BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates.	)))	Case No. 12-1685-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 12-1686-GA-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of an Alternative Rate Plan for Gas Distribution Service.	))))	Case No. 12-1687-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 12-1688-GA-AAM

VOLUME 14

ALT REG (A) THROUGH (J)

July 9, 2012

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14	B	O.A.C. 4901:1-19-05 Appendix A, Chapter II, Section (C)(2)(b)	Schedule Alt A-Reg B	Justify any proposal to deviate from traditional ROR regulation
14	C	O.A.C. 4901:1-19-05 Appendix A, Chapter II, Section (C)(2)(c)	Schedule Alt A Reg C	If severing of costs and rates proposed, applicant shall compare how its proposed ARP would have impacted actual performance measures during the most recent 5 calendar years
14	D	O.A.C. 4901:1-19-05 Appendix A, Chapter II, Section (C)(2)(d)	Schedule Alt A Reg D	If authorized to exempt any services, applicant shall provide a listing of those services
14	E	O.A.C. 4901:1-19-05 Appendix A, Chapter II, Section (C)(2)(e)	Schedule Alt A Reg E	Complete matrix showing each rate, service, or regulation included in the plan and explain how it may be affected during term of plan
14	F	O.A.C. 4901:1-19-05 Appendix A, Chapter II, Section (C)(2)(f)	Schedule Alt A Reg F	Detailed discussion of how potential issues concerning cross-subsidization of services have been addressed in the plan
14	G	O.A.C. 4901:1-19-05 Appendix A, Chapter II, Section (C)(2)(g)	Schedule Alt A Reg G	Detailed discussion of how the application is in compliance with R.C. 4905.35 and 4929.02
14	H	O.A.C. 4901:1-19-05 Appendix A, Chapter II, Section (C)(2)(h)	Schedule Alt A Reg H	Projected financial data required in section F of Chapter II of appendix A of OAC 4901-7-01
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Before

THE PUBLIC UTILITIES COMMISSION OF OHIO

CASE NO. 12-1685-GA-AIR

IN THE MATTER OF THE APPLICATION
OF THE DUKE ENERGY OHIO
FOR AUTHORITY TO INCREASE
ITS GAS DISTRIBUTION RATES FOR SERVICE TO ALL
JURISDICTIONAL CONSUMERS

SECTION A

SECTION A

REVENUE REQUIREMENTS

DUKE ENERGY OHIO

CASE NO. 12-1685-GA-AIR

Test Year: Twelve Months Ended December 31, 2012

Date Certain: March 31, 2012

<u>Schedule</u>

A-1	Overall financial summary
A-2	Calculation of Mirrored CWIP Revenue Sur-Credit Rider

SCHEDULE ALT REG A

ALTERNATIVE REGULATION PLAN OF
DUKE ENERGY OHIO, INC.

I. Facts and Grounds for the Application

A. Rider AMRP – Accelerated Main Replacement Program (AMRP), Sheet No. 65

Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) started a program in 2001 to replace all of its cast iron and bare steel gas mains of twelve inches diameter and less on an accelerated basis.

Duke Energy Ohio initiated its AMRP program to improve safety and reliability because the leak rate for Duke Energy Ohio's cast iron and bare steel mains was higher than the leak rate for Duke Energy Ohio's plastic and coated steel mains. Between 2001 and 2011, Duke Energy Ohio replaced approximately 941 miles of cast iron and bare steel mains and 91,200 services.

Local distribution companies (LDCs) have used cast iron mains since the early 1800's when LDCs began to install distribution systems in urban areas. Cast iron was also used during the Great Depression and during World War II, when steel became scarce. The United States Department of Transportation (U.S. DOT) regulates the types of materials that can be used in gas transportation and distribution systems. In 1971, the U.S. DOT eliminated cast iron and bare steel from the list of approved materials for new construction.

Cast iron mains are more susceptible to leaks for various reasons. First, cast iron mains were installed without welding, making them more likely to leak at joints with bell and spigot connections or to break with rigid mechanical joint connections. Cast iron mains are more susceptible to corrosion and graphitization because they typically do not have coatings or cathodic protection. Cast iron mains also have more circumferential fractures and longitudinal fractures.

