

FILE

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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application)
of Duke Energy Ohio, Inc.,)
to Adjust and Set the Annually)
Adjusted Component of its Market)
Based Standard Service Offer)
Case No. 08-1025-EL-UNC

SUPPLEMENTAL DIRECT TESTIMONY OF

WILLIAM DON WATHEN JR.

ON BEHALF OF

DUKE ENERGY OHIO, INC.

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NOVEMBER 7, 2008

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ATTACHMENTS:

WDW-1 (Revised)	Updated Summary of Rider AAC Revenue Requirement
WDW-2 (Revised)	Updated Revised Rider AAC Tariff
WDW-3 (Revised)	Updated Calculation of Rider AAC Percentage and Revised Rider AAC Tariff

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is William Don Wathen Jr. My business address is 139 East Fourth
3 Street, Cincinnati, Ohio 45202.

4 **Q. ARE YOU THE SAME WILLIAM DON WATHEN JR. WHO**
5 **PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?**

6 A. Yes. I am.

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

8 A. At the time of the initial filing, I indicated in my direct testimony that certain
9 information would be revised when more current information became available.
10 With that commitment in mind, I am updating two components of the Rider AAC
11 revenue requirement calculation. One change is to update the tax component to
12 reflect the actual rather than estimated Section 199 federal income tax deduction.
13 The other revision is to update the projected environmental reagent expense for
14 2009. The net impact is a decrease in the proposed Rider AAC prices as
15 compared to the initial filing.

16 **Q. ARE YOU FILING REVISED ATTACHMENTS AS WELL?**

17 A. Yes. Because these changes impact the overall Rider AAC revenue requirement
18 and, consequently, the proposed Rider AAC prices, all of the attachments filed in
19 the initial application are being updated along with the revised Rider AAC tariff.

20 **II. OVERVIEW OF REVISIONS**

21 **Q. DESCRIBE THE CHANGE BEING MADE FOR THE SECTION 199 TAX**
22 **DEDUCTION.**

1 A. At the time of our initial filing in this proceeding, only an estimate of the Section
2 199 deduction was available. The Company indicated in its initial filing and in
3 my direct testimony that we would update that information as actual data became
4 available.

5 **Q. HOW MUCH IMPACT DOES THE TAX CHANGE MAKE IN THE**
6 **RIDER AAC REVENUE REQUIREMENT?**

7 A. This change results in an increase of \$5.6 million.

8 **Q. DESCRIBE THE CHANGE BEING MADE FOR THE REVISED**
9 **ENVIRONMENTAL REAGENT EXPENSE.**

10 A. Since the filing of the initial Rider AAC revenue requirement, the projected 2009
11 environmental reagent expense has been revised. We have incorporated that
12 revision in the attached updated Rider AAC revenue requirement calculation to
13 provide a better estimate of the final reagent expense.

14 **Q. HOW MUCH IMPACT DOES THE ENVIRONMENTAL REAGENT**
15 **PROJECTION CHANGE MAKE IN THE RIDER AAC REVENUE**
16 **REQUIREMENT?**

17 A. This change results in a decrease of \$11.0 million.

18 **Q. WHAT IS THE TOTAL RIDER AAC REVENUE REQUIREMENT**
19 **IMPACT OF THE TWO CHANGES INCLUDED IN THE ATTACHED**
20 **UPDATE?**

21 A. The overall change is a decrease in the revenue requirement of approximately
22 \$5.3 million.

BEFORE

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In the Matter of the Application)
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NOVEMBER 7, 2008

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20 **UPDATE?**

21 A. The overall change is a decrease in the revenue requirement of approximately
22 \$5.3 million.

1 **IV. CONCLUSION**

2 **Q. DO YOU BELIEVE THIS CHANGE SHOULD IMPACT THE TIMING OF**
3 **IMPLEMENTING THE REVISED RIDER AAC PRICES?**

4 A. No, it should not. All of this information has been disclosed to the Staff's
5 auditors and, to my knowledge, there is no indication that there is any material
6 deficiency in the filing notwithstanding this update. Further, it is worth noting
7 that the proposed Rider AAC prices are lower with these revisions than originally
8 filed on July 31, 2008. Insofar as the only relevant issue for determining the
9 Rider AAC prices is the validity of the data, and given the fact the Staff is
10 conducting an audit, there should be no need for anything more than a report from
11 the Staff on its findings in order to approve the proposed rates.

12 **Q. WERE REVISED ATTACHMENTS WDW-1, WDW-2, AND WDW-3**
13 **PREPARED BY YOU OR UNDER YOUR SUPERVISION?**

14 A. Revised Attachments WDW-1 (Revised), WDW-2 (Revised), and WDW-3
15 (Revised) were prepared under my direct supervision.

