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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Administration of the Significantly Excessive Earnings Test under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code.	))))))	Case No. 11-2954-EL-UNC

DIRECT TESTIMONY OF

PEGGY A. LAUB

ON BEHALF OF

DUKE ENERGY OHIO, INC.

May 13, 2011

340368

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I. <u>INTRODUCTION AND PURPOSE</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Peggy A. Laub. My business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services, Inc., an affiliate service company of Duke Energy Ohio, Inc. (Duke Energy Ohio or Company) as Rates Manager.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I earned a Bachelor of Business Administration degree, with a major in accounting, from the University of Cincinnati in 1984. I am a Certified Public Accountant in the State of Ohio and a member of the American Institute of Certified Public Accountants.

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.

A. In 1981, I began my career with The Cincinnati Gas & Electric Company, the predecessor of Duke Energy Ohio, as a co-operative education student in the Accounting Department. In 1984, I was employed full-time in the Tax Department. I progressed through various positions to Coordinator, State & Local Taxes. In 1998, I was transferred to the Regulated Business Unit's financial group. In 2000, I was transferred to Fixed Assets Accounting and I was promoted to manager in 2002. In May 2006, following the merger with Duke Energy Corporation, I transferred to the Midwest US Franchised Electric & Gas accounting group. In November 2008, I transferred to Midwest Wholesale Accounting as Manager, Accounting. In May 2010, I transferred to the Rate Department and to my current position as Rates Manager.

Q. PLEASE DESCRIBE YOUR DUTIES AS RATES MANAGER.

A. As Rates Manager, I am responsible for the preparation of financial and accounting data used in retail rate filings and various other rate recovery mechanisms for Duke Energy Ohio and Duke Energy Kentucky, Inc.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO (COMMISSION)?

A. Yes. I have previously testified in a number of cases before this and other regulatory commissions.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. First, I will provide a brief overview of the Significantly Excessive Earnings Test (SEET) and then I will discuss the SEET calculation of Duke Energy Ohio and the attachments supporting the calculation.

II. BACKGROUND

Q. WHY IS IT NECESSARY FOR DUKE ENERGY OHIO TO SHOW THAT IT DOES NOT HAVE SIGNIFICANTLY EXCESSIVE EARNINGS?

A. On May 1, 2008, the Governor signed into law Amended Substitute Senate Bill No. 221 (SB 221). This bill amended various statutes in Title 49 of the Ohio Revised Code (R.C.). Among provisions of SB 221 were changes to R.C. 4928.14, which requires electric utilities to provide customers with a default standard service offer (SSO) established through either a market rate offer (MRO) or an electric security plan (ESP). Pursuant to R.C. 4928.142(D)(4) and 4928.143(F), the Commission is required to evaluate the earnings of each electric distribution utility's approved MRO or ESP to determine whether the adjustments in the MRO or ESP result in significantly excessive earnings. R.C. 4928.143(E) addresses the issue of significantly excessive earnings in the context of an ESP having a term longer than three years.

Q. ARE DUKE ENERGY OHIO'S ELECTRIC GENERATION RATES BASED ON AN ESP OR MRO?

A. In Case No. 08-920-EL-SSO, *et al.*, Duke Energy Ohio proposed a three-year ESP, ending December 31, 2011. The Company and many intervening parties were able to agree to a Stipulation and Recommendation (Stipulation) in that case, which was ultimately approved by the Commission with some modifications. The Stipulation approved in Case No. 08-920-EL-SSO, *et al.*, included specific parameters for the Company to use in determining whether it achieved significantly excessive earnings during the period covered by this ESP.

Q. WHAT DID THE PARTIES AGREE TO IN THE STIPULATION IN CASE NO. 08-920-EL-SSO, *ET AL.*, WITH REGARD TO THE SEET?

A. As stated in paragraph 28 of the Stipulation, the parties agreed that, beginning in 2010, the Commission would implement the SEET by May 15 of each year as follows:

> [Duke Energy Ohio's] return on ending common equity would be computed using [Duke Energy Ohio's] prior year publicly reported FERC Form 1 financial statements, including off-system sales, subject to only the following adjustments:
>
> - Net Income
>   - Eliminate all depreciation and amortization expense related to the purchase accounting recorded pursuant to the Duke

Energy/Cinergy merger,

- Eliminate all impacts of refunds to customers pursuant to this paragraph,
- Eliminate all impacts of mark-to-market accounting,
- Eliminate all impacts of material, non-recurring gains/losses, including, but not limited to, the sale or disposition of assets.

• Common Equity

- Eliminate the acquisition premium recorded to equity pursuant to the Duke Energy/Cinergy merger.

Q. DOES THE STIPULATION IN CASE NO. 08-920-EL-SSO, *ET AL.*, DEFINE "SIGNIFICANTLY EXCESSIVE EARNINGS"?

A. Yes. The Stipulation indicates that if Duke Energy Ohio's actual annual return on ending common equity, as adjusted pursuant to paragraph 28 of the Stipulation, does not exceed 15%, the Company's return on common equity is not "significantly in excess of the return on common equity" of other publicly traded companies facing comparable business and financial risks.