Rider AMRP will also continue to recover costs for replacement of service head adapter-style risers consistent with the Company's Riser Replacement Program (RRP). Additionally, due to federal natural gas safety regulations, including but not limited to the new Distribution Integrity Management Program (DIMP), the Company is proposing to relocate eligible natural gas meters currently situated inside a premises to a suitable external location, as part of the AMRP. The meters to be relocated under this proposal are those associated with the services being replaced during the remainder of the AMRP. Relocating the meters to an external location will substantially reduce customer inconvenience as the Company will no longer need to enter a customer's premises to, among other things, conduct mandatory atmospheric corrosion inspections and leak surveys. Further, the costs of compliance with such inspections and surveys will be reduced, thereby extending additional benefit to customers. Incorporating this relocation activity into a larger planned program is an economical means to complete it, thereby mitigating additional costs to the customer.

Duke Energy Ohio expects to spend $211 million dollars from 2012 through 2015 to complete this program. Under normal ratemaking principles, Duke Energy Ohio would need to file frequent general rate cases to recover these costs. As an alternative, Duke Energy Ohio proposes to continue its Rider AMRP as a part of this Alternative Regulation Plan.

B. Rider AU – Advanced Utility (AU), Sheet No. 88

The grid modernization project is Duke Energy Ohio's project to transform its gas and electric transmission and distribution system utilizing an integrated, digital network – much like a computer network – to produce operating efficiencies, enhanced customer and utility information and communications, innovative services, and other benefits. A key component of the grid modernization project is Advanced Metering Infrastructure (AMI). AMI is a metering and communication system that records customer usage data over frequent intervals, and transmits the data over an advanced communication network to a centralized data management system. The usage data is made available to the utility and customers on a timely basis.

The Company also proposes to continue its Advanced Utility Rider (Rider AU) to recover its natural gas-related grid modernization initiative as was approved in the Company's last gas rate case, Case No. 07-589-GA-AIR, *et al.* Duke Energy Ohio's annual tracker update reflects the impact on the Company's revenue requirements of net plant additions due to grid modernization, as offset by reduced operations and maintenance expense.

Once the grid modernization is fully deployed, customers will be able to receive more detailed usage information. Also, the AMI module on the customer's meter allows the customer's usage to be read remotely so that metering and billing is more accurate and does not require entering the customer's premises. This system will provide enhanced detection of tampering and theft of utility service. This additional capability and information should enhance customer satisfaction.

Duke Energy Ohio expects to spend $31 million dollars from 2012 through 2014 to complete this program. Under normal ratemaking principles, Duke Energy Ohio would need to file frequent general rate cases to recover these costs. As an alternative, Duke Energy Ohio proposes to continue its Rider AU as a part of this Alternative Regulation Plan.

C. <u>Accelerated Service Replacement Program (ASRP), Sheet No. 89</u>

Duke Energy Ohio also proposes a new program to replace both pre-1971 coated steel main-to-curb and curb-to-meter service lines and other unprotected metallic main-to-curb and curb-to-meter service lines that are not otherwise covered under the AMRP. Through this ten-year Accelerated Service Replacement Program (ASRP), Duke Energy Ohio seeks to implement a proactive main-to-curb and curb-to-meter service replacement program much the same as the AMRP, in order to further decrease the probability of an unprotected metallic service failure. Additionally and again predicated upon federal natural gas safety regulations, the Company is proposing to relocate eligible natural gas meters currently located inside a customer's premises to a suitable location for those services being replaced under this program. Relocating the meters to a suitable exterior location will minimize customer inconvenience and the costs associated with mandatory atmospheric corrosion and leak surveys.

In addition, Duke Energy Ohio is proposing to take over ownership of all services replaced under the ASRP, as is currently the case under the AMRP. The assumption of ownership of such services is in the best interest of Duke Energy Ohio's customers and the general public in that these services would then be included in any ongoing Company inspection and/or survey programs. The overall goal is to improve upon the safety and reliability of the natural gas distribution infrastructure.

Rider ASRP will allow the Company to recover costs related to the ASRP on a timely basis through the use of a tracking mechanism. Duke Energy Ohio has proven the ability to properly manage such programs, as confirmed by its proficient implementation of the AMRP.

Duke Energy Ohio expects to spend $307 million dollars from 2013 through 2022 to complete this program. Under normal ratemaking principles, Duke Energy Ohio would need to file frequent general rate cases to recover these costs. As an alternative, Duke Energy Ohio proposes to establish its Rider ASRP as a part of this Alternative Regulation Plan.