16 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT**
17 **TESTIMONY?**

18 A. Yes.

DUKE ENERGY OHIO
Updated Summary of Rider AAC Revenue Requirement

Revenue Requirement From:	<u>Amount</u>
Environmental Compliance	\$151,631,606
Homeland Security	110,647
Tax Changes	<u>(15,790,979)</u>
 Total Revenue Requirement	 <u><u>\$135,951,274</u></u>

DUKE ENERGY OHIO
Revenue Requirement on Environmental Compliance
Increase from Year 2000

<u>Return on Environmental Plant</u>	<u>Period Ending</u>	
	<u>12/31/2000</u>	<u>5/31/2008</u>
Original Cost	\$405,942,184	\$944,979,970
Reserve for Depreciation	<u>(165,336,370)</u>	<u>(249,889,134)</u>
Net Book Value	240,605,814	695,090,836
Construction Work in Progress	<u> </u>	<u>460,863,401</u>
Total Environmental Plant	<u>\$240,605,814</u>	<u>\$1,155,954,237</u>
Pre-tax Return at 11.69% ^(a)	\$28,126,820	\$135,131,050
 <u>Environmental O&M Expenses</u>		
Operation & Maintenance	4,453,158	16,776,037
Environmental Reagents ^(b)	4,598,944	20,212,000
Annualized Depreciation	<u>7,749,260</u>	<u>24,440,701</u>
Total Revenue Requirement	<u>\$44,928,182</u>	<u>\$196,559,788</u>
Increase		<u>\$151,631,606</u>

Note: ^(a) From Case No. 05-0059-EL-AIR.

^(b) Environmental Reagent costs are based on 12 months estimated amounts for 2009 and are subject to true-up per Order in Case No. 05-806-EL-UNC.

DUKE ENERGY OHIO
Revenue Requirement on Homeland Security
Twelve Months Ended May 31, 2008

	Information Technology	Cyber Security	Physical Security	Total
<u>Return on Capital Expenditures</u>				
Original Cost	\$94,781	\$226,365	\$28,531	\$349,657
Reserve for Depreciation	63,174	147,137	673	210,984
Net Plant	<u>\$31,587</u>	<u>\$79,228</u>	<u>\$27,858</u>	<u>\$138,673</u>
Pre-tax Return at 11.69%	\$3,693	\$9,262	\$3,257	\$16,211
<u>Operation & Maintenance Expenses</u>				
Operation & Maintenance				29,157
Annualized Depreciation	18,952	45,273	548	64,773
Annualized Property Taxes	<u>0</u>	<u>0</u>	<u>506</u>	<u>506</u>
Amount to Be Recovered	<u>\$22,645</u>	<u>\$54,535</u>	<u>\$4,311</u>	<u>\$110,647</u>

Note: All Homeland Security Costs are incremental to the year 2000.

DUKE ENERGY OHIO
Tax Changes
Twelve Months Ended May 31, 2008

<u>Tax Legislation Change</u>	Revenue Requirement Impact
<i>Section 199 - Production Activity Deduction</i>	(\$4,509,752)
Commercial Activity Tax vs. Ohio Franchise Tax	<u>(11,281,227)</u>
Total Impact of Tax Changes	<u><u>(\$15,790,979)</u></u>

Duke Energy Ohio
139 East Fourth Street
Cincinnati, Ohio 45202

P.U.C.O. Electric No. 19
Sheet No. 51.8
Cancels and Supersedes
Sheet No. 51.7
Page 1 of 3

Case No. 08-1025-EL-UNC
Attachment WDW-2
Page 1 of 3

RIDER AAC

ANNUALLY ADJUSTED COMPONENT RIDER

APPLICABILITY

Applicable to all jurisdictional retail customers in the Company's electric service area.

CHARGE

The Annually Adjusted Component Rider Charges detailed below are applicable after the end of the Market Development Period, except that they will not apply to those customers that receive a shopping credit or are eligible to avoid the Annually Adjusted Component charge as described below in the AVOIDANCE OF CHARGE section. All applicable kWh are subject to the Annually Adjusted Component Rider Charge. See Section VI, Item 7 of the Electric Service Regulations for the definition of the term "Market Development Period."

The following rates are effective for non-residential customers (including residential service of a commercial or public character) December 1, 2008.