III. COMMISSION'S FINDING AND ORDER AND ENTRY ON REHEARING

Q. WHAT GUIDELINES DID THE COMPANY FOLLOW WHEN PREPARING ITS 2010 SEET FILING?

A. For the most part the Company has followed the guidelines found in the relevant provision of its October 27, 2008, ESP Stipulation, which were upheld by the Commission's June 30, 2010, Finding and Order in Case No. 09-786-EL-UNC, and its

August 25, 2010, Entry on Rehearing in that proceeding. However, in its Entry on Rehearing the Commission stated that "[w]here the stipulation did not address issues relating to the SEET, Duke must file the required information in accordance with the directives in this proceeding."[1]

Q. HOW DO YOU INTERPRET THIS PROVISION OF THE COMMISSION'S ENTRY ON REHEARING?

A. I believe that Duke Energy Ohio is now required to address any directives in the Commission's Finding and Order and Entry on Rehearing in Case No. 09-786, to the extent that such matters are not already covered in the ESP Stipulation.

Q. IN LIGHT OF THE COMMISSION'S FINDING AND ORDER AND ITS ENTRY ON REHEARING, WHAT HAS THE COMPANY DONE IN THIS FILING TO ACCOMMODATE BOTH THE STIPULATION AND THE COMMISSION'S DIRECTIVES?

A. For the most part, the Commission's orders defer to the Company's ESP Stipulation; however, there are some exceptions that Duke Energy Ohio addresses in this filing. Virtually all of the significant provisions of the Commission's SEET directives have been accounted for in the Company's filing. For example, although the Commission left the issue of earnings from off-system sales to be determined on a case-by-case basis, the Company, following the ESP Stipulation, included <u>all</u> profits from off-system sales in its earnings calculation. Because this issue was addressed in the Stipulation and because the Company has already taken the most conservative view by including such profits, there is no further need to address this issue.

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[1] *In the Matter of the Investigation into the Development of the Significantly Excessive Earnings Test Pursuant to Amended Substitute Senate Bill 221 for Electric Utilities,* Case No. 09-786-EL-UNC, Entry on Rehearing at p. 7 (August 25, 2010).

In addition, the Company's Application, complies with the Commission's directives in that (1) average equity balances are based on the average of the balances at the beginning and at the end of the year (Commission's Entry on Rehearing, page 6), (2) all impacts from affiliates and other services (*i.e.*, gas distribution) were adjusted out of the calculation (Commission's Finding and Order, page 12), and (3) the Application addresses deferrals and discusses "certain factors," as described in the Commission's Finding and Order.[2]

Q. DID THE COMPANY HAVE ANY ESP-RELATED DEFERRALS IN 2010 THAT IMPACTED EARNINGS?

A. Yes. In another provision of the ESP Stipulation, the Parties agreed that Duke Energy Ohio would be allowed to defer up to $50 million of operating and maintenance costs incurred at the W.C. Beckjord Station, to be amortized over the three-year period of the ESP. The Company deferred $50 million of such costs in 2009 and amortized one-third of the amount in the same year and another third in each of the last two years of the ESP. Therefore, the impact of excluding the deferral in 2010 is $17 million on a pre-tax basis. The impact of this change on the SEET is discussed later in my testimony.

All other generation deferrals authorized as part of the approved ESP Stipulation have the effect of deferring both the costs and the revenue; therefore, the impact of those deferrals on the SEET is zero. Generally, these ESP-related deferrals are for over- and under-recovery of costs included in Rider PTC-FPP, Rider PTC-AAC, and Rider SRA-SRT.

Q. WILL YOU DESCRIBE THE OTHER INFORMATION THAT THE

[2] *In the Matter of the Investigation into the Development of the Significantly Excessive Earnings Test Pursuant to Amended Substitute Senate Bill 221 for Electric Utilities*, Case No. 09-786-EL-UNC, Finding and Order at p. 29 (June 30, 2010).

COMMISSION DIRECTED THE COMPANIES TO PROVIDE AS PART OF THEIR SEET REVIEWS?

A. On page 29 of its June 30, 2010, Order, the Commission provided a list of factors it identified as worthy of its consideration in any SEET review. The listed factors include the following:

- the electric utility's most recently authorized return on equity,
- the electric utility's risk, including:
  - whether the electric utility owns generation;
  - whether the ESP includes a fuel and purchased power adjustment or similar adjustments;
  - the rate design and extent to which the electric utility remains subject to weather and economic risk;
  - capital commitments and future capital requirements;
  - indicators of management performance and benchmarks to other utilities; and
  - innovation and industry leadership with respect to meeting industry challenges to maintain and improve the competitiveness of Ohio's economy, including research and development expenditures, investments in advanced technology, and innovative practices; and
  - the extent to which the electric utility has advanced state policy.

Q. **WHAT IS THE COMPANY'S MOST RECENTLY APPROVED RETURN ON COMMON EQUITY?**

A. The Company's most recently approved return on common equity is 10.63% for its electric distribution service in Ohio. This return was not necessarily approved for general rates but it was established for use in determining the rate to be used in any riders requiring a rate of return.

Q. DOES THE COMPANY OWN GENERATING RESOURCES?

A. The Company owns approximately 7,600 MWs of fossil generation.

Q. DOES THE COMPANY HAVE A RECOVERY MECHANISM FOR FUEL AND PURCHASED POWER?

A. Yes. The Company's Rider PTC-FPP (price-to-compare fuel and purchased power) recovers the cost of fuel and purchased power attributable to its non-switched customers on a quarterly basis. The rider is bypassable; so, only those customers who have not switched incur this charge.

Q. DESCRIBE THE COMPANY'S RATE DESIGN AND HOW IT AFFECTS THE COMPANY.

A. The Company's rate design has been essentially the same since its unbundled rates became effective on January 1, 2001. There are rates for classes, or groups, of customers that were originally designed to best mirror the cost of service for different load characteristics among the customer classes. With unbundling, the fundamental nature of the rate design did not change; so, Duke Energy Ohio still has some customers with demand and energy components of their bills, some customers still have demand ratchets, and many customers still have blocked rates.