II. Elements of Duke Energy Ohio Alternative Regulation Plan

A. Rider AMRP – Accelerated Main Replacement Program (AMRP), Sheet No. 65

Duke Energy Ohio's Alternative Regulation Plan consists of a rate mechanism that will continue to allow Duke Energy Ohio to track and recover the costs of its accelerated cast iron and bare steel replacement program through an annual adjustment to rates. This rate mechanism will also pass through to customers the maintenance savings resulting from the cast iron and bare steel replacement program. As such, the rate mechanism balances the costs and benefits associated with this program.

This rate mechanism is set forth in the Company's proposed tariffs as the Accelerated Main Replacement Program Rider (Sheet No. 65, Rider AMRP). Rider AMRP will take the form of a monthly throughput charge for customers receiving service under Rate IT Interruptible Transportation) and Rate GGIT (Gas Generation Interruptible Transportation) and a monthly customer charge for customers under all other rate schedules. Duke Energy Ohio proposes Rider AMRP in its base rate case, as an annually adjusted rate mechanism, and as an Alternative Regulation Plan to provide flexibility in ratemaking treatment.

Under Rider AMRP, Duke Energy Ohio will continue to compute the revenue requirement effect of both the return on, and return of, the net change in plant investment attributable to this program and convert such amount into an annual revenue requirement. The annual revenue requirement will include the depreciation expense on the new pipe that Duke Energy Ohio will install. Rider AMRP will also continue to flow through to Duke Energy Ohio ratepayers the benefit of reduced depreciation expense attributable to the cast iron and bare steel removed from service. Rider AMRP will also reflect the incremental property tax expense on the new mains that Duke Energy Ohio installs, net of the reduction in property tax expense from retirement of existing cast iron and bare steel mains.

This program will result in a reduction in the annual cost to repair and maintain the cast iron and bare steel mains and associated services. The annual revenue requirement mechanism will flow through to customers the net reduction in approved maintenance costs attributable to this program.

Duke Energy Ohio will operate its mains at higher pressures following replacement of the cast iron and bare steel mains. Duke Energy Ohio is proposing to include relocation of natural gas meters currently situated inside a customer's premises to a suitable external location in response to federal natural gas safety regulations, including the DIMP. Duke Energy Ohio will continue to these costs and recover the costs through Rider AMRP. Duke Energy Ohio will also replace associated metallic service lines under this program. Duke Energy Ohio formerly expensed these costs and recovered the costs through Rider AMRP. Duke Energy Ohio proposes to modify Rider AMRP to reflect the Company's proposal to include meter relocations.

Rider AMRP will reflect the construction activity under the accelerated cast iron and bare steel replacement program from the prior calendar year. Beginning with the next annual Rider AMRP proceeding, Rider AMRP will allocate the required revenue increase based on the revenue distribution approved in Duke Energy Ohio current rate proceeding. In subsequent years, the allocation will be made based on actual base revenues collected by rate class during the preceding calendar year.

As in prior years, Duke Energy Ohio will continue to file each annual Rider AMRP adjustment on or about the last day of February each year, to be effective May 1. The filing and rate adjustment in the first year may be postponed if the Public Utilities Commission of Ohio

(Commission) renders its Order after May 1. The filing will be subject to Commission review and intervention by interested parties, similar to the Gas Cost Recovery process, and Duke Energy Ohio will have the burden to prove the valuation as of the date certain of such property used and useful in rendering public utility service.

Due to the regulatory lag under the cast iron and bare steel replacement program, Duke Energy Ohio proposes to continue accruing Post in Service carrying costs from the date the new mains are placed in service until such time as recovery begins through Rider AMRP. The annual AMRP filings will reflect such accounting treatment.

Attachment PAL-1 to the testimony of Duke Energy Ohio witness Peggy A. Laub illustrates how the annual revenue requirement will be calculated under Rider AMRP. Line 40 reflects the flow-through of the net reduction in approved maintenance costs arising from the program. The total annual increase in the annual revenue requirement is identified by summing the capital and operating revenue requirement amounts.