Tariff Sheet

	<u>AAC Charge</u> (per kWh/kW)
Rate DS, Service at Secondary Distribution Voltage	
First 1000 kW	\$1.271200
Additional kW	\$1.005600
Billing Demand Times 300	\$0.003250
Additional kWh	\$0.002700
Rate GS-FL, Optional Unmetered For Small Fixed Loads	
kWh Greater Than or Equal to 540 Hours	\$0.010796
kWh Less Than 540 Hours	\$0.012410
Rate CUR, Common Use Residential Service	
Summer, First 1000 kWh	\$0.007333
Summer, Additional kWh	\$0.009293
Winter, First 1000 kWh	\$0.007333
Winter, Additional kWh	\$0.002768
Rate EH, Optional Rate For Electric Space Heating	
All kWh	\$0.004430
Rate DM, Secondary Distribution Service, Small	
Summer, First 2800 kWh	\$0.009721
Summer, Next 3200 kWh	\$0.002482
Summer, Additional kWh	\$0.001083
Winter, First 2800 kWh	\$0.007715
Winter, Next 3200 kWh	\$0.002486
Winter, Additional kWh	\$0.001028

Filed pursuant to an Order dated _____ in Case No. _____ before the Public Utilities Commission of Ohio.

Issued:

Effective: December 1, 2008

Issued by Sandra P. Meyer, President

Duke Energy Ohio
139 East Fourth Street
Cincinnati, Ohio 45202

P.U.C.O. Electric No. 19
Sheet No. 51.8
Cancels and Supersedes
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Page 2 of 3

Case No. 08-1025-EL-UNC
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Page 2 of 3

CHARGES (Contd.)

Tariff Sheet

	<u>AAC Charge</u> (per kWh/kW)
Rate DP, Service at Primary Distribution Voltage	
First 1000 kW	\$1.148000
Additional kW	\$0.905500
Billing Demand Times 300	\$0.003661
Additional kWh	\$0.002936
Rate TS, Service at Transmission Voltage	
First 50,000 Kva	\$1.391500
Additional kVA	\$1.003000
Billing Demand Times 300	\$0.002391
Additional kWh	\$0.002718
Rate SL, Street Lighting Service	
All kWh	\$0.004781
Rate TL, Traffic Lighting Service	
All kWh	\$0.002799
Rate OL, Outdoor Lighting Service	
All kWh	\$0.004781
Rate NSU, Street Lighting Service for Non-Standard Units	
All kWh	\$0.004781
Rate NSP, Private Outdoor Lighting for Non-Standard Units	
All kWh	\$0.004781
Rate SC, Street Lighting Service - Customer Owned	
All kWh	\$0.004781
Energy only - all kWh	\$0.001902
Rate SE, Street Lighting Service - Overhead Equivalent	
All kWh	\$0.004781
Rate UOLS, Unmetered Outdoor Lighting Electric Service	
All kWh	\$0.001969

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Sheet No. 51.8
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Page 3 of 3

Case No. 08-1025-EL-UNC
Attachment WDW-2
Page 3 of 3

CHARGES (Contd.)

The following rates apply to residential customers beginning December 1, 2008:

<u>Tariff Sheet</u>	<u>AAC Charge</u> (per kWh/kW)
Rate RS, Residential Service	
Summer, First 1000 kWh	\$0.007335
Summer, Additional kWh	\$0.009293
Winter, First 1000 kWh	\$0.007335
Winter, Additional kWh	\$0.002767
Rate ORH, Optional Residential Service With Electric Space Heating	
Summer, First 1000 kWh	\$0.006549
Summer, Additional kWh	\$0.007846
Winter, First 1000 kWh	\$0.006546
Winter, Additional kWh	\$0.003389
Winter, kWh greater than 150 times demand	\$0.002119
Rate TD, Optional Time-of-Day Rate	
Summer, On-Peak kWh	\$0.014954
Summer, Off-Peak kWh	\$0.002183
Winter, On-Peak kWh	\$0.011755
Winter, Off-Peak kWh	\$0.002185

AVOIDANCE OF ANNUALLY ADJUSTED COMPONENT RIDER CHARGE

All customers that switch to a certified supplier shall not pay the AAC.

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Commission of Ohio.

Issued:

Effective: December 1, 2008

Issued by Sandra P. Meyer, President

DUKE ENERGY OHIO
Updated Calculation of Rider AAC Percentage
and Revised Rider AAC Tariff

AAC Recovery % Calculation

Revised AAC Revenue Requirement	\$ 135,951,274
Little g Revenue - 12 Months Ended May 31, 2008	\$ 818,281,924
Revised Rider AAC %	<u>16.6%</u>