With regard to the extent to which the Company is subject to economic risk, the impact of current law, the economy, and the Company's rate design on customer switching levels is critical. Since the beginning of the current ESP, competition has accelerated at a staggering pace. As of the end of March 2011, almost two thirds of Duke

Energy Ohio's load is being served by suppliers other than Duke Energy Ohio. In the Company's experience it has become apparent that, at least for some customers, rate design is less important than the simple notion of just lower rates. Many customers served by other suppliers are taking service at flat '¢/kWh' rates. Of course, suppliers can charge different flat rates to different customers, depending on usage or other factors, but the fact that flat rates are so prevalent suggests that, at least for now as we are in a period of low market rates, customers are not so concerned about or interested in traditional rate design.

To my knowledge, there is no provision in SB 221 that allows the electric utilities to modify rate design for the sole purpose of retaining load. However, the current power market is such that the utility's inability to modify rate design can put it at a substantial disadvantage to competitive retail suppliers that can tailor offers to individual customers based on their distinct load characteristics. The ability of competitive suppliers to selectively pick off those customers with the most desirable load characteristics without any ability on the electric utility's part to defend that load is an absurdly unbalanced situation which adds significant risk to the Company and its shareholders.

Q. DESCRIBE THE EXTENT TO WHICH WEATHER AND ECONOMIC RISK IMPACT THE COMPANY.

A. In its most recent retail gas distribution rate case (Case No. 07-589-GA-AIR), the Company was allowed to mitigate some of its weather risk by moving a much larger share of non-commodity portion of its residential rate into a monthly charge. Although weather can still impact the Company's earnings, this "decoupling" of weather from non-commodity revenue goes a long way toward mitigating that risk. The use of such a straight fixed-variable method of decoupling is less common for electric companies; however, some regulators provide for measures which can still decouple sales from earnings whether the volatility in sales is driven by weather or economic factors. Duke Energy Ohio does not currently have any such decoupling measures on the electric side of its business; so, its earnings are undeniably impacted by weather and by general economic conditions.

The most obvious economic risk to the utility is that an economic downturn reduces demand. Duke Energy Ohio's overall sales have been impacted by the recent economic downturn. The less obvious but arguably more profound impact the recent downturn has had on Duke Energy Ohio's earnings is the impact of customer switching. Since the time the ESP Stipulation was signed by the parties to that case, the price of virtually every generation-related commodity used in the provision of electric service to customers has dropped dramatically. The Company effectively "locked in" its commodity prices for the period 2009-2011 at the time of the ESP Stipulation, when such prices were still very high. Having locked in commodity positions at a high price is a significant cause of Duke Energy Ohio's high price-to-compare.

Competitive suppliers have no obligation or commitment to hedge their supply beyond the amount needed to serve the load they have actually acquired. Consequently, these suppliers can take advantage of the current market conditions that offer much lower commodity prices. Having already contracted for the commodities when prices were high, Duke Energy Ohio's SSO price is now not competitive with prices that can be offered by alternative suppliers.

To summarize the economic risk, Duke Energy Ohio is challenged in two ways.

First, the general economic decline means lower sales even if no customers switched. Second, the economic downturn has sharply reduced commodity costs for competitive suppliers that are not bound by the same rules that apply to the utility, which allows them to significantly undercut the Company's price-to-compare.

Q. WILL YOU ADDRESS THE CAPITAL COMMITMENTS AND CAPITAL REQUIREMENTS?

A. As provided in the Company's May 13, 2011, application the capital budget requirements for future electric committed investments in Ohio for remainder of the current ESP period are $462,084,516 2011.

Q. ARE YOU SPONSORING ANY INFORMATION REGARDING MANAGEMENT PERFORMANCE AND BENCHMARKS TO OTHER UTILITIES?

A. Yes. Attachment PAL-7 is a summary of how Duke Energy Corporation's returns compare to some of its peers. The data represented in this chart represents a comparison of total shareholder return (TSR) which is defined as the sum of dividends and share appreciation divided by a starting price. In this attachment, the first set of numbers shows the TSR for stocks from January 1, 2009, through March 31, 2011. The second set of numbers shows TSR for stocks purchased from January 1, 2010, through March 31, 2011. The third set of numbers shows TSR for stocks purchased from January 1, 2011, through March 31, 2011. As a benchmark and as a measure of performance, it is evident in this document that Duke Energy Corporation's total shareholder returns have consistently exceeded the median returns for the stocks included in this index (the Philadelphia Utility Index) over the periods shown.

There is no comparable data to compare the Duke Energy Ohio operating company to such peers. Consequently, the best measure available to compare performance is at the Duke Energy Corporation level, which, as shown in the attachment, has consistently exceeded the performance of most of the companies in this index.

Q. HAS THE COMPANY BEEN INNOVATIVE IN ADVANCING STATE POLICY?

A. Yes. It is the State's policy, among other things, to encourage demand-side management, time-differentiated pricing, and implementation of advanced metering infrastructure. R.C. Section 4928.02.

Since receiving the Commission's approval to do so in December 2008, the Company has begun the aggressive roll-out of SmartGrid infrastructure in its service territory. The Company has obtained approval for pilot testing of time-differentiated rates and has begun providing service to a limited number of customers who will respond to peak-time rebates, and differentiated price schedules. All of these efforts serve to advance the State's policy and will encourage demand-side management. Duke Energy Ohio is a leader in this area.

