important to note that retirements generally do not affect the net rate base in which the Company would be allowed to earn a return. From a “net plant” perspective, the retirement issue is treated as an offset between the plant in service accounts and the accumulated reserve for depreciation. To understand this, one must consider the basic concept of rate base and the accounting entries normally used to record a retirement of plant. The basic concept of rate base is defined as *gross utility plant* at original cost less the amount included in *the accumulated reserve for depreciation*. The result is *net utility plant*. When a retirement of plant is recorded, the Company will reduce gross utility plant by the amount of the corresponding retirement. However, an offsetting entry is made to the appropriate depreciation reserve account in accordance with the Uniform System of Accounts. The net effect of these entries results in no change to the net utility plant in service amount.

However, a retirement of an asset will reduce the amount of depreciation expense that the Company will calculate on its asset base. That is, a reduction in plant will result in a reduction in depreciation expense. Therefore, it is important for retirements to be posted on a timely basis.

Blue Ridge analyzed the trend of additions and retirements in Account 376²¹² for the period April 1, 2001 through December 31, 2006. As shown below, the Company has recorded retirements of approximately 7% in relation to the total of the additions in this account.

²¹¹ Response to Data Request BRCS-MTD-09-001. Also Workpaper *D(5)_BRCS-MTD-09-001-WOs Acct106 Oct07-wps.xls*.

²¹² Workpaper *D(5)_Account 376 Analysis-R2.xls*.

Table 21-Estimated Impact to Depreciation Expense

Total Additions 4/1/2001 – 12/31/2006	298,165,363
Total Retirements 4/1/201 – 12/31/2006	19,797,055
Percent Retirements to Additions	7%
AMRP WO's in Account 106	207,075,049
Historical Retirement Ratio (from above)	6.64%
Estimated Retirements	13,749,002
Depreciation Rate 2761 CGE Gas Main Cast Iron & Copper	2.59%
Estimated Depreciation Expense Impact	<u>356,099</u>

As shown, further extrapolation of this trend, applied to the amount of plant additions in Account 106 for AMRP related work orders, indicates that the Company should have estimated retirements of at least \$13.8 million dollars. This transaction has no impact on rate base, but it does have an impact on going-forward depreciation expense. Blue Ridge estimated that a reduction of depreciation expense of approximately \$356,000 would be reflected on the Company's books had these retirements been posted in a timely manner. Recognizing that the total amount of work orders in Account 106 for FERC Account 376 is \$220 million, the impact on the depreciation expense could be higher. However, that would require a detailed review of each of the subject work orders.

Findings

Blue Ridge's investigation indicates that DE-Ohio has reasonable controls and procedures to ensure that retirements are recorded based on the scope of the work orders. In addition, the Company uses estimates and direct identification of plant to be retired which results in a reasonable presentation of utility plant-in-service and accumulated reserve for depreciation.

However, the lag in processing work order cost from a temporary classification in Account 106 – Completed Construction Not Classified to the continuing property record, along with the determination and recording of associated retirements of plant, impacts the accuracy of the gross plant values.

In addition, and most importantly, the delay in processing the related plant retirements impacts the level of depreciation expense by overstating the depreciable plant basis.

Conclusion and Recommendation

Based on the review of the work orders in Account 106 as of the date certain of the filing and the identification of unitizations and retirement transactions recorded after March 31, 2007, Blue Ridge concludes that the gross utility plant presented by the Company is overstated. As a result, the Company's proposed depreciation expense is overstated. We believe that the amount of the retirements should have been recorded based on actual retirement transactions for the same work orders between the date certain and the filing date and updated based on actual information subsequent to the filing or an estimate in the form of a pro forma adjustment to gross utility plant.

The Company should be required, in this filing and in subsequent rate filings, to establish an estimate of plant that should be retired in connection with each work order that is classified in Account 106 as of the date certain of the filing. This adjustment should be summarized by category (e.g., Gas Distribution Plant, Gas General Plant, etc). It should be summarized further by the associated plant accounts. Finally, an adjustment should be presented that reduces the test-year depreciation expense associated with the amount of estimated plant retirements.

Blue Ridge recognizes that there will normally be a time lag or backlog of recording of retirements associated with work orders in Account 106. It is our recommendation that the Company establish a schedule during which it will be able to reduce the number of work orders and the dollar value of work orders in this account to a more reasonable level. The reasonableness level can be determined either by a dollar value from the March 31, 2007, baseline or by an aging of the dollars based on the in-service dates. An adjustment of this nature (i.e., Non-Recorded Retirements) is consistent with that proposed by Staff in Case No. 01-1228-GA-AIR et al.²¹³

Rate Base Task D.6

Task 6-The auditor shall review annual plant balances, plant retirements, and their corresponding salvage and cost of removal.

Background

Blue Ridge reviewed the Revenue Requirements Model provided by the Company and examined Schedule B-3.3 and the associated workpaper WPB-3.3,²¹⁴ which provided annual summaries of activity affecting the depreciation reserve accounts. The workpaper provided depreciation reserve accruals, retirements and transfers for each year by Company account. Blue Ridge developed a reorganized spreadsheet in order to compare year-to-year changes more easily.²¹⁵ This data was also verified to the activity and plant balances presented by the Company in its FERC Form 2, page 219, Accumulated Provision for Depreciation of Gas Utility Plant (Account 108).

Analysis

Using the details prepared for the Company Schedule B2.3 and WPB2.3 in Tasks D.1 and D.2, Blue Ridge traced the posted plant retirement²¹⁶ that were reflected in the original investment accounts and compared those same accounts in the depreciation reserve analysis. Further comparisons were made to major retirements that were identified in other tasks, e.g, sale of plant, to ensure that the retirements and salvage identified on these transactions were comparable to the net activity in Company Schedule B2.3 and WPB2.3

²¹³ PUCO Staff Report of Investigation, Case No. 01-1228-GA-AIR et al, p.5 and 88.

²¹⁴ Standard Filing Requirement, Schedule B-3.3 and WPB-3.3.

²¹⁵ Workpaper D(2,6)_Plant Additions Comparison.xls.

²¹⁶ Workpapers D(6)_Recon WPB-3.3 to FERC From 2-2006-R1.pdf and D(6)_Recon WPB-3.3-Reserve-R1.xls.

Findings

Other than the finding related to plant retirements discussed in Task D.5, no other findings or discrepancies were noted with respect to the recording of annual plant balances.

Rate Base Task D.7

Task 7 – The auditor selected shall review current Commission approved amortization of reserve deficiency (if applicable).

In the last case,²¹⁷ Staff compared the book reserve with a calculated theoretical reserve, as a guide to whether past accrual rate calculations have been appropriate. Staff concluded at that time that, except for certain adjustments that Staff proposed, the applicant's booked reserve level was proper and adequate and should be used for purposes of that proceeding.

In this proceeding, the Company presented a depreciation study related to Gas Plant at December 31, 2006.²¹⁸ This depreciation study was prepared by Gannet Fleming, Inc. Gannet Fleming prepared the depreciation study in the prior case as well.

Blue Ridge reviewed the depreciation report for general concepts and consistency with the result of Staff's prior review, i.e., straight-line method, historical data from plant records for additions and retirements, and inclusion of salvage and cost of removal data. No specific reserve deficiency was noted in the depreciation study.

In the prior case, Staff noted that accrual rates should be reviewed by the applicant at least every three to five years, an opinion that is also stated by Gannet Fleming. Blue Ridge believes that the Company's inclusion of an updated depreciation study is consistent with the objective and review period previously presented by Staff.

Rate Base Task D.8

Task D.8 - The auditor shall verify that plant retirements have been reflected in plant in service and depreciation reserve.

Background

As discussed previously, plant retirements generally do not have an effect on the Company's rate base because of the offsetting entries that are recorded in the plant in-service account and the corresponding reserve account. However, unrecorded retirements do have an impact on the Company's depreciation expense and, therefore, have an impact on its revenue requirement request.

²¹⁷ PUCO Staff Report of Investigation, Case No. 01-1228-GA-AIR et al, p. 6.

²¹⁸ Supplemental Pages to Application.

Analysis

Verification that plant retirements have been reflected in plant and reserve accounts is encompassed in several of the tasks described in Section D.

Specific analysis was directed toward the work orders that are included in Account 106 - Completed Construction Not Classified and is more fully discussed in Task D.5.

Findings

As described more fully in Task D.5, Blue Ridge's analysis indicates that the Company has not reflected retirements associated with work orders that are still classified in Account 106. The Company's response to various discovery items²¹⁹ indicates that with the exception of blanket work orders, it can determine retirements that have been posted after the date certain period for rate base and which relate plant additions that are included in its filing.

Analysis of the change in Account 106²²⁰ balances for the same population of work orders indicates that the unitization process, i.e., the process by which the Company analyzes cost, posts to the level of retirement units, and records retirement of plant, is substantially behind what one would consider a normal or acceptable time lag in processing. Because of this backlog, the potential for unrecorded retirements exists.

Conclusions and Recommendations

Based on the review of the work orders in Account 106 as of the date certain of the filing and the identification of unitizations and retirement transactions recorded after March 31, 2007, Blue Ridge concludes that the gross utility plant presented by the Company is overstated. As a result, the Company's proposed depreciation expense is overstated.

The Company should be required in this filing and in subsequent rate filings to establish an estimate of plant that should be retired in connection with each work order that is classified in Account 106 as of the date certain of the filing. This adjustment should be summarized by category (e.g., Gas Distribution Plant, Gas General Plant, etc.). It should further be summarized by the associated plant accounts. Finally, an adjustment should be presented that reduces the test year depreciation expense associated with the amount of estimated plant retirements.

Further, the Company should be required to establish a process and schedule by which it can reduce the backlog of ununitized work orders to an acceptable level.

²¹⁹ BRCS-MTD-01-007 Supplemental.

²²⁰ Workpaper D(5)_BRCS-MTD-09-001-WOsAcct106Oct07-wps.xls.

Rate Base Task D.9

Task D.9-The auditor shall verify that amortization expense of capital leases corresponds with the capitalized amount and is amortized at the proper rate.

Background

Capitalized leases are typically associated with leasehold improvements in which a company makes improvements associated with properties, which it does not own, but has the right to use for a longer period of time, and the expenditures are depreciated or amortized over the life of or the remaining life of the lease.

Analysis

Blue Ridge initiated the review of Capitalized Leased Assets by first reviewing the Company's Capitalization Policy²²¹ to ensure that it had an existing policy, which would address both operating leases and capitalized leases and further distinguish between those expenditures, which should be expensed versus those that should be capitalized. Further investigation was conducted at the account level to identify those assets on the Company's books that are classified as capitalized lease assets.²²² In conjunction with the analysis, Blue Ridge also reviewed the typical accounting entries that are recorded for the Meter and Regulator Lease and the Leasehold Improvements on operating structured leases.²²³

Findings

The Company has two primary capitalized lease asset groups that are recorded in Account 1900-Structures and Improvements. This account is categorized as Common Plant and, therefore, is subject to the common plant allocation factor for rate base purposes. The first is the Fourth & Walnut (Clopay) facility and the second is the Atrium II facility. The Fourth & Walnut facility is the largest at \$4.7 million dollars and the Atrium II is \$258,000.

The Company indicated that it performs quarterly reviews of new leases for a determination of capital versus operating lease classification and uses a dollar threshold of lease payment under \$1 million as operating leases²²⁴. The Company provided supporting lease agreements for these facilities noted above.

Conclusions and Recommendations

The Company maintains reasonable controls and procedures relative to the categorization of lease agreements as operating or capitalized leases. No identified exceptions to the Company's policy were noted.

²²¹ Response to Data Request BRCS-MTD-01-019.

²²² Response to Data Request BRCS-MTD-05-001.

²²³ Response to Data Request BRCS-MTD-05-003.

²²⁴ Response to Data Request BRCS-MTD-05-002.

Rate Base Task D.10

Task 10 – The auditor shall analyze Allowance for Funds used During Construction (AFUDC), or Interest Used during Construction (IDC) to ensure a proper calculation.

Background

AFUDC is one of the components of the cost of construction that is specifically addressed in the Uniform System of Accounts and for which a formula is provided to those utilities that are governed by FERC. This formula has also been adopted by most state commissions.

The Company uses its PowerPlant software system to calculate AFUDC. The PowerPlant software system is in use by many utilities and is recognized as a state-of-the-art system designed specifically for regulated utilities. The Company's AFUDC policy is described in its Capitalization Guidelines document issued January 1, 2007.²²⁵ "AFUDC Calculation Reports" are prepared monthly by the Company. These reports identify the subject work order, beginning AFUDC base, the total base, debt and equity rates for the period, the result of the calculation for the debt and equity components, and total AFUDC for the period. The report provides data that represents debt and equity adjustments that are the result of either automated reversals or manual adjustments.

Analysis

The analysis conducted by Blue Ridge consisted of testing the calculation of the AFUDC²²⁶ in several periods covered by the Company's filing to substantiate the monthly rate of the debt and equity components. Supporting documentation from the Company included the guidelines referenced above, schedules of the common equity balances, and the long-term debt and short-term debt rate and amounts.

Testing of the AFUDC calculation was conducted by mathematically verifying the amount of AFUDC applied to individual work orders.²²⁷ The last test that was conducted was through a review of the work order samples selection discussed in Task D.3. This aspect of testing consisted of reviewing AFUDC entry dates for consistency with the in-service dates of the work order (reversals were recorded if appropriate) and verifying that AFUDC was not charged if the work order (such as a blanket work order) was not subject to AFUDC.

Findings

The Company has a process in place by which AFUDC calculated or charged to a work order after its in-service date is reversed. It should be noted that recording of AFUDC after an in-service date is typical in the industry because of the time lag in reporting in-service dates from the field. What is important is that the Company has in place a

²²⁵ Response to Data Request BRCS-MTD-01-019, p 13-14.

²²⁶ Workpaper D(10)_AFUDC Test.wps.xls.

²²⁷ Ibid.

process by which this situation can be rectified, which Duke does have through its PowerPlant process.

Discussions with Company personnel²²⁸ indicate that the work order base for calculating AFUDC does not account for invoices that have been accrued and recorded as of the close of the month. Accruals for items such as accounts payables should be deducted from the work order amount subject to AFUDC, since accounts payables do not require the use of either debt or equity. A further review of the Capitalization Guidelines indicates that it is the Company's policy not to accrue AFUDC on property tax accruals nor invoice accruals.

It was not possible to verify this issue or calculate the impact that accounts payables would have on the AFUDC calculation. In Data Request BRCS-MTD-03-009, the Company was asked to provide "a listing of A/P accruals for the period ending March 2007." The Company's response indicated that, "The size of the file requested is too voluminous to provide. The A/P information for specific accounts/work orders and accounting periods will be provided upon request."²²⁹

Conclusions and Recommendations

Blue Ridge believes that that Company's AFUDC policy and processes for calculating the debt and equity components of AFUDC, the application to the individual work orders, and applicability are reasonable.

Due to the voluminous nature of the accounts payable accruals and the number of work orders potentially subject to AFUDC, Blue Ridge could not determine an order of magnitude that an adjustment for accounts payable accruals would have to the recorded costs of work orders. Any adjustments to the AFUDC calculation or base costs subject to AFUDC will affect the amount of cost recorded in a work order; thus, it affects the Company's rate base and resultant depreciation expense.

Blue Ridge recommends that the Company ensure that the AFUDC calculation and underlying processes, such as accounts payable accruals, are reflected and that the Company is adhering to its policy as stated in its Capitalization Guidelines.

Rate Base Task D.11

Task 11 – Any major sale of plant or equipment since the Applicant's last base rate case shall be reviewed to determine if gains or losses from the sale are treated properly.

Major sales of plant were addressed in discovery item Blue Ridge-MTD-01-009. The Company identified seven major sales transactions, excluding sales of vehicles, resulting in the retirement of over \$16 million of common and dedicated utility gas plant.

²²⁸ Interview Notes – Supervisor Plant Accounting.

²²⁹ Response to Data Request BRCS-MTD-03-009.

Sales of plant affecting Gas Distribution Plant, \$32,612 plant retirement, included:

- Sale of ANR Franklin Gas Tap Property
- Sale of Parsons Street Property

Sales of plant affecting Gas General Plant, \$732,615 plant retirement, included:

- Sale of 2120 Dana facility
- Sale of Dana Ave Property

Sales affecting allocated Common Plant, \$15,665,965 plant retirement, included:

- Sale of 2120 Dana facility
- Sale of Central Parkway Facility
- Sale of Middletown Facility²³⁰

The Company assigned a portion of the proceeds from the various sales to gain / loss accounts, 421.1 and 421.2, which have below the line treatment, and to Account 108-Accumulated Provision for Depreciation. Our analysis of the amount of the proceeds indicates a reasonable assignment of the proceeds to the various accounts, resulting in a proper presentation of the effect on net rate base.

Rate Base Task D.12

Task 12 – The auditor shall verify the Applicant's inventory of Material and Supplies (M&S) included in the application is for repair or replacement of existing plant and equipment and not for construction projects.

The Company's has included \$1,515,678²³¹ of plant and operating material and supplies in its filing. This amount is based a 13-month average and excludes construction related materials and supplies.²³² As discussed with Staff, it was decided that the low dollar amount of inventory (.2% of rate base of \$702.4 million) and the fact that the requested amount is \$203,229 less than the date certain amount,²³³ negated any significant investigation or analysis.

Rate Base Task D.13

Task D.13-The auditor shall become familiar with any regulatory assets, the nature of the entries, dollar amounts, reasons for deferrals, and whether regulatory approval has primarily been obtained for the deferrals.

Background

A regulatory asset is created when a company capitalizes all or part of an incurred cost that would otherwise be charged to expense when it is probable that future revenue at

²³⁰ Response to Data Request BRCS-MTD-01-009. See also Workpaper D(11)_BRCS-MTD-01-009 attachment-Sale of Plant.xls.

²³¹ Schedule B5.1, Col A, Line 10.

²³² See Schedule B5.1, Col A, Line 9.

²³³ Schedule B5.1, Col A, Line 10 minus Schedule B5.1, Col B, Line 10.

lease equal to the capitalized cost will result from the ratemaking process, and that future revenue will be provided to permit recovery of the previously incurred costs. Blue Ridge requested the Company provide a list of any regulatory assets or regulatory liabilities in connection with the rate proceeding.

