

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Applications of Duke)
Energy Ohio, Inc. for an Increase in its Gas) Case No. 07-589-GA-AIR
Rates.)
)

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

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

**OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION
BY INTEGRYS ENERGY SERVICES, INC. AND DIRECT ENERGY SERVICES LLC
AND
SUMMARY OF MAJOR ISSUE**

Pursuant to Section 4909.19, Revised Code, Rule 4901-01-28 of the Ohio Administrative Code, and the December 21, 2007 Entry, Integrys Energy Services, Inc. ("Integrys") and Direct Energy Services LLC ("Direct Energy") submit their Objections to the December 20, 2007 Staff Report of Investigation ("Staff Report") in the above styled matters. In accordance with the Commission's policy that parties with like interests and positions in multi party litigation combine their pleadings when possible, Integrys and Direct Energy present their Objections to the Staff Report jointly. For purposes of complying with the requirements of Section 4909.19, Revised Code the following objection however shall be deemed submitted individually by Integrys and Direct Energy. Integrys and Direct Energy have filed and served individual Motions to Intervene in these matters today.

Integrys and Direct Energy object to the following portions of the Staff Report:

1. At pages 6-7 and 91 of the Staff Report, the Staff recommended a zero allowance for working capital to the Applicant Duke Energy of Ohio (“DE-Ohio”). In particular, the working capital request by DE-Ohio was for *inter alia* gas storage costs associated with DE-Ohio providing gas cost recovery (“GCR”) services. While Integrys does not take issue with the Staff’s finding of a zero working capital component to rate base, the legal and factual basis for the Staff Recommendation differs from Integrys’ and Direct Energy’s position. The Staff Report rejects Duke’s claim for working capital due to a failure of Duke to provide a lead lag study, which may imply that the working capital costs at issue would have been recoverable but for the lead lag study. Integrys and Direct Energy, accordingly, object to the basis for the Staff’s rejection for the working capital.

Integrys’ and Direct Energy’s objections to DE-Ohio’s claim for working capital is based upon the nature of the claimed working capital need. Schedule B-5 of the Application lists working capital for materials and suppliers to be \$52,715,085 dollars of which \$49,347,048 dollars is for the value of storage gas. Storage gas is not a material used for gas distribution, but rather it is a commodity cost associated with natural gas commodity sales. Accordingly, consistent with the Commission’s policy of *inter alia* cost causation and targeted cost recovery, the cost of financing gas supplies should only be assessed against those customers who subsequently purchase the gas kept in storage for them. Thus, Integrys and Direct Energy object to the Staff’s failure to expressly recommend that the rates of Choice or transportation customers should not include any working capital allowance that recognizes the lag between the time gas is purchased for GCR customers and the time that DE-Ohio receives payments from its GCR

customers for such gas purchases. Furthermore, the costs associated with this lag, as it may exist, should be applied and confined to the GCR mechanism or a rider charged against those customers taking the GCR service.

2. Integrys and Direct Energy designate Item 1 as the summary of the major issue in this case.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Objections to the Staff Report of Investigation was served upon the following persons, by first-class, U.S. mail, postage prepaid, and, where applicable, by e-mail this 18th day of January, 2008.

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This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

1/18/2008 3:56:24 PM

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Case No(s). 07-0589-GA-AIR, 07-0590-GA-ALT, 07-0591-GA-AAM

Summary: Objection Objections to the Staff Report of Investigation by Integrys Energy Services, Inc. and Direct Energy Services LLC and Summary of Major Issue electronically filed by Howard Petricoff on behalf of Direct Energy and Integrys Energy Services, LLC