Given the ability to recover the depreciation and carrying costs related to the capital investment, less net change in operating expense, Duke Energy Ohio will have less need to file frequent rate case applications. If, however, Duke Energy Ohio files a general rate case during the AMRP period, the program investment and adjusted operating expense will be included in base rates and Rider AMRP will be reset to zero. Rider AMRP will continue until the Company files an application for a general gas rate increase following the completion of the AMRP

Duke Energy Ohio also proposes to continue Rider AMRP to: (a) include recovery of costs for the accelerated riser replacement program; (b) reflect removal of the current Rider AMRP rate caps; (c) allow Duke Energy Ohio to recover costs for plastic main-to-curb services and short sections of plastic pipe that Duke Energy Ohio replaces as part of the AMRP; (d) continue Duke Energy Ohio's assumption of ownership of the curb-to-meter service, including the riser; and (e) to provide for the relocation of interior meters to a suitable exterior location.

B. <u>Rider AU- Advanced Utility (AU), Sheet No. 88</u>

Rider AU is a tracking mechanism that allows Duke Energy Ohio to recover the costs, and pass through to customers the savings, related to its grid modernization project. Rider AU operates similar to Rider AMRP in that Duke Energy Ohio makes an annual filing seeking approval to recover the revenue requirement related to the grid modernization project. Similar to Rider AMRP, Rider AU will flow through to customers the operating and maintenance savings attributable to the grid modernization project.

Attachment PAL-3 to the testimony of Duke Energy Ohio witness Peggy A. Laub illustrates how the annual revenue requirement will be calculated under Rider AU.

Duke Energy Ohio will continue to follow the filing schedule used for electric Rider DR-IM (Distribution Reliability Infrastructure Modernization Rider), in light of the many elements that Rider AU and Rider DR-IM have in common.

In addition, Duke Energy Ohio will continue to file a deployment plan with the Commission by August 1 annually, setting forth the grid modernization deployment activities that Duke Energy Ohio plans to make during the following calendar year, the expected costs that Duke Energy Ohio expects to incur, customer benefits for the relevant period, and the rate impacts. Absent any Commission ruling to the contrary by October 1 of each year, Duke Energy Ohio requests that such expenditures be presumed to be prudent such that, if any stakeholder asserts in a subsequent Rider AU proceeding or a subsequent general rate proceeding that such expenditures were imprudent, then that stakeholder shall bear the burden to prove that the expenditures were imprudent and should be disallowed.

Finally, Duke Energy Ohio recognizes that, in modern times, technologies occasionally become obsolete within a short time frame – as seen with personal computers, cellular phones, and music formats, to name a few examples. If, therefore, some change occurs in technology, customer needs, or Duke Energy Ohio's business operations such that Duke Energy Ohio determines that all or part of the grid modernization project should be suspended or abandoned, then Duke Energy Ohio requests that it be permitted to recover such costs, even though the costs might not meet the Commission's traditional "used and useful" standard for cost recovery, as long as the costs were subject to Commission review and approval as part of Duke Energy Ohio's annual deployment plan.

If the Commission approves Duke Energy Ohio's request to continue Rider AU, Duke Energy Ohio would file its first pre-filing for recovery of Rider AU rates in November 2012, with an updated filing in February 2013.

C. Rider ASRP – Accelerated Service Replacement Program, Sheet No. 89

The Company is proposing to implement a new rate recovery mechanism, Rider ASRP, to allow the Company to recover costs related to the ASRP on a timely basis through the use of a tracking mechanism. Duke Energy Ohio has proven the ability to properly manage such programs as confirmed by its proficient implementation of the AMRP. The timely completion of the ASRP will be accomplished via the same process as applied to the AMRP.

The Company will update the ASRP rate mechanism annually in order to reflect the impact on the Company's revenue requirements of net plant additions, as offset by: (1) reducing operation and maintenance expense; and (2) eliminating depreciation expense for the plant removed from service, during the prior twelve months ending each December 31. Such adjustments to the rate mechanism will continue to become effective annually with the first billing cycle of May. The Company will make a preliminary filing under Rider ASRP after the Commission approves the implementation of Rider ASRP and will then file an annual application to recover costs prudently incurred under the program. The annual Rider ASRP filings will reflect the allocation of the required revenue increase based on the revenue distribution for each of the years of the new base rates, as approved in the Company's current rate proceeding. In subsequent years, the allocation will be made based on actual base revenues collected by rate class during the preceding calendar year, as has been the practice in previous Rider AMRP filings. For annual Rider ASRP filings after 2013, Duke Energy Ohio will make a preliminary filing in November of each year and an application the following February to recover ASRP-related costs incurred during the prior calendar year. The timely completion of the ASRP will be accomplished via the same process and filing schedule as applied to the AMRP. Rider ASRP will increase revenue by an estimated $22.1 million average annual, over the approximate ten-year life of the program. The estimated average annual amount of this increase per customer class is as follows: (1) Residential, $20.3 million average annual; and (2) General Service and Firm Transportation, $1.8 million average annual for ten years.