Analysis

The Company provided the following list of regulatory assets along with the Orders approving the deferral and/or approving recovery.²³⁴

Table 22-Balance Sheet Regulatory Assets

#	Description	Amount	Order Numbers	Order Date
1	Amounts due from customers-income taxes	95,979,362.02	Not provided	
2	Post-in-service carry costs & defer oper exps (AMRP)	6,080,125.62	PUCO 01-1228-GA-AIR	5/30/2002 Stipulation-4/17/2002
3	Deferred merger costs	253,746.50	FERC ER00-213-000	2/20/2000
4	Regulatory Transition Charges	310,443,270.49	PUCO 99-1658-EL-ETP	8/31/2000
5	Other regulatory assets:			
6	RSP-Debt Return, Depreciation Expense and Property Tax Expense	27,039,637.75	PUCO 03-93-EL-ATA, PUCO 05-0059-EL-AIR	Unknown, 12/21/2005 Stipulation-12/6/2005
7	Bad debt to be recovered	509,916.00	PUCO 05-0059-EL-AIR	12/21/2005
8	Regulatory Asset-Tower	-5,542,965.00	PUCO 05-0059-EL-AIR	12/21/2005
9	Interest Rate Hedges-AOCI-Purch Accting	6,095,999.75	PUCO 06-572-EL-AAM, PUCO 06-573-GA-AAM	9/13/2006, unknown
10	Post-retirement health care-electric	296,676.00	PUCO 05-0059-EL-AIR	12/21/2005
11	Deferred PIP uncollectible-gas	7,323,028.59	96-1120-GE-PIP	12/19/1996
12	CG&E 2004 Electric Rate Case	545,528.18	PUCO 05-0059-EL-AIR	12/21/2005 Stipulation-12/6/2005
13	Accrued Pension Post Retire Purch Acctg	114,164,145.74	PUCO 06-572-EL-AAM, PUCO 06-573-GA-AAM	9/13/2006, unknown
14	Accrued Pension Post Retire FAS158	9,907,125.99	Not provided	
15	Total Regulatory Assets	573,095,597.63		

The following regulatory liabilities were also provided.²³⁵

Table 23-Balance Sheet Regulatory Liabilities

Description	Amount
Common Accumulated Provision for Depreciation COR	1,136,479.61
Gas Accumulated Provision for Depreciation COR	-82,120,661.57
Electric Accumulated Provision for Depreciation COR	-95,109,203.13
Retirement Work in Progress	18,263,495.02
GAS ARO other regulatory assets	23,897,971.46
Unrecovered Purchase Gas Cost	8,970,706.65
Unrecovered Purchased Gas Cost-Unbilled	-12,803,006.00
Gas Refund and Reconciliation Adjustment	-154,080.08
Total Regulatory Liabilities	-137,918,298.04

²³⁴ Response to Data Request BRCS-DHM-01-001 and BRCS-DHM-01-002.

²³⁵ Response to Data Request BRCS-DHM-01-001.

Findings

In follow up data requests, the Company stated that, with the exception of AMRP²³⁶ amount of \$6,080,125, the other regulatory assets and liabilities listed above represent electric regulatory assets and a regulatory asset associated with deferred PIP. The deferred PIP regulatory asset is not included in rate base since it is included in a separate rider.²³⁷

Schedule B-1 of the Company's filing includes a line item "Other Rate Base Adjustments" totaling \$6,080,125 for AMRP Post-In-Service Carrying Costs. This is the only regulatory asset recorded in jurisdictional rate base.

Conclusions and Recommendations

The AMRP has received a high level of oversight and involvement of the Commission, its Staff, and other parties since the inception of the program in 2002. Recognition of the AMRP as a regulatory asset appears reasonable. The deferred PIP is not included in rate base and the rider is beyond the scope of this review.

Rate Base Task D.14

Task 14-The auditor shall investigate the accounting for income taxes and verify that the Applicant has properly accounted for the differences on the balance sheet.

Background

Deferred income taxes are amounts reflected on the Company's books that represent the income tax effect caused by expenses being recognized in different years for income tax purposes than for regulatory purposes. An example would be a Company's use of straight-line depreciation for ratemaking purposes and accelerated depreciation for income tax purposes. Straight-line depreciation is commonly used for regulatory accounting and ratemaking purposes, whereas companies commonly use accelerated depreciation for calculating federal income taxes.

The use of an IRS accelerated depreciation rate for computing the tax and a company-adopted straight-line depreciation method for computing operating costs under generally accepted accounting principles (GAAP) will reduce the income tax bill for the utility in the early life of the property and create a timing difference in the form of a deferred tax credit. But timing differences always reverse, increasing the tax bill in later years and eliminating the amount created with the timing difference by amortizing the deferred credit balance to zero at the end of the service life of the property.

This and similar types of differences are referred to as book/tax timing differences. Beyond depreciation book/tax timing differences, a number of other instances can exist when some items of income and/or expense are properly included in the book income of one period but on the income tax return for a different period.

²³⁶ For additional discussion on AMRP, refer to Task D.4.

²³⁷ Response to Data Request BRCS-DHM-08-004.

Analysis

The Company stated that there is no difference between the tax computed for regulatory purposes versus the taxes computed for IRS purposes.²³⁸

The Company's filing Schedule B-1 included a line item for Deferred Income Taxes totaling (\$116,742,026). This amount reduces the rate base component in this proceeding. Company Schedule B-6 provided a list of the items that comprise the Deferred Income Tax total. The Company provided supporting documentation from its General Ledger as of March 31, 2007, for the balances included in Deferred Income Taxes.²³⁹ No exceptions were noted.

The following table was created by sorting Company Schedule B-6 to match the Company provided explanation for each item included as Deferred Income Taxes.²⁴⁰

²³⁸ Response to Data Requests BRCS-DHM-01-004.

²³⁹ Response to Data Request BRCS-DHM-001-004.

²⁴⁰ Workpaper D(14)_Deferred Income Taxes.xls.

Table 24-Deferred Income Taxes Explanation of Book to Tax Differences

Line #	Account Number	Description	Total Company	Adjustments	Adjusted Jurisdiction	Workpaper Reference
1	282050	Liberalized Depreciation	(114,790,466)	0	(114,790,466)	DHM-01-003 # 1
2	282050	Miscellaneous Plant	(403,258)	0	(403,258)	DHM-01-003 # 1
3	282050	Plant FAS 109	(19,255,411)	19,255,411	0	DHM-01-003 # 1
			<u>(134,449,135)</u>	<u>19,255,411</u>	<u>(115,193,724)</u>	Total
4	282050	AFUDC in CWIP FAS 109	(24,659)	24,659	0	DHM-01-003 # 2
5	282050	Tax Interest Capitalized	1,496,440	(1,496,440)	0	DHM-01-003 # 2
6	282050	AFUDC	(1,101,509)	1,101,509	0	DHM-01-003 # 2
			<u>370,272</u>	<u>(370,272)</u>	<u>0</u>	Total
7	190060	Injuries & Damages	331,647	0	331,647	DHM-01-003 # 3
8	190060	Hospital & Medical Expense	177,618	0	177,618	DHM-01-003 # 4
9	283050	Loss on Recquired Debt	(1,585,911)	0	(1,585,911)	DHM-01-003 # 5
10	190050	Uncollectible Accounts	(3,874,838)	0	(3,874,838)	DHM-01-003 # 6
11	283050	Uncollectible Accounts PIP	(2,554,600)	0	(2,554,600)	DHM-01-003 # 7
12	283050	Unbilled Revenue - Fuel	4,357,849	(4,357,849)	0	DHM-01-003 # 8
13	283050	Deferred Fuel	(3,005,429)	3,005,429	0	DHM-01-003 # 9
14	282050	Contribution in Aid of Construction	557,564	0	557,564	DHM-01-003 # 10
15	283050	Customer Choice	41,136	(41,136)	0	DHM-01-003 # 11
16	283050	ARO Cumulative Effect	(1,360,040)	0	(1,360,040)	DHM-01-003 # 12
17	190060	Vacation Pay Accruals	15,942	0	15,942	DHM-01-003 # 13
18	190050	LTIP	36,742	0	36,742	DHM-01-003 # 14
19	190060	Duke Merger Costs - Timing	(117,647)	0	(117,647)	DHM-01-003 # 16
20	283050	Post In-service Carrying Costs	(2,120,090)	0	(2,120,090)	DHM-01-003 # 16
21	190050	Pension Expense	8,616,385	0	8,616,385	DHM-01-003 # 17
22	190050	Supplemental Pension Plan	1,504,592	0	1,504,592	DHM-01-003 # 17
			<u>10,120,977</u>	<u>0</u>	<u>10,120,977</u>	Total
23	190050	Post Retirement Benefits - Life Ins.	1,510,277	0	1,510,277	DHM-01-003 # 18
24	190050	Post Retirement Benefits - Health Care	6,635,822	0	6,635,822	DHM-01-003 # 18
			<u>8,146,099</u>	<u>0</u>	<u>8,146,099</u>	Total
25	190050	Post Employment Benefits - SFAS 112	426,058	0	426,058	DHM-01-003 # 19
26	190050	Executive Life Insurance	(490,488)	0	(490,488)	DHM-01-003 # 20
27	190050	Gas Meters	775,052	0	775,052	DHM-01-003 # 21
28	282050	Gas Meters	(188,927)	0	(188,927)	DHM-01-003 # 21
			<u>586,125</u>	<u>0</u>	<u>586,125</u>	Total
29	190060	401k Incentive Plan	32,093	0	32,093	DHM-01-003 # 22
30	190060	Incentive Plan	235,095	0	235,095	DHM-01-003 # 22
			<u>267,188</u>	<u>0</u>	<u>267,188</u>	Total
31	190050	Gas Supplier Refund	48,273	0	48,273	DHM-01-003 # 23
32	282050	Non-cash Overheads	(601,160)	0	(601,160)	DHM-01-003 # 24
33	190050	Unamortized Debt Premium	33,016	0	33,016	DHM-01-003 # 25
34	190050	Natural Gas in Transit	131,873	0	131,873	DHM-01-003 # 26
35	190050	Trading Reserve - MTM	(1,364,109)	1,364,109	0	DHM-01-003 # 27
36	190050	Reg Asset Benefits	(9,007,002)	0	(9,007,002)	DHM-01-003 # 28
37	190050	Rate Case Expense	(13,855)	0	(13,855)	DHM-01-003 # 29
38	190060	Property Tax on Propane	515,199	0	515,199	DHM-01-003 # 30
39	283060	Property Tax	658,321	0	658,321	DHM-01-003 # 30
			<u>1,173,520</u>	<u>0</u>	<u>1,173,520</u>	Total
40	190050	Offsite Gas Storage	100,408	0	100,408	DHM-01-003 # 31
41	282050	Section 174 Expense	(1,919,432)	0	(1,919,432)	DHM-01-003 # 32
42	190050	ITC FAS 109	2,224,553	(2,224,553)	0	
43	190050	Misc	(56,309)	0	(56,309)	
		Total Deferred Income Taxes	<u>(133,373,165)</u>	<u>16,631,139</u>	<u>(116,742,026)</u>	Grand Total

The Company provided the following explanations for the deferred income taxes shown on its Schedule B-6.²⁴¹ The line references refer to the preceding table.

Lines 1, 2, and 3 - Depreciation [(\$115,193,724) reduces rate base]

Due to differences in basis and depreciable lives and methods, book and tax depreciation are different.

Lines 4, 5, and 6 - Interest Capitalized/AFUDC [\$0 no impact to rate base]

For book accounting purposes, the cost of capital (debt & equity) used in the construction of plant is permitted to be capitalized. For tax accounting purposes, only the debt element may be capitalized. The calculation of the debt element for tax is in compliance with the IRS code which is different from regulatory accounting.

Line 7 - Provision for Injuries and Damages [\$331,647 increases rate base]

Per books, an expense is taken for probable liabilities relating to deaths or injuries to employees not covered by insurance. For tax purposes, only actual cash payments are considered an expense.

Line 8 - Employee Hospital & Medical Adjustment [\$177,618 increased rate base]

Per books an expense is taken monthly for potential employee hospital and medical expenses. For tax purposes, only charges based on actual claims or premiums are deductible.

Line 9 - Amortization of Loss on Reacquired Debt [(\$1,585,911) reduces rate base]

As a result of early extinguishment of debt, losses incurred were deductible for tax in the year of extinguishment. For book purposes, losses were deferred and amortized over the shorter of the remaining life of the original debt or the life of the newly acquired debt.

Line 10 - Uncollectible Accounts Provision Adj. [(\$3,874,838) reduces rate base]

Per books an expense is taken monthly for potential uncollectible receivables. For tax purposes only actual write-offs are considered an expense.

Line 11 - Uncollectible Accounts PIP Adj. [(\$2,554,600) reduces rate base]

For book accounting purposes, these accounts are amortized. For tax purposes, PIP Uncollectibles are deductible when the accounts are charged off.

Line 12 - Unbilled Revenue – Fuel [\$0 no impact to rate base]

Unbilled revenue is recorded from the meter reading date to the end of the month. The cost of the purchased gas expense related to this unbilled revenue are estimated and accrued for book purposes. For tax purposes, only the actual purchased gas expense incurred is deductible.

²⁴¹ Response to Data Request BRCS-DHM-01-003.

Line 13 - Deferred Fuel Cost – PGA [\$0 no impact to rate base]

The Gas Department estimates the fuel costs for the upcoming three months and that is the amount that is billed to customers. The over/under recovery is put into a second usage estimated and either returned to the customer or billed. If there is still an over/under recovery, this amount is transferred into a residual account and refunded to the customer. For tax purposes, fuel costs are deducted as incurred.

Line 14 - Contributions in Aid of Construction [\$557,564 increases rate base]

When new gas mains are installed, a customer advance is required. As the customers hook up to the gas main, a portion of the advance is refunded. If the advances are not refunded by a certain time, it is credited to plant. For tax purposes, these costs are income and tax basis when billed; whereas for book purposes, these amounts are credited to plant.

Line 15 - Customer Choice [\$0 no impact to rate base]

Charges were deferred on the books for customer choice. These amounts were expensed for tax purposes when incurred.

Line 16 ARO [(\$1,360,040) reduces rate base]

For Book purposes, in accordance with SFAS No. 143, the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred. The fair value of the liability is added to the asset. The additional carrying amount is then depreciated over the life of the asset. For Tax purposes the book depreciation and accretion expenses are not deductible.

Line 17 - Vacation Accrual [\$15,942 increases rate base]

For Book purposes the vacation deduction is based on the accrued vacation pay balance. For Tax purposes, the deduction is based on vacation pay amounts that were actually paid.

Line 18 – LTIP [\$36,742 increase rate base]

Long Term Incentive Plan, certain key employees receive incentive and non-qualified stock options, stock appreciation rights, restricted stock dividend equivalents, the opportunity to earn performance-based shares and certain other stock based awards. For Book purposes, LTIP expense is accrued over 36 months and adjusted quarterly for any changes. For Tax purposes, accruals are reversed and payments are deducted in the year they are made.

Line 19 - Duke Merger – Timing [(\$117,647) reduces rate base]

A transaction cost analysis was performed on the Duke merger, which determines the treatment of merger costs for tax purposes. Several costs that are deductible for book purposes as part of the transaction are deductible for tax purposes when incurred. Additionally, there are costs that are capitalized and amortized for tax (such as debt related costs) that are expensed with the transaction for book purposes.

Line 20 - Post In Service Carrying Costs [(\$2,120,090) reduces rate base]

Post in service carrying costs are calculated at the weighted cost of capital using the return on equity from the most recent retail base case. Post in service carrying costs are accrued until 1) the date of transfer of the asset, 2) the costs are included in the rate base, or 3) a specified date. For book purposes, the debt portion of the post in service AFUDC reduces the net interest charges on the income statement and capitalizes them to a FERC account. For tax purposes, AFUDC is not used to decrease interest charges nor is it capitalized.

Lines 21 and 22 - Pension Costs FASB #87 and Supplemental Pension [\$10,120,977 increases rate base]

FASB #87 requires companies to recognize pension expense using specified accrual methods. For income tax purposes, only amounts contributed to a pension trust or paid to retirees are deductible.

Lines 23 and 24 - Post Retirement Benefits – Life Insurance and Health Care [\$8,146,099 increases rate base]

FASB #106 requires employers to accrue currently benefits due employees after retirement. For Book purposes, the actuarially determined benefit obligation for active employees health insurance benefits are amortized over the employees estimated remaining service life. For Tax purposes, only amounts actually paid for these benefits are deductible.

Line 25 - Post Retirement Benefits – SFAS #112 [\$426,058 increases rate base]

Book accrues a liability in accordance with SFAS 112 for Post Retirement Benefits. These costs are deductible for tax upon payment.

Line 26 - Executive Life Insurance [(\$490,468) reduces rate base]

Under this benefit, certain executive have life insurance policies. Should the executive die while an active employee, their beneficiary would receive the proceeds. For tax purposes, a deduction is allowed only for actual payments.

Lines 27 and 28 - Leased Meters [\$568,125 increases rate base]

Every meter is now leased by Duke Energy Ohio. On the books it is treated as a capital lease; the company records the meters as an asset and depreciates them. For tax purposes, the depreciation is reversed and the payments are deducted as an operating lease.

Lines 29 and 30 -Annual Incentive Plan Compensation [\$267,188 increases rate base]

This M involves adding back the accruals for book and deducting the actual payments made.

Line 31 - Gas Supplier Refunds [\$48,273 increases rate base]

For tax purposes, all of the accruals for this activity are reversed and the refunds are recurring items that are taxable income when received and deductible if paid by tax filing date.

Line 32 - Non-Cash Overhead Basis Adjustment [(\$601,160) reduces rate base]

The book basis of capital assets is increased for accrued pension and benefit costs as recognized. The Tax basis of capital assets is increased only when amounts are contributed to a pension trust or when benefits are actually paid.

Line 33 - Unamortized Debt Premiums [\$33,016 increases rate base]

For book purposes, amortization of step-up in the book basis of debt premium, not deductible for tax.

Line 34 - Natural Gas In Transit [\$131,873 increases rate base]

Accrued gas in transit book expense is deductible for tax as the gas inventory is utilized.

Line 35 - Trading Reserve – MTM [\$0 no impact to rate base]

Unrealized Gains/Losses for book, only allowed for Tax when realized.

Line 36 - Reg Asset Benefits [(\$9,007,002) reduction to rate base]

Charges were deferred on the books as Regulatory Assets. These amounts were expensed for tax purposes when incurred.

Line 37 - Rate Case Expense [(\$13,855) reduces rate base]

For book purposes, costs associated with the rate case are being capitalized. For tax purposes, expenses are deducted as incurred.

Lines 38 and 39 - Property Tax [\$1,173,520 increases rate base]

Property taxes are accrued for book purposes ratably through the year. These costs are deductible for tax upon payment.

Line 40 - Offsite Gas Storage [\$100,408 increases rate base]

Gas Storage Costs is an inventory item for tax (Section 263A). The gas is stored up and used January through March. Capitalization of the offsite storage costs begins in April. The gas moves through inventory so quickly in the winter months that capitalization is not required for book purposes. Offsite gas storage costs are not deductible for tax until the gas inventory is utilized (sold).

Line 41 - Section 174 Expense [(\$1,919,432) reduction to rate base]

R&D expenses are capitalized for book purposes and deducted when incurred for tax purposes.

Findings

No exceptions were noted related to Deferred Income Taxes.

Conclusions and Recommendations

The values presented in the Company's filing for deferred income taxes reconcile to the Company's general ledger. The Company provided explanation for the line items included in deferred income. No exceptions were noted.

Should adjustments be made to the Company's revenue requirements, the possible impact to deferred income taxes and ultimately rate base should also be considered.

Rate Base Task D.15

*Task D.15-The auditor will review and analyze the Applicant's proposed adjustments to operating income and rate base and trace them to supporting workpapers and source data.*²⁴²

See the discussion for Task C.13 in Section C. Operating Income of this report.

²⁴² Due to the similarities between Task C.13 and Task D.15, they will be discussed together in this report. See the discussion for Task C.13 in Section C. Operating Income of this report.

OTHER INDEPENDENT ANALYSIS

Rate Base Task D.16

Task 16-Other independent analysis will be performed as the auditor and/or Staff consider necessary under the circumstances.

The Billing Records were tested for accuracy and validity as a separate independent analysis during this review.

Billing Records

Audit Team

1. Warren Fischer, CPA – Lead
2. Patrick Phipps
3. James Webber
4. Hallie Lawrence
5. Tracy Mullinax – Support

Background

Blue Ridge tested the accuracy and validity of the Company's billing records for the first three months of 2007 to ascertain whether the revenue recorded by the Company is accurate and can be relied upon by the Commission as a key component of the Company's test year revenue requirement. The scope of our testing of the Company's billing process expanded into a more detailed verification and validation process based upon clarification received from Staff during the fieldwork portion of our audit.