Q. FOR PURPOSES OF THE SEET CALCULATION, HAS THE COMPANY MADE ANY ASSUMPTIONS REGARDING THE CALCULATION OF ITS ANNUAL RETURN ON ENDING COMMON EQUITY THAT ARE NOT SPECIFIED IN EITHER THE STIPULATION OR OHIO REVISED CODE?

A. Yes. Duke Energy Ohio is the only combination utility in the state of Ohio. Because R.C. 4928.143(F) refers only to 'electric distribution utilities,' the Company determined that it should exclude all earnings or allocable equity associated with its gas operations in the SEET calculation. These calculations are explained in more detail later in my testimony.

Q. WHEN DID DUKE ENERGY OHIO FILE ITS INITIAL APPLICATION IN THIS CASE?

A. The Company filed its initial application on May 14, 2010 and later amended its filing on September 1, 2010 to comply with the Commission's Entry on Rehearing issued on August 25, 2010.

II. SCHEDULES SPONSORED BY WITNESS

Q. PLEASE DESCRIBE ATTACHMENT PAL-1.

A. Attachment PAL-1 is a schedule showing that the Company's return earned on average electric common equity for the year ended December 31, 2010, is 7.14% including deferrals, and 7.47% if ESP related deferrals are excluded.

Q. PLEASE DESCRIBE ATTACHMENT PAL-2.

A. Attachment PAL-2 is a schedule showing the calculation of the Company's adjusted electric net income for the calendar year 2010. The source of the utility operating income for the twelve months ended December 31, 2010, is the Company's 2010 FERC Form 1 report, pages 114 to 117. Pursuant to paragraph 28 of the Stipulation, purchase accounting recorded as a result of the Duke Energy/Cinergy merger, all impacts of mark-to-market accounting, and all impacts of material, non-recurring gains/losses were eliminated. As shown on the attachment, no refunds were returned to customers during the twelve months ended December 31, 2010. Equity in earnings of subsidiary companies was also eliminated so that the return earned on average common equity would be on a Duke Energy Ohio stand-alone basis.

Q. PLEASE DESCRIBE ALTERNATIVE ATTACHMENT PAL-2.

A. Alternative Attachment PAL-2 is a schedule showing the calculation of the Company's adjusted electric net income for the calendar year 2010 excluding ESP related deferrals. As stated in paragraph 16 of the Stipulation, the parties agreed that certain operating and maintenance costs of up to $50 million will be incurred at the W.C. Beckjord Station beginning in 2009 and that the costs are to be deferred and amortized over a three year period. In 2010, the Company amortized $17 million of the $50 million it deferred in 2009.

Q. PLEASE DESCRIBE ATTACHMENT PAL-3.

A. Attachment PAL-3 is a summary of the items eliminated from net income. The schedule shows, by Company account, the impact on net income of eliminating purchase accounting, mark-to-market accounting, non-recurring gains and/or losses, and the equity in earnings of subsidiary companies.

Q. PLEASE DESCRIBE ATTACHMENT PAL-4.

A. Attachment PAL-4 is an exhibit showing the calculation of the Company's average electric common stock equity as of December 31, 2010. The attachment shows the common stock equity balances as of December 31, 2009 and December 31, 2010, and the calculation of the average electric common equity balance as of December 31, 2010, to be used in determining if Duke Energy Ohio has significantly excessive earnings. Pursuant to the Stipulation, the following items were eliminated in calculating the ending balance for each calendar year: (1) impacts of purchase accounting recorded pursuant to the Duke Energy/Cinergy merger; (2) all impacts of mark-to-market accounting; and, (3) all impacts of material, non-recurring gains and/or losses.

Q. PLEASE DESCRIBE ALTERNATIVE ATTACHMENT PAL-4.

A. Alternative Attachment PAL-4 is an exhibit showing the calculation of the Company's average electric common stock equity as of December 31, 2010, excluding ESP deferrals that have been discussed above.

Q. PLEASE DESCRIBE ATTACHMENT PAL-5.

A. Attachment PAL-5 is a schedule showing the calculation of a net plant allocation factor used to allocate total average common equity to electric operations. The gas and electric plant data is from the Company's 2010 FERC Form 1, pages 200-201. The schedule shows that based on net plant, 83.67% of the Company's average common equity should be allocated to electric operations.

Q. PLEASE DESCRIBE ATTACHMENT PAL-6.

A. Attachment PAL-6 is a summary of assumptions used in this filing, most of which are from paragraph 28 of the Stipulation. I have discussed all of the other relevant assumptions in my testimony.

Q. PLEASE DESCRIBE ATTACHMENT PAL-7.

A. Attachment PAL-7 is a summary showing Duke Energy Corporation's TSR in comparison to some of its peer companies in the Philadelphia Utility Index.

III. <u>CONCLUSION</u>

Q. DOES DUKE ENERGY OHIO HAVE SIGNIFICANTLY EXCESSIVE EARNINGS THAT WOULD REQUIRE A REFUND TO CUSTOMERS?

A. No. As shown on Attachment PAL-1, Duke Energy Ohio's return earned on average electric common equity is 7.14%. If ESP related deferrals are excluded, the return earned on average electric common equity is 7.47%. Since, in both instances, the return on average electric common equity is less than the 15% specified in the Stipulation, the Company does not have significantly excess earnings and, therefore, no refund to customers is warranted.

