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FILE

VIA E-FILING AND ORDINARY U.S. MAIL

John J. Finnigan, Jr.
Associate General Counsel

January 29, 2008

Ms. Betty McCauley
Docketing Division
The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215-3793

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

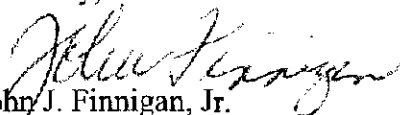
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Rate Plan for its Gas Distribution Service, Case No. 07-590-GA-ALT

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

Dear Ms. McCauley:

Enclosed please find the testimony and supplemental attachments for Duke Energy Ohio Inc.'s witnesses: Gary J. Hebbeler, Paul G. Smith, Donald L. Storck, William Don Wathen Jr., Dr. Roger A. Morin. I am also including the Duke Energy Ohio, Inc.'s Motion to Strike Objections to Staff Report of Investigation filed by Ohio Partners for Affordable Energy.

Sincerely,


John J. Finnigan, Jr.
Associate General Counsel

JJF/bsc

cc: Michael L. Kurtz (w/encl.)	John W. Bentine (w/encl.)
David F. Boehm (w/encl.)	Thomas J. O'Brien (w/encl.)
John M. Dosker (w/encl.)	Thomas Lindgren (w/encl.)
David C. Rinebolt (w/encl.)	Larry S. Sauer (w/encl.)
Colleen Mooney (w/encl.)	William Wright (w/encl.)
M. Howard Petricoff (w/encl.)	Mary W. Christensen (w/encl.)
Bobby Singh (w/encl.)	

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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

SUPPLEMENTAL TESTIMONY OF

GARY J. HEBBELER

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____	Management policies, practices, and organization
_____	Operating income
_____	Rate Base
_____	Allocations
_____	Rate of return
_____	Rates and tariffs
<u> x </u>	Other: request for re-approval of Rider AMRP and related matters

BEFORE

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SUPPLEMENTAL TESTIMONY OF

GARY J. HEBBELER

ON BEHALF OF

DUKE ENERGY OHIO, INC.

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Supplemental testimony relating to Rider AMRP and riser construction schedule.

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I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Gary J. Hebbeler.

3 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING ON**
4 **BEHALF OF DUKE ENERGY OHIO INC. ("DE-OHIO")?**

5 A. Yes.

6 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

7 A. I support Objection No. 12 in DE-Ohio's Objections to Staff Report of
8 Investigation and Summary of Major Issues, filed on January 22, 2008.

II. OBJECTION NO. 12

10 **Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NO. 12.**

11 A. In Objection No. 12, DE-Ohio objected to Staff's recommended construction
12 schedule for the Accelerated Main Replacement Program ("AMRP") and riser
13 replacement program.

14 **Q. PLEASE EXPLAIN DE-OHIO'S OBJECTION TO THE STAFF'S**
15 **RECOMMENDED CONSTRUCTION SCHEDULE.**

16 A. DE-Ohio initially proposed to complete the AMRP and riser replacement
17 construction programs over a nine-year period from 2007 through 2015. Staff
18 agreed with a nine-year construction schedule for the AMRP, but recommended
19 that the riser replacements be performed in three years. DE-Ohio objected to this
20 schedule because this would likely drive up costs and place a strain on an already
21 exhausted pool of contractor resources. Instead, DE-Ohio recommends that the

1 AMRP construction schedule should continue through the end of 2016 and the
2 riser replacement construction schedule should continue through the end of 2012.

3 **Q. WHY DOES DE-OHIO RECOMMEND THAT THE AMRP**
4 **CONSTRUCTION SCHEDULE SHOULD CONTINUE THROUGH THE**
5 **END OF 2016 AND THAT THE RISER REPLACEMENT**
6 **CONSTRUCTION SCHEDULE SHOULD CONTINUE THROUGH THE**
7 **END OF 2012?**

8 A. DE-Ohio recommends this schedule based on a reasonable balancing of safety,
9 resource constraints and cost considerations. DE-Ohio has been replacing the
10 highest risk AMRP mains since 2001 and developed the Riser Optimization
11 Program ("ROP") in 2004 to replace the highest risk risers. DE-Ohio will
12 continue its existing programs to identify and replace the highest risk AMRP
13 mains and risers on a priority basis. As a result, there is less need to complete the
14 riser replacements within three years, as compared to other gas utilities that might
15 not yet have initiated such programs.