Blue Ridge interviewed five individuals responsible for customer service, meter reading, and meter testing. Blue Ridge interviewed the Senior Vice President of Customer Service to get a macro level understanding the meter reading and billing process.²⁴³ We subsequently interviewed the Manager, Payments & Controls, within the Customer Service organization. The Manager, Payment and Controls is directly responsible for collection of cash, payments of bills and development and monitoring the company's adherence to internal controls over the bill production process.²⁴⁴ Two other managers outside of Customer Service organization are responsible for the accuracy of the meter reading function and the accuracy of the meters themselves. The Manager – Meter Reading, Duke Energy - Ohio is responsible for the meter reading function in Ohio and Kentucky.²⁴⁵ The Manager – Meter Operations is responsible for meter testing and oversees all the meter labs for Duke Energy.²⁴⁶

²⁴³ See October 30, 2007 interview notes for Todd Arnold.

²⁴⁴ See November 1, 2007 interview notes for Tiffany Moore.

²⁴⁵ See October 31, 2007 interview notes for Charles Session Manager – Meter Reading, Duke Energy - Ohio.

²⁴⁶ See November 2, 2007, interview notes for Adriaenne McMahan Manager – Meter Operations.

Blue Ridge documented the process employed by the Company to obtain gas customer usage, the transfer of meter reading data from hand-held readers to the billing determinant database, the calculation of bills to customers, and the recording of revenue on the general ledger. Blue Ridge selected specific billing cycles from each of the three months to trace sales volumes and revenues to the Company's general ledger. Company personnel provided source documents and reports to support the revenue generated from a given billing cycle each month and walked Blue Ridge auditors through the accounting process while on-site at the Company's Cincinnati offices. Follow-up data requests were issued to formally request information provided during our on-site visits and for additional clarifying questions to confirm our understanding the billing process.

Sales Volumes via Meter Reading Process

The process of collecting gas usage data in Ohio and converting that data to customer bill information can be summarized as follows. Meter readers generally utilize Itron handheld devices²⁴⁷ to collect Mcf usage data from the customers' meters. At the end of a shift, the meter readers dock their Itron devices, which then export the usage data to the Customer Management System ("CMS"). At this point, the system ensures that the assigned/expected number of meter reads reconciles with the number of meter reads exported. If reconciliation is confirmed,²⁴⁸ the data flows through the system and is scrutinized by the Validation, Editing and Estimation (VEE) process to ensure the data is within the historical range of high and low values for each customer.²⁴⁹ Customers' bills are automatically calculated by the system and the billing information is then sent to the billing vendor for printing and mailing. If bill re-dos are necessary, they are sent out in the same month.

Checks and Balances

Controls are used to ensure the usage data is correct and then the data is used for bill preparation with an outside vendor through the Billing group. Collection of customer payments is tracked through the Receivables group.

Numerous daily, weekly, monthly and yearly controls are in place to ensure the accuracy of customer bills. Many of the daily balancing controls ensure that all variances between metered usage adjusted for the Validation, Editing and Estimation process agree with usage used to generate bills. The Company maintains that these controls are more stringent than those required by Sarbanes Oxley. These controls are performed because they add value to the company and its customers by improving the accuracy of the

²⁴⁷ Duke has approximately 68,000 AMI-capable meters in Kentucky, which allows the Company to read the customer's metered usage data remotely without a manual read. AMI allows two-way communications (which would also allow the Company to send information to the meter – e.g., for disconnection/turn up), as opposed to AMR technology, which allows one-way communication (e.g., remote meter reading only). As part of the Utility of the Future program, Duke plans to roll out AMI meter technology in Ohio in the coming years. See Charles Session October 31, 2007 interview notes.

²⁴⁸ If these numbers do not reconcile, someone is dispatched to the location where the handheld devices are docked to resubmit data.

²⁴⁹ Adjustments by Company and read estimates, in addition to actual meter reads, are sent through the VEE process.

monthly bills and includes a daily control to ensure that if meter readers indicate that there were "X" number of meters read in a particular day, that there are the same "X" number of reads uploaded to the Customer Management System for that day.

Unless there is a conflict between meter reads assigned and meter reads actually made, the data flows through and is not recorded/stored. Another daily control is in place to ensure that all customer account adjustments (e.g., "cancel/rebills") are appropriate and have been approved by the proper authority and are supported by documentation. In addition, the Company examines and recalculates one customer bill per rate element each day to make sure bills are accurate. This normally takes one person about 6 hours each day.

A monthly control is in place to compare revenue/usage for a particular month to the prior month and the same month from the prior year to ensure, among other things, that the Company is not missing routes/customers in their meter reading process (to ensure that energized meters are billed meters). Accounting also performs a monthly comparison of expected results to actual results. Annual controls include yearly audit of Sarbanes Oxley requirements by Duke Energy Internal Audit as well as a yearly audit of Accounts Receivables sold to receivables company (Cinergy Receivables).

Bill Rendering

The Manager, Payments & Controls explained that meter readers have a 3-day window to read a customer's usage and to address any anomalies. Billing requires one day / night to process usage data and to calculate each customer's bill once the usage data is ready for download. The next day, the database containing completed bills is sent to an outside vendor in Columbus, Ohio who prints and mails the bills that day. The Manager, Payments & Controls explained this process as "read today and bill tomorrow." If reads are not in within the 3-day window for meter reads, usage estimates are created automatically by the billing system based on past usage, degree days, etc. Accordingly, this automated estimation process is continually being reviewed.

Audit Testing

Blue Ridge worked closely with Manager, Payments & Controls to test one billing cycle out of 21 cycles from the months of January, February and March 2007. We selected one billing cycle from each month from the Company's 2007 Corporate Meter Read Bill Schedule.²⁵⁰ The Company demonstrated the process of tracing billing cycle activity into reports containing the Company's daily revenue by service. Blue Ridge tested the flow of daily revenue to monthly summary reports and to month-end journal entries posted to the general ledger.

The process of recording daily revenue on the Company's general ledger can be summarized as follows: The CMS breaks revenues into CMS FERC accounts. The CMS FERC accounts are not equal to standard FERC accounts because they use sub-account level detail to reflect the activity recorded by work code. The financial accounting

²⁵⁰ Response to Data Request BRCS-WF-08-002.

system automatically maps CMS FERC account information to the actual FERC accounts. Control Numbers are used to group together activity by similar work codes and assist in ensuring information recorded on the General Ledger is in balance. If something is out of balance, control numbers make it easier to identify the problem by limiting it to a specific batch. Control numbers are implemented by day and not billing cycle, so an individual testing the data flow will not see bill cycle information in control number information/revenues.

A General Ledger report is created to confirm that the information is posted to the General Ledger properly²⁵¹. There is no way to track what occurred (e.g., usage) from a particular billing cycle to General Ledger reports because, as explained above, billing cycles are irrelevant to revenues because of, among other things, adjustments such as estimated bills, re-reads, and others.

Findings

Blue Ridge found that the Company has a robust system of controls in place to ensure the accuracy of its bill rendering and revenue accounting process. The Company's controls are subjected to annual internal and external audits and we found no major issues in either reviews of the internal or external audit reports.

Blue Ridge traced revenue generated from specific days corresponding with the billing cycles selected from the Company's meter reading schedule to the month-end revenue summary report containing total revenue for the month. Total revenue for a randomly selected service was then traced to the standard journal entry used to post monthly revenue to the General Ledger. The total revenue in the journal entry was then traced to the General Ledger. No exceptions were noted in this process.

Blue Ridge also traced customer usage for the days selected for testing through the Company's Customer Management Solutions System reports, which tracks daily and month-to-date usage by FERC account and sub-account to the Company's Customer Service System reports, which track month-to-date usage and revenue by FERC account and sub-account on a monthly basis. Variances between the two reports are flagged and researched by the Company until they are balanced. No exceptions were noted in our testing of this process.

Conclusions and Recommendations

The Company appears to have a reliable set of processes in place to ensure that accurate customer usage data is obtained from the meter reading process through the rendering of customer invoices. The Company's procedure of testing one customer bill per tariff rate element goes beyond industry practices, but the Company believes this helps ensure the accuracy of customer bills. Per our discussions with Company personnel and our review of Company accounting records, the Company has numerous controls in place to ensure its daily billing data balances between the various groups involved in the billing process.

²⁵¹ ED262 is the standard revenue journal entry for the General Ledger for a month.

Consequently, the monthly revenue recorded on the Company's General Ledger appears to be sufficiently reliable to use in the Company's test year.

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Appendices

Appendix 1 – Documents Reviewed

Appendix 2 – Data Requests Submitted

Appendix 3 – Index to Workpaper Files

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Appendix 1

Documents Reviewed

Documents Reviewed by Blue Ridge Consulting Services Inc.,
In Connection with the Duke Energy Ohio Rate Case Audit
Case No. 01-1228-GA-AIR

#	Title	Filename
1	Staff Report of Investigation PUCO Case No. 01-1228-GA-AIR	2001 Audit Report[1].pdf
2	Appendix A 4901-7-01 Table of Contents	4901-7-01-AppendixA.pdf
3	In the matter of the Application of DE Ohio, Inc. for Approval of an Alternative Rate Plan for its Gas Distribution Service, Case No. 07-590-GA-ALT	Application DE Ohio.pdf
4	In the matter of the Application of DE Ohio, Inc. for Approval of an Alternative Rate Plan for its Gas Distribution Service, Case No. 07-590-GA-ALT	Application with Index to MFR.pdf
5	Gas Cost Revenue	CGE GAS SCH-E - FINAL PHASE 1.xls
6	Gas Cost Revenue	CGE GAS SCH-E - FINAL PHASE 2.xls
7	Automated Rate Case Filing System Case No. 07-589-GA-AIR	CGE GAS SCH-E - FINAL PHASE 3.xls
8	CGE Service Area	CGE_revised_10-10-02.pdf
9	DE Ohio Gas Cost of Service Study- Peak& Avg- Peak Day Case No. 07-0589-GA-AIR	DE OH Gas COSS.xls
10	DE Ohio Testimony Section 1 of 3 Case No. 07-589-GA-AIR	Duke Ohio Testimony 1-3.pdf
11	DE Ohio Testimony Section 2 of 3 Case No. 07-589-GA-AIR	Duke Ohio Testimony 2-3.pdf
12	DE Ohio Testimony Section 3 of 3 Case No. 07-589-GA-AIR	Duke Ohio Testimony 3-3.pdf
13	OCC to POD Fourth Set of Data Requests for Case No. 07-589-GA-AIR	fourth_s.pdf
14	OCC to POD Fourth Set of Data Requests for Case No. 07-589-GA-AIR	fourth_s2.pdf
15	OCC to POD Fourth Set of Data Requests for Case No. 07-589-GA-AIR	fourth_s3.pdf
16	OCC to POD Fourth Set of Data Requests for Case No. 07-589-GA-AIR	fourth_s4.pdf
17	OCC to POD Fourth Set of Data Requests for Case No. 07-589-GA-AIR	fourth_s6.pdf
18	DE Ohio Gas Cost of Service Study- Peak& Avg- Peak Day Case No. 07-0589-GA-AIR	GS Functional.xls
19	DE Ohio Gas Cost of Service Study- Peak& Avg- Peak Day Case No. 07-0589-GA-AIR	IT Functional.xls
20	4903.02 Examination of Witnesses - production of records	Lawriter - ORC - 4903.02 Examination of witnesses - production of records..pdf
21	4903.03 Examination of records	Lawriter - ORC - 4903.03 Examination of records..pdf
22	4905.03 General Supervision	Lawriter - ORC - 4905.03 General supervision..pdf
23	4905.15 Reports and accounts	Lawriter - ORC - 4905.15 Reports and accounts..pdf
24	4905.16 Copy of contract may be required by commission	Lawriter - ORC - 4905.16 Copy of contract may be required by commission..pdf
25	4909.15 Fixation of reasonable rate	Lawriter - ORC - 4909.15 Revised Code.pdf
26	4909.18 Application to establish or change rate	Lawriter - ORC - 4909.18 Revised Code.pdf
27	Rate Case and Audit manual by NARUC 2003	NARUC Rate case Audit Manual.doc
28	OCC to INT Fourth Set of Data Requests for Case No. 07-589-GA-AIR	OCC-INT-04-86.pdf
29	OCC to POD Fourth Set of Data Requests for Case No. 07-589-GA-AIR	OCC-POD-04-34.pdf
30	OCC to POD Fourth Set of Data Requests for Case No. 07-589-GA-AIR	OCC-POD-04-37.pdf
31	PUCO Regulated natural Gas Companies Map	OH Gas Co Service area maps.pdf
32	Opinion and Order before the PUCO Case No. 01-1228-GA-AIR	Order 1st Case No. 01-1228-GA-AIR.pdf
33	Second Opinion and Order before the PUCO Case No. 01-1228-GA-AIR	Order 2nd Case No. 01-1228-GA-AIR.pdf
34	Third Opinion and Order before the PUCO Case No. 01-1228-GA-AIR	Order 3rd Case No. 01-1228-GA-AIR .pdf
35	Fourth Opinion and Order before the PUCO Case No. 01-1228-GA-AIR	Order 4th Case No. 01-1228-GA-AIR .pdf
36	Fifth Opinion and Order before the PUCO Case No. 01-1228-GA-AIR	Order 5th Case No. 01-1228-GA-AIR.pdf
37	Uncollectible Accounts Ohio Excise PUCO Maintenance Consumers' counsel federal income	PUCO Gas SFRs.xls
38	Uncollectible Accounts Ohio Excise PUCO Maintenance Consumers' counsel federal income	Rev Req Model As Filed.xls
39	DE Ohio Gas Cost of Service Study- Peak& Avg- Peak Day Case No. 07-0589-GA-AIR	RS Functional.xls
40	Stipulation and Recommendation before the PUCO Case No. 01-1228-GA-AIR	stipulation 01-1228-GA April 02.pdf
41	Duke Energy Ohio gas Department Workpapers WPE-4a Case No. 07-589-GA-AIR	WPE Revenue Workpapers - FINAL.xls

Appendix 2

Data Requests Submitted

Item #	Filing Party/ Directed to:	DR #	Date of DR	Response Received	Request	Attachment	Location
1	BRCS to Duke	GPR-01-001	9/13/07	10/26/07	Actuarial reports for employees and other than employees for 2001-2004 recent	Confidential Data Response CD	
2	BRCS to Duke	GPR-01-002	9/13/07	10/26/07	10/26/07 Affidavit Agreement for Intercollateral Transactions	Data Response CD	
3	BRCS to Duke	GPR-01-003	9/13/07	11/6/07	10/26/07 Access to Audit Committee Minutes for the period 2004 through the present	Data Response CD, Working Files Notebook Vol. 1	
4	BRCS to Duke	GPR-01-004	9/13/07	10/26/07	Summaries of the Billings Request (requests, etc.) by year for 2004 through may recently available report	Data Response CD	
5	BRCS to Duke	GPR-01-005	9/13/07	10/26/07	Access to Board of Director Minutes 2004 to most recent	Working Files Notebook Vol. 3	
6	BRCS to Duke	GPR-01-006	9/13/07	10/26/07	The Company's Chart of Accounts and Accounts Manual	GPR-4 Supp(C) (31) - Chart to Accounts w/ Description	
7	BRCS to Duke	GPR-01-007	9/13/07	10/26/07	Please provide a sample of a Construction Work Order and all typical associated documents for a recent plant addition in which the total cost of the work order was over \$100,000	Working Files Notebook Vol. 4	
8	BRCS to Duke	GPR-01-008	9/13/07	9/26/07	Construction Budgets for 2001 through 2007	GPR Budget 2001-2004.xls, GPR-3 Budget 2005-	
9	BRCS to Duke	GPR-01-009	9/13/07	10/26/07	Access to Combining Property Records (CPR)	Data Response CD	
10	BRCS to Duke	GPR-01-010	9/13/07	10/26/07	Annual Corporate Budget by Month and by Function for 2004 through the present	Data Response CD	
11	BRCS to Duke	GPR-01-011	9/13/07	10/26/07	Current Labor Contract(s)	Data Response CD	
12	BRCS to Duke	GPR-01-012	9/13/07	9/26/07	Access to External Independent Audit Reports and Work orders for 2004 through the present	Confidential Data Response CD	
13	BRCS to Duke	GPR-01-013	9/13/07	10/26/07	Franchise Fee Record (collection and payment) for 2001 through the present	Data Response CD	
14	BRCS to Duke	GPR-01-014	9/13/07	10/26/07	List of Sales Present Assumptions included in the company's filing in this case. Provide supporting documentation for each assumption	Data Response CD	
15	BRCS to Duke	GPR-01-015	9/13/07	10/26/07	General Ledger and Subsidiary Ledgers	Confidential Data Response CD	
16	BRCS to Duke	GPR-01-016	9/13/07	10/26/07	Access to Internal Audit annual audit plans, Reports and Work orders for 2004 through the present	Working Files Notebook Vol. 4	
17	BRCS to Duke	GPR-01-017	9/13/07	10/26/07	Access to Internal Audit annual audit plans, Reports and Work orders for all financial and operational audits for 2001 through 2006	Data Response CD	
18	BRCS to Duke	GPR-01-018	9/13/07	10/26/07	Access to A/R Invoices	Data Response CD	
19	BRCS to Duke	GPR-01-019	9/13/07	10/26/07	List of Property Units	Data Response CD	
20	BRCS to Duke	GPR-01-020	9/13/07	9/26/07	FERC General Advertising Expense, Act. 930.1 for Test year and previous 5 years	Data Response CD	
21	BRCS to Duke	GPR-01-021	9/13/07	9/26/07	FERC Miscellaneous General Expense Act. 930.2 for test year and previous 5 years	Data Response CD	
22	BRCS to Duke	GPR-01-022	9/13/07	10/26/07	Annual report to shareholders for April 5 years	Data Response CD	
23	BRCS to Duke	GPR-01-023	9/13/07	10/26/07	Monthly or Quarterly Operating/Financial Reports including the SEC 100 and 10K	Data Response CD	
24	BRCS to Duke	GPR-01-024	9/13/07	9/26/07	Monthly Trial Balance for 2004 through the present	Confidential Data Response CD	
25	BRCS to Duke	GPR-01-025	9/13/07	9/26/07	Monthly Sales by Rate Schedule and/or Customer Class for 2001 through present	Data Response CD	
26	BRCS to Duke	GPR-01-026	9/13/07	10/16/07	Organizational Charts (employee and internal reporting lines and departments with names and titles) for 2005 (one merged) and the most	Data Response CD	
27	BRCS to Duke	GPR-01-027	9/13/07	10/26/07	Payroll Request summary reports for the test year and 5 previous years	Data Response CD	
28	BRCS to Duke	GPR-01-028	9/13/07	10/16/07	Access to Property Tax Statements for 2001 through present	Data Response CD	
29	BRCS to Duke	GPR-01-029	9/13/07	10/26/07	Access to Risk Committee Minutes and Documentation	Data Response CD	
30	BRCS to Duke	GPR-01-030	9/13/07	10/26/07	Sample of Customer Bills (all customer class codes)	Data Response CD	
31	BRCS to Duke	DWS-01-001	9/13/07	10/26/07	Please provide a list of all PUCO orders, rules, and regulations relative to the Cost Allocation Manual. Provide the Cost Allocation Manual applicable to Case No. 01-1228-GA-AUR.	Data Response CD	
32	BRCS to Duke	DWS-01-002	9/13/07	10/16/07	Please provide a copy of the current Cost Allocation Manual. Provide the Cost Allocation Manual applicable to Case No. 01-1228-GA-AUR.	Confidential Data Response CD	
33	BRCS to Duke	DWS-01-003	9/13/07	10/26/07	Please identify any substantive differences between the current Cost Allocation Manual and the Cost Allocation Manual in use during Case No. 01-1228-GA-AUR. Explain fully the basis and/or reason for the difference	Data Response CD	
34	BRCS to Duke	DWS-01-004	9/13/07	10/16/07	Please provide all plans, policies, and procedures by which Duke Energy Ohio ensures compliance with their affiliate transaction and cost allocation manuals and compliance plans	Data Response CD	
35	BRCS to Duke	DWS-01-005	9/13/07	11/1/07	Please provide a list of any internal or external audit reports and access to related work papers and other documentation related to cost allocation among affiliates and jurisdictions for the past three (3) years.	Confidential Data Response CD	
36	BRCS to Duke	DWS-01-006	9/13/07	10/16/07	Please provide all policies, procedures, manuals, training documentation that address pricing of services provided by Duke Energy and its affiliates	Data Response CD	
37	BRCS to Duke	DWS-01-007	9/13/07	10/26/07	Please provide all policies and procedures governing accounting, pricing, allocation, and conduct of transactions with affiliated interests	Working Files Notebook Vol. 1	
38	BRCS to Duke	DWS-01-008	9/13/07	10/16/07	Please provide a detailed report showing all transactions between Duke Energy and Duke Energy Ohio for 2007, 2006 (post-merger) and 2004 through the merger for the predecessor companies and related affiliates. These transactions should include but not be limited to:	Data Response CD	
39	BRCS to Duke	DWS-01-009	9/13/07	10/26/07	Please provide procedures for reporting and investigating violations of the Cost Allocation Manual and Affiliate Transaction Compliance plan. Please provide copies of each reported violation and the status and results of the resulting investigations	Data Response CD	
40	BRCS to Duke	DWS-01-010	9/13/07	10/16/07	Please describe the processes involved in billing time and expenses between Duke Energy and Duke Energy Ohio. Include in this description how employees are instructed to complete time entry/sheets, approval through billing, accounting (and any verification)	Data Response CD	
41	BRCS to Duke	DWS-01-011	9/13/07	10/26/07	Please provide training materials and		