Q. WERE ATTACHMENTS PAL-1, PAL-2, PAL-3, PAL-4, PAL-5, PAL-6 AND PAL-7 PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Return Earned on Average Electric Common Equity
December 31, 2010

Attachment PAL-1

Description	Source	Amount
Including Non-SSO Sales and ESP Deferrals		
Adjusted Electric Net Income	PAL-2	245,699,957
Average Electric Common Equity	PAL-4	3,441,047,304
Return Earned on Average Electric Common Equity		7.14%
Excluding ESP Deferrals		
Adjusted Electric Net Income	Alt. PAL-2	256,630,957
Average Electric Common Equity	Alt. PAL-4	3,436,431,649
Return Earned on Average Electric Common Equity		7.47%

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Adjusted Net Income
December 31, 2010

	12 Months Ended December 31, 2010		Eliminations						
Description	Total	Electric	Purchase Accounting	Mark-to-Market	Non-Recurring Gains / Losses	Equity in Earnings of Subsidiaries	Amounts Refunded to Customers	Total Eliminations	Adjusted December 31, 2010
Utility Operating Income									
Operating Revenues	2,875,281,245	2,393,860,776	(5,453,216)					(5,453,216)	2,388,407,560
Operation Expenses	1,589,562,074	1,286,498,409	(14,376,524)	28,730,817				14,354,293	1,300,852,702
Maintenance Expenses	191,919,151	186,016,661						0	186,016,661
Depreciation Expense	224,152,839	192,186,779						0	192,186,779
Depreciation Expense for Asset Retirement Costs	435,434	435,434						0	435,434
Amort. & Depl. Of Utility Plant	32,756,690	28,491,000	(7,755,000)					(7,755,000)	20,736,000
Amort. Of Utility Plant Acquisition Adj.	20,043,144	20,043,144	(20,043,144)					(20,043,144)	0
Regulatory Debits	77,128,038	76,854,051						0	76,854,051
Less: Regulatory Credits	(4,132,237)	(10,288,701)						0	(10,288,701)
Taxes Other Than Income Taxes	244,423,009	190,416,491						0	190,416,491
Income Taxes - Federal	133,413,791	132,319,378	14,938,427	(10,256,902)	0		0	4,681,525	137,000,903
Income Taxes - Other	4,737,259	4,611,885						0	4,611,885
Provision For Deferred Income Taxes	376,388,090	314,935,556						0	314,935,556
Provision For Deferred Income Taxes - Credit	(313,108,613)	(278,035,607)						0	(278,035,607)
Investment Tax Credit Adj - Net	(1,159,760)	(940,714)						0	(940,714)
Gains From Disp Of Allow - Credit	(3,499,469)	(3,499,469)	(5,122,882)					(5,122,882)	(8,622,351)
Accretion Expense	(277,118)	(277,118)						0	(277,118)
Total Utility Operating Expenses	2,572,782,322	2,139,767,179	(32,359,123)	18,473,915	0		0	(13,885,208)	2,125,881,971
Net Utility Operating Income	302,498,923	254,093,597	26,905,907	(18,473,915)	0		0	8,431,992	262,525,589
Other Income									
Revenues From Merchandising, Jobbing and Contract Work	706,275	645,763						0	645,763
Less: Costs & Exp of Merchandising, Jobbing & Contract	811,179	629,078						0	629,078
Revenues From Nonutility Operations	5,849	5,849						0	5,849
Less: Expenses of Nonutility Operations	(7,864,401)	(7,865,586)						0	(7,865,586)
Nonoperating Rental Income	(95,354)	(2,136)						0	(2,136)
Equity in Earnings of Subsidiary Companies	41,460,797	25,256,868				(25,256,868)		(25,256,868)	0
Interest and Dividend Income	15,530,032	15,349,575						0	15,349,575
AFUDC	4,028,530	3,111,872						0	3,111,872
Miscellaneous Nonoperating Income	80,874,345	79,668,329		(76,151,500)				(76,151,500)	3,516,829
Gain on Disposition of Property	0	0			0			0	0
Total Other Income	149,763,698	131,272,628	0	(76,151,500)	0	(25,256,868)	0	(101,408,368)	29,864,260
Other Income Deductions									
Loss on Disposition of Property	4,048	4,048			(4,048)			(4,048)	0
Misc. Amortization	0	0						0	0
Donations	1,537,550	1,489,686						0	1,489,686
Life Insurance	964,250	771,724						0	771,724
Penalties	245,571	245,336						0	245,336
Civic, Political & Related Activities	1,825,985	1,342,482						0	1,342,482
Other Deductions	887,788,160	887,174,976		(48,245,427)	(836,991,387)			(885,236,814)	1,938,162
Total Other Income Deductions	892,365,564	891,028,252	0	(48,245,427)	(836,996,435)	0	0	(885,240,862)	5,787,390
Total Taxes On Other Income and Deductions	(89,397,771)	(89,593,638)	79,821	(9,962,469)	57,210,624	0	0	47,327,977	(42,265,661)
Net Other Income and Deductions	(653,204,097)	(670,161,986)	(79,821)	(17,943,605)	779,784,811	(25,256,868)	0	736,504,517	66,342,531
Net Interest Charges	89,862,848	83,391,752	(223,589)					(223,589)	83,168,163
Net Income	(440,568,022)	(499,460,141)	27,049,675	(36,417,520)	779,784,811	(25,256,868)	0	745,160,098	245,699,957
Extraordinary Items		0						0	0
Net Income	(440,568,022)	(499,460,141)	27,049,675	(36,417,520)	779,784,811	(25,256,868)	0	745,160,098	245,699,957