Tariff Sheet

	Current AAC Charge (per kWh/kW)	New % / Old % Ratio (1)	Proposed AAC Charge (per kWh/kW)
Rate RS, Residential Service			
Summer, First 1000 kWh	\$ 0.006672	1.0993	\$ 0.007335
Summer, Additional kWh	\$ 0.008454	1.0993	\$ 0.009293
Winter, First 1000 kWh	\$ 0.006672	1.0993	\$ 0.007335
Winter, Additional kWh	\$ 0.002517	1.0993	\$ 0.002767
Rate ORH, Optional Residential Service With Electric Space Heating			
Summer, First 1000 kWh	\$ 0.005957	1.0993	\$ 0.006549
Summer, Additional kWh	\$ 0.007137	1.0993	\$ 0.007846
Winter, First 1000 kWh	\$ 0.005955	1.0993	\$ 0.006546
Winter, Additional kWh	\$ 0.003083	1.0993	\$ 0.003389
Winter, kWh greater than 150 times demand	\$ 0.001928	1.0993	\$ 0.002119
Rate TD, Optional Time-of-Day Rate			
Summer, On-Peak kWh	\$ 0.013603	1.0993	\$ 0.014954
Summer, Off-Peak kWh	\$ 0.001986	1.0993	\$ 0.002183
Winter, On-Peak kWh	\$ 0.010693	1.0993	\$ 0.011755
Winter, Off-Peak kWh	\$ 0.001988	1.0993	\$ 0.002185
Rate DS, Service at Secondary Distribution Voltage			
First 1000 kW	\$ 1.049100	1.2117	\$ 1.271200
Additional kW	\$ 0.829900	1.2117	\$ 1.005600
Billing Demand Times 300	\$ 0.002682	1.2117	\$ 0.003250
Additional kWh	\$ 0.002228	1.2117	\$ 0.002700
Rate GS-FL, Optional Unmetered For Small Fixed Loads			
kWh Greater Than or Equal to 540 Hours	\$ 0.008910	1.2117	\$ 0.010796
kWh Less Than 540 Hours	\$ 0.010242	1.2117	\$ 0.012410
Rate CUR, Common Use Residential Service			
Summer, First 1000 kWh	\$ 0.006052	1.2117	\$ 0.007333
Summer, Additional kWh	\$ 0.007669	1.2117	\$ 0.009293
Winter, First 1000 kWh	\$ 0.006052	1.2117	\$ 0.007333
Winter, Additional kWh	\$ 0.002284	1.2117	\$ 0.002768
Rate EH, Optional Rate For Electric Space Heating			
All kWh	\$ 0.003656	1.2117	\$ 0.004430

DUKE ENERGY OHIO
Updated Calculation of Rider AAC Percentage
and Revised Rider AAC Tariff

<u>Tariff Sheet</u>	<u>Current AAC Charge</u> (per kWh/kW)	<u>New % / Old % Ratio (1)</u>	<u>Proposed AAC Charge</u> (per kWh/kW)
Rate DM, Secondary Distribution Service, Small			
Summer, First 2800 kWh	\$ 0.008023	1.2117	\$ 0.009721
Summer, Next 3200 kWh	\$ 0.002048	1.2117	\$ 0.002482
Summer, Additional kWh	\$ 0.000894	1.2117	\$ 0.001083
Winter, First 2800 kWh	\$ 0.008367	1.2117	\$ 0.007715
Winter, Next 3200 kWh	\$ 0.002052	1.2117	\$ 0.002486
Winter, Additional kWh	\$ 0.000848	1.2117	\$ 0.001028
Rate DP, Service at Primary Distribution Voltage			
First 1000 kW	\$ 0.947400	1.2117	\$ 1.148000
Additional kW	\$ 0.747300	1.2117	\$ 0.905500
Billing Demand Times 300	\$ 0.003021	1.2117	\$ 0.003661
Additional kWh	\$ 0.002423	1.2117	\$ 0.002936
Rate TS, Service at Transmission Voltage			
First 50,000 kVa	\$ 1.148400	1.2117	\$ 1.391500
Additional kVa	\$ 0.827800	1.2117	\$ 1.003000
Billing Demand Times 300	\$ 0.001973	1.2117	\$ 0.002391
Additional kWh	\$ 0.002243	1.2117	\$ 0.002718
Rate SL, Street Lighting Service			
All kWh	\$ 0.003946	1.2117	\$ 0.004781
Rate TL, Traffic Lighting Service			
All kWh	\$ 0.002310	1.2117	\$ 0.002799
Rate OL, Outdoor Lighting Service			
All kWh	\$ 0.003946	1.2117	\$ 0.004781
Rate NSU, Street Lighting Service for Non-Standard Units			
All kWh	\$ 0.003946	1.2117	\$ 0.004781
Rate NSP, Private Outdoor Lighting for Non-Standard Units			
All kWh	\$ 0.003946	1.2117	\$ 0.004781
Rate SC, Street Lighting Service - Customer Owned			
All kWh	\$ 0.003946	1.2117	\$ 0.004781
Energy Only - All kWh	\$ 0.001570	1.2117	\$ 0.001902
Rate SE, Street Lighting Service - Overhead Equivalent			
All kWh	\$ 0.003946	1.2117	\$ 0.004781
Rate UOLS, Unmetered Outdoor Lighting Electric Service			
All kWh	\$ 0.001625	1.2117	\$ 0.001969

(1) Residential = 16.6% / 15.1%; Non-residential = 16.6% / 13.7%