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47	BRCS to Duke	DWS-04-01	10/10/07	10/23/07	As discussed in the meeting with Bob Parsons and Ted Cuyper regarding allocation of employee time, please provide any studies, analyses, reports, or other supporting information that provide the basis for Duke Energy Shared Services employee time allocation that is allocated to Duke Energy Ohio Gas.		Data Response CD
48	BRCS to Duke	DWS-04-02	10/10/07	10/23/07	Please provide a demonstration of the time log system.		Data Response CD
49	BRCS to Duke	DWS-04-03	10/10/07	10/23/07	Follow-up to Tracy Walker interview: Please provide monthly report of shared services costs by function as identified in the Service Agreement.	yes	Data Response CD
50	BRCS to Duke	DWS-04-04	10/10/07	10/23/07	(Follow-up to DWS-01-11) In Paul Colburn's presentation entitled Codes of Conduct provided in response to DWS-01-11, the slide on page 9 states: "All employees whose job function might be impacted by these Codes and Standards of Conduct must receive training." a. Have all impacted DE Ohio and DESS employees undergone the referenced training? 1. If not, why not? b. If so, please provide documented evidence of training. c. Is training (for new or newly impacted employees) routinely performed? Is retraining routinely performed?		Data Response CD
51	BRCS to Duke	DWS-04-05	10/10/07	11/1/07	(Follow-up to DWS-01-12) In Owen Parham's survey response to DWS-01-12, derivation of rates for fringe benefits and indirect labor are said to be found in attachments DWS-01-12-A1, A2, and B. However, the referenced attachments were not included in the response document. Please provide attachments DWS-01-12-A1, A2, and B that were referenced in response to DWS-01-12.	yes	Data Response CD
52	BRCS to Duke	DWS-05-01	10/18/07	11/7/07	Please provide time sheet entries (source records) for the weeks designated for the employee IDs found on the attached list. Employee IDs were selected from response to DWS-01-13. Please ensure that source records include labor loadings and allocations.	yes Hardcopy	Working Files Notebook Vol. 1
53	BRCS to Duke	DWS-06-01	10/22/07	11/5/07	(Follow-up to response to DR DWS-03-02) The two attachments to DR DWS-03-02 list Shared Services and Business Services transactions by Responsibility Center that are charged to DE Ohio Gas for March 2007. Please provide the same lists for January and February 2007 as well.	DWS-2 2007 DESS SvcCo Allocated & Directs Costs to DEO Gas Qtr 10.05.07.xls, DWS-2 DESS-jpr to deo7 budget 20.5.07.xls, DWS-2	Data Response CD
54	BRCS to Duke	DWS-06-02	10/22/07	11/5/07	(Follow-up to response to DR DWS-03-02) For each responsibility center amount listed in the two attachments provided in response to DR DWS-03-02 as well as the follow-up data requested in DWS-06-01, please provide: 1. the account mapping linkage and/or derivation of information to the accounts listed in the Revenue Requirements Model under the tab ACCTTABLE. For example, the following line is from an DWS-03-02 for Shared services: Explain fully and show where these costs are reflected in the information provided in ACCTTABLE. At a minimum, the PERC account number should be provided where these costs are reflected in ACCTTABLE. Provide a similar explanation for each item shown in DWS-03-02 for Shared and Business Services. 2. To the extent that there is not a one for one or sum of various line items from DWS-03-02 to the individual 900 account items (i.e., A&G) in "ACCTTABLE", provide a full and complete explanation of any difference. Provide supporting documentation to backup any calculations or information provided to this request such that all of the costs shown in ACCTTABLE for the A&G (PERC 900 accounts). a. Also, please provide 1 and 2 above for the additional months requested in DWS-06-01. b. Please provide the data for the top 100 transactions in each of the following categories (as described in Supplemental Billing C-48 provided in response to DR DWS-01-08): a) Exhibit 48-A - services provided by DEO to utility affiliate companies for the twelve months ended December 31, 2006; b) Exhibit 48-B - services provided by Duke Energy Shared Services to DEO for the twelve months ended December 31, 2006; c) Exhibit 48-C - services provided by DEO to non-utility affiliate companies for the three months ended March 31, 2007; d) Exhibit 48-D - services provided by Duke Energy Business Services to DEO for the three months ended March 31, 2007. Please provide the supporting documentation and all calculations leading to the final transactional amount.	BRCS-DWS-06-02, Attachment A, DESS Recon to ACCTTABLE, 10.26.07.xls, BRCS-DWS-06-02, Attachment A, DESS & DESS data, 10.26.07.xls	Data Response CD
55	BRCS to Duke	DWS-07-01	10/29/07	11/13/07	Please provide the data for the top 100 transactions in each of the following categories (as described in Supplemental Billing C-48 provided in response to DR DWS-01-08): a) Exhibit 48-A - services provided by DEO to utility affiliate companies for the twelve months ended December 31, 2006; b) Exhibit 48-B - services provided by Duke Energy Shared Services to DEO for the twelve months ended December 31, 2006; c) Exhibit 48-C - services provided by DEO to non-utility affiliate companies for the three months ended March 31, 2007; d) Exhibit 48-D - services provided by Duke Energy Business Services to DEO for the three months ended March 31, 2007. Please provide the supporting documentation and all calculations leading to the final transactional amount.	BRCS DWS-07-01 - Attach.pdf	Data Response CD
56	BRCS to Duke	DWS-08-01	11/4/07	11/13/07	The responses to DWS-01-12 and DWS-04-05 specify that labor allocation rates include 47.5% for fringe benefits, 32% and 22% for union and non-union indirect labor and 7.5% for payroll taxes. Where are these indirect labor percentages of 32% and 22% applied in the revenue requirements model? If they are applied: Why were they developed based on the 2007 budget rather than 2006 actuals? If other indirect labor percentages (based on 2006 actuals) are applied: Please identify these percentages, where in the revenue requirements model they are used, and their source documentation derivation.		Data Response CD
57	BRCS to Duke	DWS-08-02	11/4/07	11/13/07	The Allor Parsons worksheet 070925 provided in response to DWS-01-14 contains MCF rates in tab ALLOR FACTORS, cells D19, D32, and D34. Please provide (1) an explanation of how these factors relate to the MCF rates numbers used in the Revenue Requirements Model As Filed, tab SCH_C12, cells H135 through H141; and (2) the source document or calculation basis for the MCF rates numbers.		Data Response CD
58	BRCS to Duke	DWS-09-01	11/8/07	11/14/07	(Follow-up to response to DR DWS-05-01) DR DWS-05-01 asked for the sample set of 77 employee time entry source records with labor loadings and allocations identified. In the response, the Company stated that labor loadings and allocations were not included on the source records. Therefore, please provide the following: 1. At what point in the process of Duke Energy Ohio employee time reporting/processing are labor loadings and allocations applied? 2. Can a report be produced showing the labor loadings and allocations for a particular employee? a. If so, at what interval of time can this report be produced (e.g., monthly)? b. How does the Company verify that the correct labor loadings and allocations are applied for employees?	BRCS DWS-09-001	Data Response CD
59	BRCS to Duke	DWS-11-01	11/13/07	11/19/07	(Follow-up to responses to DRS BRCS-DWS-01-02 and BRCS-DWS-07-01) On page 11 of 30 in the Cost Allocation Manual, Ohio Administrative Code 4901.1-20-16(J)(4)(e) states that under the Operating Companies Agreement "the company resourcing services (Client Company) shall pay the services provider the fully unburdened cost thereof (i.e., the sum of (i) direct costs; (ii) indirect costs and (iii) costs of capital)." A similar statement is made on the same page in the next paragraph for Operating Company/Non-utility Companies Service Agreement. Please provide an example of a transaction showing the application of the calculation of the fully unburdened cost.	BRCS-DWS-11-001a.xls	Data Response CD
60	BRCS to Duke	WF-01-001	9/13/07	10/2/07	WF-1. Please provide Microsoft Excel files for each of the following worksheets listed on this SUPP (CY7) in workbook Rev Req Model As Filed.xls. Also provide all schedules and analyses that under the Operating Companies Agreement "the company resourcing services (Client Company) shall pay the services provider the fully unburdened cost thereof (i.e., the sum of (i) direct costs; (ii) indirect costs and (iii) costs of capital)." A similar statement is made on the same page in the next paragraph for Operating Company/Non-utility Companies Service Agreement. Please provide an example of a transaction showing the application of the calculation of the fully unburdened cost.	CBE GAS SCH-E - FINAL PHASE 1.xls CBE GAS SCH-E - FINAL PHASE 2.xls CBE GAS SCH-E - FINAL PHASE 3.xls DE OH Gas COSS.xls CS Functional.xls IT Functional.xls PUCC Gas SFR.xls RS Functional.xls WDE Revenue Worksheets - FINAL.xls	Data Response CD

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61	BRCS to Duke	WF-01-002	9/13/07	10/2/07	Please provide a current Chart of Accounts for Duke Energy Ohio, Inc. and explain any variances between the company's Chart of Accounts and that identified by the FERC. a. For each account number listed in the Chart of Accounts, please list and describe each sub-account employed by Duke Energy Ohio, Inc. Please provide the following support for the three months of actual and nine months of budgeted revenue and expenses on tab ACCTTABLE in workbook Rev Req Model As Filed.xls Final approved budget schedules supporting the account level values for the period April - December 2007. See WFE-24 above.		Data Response CD
62	BRCS to Duke	WF-01-003	9/13/07	10/2/07	Final approved budget schedules supporting the account level values for the period April - December 2007. See WFE-24 above.	Gas Account Table by Source.xls Jan - March 2007 06m.xls	Data Response CD
63	BRCS to Duke	WF-01-004	9/13/07	10/2/07	Please confirm whether the Test Year values on Schedule C-11.2 represent three months of actual data and 9 months of budgeted data for total company operations the year ending December 31, 2007 or 12 months of actual results for the period ending March 31, 2007.		Data Response CD
64	BRCS to Duke	WF-01-005	9/13/07	10/2/07	Please provide schedules comprising base revenue amounts for each month in 2002, 2003, 2004, 2005, and 2006 in an electronic format identical to that identified in Exhibit WPC-25 in workbook Rev Req Model As Filed.xls, sponsored by W.D. Walther in the instant proceeding. Walther/Pate	DE Ohio Gas Account Realization.xls	Data Response CD
65	BRCS to Duke	WF-01-006	9/13/07	10/2/07	Please provide schedules comprising gas cost revenue amounts for each month in 2002, 2003, 2004, 2005, and 2006 in an electronic format identical to that identified in Exhibit WPC-26 in workbook Rev Req Model As Filed.xls, sponsored by W.D. Walther in the instant proceeding. Walther		Data Response CD
66	BRCS to Duke	WF-01-007	9/13/07	10/2/07	Please provide schedules comprising retail rider revenue amounts for each month in 2002, 2003, 2004, 2005, and 2006 in an electronic format identical to that identified in Exhibit WPC-24 in workbook Rev Req Model As Filed.xls, sponsored by W.D. Walther in the instant proceeding. Pate/Flores		Data Response CD
67	BRCS to Duke	WF-01-008	9/13/07	10/2/07	Please provide schedules comprising transportation rider revenue amounts for each month in 2002, 2003, 2004, 2005, and 2006 in an electronic format identical to that identified in Exhibit WPC-26 in workbook Rev Req Model As Filed.xls, sponsored by W.D. Walther in the instant proceeding. Pate/Flores		Data Response CD
68	BRCS to Duke	WF-01-009	9/13/07	10/2/07	Please provide schedules comprising other revenue amounts for each month in 2002, 2003, 2004, 2005, and 2006 in an electronic format identical to that identified in Exhibit WPC-25 in workbook Rev Req Model As Filed.xls, sponsored by W.D. Walther in the instant proceeding. Walther/Pate		Data Response CD
69	BRCS to Duke	WF-01-010	9/13/07	10/2/07	Please provide schedules comprising total revenue amounts for each month in 2002, 2003, 2004, 2005, and 2006 in an electronic format identical to that identified in Exhibit WPC-26 in workbook Rev Req Model As Filed.xls, sponsored by W.D. Walther in the instant proceeding.		Data Response CD
70	BRCS to Duke	WF-01-011	9/13/07	10/2/07	Please provide schedules comprising actual revenues and expenses by account for each month in 2002, 2003, 2004, 2005 and 2006 in an electronic format identical to that contained within tab ACCTTABLE of the Rev Req Model As Filed.xls spreadsheet produced in the instant proceeding.	OCC-INT-02-015.xls WF-11 - 206 Data.xls	Data Response CD
71	BRCS to Duke	WF-01-012	9/13/07	10/2/07	Please provide a listing and explanation of all nonrecurring, abnormal or extraordinary expenses incurred in the test year which cannot reasonably be expected to be present in future years.	WF-13 - MCFs by Month.xls	Data Response CD
72	BRCS to Duke	WF-01-013	9/13/07	10/2/07	Please provide schedules by month and by year for 2002, 2003, 2004, 2005, 2006 and 2007 separately identifying the MCF volume by the following customer classes: a. Residential b. Commercial c. Industrial d. Public St. & Hwy. Lighting e. Other Public Auth. These schedules should be in form similar to that of Supplemental Information (CX11) and Schedule C-12.3 in workbook Rev Req Model As Filed.xls.		Data Response CD
73	BRCS to Duke	WF-01-014	9/13/07	10/2/07	Please provide schedules by month and by year for 2002, 2003, 2004, 2005, 2006 and 2007 separately identifying the customers by the following customer classes: a. Residential b. Commercial c. Industrial d. Public St. & Hwy. Lighting e. Other Public Auth. These schedules should be in form similar to that of Supplemental Information (CX11) and Schedule C-12.3 in workbook Rev Req Model As Filed.xls.	WF-14 - Customers by Month.xls	Data Response CD
74	BRCS to Duke	WF-01-015	9/13/07	10/2/07	Please explain why employee level information was not provided for the years 2002-2004 in Schedule C-9.1 in workbook Rev Req Model As Filed.xls. If this information is available, please provide an updated Schedule C-9.1. These schedules should be in form similar to that of Supplemental Information (CX11) and Schedule C-12.3 in workbook Rev Req Model As Filed.xls.		Data Response CD
75	BRCS to Duke	WF-01-016	9/13/07	10/2/07	Please provide all supporting calculations and schedules for the hard coded jurisdictional adjustments made on Schedules C-3.1 through C-3.5 (values highlighted in blue).	Asset 079 - Reserve CM for Capitalization Adjustments.xls Center Risk - 10month Center by resource - 300 gwhr - 0607 excel Center by resource - 300 gwhr - 0607 excel OTM by 018 - 0607 excel OTM by 018 - 0607 excel OTM by 018 - 0607 excel Rate Case Avg Rty Rate - 4-23-07.xls	Data Response CD
76	BRCS to Duke	WF-01-017	9/13/07	10/2/07	Please identify and describe the customer installation expenses (net to enter expenses) that are proposed to be reclassified and amortized over 3 years as identified in Schedule C-3.2 produced in the instant proceeding. Hobbsler		Data Response CD
77	BRCS to Duke	WF-01-018	9/13/07	10/2/07	Please describe the gas weatherization program and \$1,000,000 identified in Schedule C-3.21 produced in the instant proceeding.		Data Response CD
78	BRCS to Duke	WF-01-019	9/13/07	10/2/07	Please describe the retail revenue adjustments identified at row 127 of tab SCH_C3.1 of the Rev Req Model As Filed.xls workbook produced in the instant proceeding.		Data Response CD
79	BRCS to Duke	WF-01-020	9/13/07	10/2/07	Please produce all documents, reports, analyses, schedules, email and correspondence pertaining to the test year budgeted amounts for the following accounts: a. 711000 b. 712000 c. 717000 d. 728 e. 735000 f. 736010 g. 742000 h. 801000 i. 801010 j.	BRCS-WF-01-020 attachments.xls	Data Response CD