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Adjusted Net Income Excluding ESP Deferrals
December 31, 2010

Alternative Attachment PAL-2

Description	Adjusted December 31, 2010	ESP Related Deferrals	Adjusted December 31, 2010 Excluding ESP Deferrals
Utility Operating Income			
Operating Revenues	2,388,407,560		2,388,407,560
Operation Expenses	1,300,852,702		1,300,852,702
Maintenance Expenses	186,016,661	17,000,000	169,016,661
Depreciation Expense	192,186,779		192,186,779
Depreciation Expense for Asset Retirement Costs	435,434		435,434
Amort. & Depl. Of Utility Plant	20,736,000		20,736,000
Amort. Of Utility Plant Acquisition Adj.	0		0
Regulatory Debits	76,854,051		76,854,051
Less: Regulatory Credits	(10,288,701)		(10,288,701)
Taxes Other Than Income Taxes	190,416,491		190,416,491
Income Taxes - Federal	137,000,903	(6,069,000)	143,069,903
Income Taxes - Other	4,611,885		4,611,885
Provision For Deferred Income Taxes	314,935,556		314,935,556
Provision For Deferred Income Taxes - Credit	(278,035,607)		(278,035,607)
Investment Tax Credit Adj - Net	(940,714)		(940,714)
Gains From Disp Of Allow - Credit	(8,622,351)		(8,622,351)
Accretion Expense	(277,118)		(277,118)
Total Utility Operating Expenses	2,125,881,971	10,931,000	2,114,950,971
Net Utility Operating Income	262,525,589	(10,931,000)	273,456,589
Other Income			
Revenues From Merchandising, Jobbing and Contract Work	645,763		645,763
Less: Costs & Exp of Merchandising, Jobbing & Contract	629,078		629,078
Revenues From Nonutility Operations	5,849		5,849
Less: Expenses of Nonutility Operations	(7,865,586)		(7,865,586)
Nonoperating Rental Income	(2,136)		(2,136)
Equity in Earnings of Subsidiary Companies	0		0
Interest and Dividend Income	15,349,575		15,349,575
AFUDC	3,111,872		3,111,872
Miscellaneous Nonoperating Income	3,516,829		3,516,829
Gain on Disposition of Property	0		0
Total Other Income	29,864,260	0	29,864,260
Other Income Deductions			
Loss on Disposition of Property	0		0
Misc. Amortization	0		0
Donations	1,489,686		1,489,686
Life Insurance	771,724		771,724
Penalties	245,336		245,336
Civic, Political & Related Activities	1,342,482		1,342,482
Other Deductions	1,938,162		1,938,162
Total Other Income Deductions	5,787,390	0	5,787,390
Total Taxes On Other Income and Deductions	(42,265,661)		(42,265,661)
Net Other Income and Deductions	66,342,531	0	66,342,531
Net Interest Charges	83,168,163		83,168,163
Net Income	245,699,957	(10,931,000)	256,630,957
Extraordinary Items	0		0
Net Income	245,699,957	(10,931,000)	256,630,957

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Summary of Net Income Eliminations
December 31, 2010

Attachment PAL-3

Account ID CB	Account Long Descr CB	12 months Ended 12/31/2010	Elimination	Income Tax Effect	Impact on Net Income
Purchase Accounting					
447206	Amort Pwr Trdg Intang or Liab	5,453,216	(5,453,216)	(1,946,798)	(3,506,418)
405011	Amort of Other Pur Acctg	7,755,000	(7,755,000)		
406505	Amort Exp - Acq Purch Adj	20,043,144	(20,043,144)		
		27,798,144	(27,798,144)	9,923,937	17,874,207
411849	SO2 COS - Purch Acctg	5,122,882	(5,122,882)		
411850	Seasonal NOx COS - Purch Acctg	0	0		
		5,122,882	(5,122,882)	1,828,869	3,294,013
501200	Coal Consumed Purch Acctg Adj	9,313,309	(9,313,309)		
509011	SO2 Emission Exp - Purch Acctg	5,063,215	(5,063,215)		
509211	Seas NOx Emiss Exp - Purch Acctg	0	0		
		14,376,524	(14,376,524)	5,132,419	9,244,105
	Above-the-line Impact		41,844,334	14,938,427	26,905,907
428200	Amort_Debt_Disc_Pur_Acctg_Adj	653,963	(653,963)		
429200	Amort_Debt_Prem_Pur_Acctg_Adj	(430,374)	430,374		
		223,589	(223,589)	79,820	143,769
	Total Purchase Accounting Adjustment	(42,067,923)	42,067,923	15,018,247	27,049,678
Mark-to-Market					
421530	Power Trading MTM Gains	47,631,722	(47,631,722)		
421531	MTM Unrealized Gain - Reserve	4,323,364	(4,323,364)		
421532	Power Trading MTM Gains-Reg	0	0		
421541	Gas MTM Gains	71,873	(71,873)		
421542	Electricity - MTM Gain I/C	26,332,405	(26,332,405)		
421631	MTM Unreal Gains - EA	(2,207,864)	2,207,864		
	Other Income	76,151,500	(76,151,500)	(27,186,086)	(48,965,414)
426531	MTM Unreal Loss-Reserve	3,688,612	(3,688,612)		
426532	*Power Trading MTM Loss*	0	0		
426533	Power Trading MTM Loss-NonReg	44,235,541	(44,235,541)		
426541	Gas MTM Loss	159,160	(159,160)		
426542	Electricity - MTM Loss I/C	445,034	(445,034)		
426631	MTM Unreal Losses - EA's	(282,940)	282,940		
	Other Income Deductions	48,245,427	(48,245,427)	17,223,617	31,021,810
	Net Other Income and Deductions	27,906,073	(27,906,073)	(9,962,469)	(17,943,604)
501121	Fuels Unrealized MTM Gain	(8,769,117)	8,769,117		
501122	Fuels Unrealized MTM Loss	(19,961,700)	19,961,700		
		(28,730,817)	28,730,817	(10,256,902)	(18,473,915)
	Total Mark-to-Market	56,636,890	(56,636,890)	(20,219,371)	(36,417,519)
Non-Recurring Gains / Losses					
421100	Gain On Disposal Of Property	0	0	0	0
421200	Loss On Disposal Of Property	4,048	(4,048)	1,445	2,603
426513	Other Deductions - Impairments	46,659,206	(46,659,206)	16,657,337	30,001,869
426553	PP&E IMPAIRMENT	113,590,596	(113,590,596)	40,551,843	73,038,753
426554	*Impairment of Goodwill*	676,741,585	(676,741,585)	0	676,741,585
	Total Non-Recurring Gains / Losses	(836,995,435)	836,995,435	57,210,625	779,784,810
Equity in Earnings of Subsidiary Companies					
418.1	Equity in Earnings of Subsidiary Companies	25,256,868	(25,256,868)		(25,256,868)
	Total Eliminations	(797,169,600)	797,169,600	52,009,501	745,160,099