Attachment PAL-2 to the testimony of Duke Energy Ohio witness Peggy A. Laub illustrates how the annual revenue requirement will be calculated under Rider ASRP.

III. Transition Plans

Duke Energy Ohio does *not* propose any transition plans under its Alternative Regulation Plan. Riders AMRP, ASRP, and AU will be set at zero when the Commission approves the Alternative Regulation Plan.

IV. Rationale for Proposed Tariff Changes

Section II, above, serves as the rationale for the proposed tariff changes/new tariffs proposed by Duke Energy Ohio. *See also,* the Direct Testimony of Duke Energy Ohio witnesses William Don Wathen Jr., Gary J. Hebbeler, and Peggy A. Laub.

SCHEDULE ALT REG B

JUSTIFICATION OF
DUKE ENERGY OHIO, INC.
FOR DEVIATION FROM
TRADITIONAL RATE OF RETURN REGULATION

Schedule Alt Reg B identifies the operation and financial need for, as well as the benefits to the Company and its customers from, Duke Energy Ohio's Accelerated Main Replacement Program (AMRP), Accelerated Service Replacement Program (ASRP), and grid modernization program. For the reasons stated herein, Duke Energy Ohio should be permitted to deviate from traditional rate of return regulation.

The Alternative Regulation Plan reflects an innovative cost recovery mechanism that provides benefits to customers while preserving certain features of the traditional ratemaking process. Indeed, the Alternative Regulation Plan follows traditional ratemaking practice in several respects. Rider AMRP and Rider ASRP would require Duke Energy Ohio to make annual filings relative to the mains, pipes, and services installed during the previous year and Duke Energy Ohio will bear the burden of proving both the valuation as of the date certain and that the property is used and useful in rendering service. The same process applies to Rider Advanced Utility (AU), which relates to the Company's grid modernization program.

These annual proceedings will be filed with and subject to review by the Public Utilities Commission of Ohio (Commission). Similar to traditional base rate case procedures, Commission Staff will review the filing and interested parties may seek intervention.

The Alternative Regulation Plan benefits customers in several respects. The AMRP and ASRP will enhance the safety and reliability of Duke Energy Ohio's distribution system. The

Alternative Regulation Plan also benefits customers as Riders AMRP and ASRP will flow through to customers the savings attributable to a reduction in the costs associated with leak repairs. Similarly, Rider AU will benefit customers by passing through the savings associated with the grid modernization project. Further, the grid modernization project provides customers with access to timely usage information. Customers also benefit to the extent that Duke Energy Ohio would need to file fewer natural gas rate cases than it might otherwise need to file in the absence of such programs.

The Alternative Regulation Plan seeks to match the cost of natural gas service to the service that causes the costs to be incurred, which satisfies the state policy goal embodied in R.C. 4929.01(A). The Alternative Regulation Plan also aligns Duke Energy Ohio's performance in terms of costs and quality of service to the interests of its customers as the Company will bear the burden of proof in the annual Rider AMRP, Rider ASRP, and Rider AU proceedings. Moreover, these proceedings will be subject to Commission review and intervention by all interested parties.

Finally, the Alternative Regulation Plan tends to avoid the regulatory lag associated with the traditional ratemaking process and also avoids the cost, time, and effort associated with frequent general rate case filings.

SCHEDULE ALT REG C

STATEMENT OF
DUKE ENERGY OHO, INC.
REGARDING SEVERING OF COSTS AND RATES

Pursuant to O.A.C. 4901:1-19-05(C)(2)(c), Duke Energy Ohio states that its Alternative Regulation Plan does not result in a severing of costs and rates.