Item #	Filing Party / Directed to	DR #	Date of DR	Response Received	Request	Attachment	Location
100	BRCS to Duke	WF-04-05	10/10/07	10/16/07 10/26/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, please provide the requested information below: a. Tab SCH_C3.4, cell U57: According to filename: "Payroll Workbook Source Documentation.xls" provided by Mr. Capitt, this cell should contain a value of \$2,912 - not \$183,813. This file also indicates that \$183,813 is a hardcoded value from a previous version of the model. Please confirm that cell U57 on Tab SCH_C3.4 should be \$2,912 instead of \$183,813. If so, does the company plan to correct its filing to reflect this change? b. Tab Input, cell E2: please explain what the "statutory rate = 4.75%" for Ohio Excise Tax represents and why the actual input for the tax rate is zero. c. Tab SCH_B3, cell C37: please explain the "1" in this cell. d. Please describe the rounding policy, if any, employed in the revenue requirement model. This should include an explanation of what criteria, if any, the Company used in determining whether or not to use the "ROUND" function in PUCO Gas SFRs.xls and other supporting spreadsheets. e. Tab WFB, cell E21: please explain the divisor of 8. f. Tab ACCOUNTABLE, rows 149, 152, 155, 158, 161 at columns F, G, and H: please explain in detail the reasons for the adjustment at these cells. g. Responses to WF-1: Please explain why the Company provided 3 separate files in response to WF-1 for CGE GAS SCH-E. Please explain why Tab SCH_C3.4, cell AF244: this cell contains the formula "=AP279". However, AP279 is a blank cell. Is AP279 the intended cell reference? h. Tab SCH_C3.4, cell AF248: this cell contains the formula "=B8355". However, B8355 is a blank cell. Is B8355 the intended cell reference? i. Tab SCH_C3.8, cell V85: why was the date of 12/31/05 used for gross plant in service? j. Tab SCH_C3.9, cell U57: why was 1 added to the formula in cell U52 and 2 subtracted from the formula in cell U57? k. Tab SCH_C3.9, cell W44 contains the equation: $(8) \times (7) - (6)$, with the numbers representing column numbers in WFC-3.9s. The values at m. Tab SCH_C3.14: please provide an explanation and description of the acronyms in column T and explain the calculations in column V. In n. Tab SCH_C3.15, cell Z90: please explain this value in detail. In addition, please describe the acronym at cell Y82. o. Tab SCH_C3.19, cell AC112. This cell shows a value of 0.30% for the Kentucky State Unemployment Tax rate. However, WFC-3.19d, the overtime policy as it pertains to Exempt employees and describe all situations where Exempt employees would be paid overtime. p. Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	Jan-mar actual rev & exp by work code.xls	Data Response CD
101	BRCS to Duke	WF-04-06	10/10/07	10/13/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	Working Files Notebook Vol. 1	Data Response CD
102	BRCS to Duke	WF-04-07	10/10/07	10/16/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	Data Response CD	Data Response CD
103	BRCS to Duke	WF-04-08	10/10/07	10/23/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	BRCS-WF-04-008(a) Attachment.pdf; BRCS-WF-04-008(b) Attachment.pdf	Data Response CD
104	BRCS to Duke	WF-04-09	10/10/07	10/26/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	Over 20 Attachments ... For a list please see WF-04-009 List of Attachments.pdf or at the end of this report	Data Response CD
105	BRCS to Duke	WF-05-01	10/18/07	11/21/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	BRCS-WF-05-001 is attachment.xls; BRCS-WF-05-001b attachment.xls	Data Response CD
106	BRCS to Duke	WF-05-02	10/18/07	11/1/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	Data Response CD	Data Response CD
107	BRCS to Duke	WF-05-03	10/18/07	11/1/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	BRCS-WF-05-003.xls	Data Response CD
108	BRCS to Duke	WF-05-04	10/18/07	10/24/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	avg hrly rate 10-19-2007 ege exc rates.xls	Data Response CD
109	BRCS to Duke	WF-05-05	10/18/07	10/24/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, SCH_C3.4, WFC-3.4b, please provide Duke Energy Ohio's costs attributable to capital accounts as well. Please identify the account codes used in workbook Labor by resource code - corp 010 - spf66-fee07 versus to derive Gas O&M costs by Employee Group. q. Please provide the following information to support values within the revenue requirement model in workbook PUCO Gas SFRs.xls: a. 2006 Annual Report to the ODT b. 2006 Federal Form 941 is supporting the values at Tab SCH_3.18, rows 77, 79, 87, 89. c. Workpapers WFC-3.4s, WFC-3.4d, and WFC-06. r. Provided below is a list of locations within the Company's Excel-based revenue requirement model (filename PUCO Gas SFRs.xls) where hardcoded values are found by tab and cell reference. For each hardcoded value, please provide the source of the value and, to the extent not already provided, a copy of the supporting documentation underlying the hardcoded value. If already provided, please identify which document, schedule line and column. Please be sure that all calculations, pivot tables and underlying calculations are easily discernable and traceable to source documentation. s. Per our discussion during the interview with Girma Patel, please provide a report from the Hyperion financial system that compares actual results for the Gas operation with budget amounts by account for the following periods showing the difference between the two: a. January 2007 through the most current month of actual results available by month and year-to-date. b. January through December 2006 by month and total year. c. January through December 2002 - 2005 for total year. Please provide this report in a Microsoft Excel workbook if possible or in an Adobe Acrobat file if not available in Excel.	Data Response CD	Data Response CD

Item #	Filing Party / Directed to:	DR #	Date of DR	Response Received	Request	Attachment	Location
110	BRCS to Duke	WF-05-06	10/18/07	11/21/07	Duke Energy Ohio's response to BRCS-WF-01-21 includes revenue variance analyses for the years 2002 - 2007 year-to-date in attachments (b), (c), and (d) and the response provided to data request OCC-POD-02-012. However, O&M expense variance analyses provided to date only include 2007 year-to-date through August 2007. Please monthly variance analyses for O&M expenses for the period 2002 - 2006 and through July 2007 to the extent they have not already been provided in response to another data request.	BRCS-WF-05-006a.xls, BRCS-WF-05-006b Attachments.xls, BRCS-WF-05-006c Attachments.xls	Confidential Data Response CD
111	BRCS to Duke	WF-05-07	10/18/07	10/26/07	Referring to PUCO Gas SFRs.xls, tab B4 WP, worksheet WPB-6, L cells Q34 through Q47, R34 through R47, and T34 through T47 all have cost allocation factors embedded within the formulas used to allocate that company's retiree benefits paid between Electric and Gas O&M expense and Total Capital. Please provide the source calculations for each cost allocation factor for years 1993 through 2006.	WPB-6 Allocation of Retirement Life and Health.xls	Data Response CD
112	BRCS to Duke	WF-05-08	10/18/07	10/26/07	Referring to file Jan - March 2007 o&m.xls provided in response to the request in BRCS WF-01-03 for account level support for the three months of actual data in the test year (January - March 2007), please provide the Excel workbook, LOBs to be Allocated.xls, referenced in the file, as support for the various LOB allocations used on tabs CYC, COC, and RBI.	LOBs to be Allocated.xls	Data Response CD
113	BRCS to Duke	WF-06-01	10/22/07	11/5/07	Referring to Mr. De May's Direct Testimony, page 6, line 18, page 14, lines 1-2, and the revenue requirement model in workbook PUCO Gas SFRs.xls, Schedule D-3A, please explain why the Embedded Cost of Long-Term Debt is inclusive of the long-term debt obligations of Duke Energy Kentucky on page 2, as opposed to the long-term debt obligations of Duke Energy Ohio only as shown on page 1.		Data Response CD
114	BRCS to Duke	WF-06-02	10/22/07	11/5/07	Referring to the revenue requirement model in workbook PUCO Gas SFRs.xls, Schedule D-3A, please provide the source documents supporting the inputs in column N, Amortization of Debt Items, cells N52, N53, N54, N103, and N104.	BRCS-WF-06-002 AttachmentsSupport.pdf	Data Response CD
115	BRCS to Duke	WF-06-03	10/22/07	11/5/07	In response to BRCS WF-01-21, Duke Energy did not provide revenue and expense budget data by account by month for 2007. Given that the test year data in the revenue requirement model already contain budget data for the period April - December 2007, please provide the 2007 budget amounts for the period January - March 2007.		Data Response CD
116	BRCS to Duke	WF-06-04	10/22/07	11/5/07	In response to BRCS WF-01-11, Duke Energy Ohio provided actual revenue and expense by month by year for the period 2002 - 2006. However, data for the months January - March 2005 were summarized as 1st Quarter 2005. Please provide revenue and expense by month by account for each month in the 1st Quarter 2005 separately.		Data Response CD
117	BRCS to Duke	WF-06-05	10/22/07	11/5/07	Please provide the excerpts from the General Ledger Accounts to support the "Monthly Amortization" amounts shown at Tab SCH_C3-20, cells Y95:Y112 in filename PUCO Gas SFRs.xls.		Working Files Notebook Vol. 1
118	BRCS to Duke	WF-06-06	10/22/07	11/5/07	Reference filename PUCO Gas SFRs.xls, Tab SCH_C2-1. Please provide an explanation and supporting documentation underlying the percentages found in cells A325, A326, and A330.		Data Response CD
119	BRCS to Duke	WF-08-01	11/4/07	11/13/07	BRCS WF-04-007 requested information on labor costs attributable to Gas O&M in workbook PUCO Gas SFRs.xls, SCH_C3-4, WPC-3.4g and worksheet Labor by resource code - corp 010 - 4906-fab07 rev.xls. After reviewing Duke Energy Ohio's response, Blue Ridge Consulting Services realized that the request should have referred to WPC-3.4h instead of WPC-3.4g since this is the worksheet supported by the file Labor by resource code - corp 010 - 4906-fab07 rev.xls. Consequently, Blue Ridge Consulting Services is amending the request made in BRCS WF-04-007 in this request to obtain the following: a. Please confirm whether labor costs attributable to Gas O&M in WPC-3.4h are all O&M related or if they include costs attributable to capital accounts as well. b. In responding to part (a) above, please identify the account codes used in worksheet Labor by resource code - corp 010 - 4906-fab07 rev.xls to derive Gas O&M costs by Employee Group on tab Labor by resource code - corp 0.		Data Response CD
120	BRCS to Duke	WF-08-02	11/4/07	11/13/07	Per the interview with Todd Arnold, Senior Vice President - Customer Service, and subsequent discussions with Bob Parsons, Rate Coordinator, Blue Ridge Consulting Services was provided an informal copy of a Microsoft Excel workbook containing the 2007 meter reading and billing calendar for Duke Energy Ohio and Kentucky. Please provide a formal copy of the workbook.	yes	Working Files Notebook Vol. 1
121	BRCS to Duke	WF-08-03	11/4/07	11/13/07	In response to BRCS WF-01-16, the company provided an Excel file entitled Rate Case Avg Trly Rate - 4-23-07.xls. Tab Pwot Table of that same Excel file identifies several employee types (See Column M at rows 4 through 24). Through informal discussions with Ted Caspik, Rate Coordinator, Blue Ridge Consulting Services was given an informal copy of confidential Employee Census Summaries containing the active number of employees by month and by business unit for the years 2001 through 2005. Please provide a formal copy of the same information by month for the year 2006 as well as the years 2001 - 2005.	BRCS-WF-08-003-Attach, page 1-75 of 121.pdf, BRCS-WF-08-003-Attach, page 76-121 of 121.pdf	Data Response CD
122	BRCS to Duke	WF-08-04	11/4/07	11/13/07	Please see the attached confidential trend analysis (BRCS WF-07-004 (confidential)) comparing Duke Energy Ohio gas revenue and expenses by account for the test year to the actual gas revenue and expenses by account for the years 2002 - 2006. For each account there is a comparison of the test year amount to the average of the prior five years of actual results. For some accounts, the average is based upon only these years where there is a balance in the account which removes the distortion caused by zero balances. For the accounts highlighted in yellow on tab Test Year vs. 2002 - 2006, please provide explanations of the variance between the test year balance and the average of 2002 - 2006 in the space provided for that account in column G.	BRCS-WF-08-004-Attach, pdf	Data Response CD
123	BRCS to Duke	WF-08-05	11/4/07	11/13/07	Please define each of the acronyms listed below as they are used in response to BRCS WF-01-006: a. Res b. Com c. Ind d. DL e. OPA		Data Response CD
124	BRCS to Duke	WF-08-06	11/4/07	11/13/07	Please define each of the terms listed below as they are used in response to BRCS WF-01-013: a. Rate RS Residential MCF b. Rate GS Commercial MCF c. Rate GS Industrial MCF d. Rate GS O&A MCF e. Rate RFT MCF f. Rate FT MCF g. Special Contract MCF h. Total FT MCF i. Rate IT MCF j. Total IT MCF k. Interrupt MCF		Data Response CD

Item #	Filing Party / Directed to:	DR #	Date of DR	Response Received	Request	Attachment	Location
137	BRCS to Duke	WF-09-01	11/8/07	11/19/07	Through informal discussions with Ted Cierpiek, Rate Coordinator, Blue Ridge Consulting Services was given informal copies of a number of documents to support the data in PUCO Gas SFRs.xls. Please provide formal copies of the following documents: a. "Jan-mar actual rev & exp by activity.xls" b. "REVISED WPC-3.14(a).xls" c. "REVISED WPC-3.14(a).xls" d. "Rate Case Avg. Hly Rate-423-07-Calc of Past Time Hours.xls" e. "Gas Deferred Taxes at 3-1-2007.xls"	Gas Deferred Taxes at 3-1-2007.xls Jan-mar actual rev & exp by activity.xls Rate Case Avg. Hly Rate - 423-07-Calc of Past Time Hours.xls REVISED WPC-3.14a.xls REVISED WPC-3.14b.xls	Data Response CD
138	BRCS to Duke	WF-09-02	11/8/07	11/19/07	Reference PUCO Gas SFRs.xls, Tab 36 WY. Please provide all supporting documentation related to the information in WPS-6.1b, A complete response will include: (i) documentation to support footnote 1 and associated values in rows 74-75; (ii) documentation to support footnote 2 and associated values in rows 81-86; (iii) documentation to support footnote 3 and associated values in rows 101-106; (iv) WPC-3.14 referenced in cells AG77:AG80 and AG97:AG100 (rednote in cell AG77 indicates that this worksheet is from Case 92-1463-GA-AIR); (v) and WPS-6.1b referenced at rows 87-91 and 107-111 (this should be the WPS-6.1b worksheet from Case No. 01-1228-GA-AIR).	BRCS-WF-09-02 Attachment.pdf	Data Response CD
139	BRCS to Duke	WF-09-03	11/8/07	11/19/07	Please provide the file "Unbilled Pricing.xls" referenced in "Unbilled Re-Split Between Base & CGR.xls".	Unbilled Pricing.xls	Data Response CD
140	BRCS to Duke	WF-09-04	11/8/07	11/19/07	Please provide the following files referenced in "Asset 879-0 Remove C-M for Capitalization Adjustments.xls": cellmks A6 and A8; (f) "2007 Budget Asset 879 by Activity"; (d) "Asset 879 - YTD March 31, 2007"; and (iii) "Asset 879 - YTD March 31, 2007 - C-M Only".	2007 budget-act 879 by activity.xls Asset 879- ytd march 31 2007 - C-M Only.xls Asset 879- ytd march 31, 2007.xls	Data Response CD
141	BRCS to Duke	WF-09-05	11/8/07	11/19/07	Refer to the Company's response to WF-04-009(20). Please provide documentation supporting the sources cited for columns V, W, Y and Z, i.e., "Rate Department Regulatory Fee Budget" and "Pipeline Safety Fund Invoice."		Data Response CD
142	BRCS to Duke	WF-09-06	11/8/07	11/19/07	Response to WF-04-009(23) states that the value of \$2,055,000 in cell B41 Tab SCH_C3.2.1 is the annual budget for 2007. Please provide any documentation supporting the budget amount for 2007.		Data Response CD
143	BRCS to Duke	WF-10-01	11/13/07	11/15/07	Please provide copies of the following documents which were provided informally by the Company: a. "C-9.1 Gas O&M by Resource.xls" b. "MC's Customers 3-9 Actual & Normalized-04-19-2007.xls"	C-9.1 Gas O&M by Resource.xls, Mc's Customers-3 9 Actual and Normalized-04-19-2007.xls	Data Response CD
144	BRCS to Duke	WF-10-02	11/13/07	11/15/07	Please reference File PUCO Gas SFRs.xls, Tab "SCH_D3B Cont.". Please provide supporting documentation for the hardcoded values in hidden columns M, N, and Q. Specifically, Column M cells 209, 231, 347, 364; Column N cells 52-54, 56, 103, 104, 175-177, 179, 207, 217, 231, 300-302, 304; and Column Q cells 56, 106, 179, 304.	Compound Annual Interest on Current Maintnace.xls, Copy of 022-020-Gains on Terminated Swaps, RCE.xls NPL_LTD_Loaded_Dbi_Etco.pdf, Schedule D3B Coils M, N, Q Support - 1.pdf, Schedule D3B Coils M, N, Q Support - 2.pdf, Schedule D3B Coils M, N, Q Support - 3.pdf, Schedule D3B Coils M, N, Q Support - 4.pdf, Schedule D3B Coils M, N, Q Support - 5.pdf	Data Response CD
145	BRCS to Duke	WF-12-01	11/15/07	11/19/07	Please provide copies of the following documents which were provided informally by the Company: a. "1033 - 1q07 Common and Gas.pdf" b. "Dena Income Statement March 2007.pdf" c. "Dena Income Statement December 2005.pdf" d. "DENA Midwest AOCI amortized balance March 2007.xls" e. "DEO ARO Activity.xls" f. "RWTP Activity (1st Qtr 2007).xls"	1033 - 1q07 Common and Gas.pdf Dena Income Statement December 2005.pdf Dena Income Statement March 2007.pdf DENA Midwest AOCI amortized balance March 2007.xls DEO ARO Activity.xls RWTP Activity (1st Qtr 2007).xls	Data Response CD
146	BRCS to Duke	DHM-01-001	9/13/07	10/2/07	Please provide a list of any regulatory assets or regulatory liabilities including the nature of the entries, dollar amounts and the reason for the deferrals.	BRCS-DHM-01-001	Data Response CD
147	BRCS to Duke	DHM-01-002	9/13/07	10/10/07	Please indicate whether regulatory approval has been obtained for the deferrals and provide a copy of the order granting approval.		Data Response CD
148	BRCS to Duke	DHM-01-003	9/13/07	10/2/07	Please provide an explanation of each of the items included in deferred income taxes on Schedule B-6 of the Company's application in Account Number 199030, 199060, 282030, and 283030.	BRCS-DHM-01-003and.doc	Data Response CD
149	BRCS to Duke	DHM-01-004	9/13/07	10/10/07	Please provide any working papers or schedules that support the balances included in deferred income taxes on Schedule B-6 of the Company's application including a reconciliation of taxes computed for regulatory purposes to IRS/State purposes.	yes	Confidential Data Response CD
150	BRCS to Duke	DHM-01-005	9/13/07	10/5/07	Please provide a copy of the internal auditor's financial and operational audits reports performed related to income taxes and deferred taxes in the past three years.		Working Files Notebook Vol. 4
151	BRCS to Duke	DHM-01-006	9/13/07	9/26/07	Please provide copies of FERC Form 2, Returns for 2001, 2002, 2003, 2004, 2005, and 2006.	yes	Working Files Notebook Vol. 2 and 3
152	BRCS to Duke	DHM-01-007	9/13/07	10/5/07	Please provide a copy of the Company's supporting documentation, schedules, summary reports, and/or analysis that pertain to the Company's deferred taxes as presented in its submission of the FERC Form 2 requests for 2004, 2005, and 2006.	yes	Working Files Notebook Vol. 1
153	BRCS to Duke	DHM-01-008	9/13/07	10/2/07	Has the Company been audited by the IRS or state taxing authority for tax years 2002, 2003, 2004, 2005, or 2006? If so, please identify the time period covered. If the audit covered the period 2002 or later, please provide a copy of the audit(s) and the		Data Response CD
154	BRCS to Duke	DHM-08-01	11/4/07	11/13/07	In reference to the response to DHM-01-001 - Deferred Merger Costs: Please explain the difference between the amount shown as a regulatory asset for deferred merger costs of \$253,746.50 and the amount shown on Schedule B-6, page 1, line 35 of \$117,647.		Data Response CD
155	BRCS to Duke	DHM-08-02	11/4/07	11/13/07	In reference to the response to DHM-01-001 - Regulatory Transition Charges: a. Please explain the amount labeled Regulatory Transition Charges totalling \$510,443,270.49. b. Are these amounts included in rate base? c. Are these amounts being amortized? If so, please provide the expense account for the amortization.		Data Response CD
156	BRCS to Duke	DHM-08-03	11/4/07	11/13/07	In reference to the response to DHM-01-001 - Assumed Pension Post Retirement: a. Is there an order approving recovery for RS 060801 Assumed Pension Post Retire FAS 158 - \$9,907,125.99? b. Is this amount included in rate base for this proceeding? c. How is this amount related to the Pension Expense and Supplemental Pension Plan shown on Schedule B-6, page 1, lines 34 and 39?		Data Response CD
157	BRCS to Duke	DHM-08-04	11/4/07	11/13/07	In reference to the response to DHM-01-001 - Please reconcile the regulatory assets and regulatory liabilities shown on the spreadsheet provided by the Company in response to DHM-01-001 to what has been included in rate base as of March 31, 2007 on Schedule B-1. Explain any differences.		Data Response CD