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Average Common Stock Equity
December 31, 2010

Description	12 Months Ended December 31, 2009 Balance at 12-31-09	Purchase Accounting	Other Adjustments	Adjusted 12-31-09	December 31, 2010 Balance at 12-31-10	Purchase Accounting	Other Adjustments	Adjusted 12-31-10	Average Common Equity
Common Stock Equity									
201000 Common Stock	762,136,231			762,136,231	762,136,231			762,136,231	762,136,231
207000 Premium on capital stock		362,457,437		362,457,437		362,457,437		362,457,437	362,457,437
208000 Donat Recvd From Stkhld	28,950,000	197,206,819		226,156,819	28,950,000	197,206,819		226,156,819	226,156,819
208001 Donat Recvd From Duke	1,462,336,840			1,462,336,840	1,462,336,840			1,462,336,840	1,462,336,840
208010 Donat Recvd From Stkhld Tax	15,641,578	68,538,328		84,179,906	15,641,578	68,538,328		84,179,906	84,179,906
210020 Gain on Redemption of Capital		147,685		147,685		147,685		147,685	147,685
211004 Miscellaneous Paid in Capital Purch Acctg	2,879,949,148	(2,879,949,148)			2,879,949,148	(2,879,949,148)			
211005 Miscellaneous Paid in Capital Pre-Merger Equity	1,183,056,591	(1,228,989,979)		(45,933,388)	1,183,056,591	(1,228,989,979)		(45,933,388)	(45,933,388)
211110 PIC - Sharesaver		(3,350,836)		(3,350,836)		(3,350,836)		(3,350,836)	(3,350,836)
214010 Common stock equity inter-company		(21,750,868)		(21,750,868)		(21,750,868)		(21,750,868)	(21,750,868)
216000 Unappropriated RE Bal	380,453,569	832,373,257		1,212,826,826	(406,899,213)	911,002,596	726,711,261 [2]	1,231,814,644	1,222,320,735
216100 Unapp Ret Ernga-Curr Yr Net Income	(426,352,781)	37,999,974	769,067,245 [1]	380,714,438	(440,568,022)	53,579,880	635,203,054 [1]	248,214,912	314,464,675
438000 Dividends Declared on Common Stock	(360,000,000)			(360,000,000)					(180,000,000)
Accum other comprehensive income (loss)	(28,472,983)	(45,455,363)		(73,928,346)	(21,663,377)	(45,455,363)		(67,118,740)	(70,523,543)
Total Common Stock Equity	$ 5,897,698,193	$ (2,660,771,894)	$ 769,067,245	$ 3,986,982,744	$ 5,483,936,776	$ (2,586,562,449)	$ 1,361,914,315	$ 4,239,290,642	$ 4,112,641,693
Allocation to Duke Energy Ohio Electric [3]									83.67%
Average Common Equity Allocated to Duke Energy Ohio Electric									$ 3,441,047,304

[1] Elimination of Mark-to-Market, Non-Recurring Gains & Losses, Equity in Subsidiary Companies and Goodwill Impairment.
[2] Elimination of Goodwill Impairment.
[3] Source: Supplemental PAL-6.

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Average Common Stock Equity Excluding ESP Deferrals
December 31, 2010