16 DE-Ohio's proposed schedule will utilize the existing contractor work
17 force on the safest and most cost-effective basis. As I stated in my direct
18 testimony, DE-Ohio had approximately 87,000 service head adapter ("SHA")
19 risers on its distribution system as of the end of 2006. DE-Ohio will continue to
20 perform its ROP, identifying and replacing the highest risk risers, through the end
21 of the riser replacement program.

22 For the other SHA risers not targeted for replacement under the ROP, DE-
23 Ohio proposes to replace the risers under an Accelerated Riser Replacement

1 Program ("ARRP"). The plan is to award each contractor 50 risers clustered
2 together on a time and material basis with a price cap in February 2008. This will
3 allow each contractor to establish pricing based on actual work experience. In
4 May, we will bid approximately 7,000 risers to be completed during the
5 remaining months of 2008. Under this program, contractors who have been
6 performing AMRP work can have their AMRP crews trained to do riser
7 replacement work in a controlled and economic manner. After this training
8 period, DE-Ohio will then design riser replacement "modules," to let out for
9 competitive bidding with the work commencing in 2009. DE-Ohio projects that it
10 would replace approximately 17,000 risers in 2009, and approximately 20,000
11 risers annually from 2010 through 2012.

12 This plan would have the following benefits:

- 13 • Using specialized, trained riser replacement crews will enhance safety
14 because the crews will be experts on riser replacement techniques,
15 such as identifying when a full versus a partial replacement is
16 necessary.
- 17 • DE-Ohio will be able to use contractors from the Kentucky AMRP
18 project, which is scheduled for completion in 2010, and will also use
19 existing AMRP Ohio contractors while maintaining our construction
20 schedules, which we have already supplied to municipalities and
21 governmental agencies through the end of the AMRP.
- 22 • DE-Ohio will be able to complete the AMRP and ARRP with the
23 existing, experienced contractor work force in Ohio and Kentucky.

1 This will avoid bringing in new contractors who are inexperienced in
2 this type of work. Additionally, a three-year schedule would probably
3 require DE-Ohio to pay mobilization fees and premiums to additional
4 contractors for relocating their work force to this area and training
5 them.

- 6 • This will enable DE-Ohio to get more economical prices by using two-
7 year contracts that cover 2009-2010 and 2011-2012. The current trade
8 union collective bargaining agreements with local employers expire at
9 the end of 2010. If we competitively bid contracts now through 2012,
10 we probably would not get very realistic prices for the third year
11 because the contractors would not know their union labor cost.

- 12 • New contractors may not be available because other gas utilities are
13 beginning cast iron/bare steel main replacement programs and riser
14 replacement programs. My proposed schedule will allow DE-Ohio to
15 use the existing contractor work force to complete the AMRP and
16 ARRP, and will avoid additional upward pressure on costs that a
17 shorter program will cause. This could also benefit other Ohio gas
18 utilities' replacement programs by placing less demand on area
19 contractors' work forces.

20 **Q. CAN DE-OHIO PERFORM THE AMRP AND RISER REPLACEMENT**
21 **CONSTRUCTION SCHEDULES RECOMMENDED BY STAFF?**

22 **A.** Yes, if the Commission approves the AMRP and riser replacement construction
23 schedules recommended by Staff, then DE-Ohio is ready, willing and able to

1 follow these schedules and will use its best efforts to complete the work within
2 the time periods recommended by Staff. However, the upward pressure on
3 contractor work forces would probably increase the cost.

4 **III. CONCLUSION**

5 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

6 **A. Yes.**