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158	BRCS to Duke	DHM-08-05	11/4/07	11/13/07	In reference to the response to DHM-01-001 - Regulatory Asset - Towers: a. Please explain this regulatory asset? b. Is it included in the rate base for this proceeding?		Data Response CD
159	BRCS to Duke	DHM-08-06	11/4/07	11/14/07	In reference to the response to DHM-01-001 - Interest Rate Hedging-AOCI-Purch Accting: a. Please explain this regulatory asset? b. Is it included in the rate base for this proceeding?	yes	Data Response CD
160	BRCS to Duke	DHM-08-07	11/4/07	11/13/07	In reference to the response to DHM-01-001 - Post-retirement health care-electric (FAS 106): a. Please explain this regulatory asset? b. Is it included in the rate base for this proceeding?		Data Response CD
161	BRCS to Duke	DHM-08-08	11/4/07	11/13/07	In reference to the response to DHM-01-001 - Deferred PIP uncollectible-loss: Please explain this regulatory asset? How is this regulatory asset related to the deferred income tax item on Schedule B-6, page 3, line 17 Uncollectible Accounts PIP? Please reconcile the differences.		Data Response CD
162	BRCS to Duke	MTD-01-001	9/13/07	9/26/07	Please provide a copy, in electronic format, of the General Ledger and Subsidiary Ledgers for the period 2004 through the most recent period.		Confidential Data Response CD
163	BRCS to Duke	MTD-01-002	9/13/07	9/30/07	Please identify any pro forma capital additions that the Company has included in its rate filing. For each pro forma capital included in the rate filing project please the following information: Work Order number and/or Project ID number or reference Work		Data Response CD
164	BRCS to Duke	MTD-01-003	9/13/07	10/9/07	Please provide a process map or flow chart which describes the capital project approval process, establishment of the work order or project in the company's system	yes	Working Files Notebook Vol. 4
165	BRCS to Duke	MTD-01-004	9/13/07	9/29/07	The Company provided in Schedule B-2.3 a summary of Gross Additions, Retirements and Transfers of Distribution Plant for the period April 1, 2001 through March 31, 2007. Please provide a similar summary for each functional grouping of plant assets that a		Data Response CD
166	BRCS to Duke	MTD-01-005	9/13/07	9/29/07	Please provide for each year 2001 through current a schedule similar to Schedule B-2.3 (Gross Additions, Retirements and Transfers) for all plant accounts included in the Company's rate		Data Response CD
167	BRCS to Duke	MTD-01-006	9/13/07	9/29/07	For each year 2001 - current, please identify and describe each transfer from plant accounts in which the dollar amount of the transfer was greater than \$25,000.	yes	Data Response CD
168	BRCS to Duke	MTD-01-007	9/13/07	10/2/07	For the same period summarized in Schedule B-2.3 provide a listing of each capital work order that in total added more than \$100,000 of plant. For each work order please identify the following information: Work Order number and/or Project ID number or ref.	More than 20 ... See MTD 01-007 Supplemental Attachment 1.docx or at the end of this report	Confidential Data Response CD Data Response CD
169	BRCS to Duke	MTD-01-008	9/13/07	9/29/07	Please identify any retirements recorded over \$100,000 that were not associated with a corresponding construction project or work order. For each such retirement please provide the following information: Work Order number and/or Project ID number or ref.	yes	Data Response CD
170	BRCS to Duke	MTD-01-009	9/13/07	9/29/07	Please identify any sales of utility plant which affect the Company's rate base which occurred between April 1, 2001 - March 31, 2007. For each such transaction provide the following information: Work Order number and/or Project ID number or reference No	yes	Data Response CD
171	BRCS to Duke	MTD-01-010	9/13/07	10/2/07	Please provide a schedule of the Material and Supplies (M&S) account balances for each month for the period 2001 - current, the schedule should show the balance and the beginning of the period and the additions and transfers out.		Data Response CD
172	BRCS to Duke	MTD-01-011	9/13/07	9/29/07	Please describe the process by which M&S items are withdrawn from inventory and charged to work orders and or directly to plant accounts. Please provide a sample copy of any source documents used by the field to which would indicate that the M&S items sh	yes	Data Response CD
173	BRCS to Duke	MTD-01-012	9/13/07	9/29/07	Please provide a listing of any work orders in CWIP at 12/31/06 and a corresponding list for work orders in CWIP as of the current date. For each work order provide the following information: Work Order number and/or Project ID number or reference Work Or		Data Response CD
174	BRCS to Duke	MTD-01-013	9/13/07	9/29/07	Please provide a copy of the Company's AFRUDC policy.		Confidential Data Response CD
175	BRCS to Duke	MTD-01-014	9/13/07	9/29/07	Identify any rules associated with the application of AFRUDC to capital work orders which identifies when AFRUDC starts, ends and any capital expenditures for which AFRUDC is not applied.		Confidential Data Response CD
176	BRCS to Duke	MTD-01-015	9/13/07	9/29/07	Provide a working Excel spreadsheet which provides the Company's calculation of AFRUDC based on the latest data available. Include as support the references and source documents related to each component of the AFRUDC formula.	yes	Data Response CD
177	BRCS to Duke	MTD-01-016	9/13/07	9/29/07	Please provide a schedule, in electronic format, a summary of the applied AFRUDC rates by month for the periods 2001 through present. The summary should identify debt portion and the equity portion of the AFRUDC rate.	BRCS-MTD-01-016 attachment.xls	Data Response CD
178	BRCS to Duke	MTD-01-017	9/13/07	9/29/07	For interview purposes please identify the appropriate person in the Company with which AFRUDC calculations and processes will be discussed		Data Response CD
179	BRCS to Duke	MTD-01-018	9/13/07	9/26/07	Please identify the system that the Company utilizes to maintain its consolidated property record system.		Data Response CD
180	BRCS to Duke	MTD-01-019	9/13/07	10/2/07	Please provide in electronic format a copy of the Company's capitalization policy statement.	yes	Confidential Data Response CD
181	BRCS to Duke	MTD-01-020	9/13/07	10/2/07	Please provide a copy of the Company's property unit catalog or similar document which delineates and or describes the company's capitalization policy, value structure, property unit references and descriptions, and retirement units along with associated		Confidential Data Response CD
182	BRCS to Duke	MTD-01-021	9/13/07	10/2/07	Please describe the Company's process for estimating the amount of plant to be retired when the actual asset cost can not be determined.		Data Response CD
183	BRCS to Duke	MTB-01-022	9/13/07	10/2/07	Does the company utilize any blanked work orders or similar capital project tracking mechanism for small capital projects? If so, please provide a list of such on-going or repetitive work orders and description of what capital works is included in each.	yes	Confidential Data Response CD
184	BRCS to Duke	MTD-01-023	9/13/07	10/2/07	Please provide a process map or flow chart which describes the capital project tracking process within the Company's outlying property record system		Data Response CD
185	BRCS to Duke	MTD-01-024	9/13/07	10/2/07	For interview purposes please identify the appropriate person in the Company with which the property accounting systems and processes will be discussed.		Data Response CD
186	BRCS to Duke	MTD-01-025	9/13/07	10/2/07	Provide a copy of any internal or external audits reports, SOX reviews, or related reports associated with the company's confirming property record system		Data Response CD
187	BRCS to Duke	MTD-01-026	9/13/07	10/2/07	If not provided in the Company's utility plant unit catalog please provide a list of Property Units and related descriptions		Data Response CD

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188	BRCS to Duke	MTD-01-027	9/13/07	10/2/07	Please provide a copy of the related Organizational Chart (Corporate and Material) reporting lines and departmentally associated with the plant accounting process or function	Yes	Confidential Data Response CD
189	BRCS to Duke	MTD-01-028	9/13/07	10/2/07	Please provide a list of any standard Journal Entries processed by the accounting department and the department responsible for the plant accounting function		Data Response CD
190	BRCS to Duke	MTD-02-001	9/26/07	10/2/07	Please provide for each work order identified in the list provided in response to MTD-07, i.e., "WO_List.xls" the following information: a. Work Order Title b. Brief Work Order Description c. Functional Grouping d. Primary Account e. Start Date f. In-Service Date g. Retirement WO Reference h. Summary of Construction Dollars, i.e., cost to date i. Summary of Budget j. Summary of salvage dollars k. Summary of cost of removal dollars l. Summary of related related costs	BRCS-MTD-02-001CONF.xls	Confidential Data Response CD
191	BRCS to Duke	MTD-02-002	9/26/07	10/2/07	Please define or describe the WO number nomenclature associated with the various work orders identified on the file provided, "WO_List.xls". For example, is there a logic or meaning to the alpha character preceding the following work order numbers: WO A1079, B1049, C3666?		Data Response CD
192	BRCS to Duke	MTD-02-003	9/26/07	10/2/07	For a typical work order, e.g., WO B6415, please provide in Excel format, a work order ledger or similar document which provides all transactions posted to the work order file. For each heading in the file please provide a brief description or explanation of field.		Confidential Data Response CD
193	BRCS to Duke	MTD-02-004	9/26/07	10/2/07	For the same work order, B6415, please provide a summary of cost by material cost elements.		Confidential Data Response CD
194	BRCS to Duke	MTD-02-005	9/26/07	10/2/07	Please provide a list of the resource codes or cost elements associated with the various types of transactions recorded or represented in a typical work order, e.g., labor, material, M&S, etc.		Confidential Data Response CD
195	BRCS to Duke	MTD-02-006	9/26/07	10/2/07	For blanket work order 20064, please provide in Excel format, a work order ledger or similar document which provides all transactions posted to this work order file for a recent month.	BRCS-MTD-02-006CONF.xls	Confidential Data Response CD
196	BRCS to Duke	MTD-02-007	9/26/07	10/2/07	Please provide a description or narrative of the related work request or work management system process related to activities recorded in blanket work orders. If a work management system is used please provide a sample of the source document used by the field that associates a link with the cost recorded in the blanket work order.	Yes	Confidential Data Response CD
197	BRCS to Duke	MTD-02-008	9/26/07	10/2/07	Please explain why the field for Blanket work order 20029 is a negative balance.		Data Response CD
198	BRCS to Duke	MTD-02-009	9/26/07	10/2/07	Please provide a list of standard journal entries. For each standard journal entry please provide a brief description or purpose of the entry and the department responsible for the journal entry.		Data Response CD
199	BRCS to Duke	MTD-02-010	9/26/07	10/2/07	Please provide a file that identifies the most recently approved depreciation and amortization rates used by the Company as it relates to this filing.	BRCS-MTD-02-010.pdf	Data Response CD
200	BRCS to Duke	MTD-02-011	9/26/07	10/2/07	Please provide in Excel format, a file which provides the basis, development and calculation of depreciation and amortization expense for the month of December 2006.	BRCS-MTD-02-011.xls	Data Response CD
201	BRCS to Duke	MTD-02-012	9/26/07	10/2/07	Please provide a copy in electronic format a copy of the trial balance for the month of December 2006.		Confidential Data Response CD
202	BRCS to Duke	MTD-02-013	9/26/07	10/2/07	Please provide a copy in electronic format a copy of the general ledger for the month of December 2006.	BRCS-MTD-02-013CONF.pdf	Confidential Data Response CD
203	BRCS to Duke	MTD-02-014	9/26/07	10/2/07	Please provide the supporting Continuing Property Records associated with the following work orders: Blanket WO 20029, Blanket WO 20064 B6415	BRCS-MTD-02-014CONF.xls	Confidential Data Response CD
204	BRCS to Duke	MTD-03-001	10/2/07	10/22/07	2. Reference MTD-01-006 - On page 4 of 7, the schedule indicates transfers in Distribution Account 2781, 2810.11 and 2820.21, and General Plant Account 2030 related to the sale of Lawrenceburg Gas. Please provide supporting documentation for these transactions.	BRCS-MTD-03-001 attachment.xls	Data Response CD
205	BRCS to Duke	MTD-03-002	10/2/07	10/10/07	3. Reference MTD-01-006 - On page 4 of 7, the schedule indicates a reclassification between CCNC (Account 106) and CWP (Account 107) due to in-service date being placed on WO. For this transaction, please provide the following information: a. The WO number b. WO Title c. The correct in-service date d. The incorrect in-service date e. A copy of the journal entry or other similar document and supporting detail	Yes	Data Response CD
206	BRCS to Duke	MTD-03-003	10/2/07	11/21/07 10/23/07	4. Reference MTD-01-006 - On page 4 of 7, the schedule indicates a reclassification between gas and electric utility account in the amount of \$1,469,287 for General Plant Account 2940. For this transaction, please provide the following information: a. The WO number(s) b. WO Title(s) c. Copy of the WO d. Identification of the offsetting accounts e. Any other justification, explanation and supporting documentation regarding this transaction.	BRCS-MTD-03-003.pdf	Data Response CD
207	BRCS to Duke	MTD-03-004	10/2/07	11/21/07	5. Please provide in an Excel spreadsheet a schedule indicating the work orders that make up the amount of plant in Account 106 - CCNC included in this filing. For each work order, please identify the following information: a. WO Number b. WO Title c. Associated dollars in Account 106 d. The assignment of the plant in-service dollars of the work order by utility account. e. In-service date of each work order	BRCS-MTD-03-004.xls	Data Response CD

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208	BRCS to Duke	MTD-03-005	10/2/07	10/22/07	6. Reference MTD-01-008 and 009 - for each of the retirement transactions, other than those related to vehicle or fleet retirements, reported on the attachments provided, please provide a copy of the journal entry or similar supporting schedule which identifies all of the corresponding accounts affected by the retirement transaction. (Notes: Response to MTD-01-008 provides retirement only WO transactions, MTD-01-009 provides sales of utility property and includes the gain/loss amounts. There is a cross-over between the two listings. The requirements for the review for Gains and Losses on Property sales are covered under D.11)	BRCS-MTD-03-005 attachment.xls	Data Response CD
209	BRCS to Duke	MTD-03-006	10/2/07	11/21/07	7. For the period Jan. 2005 through March 2007, please provide a schedule in electronic format, i.e., Excel, that identifies all work orders which had an AFUDC reversal. For each item please provide the following information: a. WO Number b. WO Title c. Total work order dollars d. In-service date of each work order		Data Response CD
210	BRCS to Duke	MTD-03-007	10/2/07	10/18/07	8. Please provide supporting documentation, similar to that provided in response to MTD-01-015, associated with the calculation of the Company's AFUDC rate for the following periods: a. September 2001 b. October 2002 c. January 2004 d. November 2005 e. March 2007	BRCS-MTD-03-007 attachment a.pdf BRCS-MTD-03-007 attachment c.xls BRCS-MTD-03-007 attachment d.xls BRCS-MTD-03-007 attachment e.xls BRCS-MTD-03-007 attachment f.pdf BRCS-MTD-03-007 attachment g.pdf BRCS-MTD-03-007 attachment h.pdf BRCS-MTD-03-007 attachment i.pdf BRCS-MTD-03-007 attachment j.pdf BRCS-MTD-03-007 attachment k.xls	Data Response CD
211	BRCS to Duke	MTD-03-008	10/2/07	10/22/07	9. Please describe the Company's policy for recording accruals associated with Accounts Payable items.	BRCS-MTD-03-008 Attachment Accrual Policy.doc	Data Response CD
212	BRCS to Duke	MTD-03-009	10/2/07	10/23/07	10. Please provide a copy in electronic format, i.e., Excel, a listing of AP accounts for the period ending March 2007. The list should provide: (the accounting code block associated with the accrual, invoice number, invoice date, vendor name and reference, document reference, invoice amount.		Data Response CD
213	BRCS to Duke	MTD-03-010	10/2/07	10/10/07	1. For the WO provided in BRCS-GPR-01-07 please identify the in-service date and support with a copy of the appropriate section from PowerPlant.	Yes	Data Response CD
214	BRCS to Duke	MTD-03-011	10/2/07	11/21/07	2. For the WO provided in BRCS-GPR-01-07 please provide, in Excel format, a summary of the Continuing Property Records associated with unitization of this work order. The spreadsheet should provide at a minimum, the following data or information: a. Construction WO number and corresponding Retirement WO number b. In-Service Year and Month c. Utility Plant Account d. Utility Account Description / Title e. Retirement Units of Property Installed f. Associated Quantities and Dollar Amounts g. Retirement Unit of Property Retired h. Associated Quantities and Dollar Amounts	BRCS-MTD-03-011.pdf	Data Response CD
215	BRCS to Duke	MTD-04-01	10/10/07	10/16/07	MTD-04-01: The Company's response to BRCS-MTD-02-01 is an Excel spreadsheet which provides the basis of the calculation for depreciation expense for the period December 2006. The spreadsheet provided indicates depreciation expense adjustments for Accounts 2763 - COE Gas Main Plastic, 2765 - COE Gas Main Steel, and 2768 - COE Gas Main Plastic Cast in the amounts of \$7,448,777, \$16,112,28 and \$7,157,16, respectively. Please provide documentation which supports and explains the adjustments reported on this schedule.	BRCS-MTD-04-001 attachment.xls	Data Response CD
216	BRCS to Duke	MTD-04-02	10/10/07	10/16/07	MTD-04-02: Please explain the difference between "Ending Plant Balance" and "Depreciation Base" shown on the response spreadsheet provided for BRCS-MTD-02-01.	BRCS-MTD-04-002 attachment.xls	Data Response CD
217	BRCS to Duke	MTD-04-03	10/10/07	11/1/07	MTD-04-03: Please provide as an Excel file in the same format as the response to BRCS-MTD-02-01 a copy of the depreciation expense calculation work sheet for the months of: a. November 2006 b. January 2007 c. February 2007 d. March 2007	BRCS-MTD-04-003 attachment.xls	Data Response CD
218	BRCS to Duke	MTD-04-04	10/10/07	10/16/07	MTD-04-04: For all assets that are included in the Intangible Plant account, please provide a list of the assets that make up the gross plant amount. For each asset, please provide the following information: a. Asset ID b. Project ID c. Work Order Reference d. Work Order Title e. Work Order Description f. In Service Date g. Asset Dollar Amount h. Accumulated Amortization as March 31, 2007 i. Net Plant Balance j. Asset Life	BRCS-MTD-04-004 attachment.xls	Data Response CD

