

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)	Case No. 08-709-EL-AAM	AIR
Energy Ohio for Authority to Change)	08-710-EL-AAM	ATA
Accounting Methods.)	08-711-EL-AAM	

FINDING AND ORDER

The Commission finds:

- (1) Duke Energy Ohio (DE-Ohio or the Company) is an Ohio corporation engaged in the business of providing electric generation, transmission and distribution service to customers in Ohio and, as such, is a public utility as defined by Sections 4905.02 and 4905.03(A)(4), Revised Code.
- (2) On July 25, 2008, DE-Ohio filed an application to increase electric distribution rates under Case No. 08-709-EL-AIR. Within the context of the distribution rate case, DE-Ohio filed two other applications. Specifically, DE-Ohio requested authority to change accounting methods and defer costs associated with its future electric distribution investments under Case No. 08-711-EL-AAM, and for authority to implement a new tariff rider called Distribution Rider (Rider DR) to recover these investments under Case No. 08-710-EL-ATA.
- (3) On July 30, 2008, DE-Ohio filed its Electric Security Plan (ESP), Case No. 08-920-EL-SSO. Within the context of the ESP case, DE-Ohio filed similar applications, Case No. 08-921-EL-AAM, seeking authority to defer the same costs associated with its future electric distribution investments that were requested in the distribution rate case discussed above, and Case No. 08-923-EL-ATA, for a new Distribution Rider Infrastructure Modernization (Rider DR-IM) similar to the mechanism requested in this proceeding, referred to as Rider DR.
- (4) On October 28, 2008, a Stipulation and Recommendation was filed in Case No. 08-920-EL-SSO which, among other things, agreed to the creation of Rider DR-IM for the implementation of an advanced SmartGrid technology and deferral of costs related

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to SmartGrid investment. The Commission approved the Stipulation and Recommendation in an Opinion and Order dated December 17, 2008.

- (5) On December 22, 2008, DE-Ohio filed a motion seeking additional Commission authority to change accounting methods to defer and create a regulatory asset for actual O&M storm restoration costs incurred and carrying charges resulting from the September 14, 2008, Hurricane Ike wind storm. DE-Ohio also requests approval to narrow the scope of the Rider DR to just those incremental O&M expenses and carrying charges related to storm damage. To avoid confusion in the naming of other riders, DE-Ohio proposes to change the name of Rider DR to Rider "DR-IKE". The initial level of Rider DR-IKE to be approved in these proceedings would be zero. DE-Ohio proposes to file Rider DR-IKE in 2009 and would include an amortization of these storm-related costs and carrying charges over three years.
- (6) The Application asserts that the storm restoration costs that DE-Ohio has incurred have significantly exceeded its average annual storm-related costs. DE-Ohio estimates that its Hurricane Ike-related expenses will be approximately \$31 million, of which \$30 million are O&M costs and \$1 million are capital-related expenditures. The costs that DE-Ohio seeks authority to accumulate as a regulatory asset and to defer for future recovery are the actual O&M costs incurred and carrying charges related to the September 14, 2008, wind-storm that exceeds the Company's storm-related costs included in the test-year revenue requirement set forth in its July 25, 2008, application to increase electric distribution rates under Case No. 08-709-EL-AIR. Until the costs are fully recovered, DE-Ohio proposes to apply a carrying charge, based upon its most recently approved average cost of long-term debt. DE-Ohio proposes to amortize the accumulated regulatory asset over a period of three years, to be recovered in a future application to set and adjust Rider DR-IKE. The application asserts that interested parties will have an opportunity for due process through a public hearing afforded by the Commission. DE-Ohio proposes that the scope of such proceeding be limited to a review of the reasonableness of the calculation of the amount to be recovered. The application also proposes that, if the Commission does not allow for such a deferral, with carrying costs, DE-Ohio will make the appropriate test-year adjustment to amortize the restoration costs over three

years for recovery in a manner similar to rate case expense, providing the adjustment for storm cost along with proposed carrying charges does not result in a net increase to the Company's revenue requirement to a level above that set forth in its July 25, 2008, application to increase electric distribution rates under Case No. 08-709-EL-AIR.

- (7) On January 9, 2008, the Ohio Consumers' Counsel (OCC) filed a memorandum contra Duke's motion. OCC argues that the Commission should deny the motion on the ground that the identified storm costs are extraordinary and, therefore, not representative of test-year expenses. OCC is thus concerned that granting the motion will allow Duke to overrecover distribution costs in the future. OCC contends that the Commission may not authorize single-issue adjustment clauses for costs recovered prior to 2009.
- (8) The Commission finds that the specific segment of the application that sought authority to modify the Companies' accounting procedures to defer incremental O&M expenses associated with the September 14, 2008 wind storm, with carrying costs, as modified herein, is reasonable and should be approved.
- (9) The determination of the reasonableness of the deferred amounts and the recovery thereof, if any, will be examined and addressed in a future proceeding before the Commission. As the Supreme Court has previously held, deferrals do not constitute ratemaking. *See Elyria Foundry Co. v. Pub. Util. Comm.* (2007), 114 Ohio St.3d 305.
- (10) The determination of the Company's original request for authority to change accounting methods and defer costs associated with its future electric distribution investments as filed on July 25, 2008, will be addressed within the context of the combined proceeding in Case Nos. 08-709-EL-AIR, 08-710-EL-ATA, and 08-711-EL-AAM.
- (11) DE-Ohio is directed to separately identify and record in a sub-account of Account 182, Other Regulatory Assets, all O&M costs to be deferred by DE-Ohio.

- (12) DE-Ohio is directed to utilize the interest rate that reflects the actual cost of debt based on the outcome of the Company's application to increase electric distribution rates under Case No. 08-709-EL-AIR when calculating carrying costs.

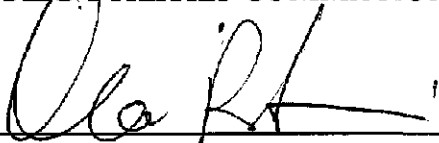
It is, therefore,

ORDERED, That the application by DE-Ohio to modify accounting procedures to defer incremental O&M costs related to the September 14, 2008, wind storm service restoration expenses, with carrying costs, as set forth in findings (7) thru (12) is approved. It is, further,

ORDERED, That nothing in this Entry shall be binding upon this Commission in any subsequent investigation or proceeding involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

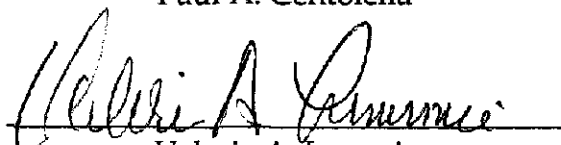
ORDERED, That a copy of this entry be served upon all parties of record.


THE PUBLIC UTILITIES COMMISSION OF OHIO



Alan R. Schriber, Chairman

Paul A. Centolella

Ronda Hartman Fergus

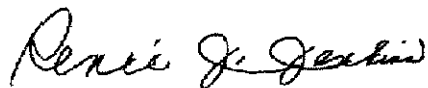
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Entered in the Journal

JAN, 14 2009



Renee J. Jenkins

Secretary