Description	12 Months Ended December 31, 2009 Balance at 12-31-09	Purchase Accounting	Other Adjustments	Adjusted 12-31-09	December 31, 2010 Balance at 12-31-10	Purchase Accounting	Other Adjustments	Adjusted 12-31-10	Average Common Equity
Common Stock Equity									
201000 Common Stock	762,136,231			762,136,231	762,136,231			762,136,231	762,136,231
207000 Premium on capital stock		362,457,437		362,457,437		362,457,437		362,457,437	362,457,437
208000 Donat Recvd From Sldhld	28,950,000	197,206,819		226,156,819	28,950,000	197,206,819		226,156,819	226,156,819
208001 Donat Recvd From Duke	1,462,336,840			1,462,336,840	1,462,336,840			1,462,336,840	1,462,336,840
208010 Donat Recvd From Sldhld Tax	15,641,578	68,538,328		84,179,906	15,641,578	68,538,328		84,179,906	84,179,906
210020 Gain on Redemption of Capital		147,685		147,685		147,685		147,685	147,685
211004 Miscellaneous Paid in Capital Purch Acctg	2,879,949,148	(2,879,949,148)			2,879,949,148	(2,879,949,148)			
211005 Miscellaneous Paid in Capital Pre-Merger Equity	1,183,055,591	(1,228,988,979)		(45,933,388)	1,183,055,591	(1,228,988,979)		(45,933,388)	(45,933,388)
211110 PIC - Sharesaver		(3,350,836)		(3,350,836)		(3,350,836)		(3,350,836)	(3,350,836)
214010 Common stock equity inter-company		(21,750,868)		(21,750,868)		(21,750,868)		(21,750,868)	(21,750,868)
216000 Unappropriated RE Bal	380,453,569	832,373,257		1,212,826,826	(405,899,213)	911,002,596	726,711,261 [2]	1,231,814,644	1,222,320,735
216100 Unapp Ret Ernga-Curr Yr Net Income	(426,352,781)	37,999,974	747,103,245 [1]	358,750,438	(440,568,022)	53,579,880	646,134,054 [1]	259,145,912	308,948,175
438000 Dividends Declared on Common Stock	(380,000,000)			(380,000,000)					(180,000,000)
Accum other comprehensive income (loss)	(28,472,983)	(45,456,363)		(73,928,346)	(21,663,377)	(45,455,363)		(67,118,740)	(70,523,543)
Total Common Stock Equity	$ 5,897,697,193	$ (2,680,771,684)	$ 747,103,245	$ 3,964,028,744	$ 5,463,938,776	$ (2,586,562,449)	$ 1,372,845,315	$ 4,250,221,642	$ 4,107,125,193
Allocation to Duke Energy Ohio Electric [3]									83.67%
Average Common Equity Allocated to Duke Energy Ohio Electric									$ 3,436,431,649

[1] Elimination of Mark-to-Market, Non-Recurring Gains & Losses, Equity in Subsidiary Companies, Goodwill Impairment and Non-SSO sales.
[2] Elimination of Goodwill Impairment.
[3] Source: Supplemental PAL-5.

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Net Plant Allocation Factor
December 31, 2010

Attachment PAL-5

	Duke Energy Ohio, Inc.		
Description	Gas	Electric	Total
Gross Plant	1,455,636,036	8,138,979,951	9,594,615,987
Accumulated Depreciation	392,090,857	2,689,363,570	3,081,454,427
Net Plant	1,063,545,179	5,449,616,381	6,513,161,560
Allocation Percentage	16.33%	83.67%	100.00%

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Summary of Assumptions

Attachment PAL-6

<u>Source of Data per Stipulation in Case No. 08-920-EL-SSO:</u>

1 Source of data is prior year public reported FERC Form 1 financial Statements, including off-system sales.

<u>Adjustments to Net Income per Stipulation in Case No. 08-920-EL-SSO:</u>

2 Eliminate all depreciation and amortization expense related to the purchase accounting recorded pursuant to the Duke Energy / Cinergy Merger.

3 Eliminate all impacts of refunds to customers pursuant to paragraph 28 of the stipulation.

4 Eliminate all impacts of mark-to-market accounting.

5 Eliminate all impacts of material, non-recurring gains / losses, including, but not limited to, the sale or disposition of assets.

<u>Adjustments to Common Equity per Stipulation in Case No. 08-920-EL-SSO:</u>

6 Eliminate the acquisition premium recorded to equity pursuant to the Duke / Cinergy merger.

<u>Additional Assumptions:</u>

7 Duke Energy Ohio's common equity excludes equity of Duke Energy Kentucky.

8 Common equity used in calculating SEET is the average of the ending balance of the prior two calendar years.

9 The SEET calculation is intended to be for electric distribution utilities and therefore requires the elimination of earnings related to gas

10 The return on average common equity is to be calculated both including and excluding the impact of deferrals.

Attachment PAL-7

Duke Energy Corporation
Performance Benchmark
Total Shareholder Return vs. Philadelphia Utility Index

	Duke	Index	Rank	Percentile Rank
From January 2009 to:				
March 2009	-3.1%	-11.2%	6	73.7%
June 2009	0.4%	-2.3%	7	68.4%
September 2009	10.0%	3.2%	6	73.7%
December 2009	22.0%	10.0%	6	73.7%
March 2010	17.4%	6.4%	9	57.9%
June 2010	16.8%	2.5%	5	78.9%
September 2010	31.1%	15.1%	9	57.9%
December 2010	33.7%	16.3%	8	63.2%
March 2011	38.1%	18.9%	8	63.2%
From January 2010 to:				
March 2010	-3.8%	-3.3%	13	36.8%
June 2010	-4.3%	-6.9%	9	57.9%
September 2010	7.5%	4.6%	10	52.6%
December 2010	9.5%	5.7%	10	52.6%
March 2011	13.2%	8.0%	9	57.9%
From January 2011 to:				
March 2011	3.3%	2.2%	9	57.9%

Note: [a] Current components of Philadetphia Utility Index are: Ameren, AEP, AES, Constellation, Centerpoint, Dominion, DTE, Consolidated Edison, Duke, Edison International, Entergy, Exelon, First Energy NextEra, Northeast Utilities, PG&E, PSEG, Progress Energy, Southern Company, Xcel.