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219	BRCS to Date	MTD-04-05	10/10/07	10/22/07 11/1/07	For the following work order, please identify the corresponding project ID and the related O&M costs incurred by the Company in connection with the project: Item No. Work Order No. Short Description Long Description Project ID Related O&M S a. 31948 Customer Management System Customer Management System b. 32625 Commerce Initiative - Ph Commerce Initiative - Ph c. 44478 SVST METER RING/BILLING UPGRADE OF CURRENT PPS TO NEW PPS FOR METER READING/DATA COLLECTION PROCESS FOR BILLING d. 36841 OPRR CUST CONTACT & REV MGMT e. 37401 MARKET DATA WAREHOUSE MARKET DATA WAREHOUSE f. 18908 FIXED BILLING ENHANCEMENT FIXED BILLING ENHANCEMENT g. 32633 CMS BILLING UPG UPG 2005 CMS BILLING UPG OCT 2005 MTD-04-06 Provide a schedule, in Excel, which identifies retirements rescheduled after March 31, 2007 through September 30, 2007 for all plant accounts included in this rate proceeding. For each transaction please provide the following information: a. Utility plant account b. WO / Retirement WO Number reference c. Transaction date d. In-service date of the construction work order, if different than the transaction date e. Asset tag(s) f. Vintage of plant retired g. Dollar amount of plant retired	BRCS-MTD-04-006 attachment.xls	Data Response CD
220	BRCS to Date	MTD-04-06	10/10/07	10/16/07			Data Response CD
221	BRCS to Date	MTD-04-07	10/10/07	10/15/07	MTD-04-07 Please provide the following document requested during the interview with the representatives from Gas Engineering on September 27, 2007: a. "Monthly Projection Report"	yes	Data Response CD
222	BRCS to Date	MTD-04-08	10/10/07	10/15/07	MTD-04-08 Please provide the following document requested during the interview with the representatives from Gas Engineering on September 27, 2007: b. Capital "Overrun Explanation" (regarding calendar year 2006 issued in 2007)	yes	Data Response CD
223	BRCS to Date	MTD-04-09	10/10/07	10/15/07	MTD-04-09 Please provide the following document requested during the interview with the representatives from Gas Engineering on September 27, 2007: c. Example of an annual work order revision package that had been approved during the period January 1, 2006 through March 31, 2007.	yes	Working Files Notebook Vol. 1
224	BRCS to Date	MTD-05-01	10/18/07	11/1/07	MTD-05-01 Provide in an Excel file a list of all capitalized leased assets that are on the Company's books in this proceeding as of March 31, 2007. For each capitalized lease asset or group of assets identified, please provide the following information: a. Work Order reference b. Vintage Year c. Description of the asset(s) d. Asset tag(s) e. Copy of related lease agreement f. Amount of monthly or annual lease payment g. Amortization period associated with the capitalized lease MTD-05-02 For capitalized leases included in the Company's rate base, please provide a brief description of the company's policy for the determination of classifying a lease between an operating lease versus a capital lease.	yes	Working Files Notebook Vol. 1
225	BRCS to Date	MTD-05-02	10/18/07	11/1/07	MTD-05-03 For capitalized leases please provide a brief description of the related entries related to the recording of the lease, lease payments and adjustments to the contra account, as appropriate		Working Files Notebook Vol. 1
226	BRCS to Date	MTD-05-03	10/18/07	11/1/07	MTD-05-04 Please provide a list of asset and related dollar amounts that the company has classified in regulatory asset accounts as of March 31, 2007. For each item please identify the following information: a. Description of the item b. Basis for inclusion of the asset in rate base, i.e., regulatory approval, etc. c. Specific plant account d. Accumulated amortization e. Associated amortization period		Working Files Notebook Vol. 1
227	BRCS to Date	MTD-05-04	10/18/07	11/1/07	(Follow up to MTD-01-007 Supplemental Response) Please prepare, for on-site review, copies or actual documents supporting the transactions identified in the attached Excel file. In addition, please scan requested documents and have available on disk.		Working Files Notebook Vol. 1
228	BRCS to Date	MTD-06-01	11/4/07	11/14/07	MTD-04-01 MTD-09-01 Please provide an Excel spreadsheet similar in format to MTD-03-005 which provides a listing of those work orders that are in Account 106 - Completed Construction Not Classified (CCNC) at October 31, 2007.	BRCS-MTD-09-001.xls	Data Response CD
229	BRCS to Date	MTD-09-01	11/8/07	11/19/07	MTD-04-02 For those work orders that were in Account 106 - Completed Construction Not Classified (CCNC) at March 31, 2007 (reference MTD-03-005), please provide a summary of utilization postings for each work order that were recorded or processed between April 1, 2007 and October 31, 2007. For each work order please provide in an Excel spreadsheet the following information: a. Work Order Number b. Work Order Title c. Utilization posting month and year d. Plant account related to the addition e. Amount of the plant addition f. Plant account of the retirement g. Amount of plant retired h. Summary of Cost of Removal / Retirement i. Summary of Salvage value	BRCS-MTD-09-002a.xls BRCS-MTD-09-002b.xls	Data Response CD
230	BRCS to Date	MTD-09-02	11/8/07	11/19/07			Data Response CD
231	BRCS to Date	HS-03-001	10/3/07	11/2/07	Please provide a narrative detailing the Company's load forecast methodology for each customer or rate class.	Attachment BRCS-HS-03-001	Data Response CD
232	BRCS to Date	HS-03-002	10/3/07	10/15/07	Please provide any analysis produced that "backcast", validate, confirm or compare the Company's load forecasts from 2002 to the present compared to actual sales/trend.		Data Response CD

Item #	Filing Party / Directed to:	DR #	Date of DR	Response Received	Request	Attachment	Location
213	BRCS to Duke	HS-03-003	10/3/07	11/2/07	Please provide a narrative detailing the Company's weather normalization methodology for each customer or site class.		Data Response CD
214	BRCS to Duke	HS-03-004	10/3/07	11/2/07	Please provide any analysis produced that "backtest" / validate, confirm or compare the Company's weather normalization from 2002 to the present compared to actual sales/trend and/or peak delivery/design day		Data Response CD
215	BRCS to Duke	HS-03-005	10/3/07	11/2/07	Please provide a narrative describing any Company sponsored, governmental, sponsored or customer initiated demand reduction, conservation measures or efficiency increases and the efforts that are included in the load forecast.		Data Response CD
216	BRCS to Duke	HS-03-006	10/3/07	10/15/07	Please provide an spreadsheet format with all formulas, macros and values intact any information detailing average use per customer for all customer classes for the last twenty years.		Data Response CD
217	BRCS to Duke	HS-03-007	10/3/07	10/15/07	Please provide in spreadsheet format with all formulas, macros and values intact any information detailing the number of customers for each customer class for the last twenty years.		Data Response CD
218	BRCS to Duke	HS-03-008	10/3/07	11/7/07	Accelerated Main Replacement Program ("AMRP") Targets for each year Selection of means for replacement (prioritization methodology) Budgeting and/or cost estimation Unit costs or other costing/payment methodologies Engineering Capacity upgrades Competitive bidding Contractor/vendor selection Inspection Testing Innovative concepts		Data Response CD
219	BRCS to Duke	HS-03-009	10/3/07	10/15/07	Please provide a narrative detailing the procurement process for the AMRP. Specific issues for each of the last three years, 2005-2007 that should be included: Information to potential contractors/vendors Contractor/vendor qualification Annual (or other) bid packages and/or RFP Summary of responses received Analysis of responses received Contractor/vendor decision documentation Contractor/vendor contract(s) Process to authorize payment	yes	Data Response CD
240	BRCS to Duke	HS-03-010	10/3/07	11/7/07	Please provide a spreadsheet detailing the performance of the AMRP covering each of the years since the inception. Specific items should include: Annual Targets (distance and cost) Actual Installation (distance and cost) Reduction in leaks Reward or repair required (if any)	BRCS-HS-03-010 Attachment.pdf	Data Response CD
241	BRCS to Duke	HS-03-011	10/3/07	10/15/07	Please provide any key performance indicators and the results for the AMRP. Specifically address if any performance bonuses, payments, incentives, etc. are paid to either the contractors/vendors and/or Company employees of any level.	yes	Data Response CD
242	BRCS to Duke	HS-03-012	10/3/07	11/7/07	Please identify any exceptions, deviations or other departures identified during either the Company's or the Staff's annual review of the AMRP and the Company's actions to resolve those issues (if any).	BRCS-HS-03-012 Attachment.pdf	Data Response CD
243	BRCS to Duke	HS-03-013	10/3/07	11/7/07	Please identify any exceptions, deviations or other departures identified during either the Company's or the Staff's annual review of the AMRP and the Company's actions to resolve those issues (if any).	BRCS-HS-03-013 Attachment.pdf	Confidential Data Response CD
244	BRCS to Duke	HS-03-014	10/3/07	11/7/07	Please provide a narrative detailing the procurement process for the Company's annual construction program. Specific issues (for each of the last three years, 2005-2007) that should be included: Information to potential contractors/vendors for major projects Contractor/vendor qualification Annual (or other) bid packages and/or RFP Summary of responses received Analysis of responses received Contractor/vendor decision documentation Contractor/vendor contract(s) Inspection and testing Process to authorize payment		Data Response CD
245	BRCS to Duke	HS-03-015	10/3/07	11/7/07	Please provide a spreadsheet detailing the performance of the annual construction budget for the past three years (2005-2007). Specific items should include: Annual Targets (facilities and cost) Actual Construction (facilities and cost) Reduction in operating expenses (projected and actual) Rework or repair required (if any)	yes	Data Response CD
246	BRCS to Duke	HS-03-016	10/3/07	10/15/07	Please provide any key performance indicators and the results of the annual construction budget for the past three years (2005-2007). Specifically address if any performance bonuses, payments, incentives, etc. are paid to either the contractors/vendors and/or Company employees of any level.	yes	Data Response CD
247	BRCS to Duke	HS-03-017	10/3/07	10/15/07	Please provide any key performance indicators and the results of the annual construction budget for the past three years (2005-2007). Specifically address if any performance bonuses, payments, incentives, etc. are paid to either the contractors/vendors and/or Company employees of any level.		Confidential Data Response CD

Item #	Filing Party / Directed to:	DR #	Date of DR	Response Received	Request	Attachment	Location
248	BRCS to Duke	HS-05-01	10/13/07	11/1/07	(Follow-up to Jim Riddle interview) Please provide a summary of each change in which the Company has substituted its judgment or experience for economic inputs provided by economy.com or others for input into the Company's load forecasting model. The summary should include date, description of input or issue change, the difference between the original value and the value eventually used, the reason for the change, and the significance (impact) of the change on the forecast.		Data Response CD
249	BRCS to Duke	HS-05-02	10/13/07	11/1/07	Please provide the job descriptions for the Gas Forecasting function.	BRCS-HS-05-02 Attachment.pdf	Data Response CD
250	BRCS to Duke	HS-05-03	10/13/07	11/1/07	Please provide the class certification for the monthly change as discussed.	BRCS-HS-05-03 Attachment.pdf	Data Response CD
251	BRCS to Duke	HS-05-04	10/13/07	11/1/07	Please provide the date Jim Miller was elevated.		Data Response CD
252	BRCS to Duke	HS-05-NA1			(Follow-up to Jim Riddle interview) Please provide the job descriptions for the Load Forecasting function positions.	BRCS-HS-05-NA1 Job Description 1.doc	Data Response CD
253	BRCS to Duke	HS-05-NA2			(Follow-up to Jim Riddle interview) Please provide the monthly budget to actual variance reports for gas sales from January 2006 through September 2007.	BRCS-HS-05-NA2 Job Description 2.doc	Data Response CD
254	BRCS to Duke	HS-05-01	11/4/07	11/13/07	Please explain the differences between the average customer count for OPA customers on Duke Energy Ohio's response to BRCS-HS-01-007 and Schedule C-12.1, page 2 of 2 No. Customers by Class (Average) for the year 2002 to 2006.		Data Response CD
255	BRCS to Duke	HS-05-01	11/8/07	11/19/07	Please provide sample screen shots demonstrating both the green screen version and the GUI version of CMS system. Address the customer history screen and others as discussed. Please redact or blackout any customer information that is not displayed to the general public might cause system security concerns. Please provide the screen shots in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-01 Attachment.pdf	Data Response CD
256	BRCS to Duke	HS-05-02	11/8/07	11/19/07	Please provide a high level summary of the training manual (Table of Contents or similar). Please redact or blackout any information that when displayed to the general public might cause system security concerns. Please provide the response in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-02 Attachment.pdf	Data Response CD
257	BRCS to Duke	HS-05-03	11/8/07	11/19/07	Please provide the narrative discussed during this field visit that details the six CMS enhancements and other covered information. Please provide the response in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-03 Attachment.pdf	Data Response CD
258	BRCS to Duke	HS-05-04	11/8/07	11/19/07	Please provide sample screen shots demonstrating the E Commerce Initiative discussed and viewed on 11/6. Please redact or blackout any vendor information or information that when displayed to the general public might cause system security concerns. Please provide the screen shots in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-04 Attachment.pdf BRCS-HS-05-04 Attachment POCO audit.xls 004AttachmentPO_for_eCommerce_POCO_audit.doc	Data Response CD
259	BRCS to Duke	HS-05-05	11/8/07	11/19/07	Please provide a high level summary of the purchasing manual (Table of Contents or similar). Please redact or blackout any information that when displayed to the general public might cause system security concerns. Please provide the response in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-05 Attachment.pdf	Data Response CD
260	BRCS to Duke	HS-05-06	11/8/07	11/19/07	Please provide sample screen shots (data input and data output (sample map)) demonstrating the Pipeline Integrity Management System discussed and viewed on 11/7. Please redact or blackout any customer information or transmission and/or distribution system information that when displayed to the general public might cause system security concerns. Please provide the screen shots in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-06 Attachment.pdf	Data Response CD
261	BRCS to Duke	HS-05-07	11/8/07	11/26/07	Please provide a high level summary of the four systems manuals (Table of Contents or similar). Please redact or blackout any information that when displayed to the general public might cause system security concerns. Please provide the response in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-07 Attachment.pdf	Data Response CD
262	BRCS to Duke	HS-05-08	11/8/07	11/19/07	Please provide the sample screen shots demonstrating the SCADA system discussed and viewed on 11/7. Please redact or blackout any transmission and/or distribution system information that when displayed to the general public might cause system security concerns. Please provide the screen shot in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-08 Attachment Confidential.pdf	Confidential Data Response CD
263	BRCS to Duke	HS-05-09	11/8/07	11/19/07	Please provide the sample screen shot demonstrating the Radio Communications system status discussed and viewed on 11/7. Please redact or blackout any communications system information that when displayed to the general public might cause system security concerns. Please provide the screen shot in an electronic format. CONFIRMING DATA REQUEST DURING FIELD VISIT.	BRCS-HS-05-09 Attachment Alarm Screen Capture.pdf	Data Response CD
264	BRCS to Duke	HS-05-10	11/8/07	11/26/07	Please provide the Internal Audit Report covering the Radio Communication System. Please provide the report in electronic format.	BRCS-HS-05-10 Attachment.pdf	Confidential Data Response CD
265	BRCS to Duke	HS-05-11	11/8/07	11/19/07	Please provide the radio communications system allocation percentages for each entity (OH, IN, KY, Carolina; if any) and any splits between electric and gas and between regulated and unregulated. The allocations should total to 100%. Provide the date when these allocations were set among the internal parties. Please provide the information in electronic format.		Data Response CD
266	BRCS to Duke	M/M-04-01	10/10/07	10/23/07	As discussed in the interview with Patty Walker, please provide document used in creation of the 2007 budget by which previous year(s) capital and O&M budgets/accounts were reviewed.	BRCS-M/M-04-01 Attachment.pdf	Data Response CD
267	BRCS to Duke	M/M-04-02	10/10/07	10/23/07	Per our discussion with Patty Walker regarding the budget process, please confirm whether a budget reset occurred for 2007 Duke Energy corporate budget.		Data Response CD
268	BRCS to Duke	M/M-04-03	10/10/07	10/23/07	a. If so, please provide the reset amounts for the 2007 Duke Energy Ohio corporate budget for the gas operations at the account level in the same format as that provided in Supplemental (C23) in an electronic Microsoft Excel workbook. b. Have the budget reset amounts been incorporated in the rate case test year for the months April through December 2007? c. Please describe the reason for all budget resets to the 2007 corporate budget including whether management's review of the monthly budget variance reports indicated that a reset was warranted.		Data Response CD
269	BRCS to Duke	M/M-04-04	10/10/07	10/23/07	Does Duke Energy Ohio consider budget resets to be separate and distinct from formally approved budgets? If not, please explain why the reset to the 2007 budget was not provided in response to BRCS-WF-01-22.		Data Response CD
270	BRCS to Duke	M/M-04-05	10/10/07	11/1/07	As discussed in interview with Patty Walker, please provide the monthly reports for the 12 months ending June 30, 2007, by which FERC rate allocations of shared services are monitored for Gas Operations.	BRCS-M/M-04-04 Attachment.pdf	Data Response CD
271	BRCS to Duke	M/M-05-01	10/18/07	11/1/07	Please provide copies of the Duke Energy Ohio monthly management reports provided to Gary Hebbeler, Patty Walker, and Amy Duganowski for the Gas Operations. (Follow-up to Paul Smith interview) Please provide documents that describe and define the benchmarking initiative headed by Bill Curran in the corporate office that compare costs and efficiencies of Duke Energy and affiliate functions and programs with those of other utilities.	BRCS-M/M-04-05 Attachment.pdf BRCS-M/M-05-01 attachment.pdf	Data Response CD

Item #	Filing Party / Directed to:	DR #	Date of DR	Response Received	Request	Attachment	Location
272	BRCS to Duke	MJM-05-02	10/16/07	11/1/07	(Follow-up to Sandra Meyer interview) Please provide the most recent set of monthly budget and actual reports that Ms. Meyer receives as requested in the meeting.	BRCS-MJM-05-002-Attach-09_2007 DE Consolidated A/B Summary.xls BRCS-MJM-05-002-Attach-Avg-Jul 07 CGE Balance Sheet Stand alone.xls BRCS-MJM-05-002-Attach-DBO Standalone IS Variance - Aug 07.xls BRCS-MJM-05-002-Attach-Staff Meeting Handout Sep 2007.xls BRCS-MJM-05-002-Attach-STEP EG Handout Sep 2007.xls	Data Response CD
273	BRCS to Duke	MJM-05-03	10/16/07	11/1/07	(Follow-up to Amy Dlugoski interview) Please provide the procedural guidelines from corporate for the budget process (also mentioned in interview with Sandra Meyer). HS (Follow-up to Jim Riddle interview) Please provide the job descriptions for the Lead Forecasting function positions. HS (Follow-up to Jim Riddle interview) Please provide the monthly budget to actual variances reports for gas sales from January 2006 through September 2007.	BRCS-MJM-05-003-Attach.doc	Data Response CD
274	BRCS to Duke	MJM-05-01	10/22/07	11/5/07	(Follow-up to interview with Jeff Setzer on 10/18/07) Please provide in written form the explanation given by Mr. Setzer during the interview for how the 2007 budget for employee and executive benefits was developed		Data Response CD
275	BRCS to Duke	MJM-06-02	10/22/07	11/14/07	(Follow-up to interview with Jeff Setzer on 10/18/07) Please provide copies of the pages marked in the Actuarial Notebook during the interview that showed the backup for the projected amounts for total health and life benefits for 2004 (\$7,171,250), 2005 (\$5,864,000) and 2006 (\$6,930,000) reflected in the company's filing as shown below.	BRCS-MJM-06-002-attachment.pdf	Data Response CD
276	BRCS to Duke	MJM-06-03	10/22/07	11/15/07	(Follow-up to interview with Jeff Setzer on 10/18/07) Please provide the multi-colored report titled Service Company Allocation Changing information that Mr. Setzer presented at the interview. Also, please provide the backup and source documentation for the service company allocations shown on this document.	BRCS-MJM-06-003-Attachment.pdf BRCS-MJM-06-003-Attachment2.pdf BRCS-MJM-06-003-Attachment3.pdf BRCS-MJM-06-003-Attachment4.pdf BRCS-MJM-06-003-Attachment5.pdf BRCS-MJM-06-003-Attachment6.pdf BRCS-MJM-06-003-Attachment7.pdf BRCS-MJM-06-003-Attachment8.pdf BRCS-MJM-06-003-Attachment9.pdf BRCS-MJM-06-003-Attachment10.pdf BRCS-MJM-06-003-Attachment11.pdf BRCS-MJM-06-003-Attachment12.pdf BRCS-MJM-06-003-Attachment13.pdf BRCS-MJM-06-003-Attachment14.pdf BRCS-MJM-06-003-Attachment15.pdf BRCS-MJM-06-003-Attachment16.pdf BRCS-MJM-06-003-Attachment17.pdf BRCS-MJM-06-003-Attachment18.pdf BRCS-MJM-06-003-Attachment19.pdf BRCS-MJM-06-003-Attachment20.pdf BRCS-MJM-06-003-Attachment21.pdf BRCS-MJM-06-003-Attachment22.pdf BRCS-MJM-06-003-Attachment23.pdf BRCS-MJM-06-003-Attachment24.pdf BRCS-MJM-06-003-Attachment25.pdf BRCS-MJM-06-003-Attachment26.pdf BRCS-MJM-06-003-Attachment27.pdf BRCS-MJM-06-003-Attachment28.pdf BRCS-MJM-06-003-Attachment29.pdf BRCS-MJM-06-003-Attachment30.pdf BRCS-MJM-06-003-Attachment31.pdf BRCS-MJM-06-003-Attachment32.pdf BRCS-MJM-06-003-Attachment33.pdf BRCS-MJM-06-003-Attachment34.pdf BRCS-MJM-06-003-Attachment35.pdf BRCS-MJM-06-003-Attachment36.pdf BRCS-MJM-06-003-Attachment37.pdf BRCS-MJM-06-003-Attachment38.pdf BRCS-MJM-06-003-Attachment39.pdf BRCS-MJM-06-003-Attachment40.pdf BRCS-MJM-06-003-Attachment41.pdf BRCS-MJM-06-003-Attachment42.pdf BRCS-MJM-06-003-Attachment43.pdf BRCS-MJM-06-003-Attachment44.pdf BRCS-MJM-06-003-Attachment45.pdf BRCS-MJM-06-003-Attachment46.pdf BRCS-MJM-06-003-Attachment47.pdf BRCS-MJM-06-003-Attachment48.pdf BRCS-MJM-06-003-Attachment49.pdf BRCS-MJM-06-003-Attachment50.pdf BRCS-MJM-06-003-Attachment51.pdf BRCS-MJM-06-003-Attachment52.pdf BRCS-MJM-06-003-Attachment53.pdf BRCS-MJM-06-003-Attachment54.pdf BRCS-MJM-06-003-Attachment55.pdf BRCS-MJM-06-003-Attachment56.pdf BRCS-MJM-06-003-Attachment57.pdf BRCS-MJM-06-003-Attachment58.pdf BRCS-MJM-06-003-Attachment59.pdf BRCS-MJM-06-003-Attachment60.pdf BRCS-MJM-06-003-Attachment61.pdf BRCS-MJM-06-003-Attachment62.pdf BRCS-MJM-06-003-Attachment63.pdf BRCS-MJM-06-003-Attachment64.pdf BRCS-MJM-06-003-Attachment65.pdf BRCS-MJM-06-003-Attachment66.pdf BRCS-MJM-06-003-Attachment67.pdf BRCS-MJM-06-003-Attachment68.pdf BRCS-MJM-06-003-Attachment69.pdf BRCS-MJM-06-003-Attachment70.pdf BRCS-MJM-06-003-Attachment71.pdf BRCS-MJM-06-003-Attachment72.pdf BRCS-MJM-06-003-Attachment73.pdf BRCS-MJM-06-003-Attachment74.pdf BRCS-MJM-06-003-Attachment75.pdf BRCS-MJM-06-003-Attachment76.pdf BRCS-MJM-06-003-Attachment77.pdf BRCS-MJM-06-003-Attachment78.pdf BRCS-MJM-06-003-Attachment79.pdf BRCS-MJM-06-003-Attachment80.pdf BRCS-MJM-06-003-Attachment81.pdf BRCS-MJM-06-003-Attachment82.pdf BRCS-MJM-06-003-Attachment83.pdf BRCS-MJM-06-003-Attachment84.pdf BRCS-MJM-06-003-Attachment85.pdf BRCS-MJM-06-003-Attachment86.pdf BRCS-MJM-06-003-Attachment87.pdf BRCS-MJM-06-003-Attachment88.pdf BRCS-MJM-06-003-Attachment89.pdf BRCS-MJM-06-003-Attachment90.pdf BRCS-MJM-06-003-Attachment91.pdf BRCS-MJM-06-003-Attachment92.pdf BRCS-MJM-06-003-Attachment93.pdf BRCS-MJM-06-003-Attachment94.pdf BRCS-MJM-06-003-Attachment95.pdf BRCS-MJM-06-003-Attachment96.pdf BRCS-MJM-06-003-Attachment97.pdf BRCS-MJM-06-003-Attachment98.pdf BRCS-MJM-06-003-Attachment99.pdf BRCS-MJM-06-003-Attachment100.pdf	Confidential Data Response CD
277	BRCS to Duke	MJM-06-04	10/22/07	11/5/07	(Follow-up to interview with Jim Peak on 10/18/07) Please provide the following audit conducted in 2005-2007: 1. Service Company Cost Allocations (PWC: Jan-05) 2. Accounts Payable (PWC: Jan-05) 3. Pension/401(k) (PWC: Q3 2005) 4. Revenue - RRU (PWC: Feb 06) 5. Midwest Financial Close & Account Reconciliation (PWC: May 06) 6. Cash Controls and Bank Account Review (PWC: Mar-06) 7. 2006 Audit Notes a. 306065 b. 466050 c. 466051 d. 466052 e. 466053 f. 466054 g. 466055 h. 466056 i. 466057 j. 466058 k. 466059 l. 466060 m. 466061 n. 466062 o. 466063 p. 466064 q. 466065 r. 466066 s. 466067 t. 466068 u. 466069 v. 466070 w. 466071 x. 466072 y. 466073 z. 466074 aa. 466075 ab. 466076 ac. 466077 ad. 466078 ae. 466079 af. 466080 ag. 466081 ah. 466082 ai. 466083 aj. 466084 ak. 466085 al. 466086 am. 466087 an. 466088 ao. 466089 ap. 466090 aq. 466091 ar. 466092 as. 466093 at. 466094 au. 466095 av. 466096 aw. 466097 ax. 466098 ay. 466099 az. 466100 ba. 466101 bb. 466102 bc. 466103 bd. 466104 be. 466105 bf. 466106 bg. 466107 bh. 466108 bi. 466109 bj. 466110 bk. 466111 bl. 466112 bm. 466113 bn. 466114 bo. 466115 bp. 466116 bq. 466117 br. 466118 bs. 466119 bt. 466120 bu. 466121 bv. 466122 bw. 466123 bx. 466124 by. 466125 bz. 466126 ca. 466127 cb. 466128 cc. 466129 cd. 466130 ce. 466131 cf. 466132 cg. 466134 ch. 466135 ci. 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Confidential Data Response CD	
278	BRCS to Duke	MJM-06-05	10/22/07	11/5/07	(Follow-up to interview with Bill Carrone on 10/18/07) As discussed, please provide all of the periodic revenue committee reports produced from 2006 through 2007 for the Continuous Improvement and Supply the Best Initiatives.	BRCS-MJM-06-005-attachment1.pdf BRCS-MJM-06-005-attachment2.pdf BRCS-MJM-06-005-attachment3.pdf BRCS-MJM-06-005-attachment4.pdf BRCS-MJM-06-005-attachment5.pdf BRCS-MJM-06-005-attachment6.pdf BRCS-MJM-06-005-attachment7.pdf BRCS-MJM-06-005-attachment8.pdf BRCS-MJM-06-005-attachment9.pdf BRCS-MJM-06-005-attachment10.pdf BRCS-MJM-06-005-attachment11.pdf BRCS-MJM-06-005-attachment12.pdf BRCS-MJM-06-005-attachment13.pdf BRCS-MJM-06-005-attachment14.pdf BRCS-MJM-06-005-attachment15.pdf BRCS-MJM-06-005-attachment16.pdf BRCS-MJM-06-005-attachment17.pdf BRCS-MJM-06-005-attachment18.pdf BRCS-MJM-06-005-attachment19.pdf BRCS-MJM-06-005-attachment20.pdf BRCS-MJM-06-005-attachment21.pdf BRCS-MJM-06-005-attachment22.pdf BRCS-MJM-06-005-attachment23.pdf BRCS-MJM-06-005-attachment24.pdf BRCS-MJM-06-005-attachment25.pdf BRCS-MJM-06-005-attachment26.pdf BRCS-MJM-06-005-attachment27.pdf BRCS-MJM-06-005-attachment28.pdf BRCS-MJM-06-005-attachment29.pdf BRCS-MJM-06-005-attachment30.pdf BRCS-MJM-06-005-attachment31.pdf BRCS-MJM-06-005-attachment32.pdf BRCS-MJM-06-005-attachment33.pdf BRCS-MJM-06-005-attachment34.pdf BRCS-MJM-06-005-attachment35.pdf BRCS-MJM-06-005-attachment36.pdf BRCS-MJM-06-005-attachment37.pdf BRCS-MJM-06-005-attachment38.pdf BRCS-MJM-06-005-attachment39.pdf BRCS-MJM-06-005-attachment40.pdf BRCS-MJM-06-005-attachment41.pdf BRCS-MJM-06-005-attachment42.pdf BRCS-MJM-06-005-attachment43.pdf BRCS-MJM-06-005-attachment44.pdf BRCS-MJM-06-005-attachment45.pdf BRCS-MJM-06-005-attachment46.pdf BRCS-MJM-06-005-attachment47.pdf BRCS-MJM-06-005-attachment48.pdf BRCS-MJM-06-005-attachment49.pdf BRCS-MJM-06-005-attachment50.pdf BRCS-MJM-06-005-attachment51.pdf BRCS-MJM-06-005-attachment52.pdf BRCS-MJM-06-005-attachment53.pdf BRCS-MJM-06-005-attachment54.pdf BRCS-MJM-06-005-attachment55.pdf BRCS-MJM-06-005-attachment56.pdf BRCS-MJM-06-005-attachment57.pdf BRCS-MJM-06-005-attachment58.pdf BRCS-MJM-06-005-attachment59.pdf BRCS-MJM-06-005-attachment60.pdf BRCS-MJM-06-005-attachment61.pdf BRCS-MJM-06-005-attachment62.pdf BRCS-MJM-06-005-attachment63.pdf BRCS-MJM-06-005-attachment64.pdf BRCS-MJM-06-005-attachment65.pdf BRCS-MJM-06-005-attachment66.pdf BRCS-MJM-06-005-attachment67.pdf BRCS-MJM-06-005-attachment68.pdf BRCS-MJM-06-005-attachment69.pdf BRCS-MJM-06-005-attachment70.pdf BRCS-MJM-06-005-attachment71.pdf BRCS-MJM-06-005-attachment72.pdf BRCS-MJM-06-005-attachment73.pdf BRCS-MJM-06-005-attachment74.pdf BRCS-MJM-06-005-attachment75.pdf BRCS-MJM-06-005-attachment76.pdf BRCS-MJM-06-005-attachment77.pdf BRCS-MJM-06-005-attachment78.pdf BRCS-MJM-06-005-attachment79.pdf BRCS-MJM-06-005-attachment80.pdf BRCS-MJM-06-005-attachment81.pdf BRCS-MJM-06-005-attachment82.pdf BRCS-MJM-06-005-attachment83.pdf BRCS-MJM-06-005-attachment84.pdf BRCS-MJM-06-005-attachment85.pdf BRCS-MJM-06-005-attachment86.pdf BRCS-MJM-06-005-attachment87.pdf BRCS-MJM-06-005-attachment88.pdf BRCS-MJM-06-005-attachment89.pdf BRCS-MJM-06-005-attachment90.pdf BRCS-MJM-06-005-attachment91.pdf BRCS-MJM-06-005-attachment92.pdf BRCS-MJM-06-005-attachment93.pdf BRCS-MJM-06-005-attachment94.pdf BRCS-MJM-06-005-attachment95.pdf BRCS-MJM-06-005-attachment96.pdf BRCS-MJM-06-005-attachment97.pdf BRCS-MJM-06-005-attachment98.pdf BRCS-MJM-06-005-attachment99.pdf BRCS-MJM-06-005-attachment100.pdf	Confidential Data Response CD
279	BRCS to Duke	MJM-06-06	10/22/07	11/5/07	(Follow-up to interview with Bill Carrone on 10/18/07) Please provide any official or non-official schedule or timeline concerning the development of the Supply the Best Initiative. Include intermediate milestones, if any, such as peer group chosen, categories of focus identified, metrics established, etc.	BRCS-MJM-06-006-attachment.pdf	Data Response CD
280	BRCS to Duke	MJM-06-07	10/22/07	11/15/07	(Follow-up to interview with Ron Reisinger on 10/18/07) Please provide the budget submitted by Mr. Reisinger for his organization which he characterized as "aggressive" but after which received the request from corporate "to do more." Please also provide a copy of the "do more" response from corporate	yes	Working Files Notebook Vol. 1

File Name	File Date	File Size	File Kind
1Q2007 State Unemployment info CSC-employees.x	05/03/2007	613 KB	Microsoft Excel workboo
2005 & 2006 actual 2007 a&b labor cg&e.xls	10/15/2007	40.22 MB	Microsoft Excel workboo
2006 CGE Summer Wages.xls	10/15/2007	20 KB	Microsoft Excel workboo
2006 CSC Summer Wages.xls	10/15/2007	20 KB	Microsoft Excel workboo
2007 Discount Calculation.xls	04/20/2007	1.02 MB	Microsoft Excel workboo
2007 FB Data for Budget by Activity.xls	05/17/2007	18 KB	Microsoft Excel workboo
4354_001.pdf	10/15/2007	151 KB	Adobe PDF document
ADIT balances 3-31-07.xls	10/11/2007	5.93 MB	Microsoft Excel workboo
BRCS-WF-04-009(22) Attachment.pdf	10/29/2007	83 KB	Adobe PDF document
BRCS-WF-04-009(24a) attachment.xls	10/29/2007	22 KB	Microsoft Excel workboo
BRCS-WF-04-009(24b) attachment.xls	10/29/2007	47 KB	Microsoft Excel workboo
BRCS-WF-04-009(24c) attachment.xls	10/29/2007	40 KB	Microsoft Excel workboo
BRCS-WF-04-009(24d) attachment.xls	10/29/2007	38 KB	Microsoft Excel workboo
BRCS-WF-04-009(31) Attachment.pdf	10/29/2007	574 KB	Adobe PDF document
BRCS-WF-04-009(33a) attachment.xls	10/29/2007	30 KB	Microsoft Excel workboo
BRCS-WF-04-009(5) attachment.xls	10/29/2007	32 KB	Microsoft Excel workboo
BRCS-WF-04-009(6) attachment.xls	10/29/2007	37 KB	Microsoft Excel workboo
BRCS-WF-04-009(8) Attach.pdf	10/29/2007	74 KB	Adobe PDF document
Blue Ridge Data Request - Treasury.zip	10/22/2007	24.15 MB	ZIP archive
CGE Consolidated Deferred Taxes at 3-31-2007.xls	10/15/2007	234 KB	Microsoft Excel workboo
CGE Intrastate Ann Rpt 2006.xls	10/12/2007	93 KB	Microsoft Excel workboo
DEO GAS Revenue Detail 2007 Rounded.xls	10/11/2007	201 KB	Microsoft Excel workboo
DEO ITC Gas Balance 03-31-07.xls	10/22/2007	16 KB	Microsoft Excel workboo
Duke Energy Consolidated Deferred Taxes 3-31-07.xls	10/15/2007	86 KB	Microsoft Excel workboo
Gas storage activity.xls	10/11/2007	29 KB	Microsoft Excel workboo
General ledger balances 3-31-07.xls	10/11/2007	2.99 MB	Microsoft Excel workboo
Hartwell expense 12 months ended 3-31-07-new.xls	05/01/2007	33 KB	Microsoft Excel workboo
Interdepartmental Revenue Calc for Actual.xls	07/30/2007	34 KB	Microsoft Excel workboo
Ky Unemployment for Jan and Feb 2007 for emp col	05/15/2007	64 KB	Microsoft Excel workboo
Ohio Gas Customer 2008.pdf	10/17/2007	25 KB	Adobe PDF document
Ohio Gas Customer 2009.pdf	10/17/2007	25 KB	Adobe PDF document
Ohio Gas Customer 2010.pdf	10/17/2007	25 KB	Adobe PDF document
Ohio Gas Customer 2011.pdf	10/17/2007	25 KB	Adobe PDF document
Ohio Gas Customer 2012.pdf	10/17/2007	25 KB	Adobe PDF document
Ohio Gas Revenues Annual.pdf	10/15/2007	26 KB	Adobe PDF document
Ohio Gas Sales Annual.pdf	10/15/2007	25 KB	Adobe PDF document
PIP Expense Budget.xls	10/11/2007	27.64 MB	Microsoft Excel workboo
Rate request for gas weatherization_Jan to Mar Actu	10/12/2007	1.28 MB	Microsoft Excel workboo

Sch C11 1 Balance sheet last 5 years.xls	10/22/2007	57 KB	Microsoft Excel workboo
Sch C11 2 Income statement last 5 years (2).xls	10/22/2007	35 KB	Microsoft Excel workboo
Total Labor.xls	06/15/2007	27.65 MB	Microsoft Excel workboo
Total labor by resource code - jan-mar 2007.xls	08/02/2007	9.65 MB	Microsoft Excel workboo
Unbilled Revene Split between Base & GCR.xls	10/11/2007	29 KB	Microsoft Excel workboo
WF-04-09 - Item 20 - Regulatory comm expense.xls	10/12/2007	39 KB	Microsoft Excel workboo
WF-04-09 - item 11 - Loss Analysis Spreadsheet - Gz	10/11/2007	31 KB	Microsoft Excel workboo
WF-04-09 - item 3.xls	10/11/2007	46 KB	Microsoft Excel workboo

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BRCS-MTD-01-007 10240.xls
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BRCS-MTD-01-007 Summary.pdf

BRCS-MTD-01-007 attachment.xls

BRCS-MTD-01-007(D) attachment.doc

BRCS-MTD-01-007(E) attachment.doc

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Appendix 3

Index to Workpaper Files

**Financial Audit of Duke Energy Ohio, Inc.
Case No. 07-0589-GA-AIR**

Working Files Index

Volume 1

1. *Electronic Workpapers* on CD
2. Non-Confidential Data Responses on CD
3. Interview Notes

The following responses to data requests were provided in hardcopy only. Other responses to data requests are provided on the CDs.

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6. BRCS DWS 03-002
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16. BRCS MTD 04-009
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Volume 3

- BRCS DHM 01-006
 - FERC Form 2 – 2004
 - FERC Form 2 – 2005

Volume 4

1. CONFIDENTIAL Data Responses on CD

The following responses to data requests were provided in hardcopy only. Other responses to data requests are provided on the CDs.

2. BRCS GPR 01-005 CONFIDENTIAL
3. BRCS GPR 01-007 CONFIDENTIAL
4. BRCS GPR 01-017 CONFIDENTIAL
5. BRCS DHM 01-005 CONFIDENTIAL
6. BRCS MTD 01-003 CONFIDENTIAL
7. BRCS MJM 06-004 Supplemental CONFIDENTIAL