SCHEDULE ALT REG D

STATEMENT OF
DUKE ENERGY OHO, INC.
REGARDING EXEMPT SERVICES

Pursuant to O.A.C. 4901:1-19-05(C)(2)(d), Duke Energy Ohio states that it has not been authorized to exempt any services under R.C. 4929.04.

SCHEDULE ALT REG E

MATRIX OF DUKE ENERGY OHIO, INC.
OF RATES, SERVICES, AND REGULATIONS AFFECTED BY THE PLAN

Sheet No.	Name	Explanation
65	Rider AMRP – Accelerated Main Replacement Program	Provides annual adjustment to rates to allow Duke Energy Ohio to recover the cost of its accelerated cast iron and bare steel main replacement program. Must be amended to: (a) include relocation of interior meter to a suitable exterior location; and (b) reflect removal of the current Rider AMRP rate caps.
88	Rider AU – Advanced Utility	Provides annual adjustment to rates to allow Duke Energy Ohio to recover the costs of its grid modernization program.
89	Rider ASRP- Accelerated Service Replacement Program	Provides annual adjustment to rates to allow Duke Energy Ohio to recover the cost of its accelerated service replacement program to: (a) replace pre-1971 coated steel main-to-curb and curb-to-meter service lines and unprotected metallic main-to-curb and curb-tometer service lines; and (b) relocate interior meters to a suitable exterior location.

SCHEDULE ALT REG F

STATEMENT OF
DUKE ENERGY OHIO, INC.
REGARDING CROSS-SUBSIDIZATION OF SERVICES

Pursuant to O.A.C. 4901:1-19-05(C)(2)(f), Duke Energy Ohio states that it does not expect any cross-subsidization of services to occur under its Alternative Regulation Plan.

SCHEDULE ALT REG G

STATEMENT OF
DUKE ENERGY OHIO, INC.,
REGARDING COMPLIANCE WITH R.C. 4905.35 AND 4929.02

Pursuant to O.A.C. 4901:1-19-05(C)(2)(g), Duke Energy Ohio states that it is compliance with R.C. 4905.35. This statute prohibits a public utility from making or giving any undue or unreasonable preference or advantage, or causing any undue or unreasonable prejudice or disadvantage, to any person, firm, corporation, or locality. Duke Energy Ohio currently provides service in compliance with this statute. Further, to the best of its knowledge, information and belief, Duke Energy Ohio currently has no complaints pending against it that allege any violation of this statute.

Under the Alternative Regulation Plan and the base rate case application filed in these proceedings (collectively the Application), Duke Energy Ohio will charge all customer classes under Rider AMRP (Accelerated Main Replacement Program Rider) for the cost of replacing cast iron and bare steel mains and associated metallic services, as well as the costs for relocating eligible interior meters to a suitable exterior location. The mains captured by the AMRP are located throughout Duke Energy Ohio's distribution system. Further, Duke Energy Ohio operates its system on an integrated basis, such that Duke Energy Ohio recovers the cost of installing, operating, and maintaining its distribution system and metering from all customers. In this respect, the Alternative Regulation Plan tends to benefit all customers equally.

Under the AMRP, Duke Energy Ohio will continue to install new service lines, including risers, and replace existing service lines and/or risers, consistent with prior Public Utilities Commission of Ohio (Commission) approval. The Company will continue to own and be responsible for future installations of new services lines and risers, and to repair or replace the service lines and risers under the AMRP. Duke Energy Ohio will recover these costs through the traditional ratemaking process, except that Duke Energy Ohio will utilize Rider AMRP to recover: (1) the costs of AMRP-related metallic services; (2) the costs of moving AMRP-related inside meters to outside locations; and (3) all costs for riser replacements.

Rider AMRP, as proposed in the Application, will not result in any undue or unreasonable disadvantage to any customers who may continue to own or have assumed costs to repair their service lines or risers. The rationale for installing new service lines and risers, and replacing existing service lines and risers, is to improve the safety and reliability of Duke Energy Ohio's entire distribution system. All customers will benefit from such improved safety and reliability, not merely those customers whose service lines and risers are installed or replaced pursuant to the AMRP.

The same considerations apply for Rider AU (Advanced Utility Rider). The costs associated with the grid modernization project will be allocated to all customers in an equitable manner. All customers will benefit from the reduction in operation and maintenance expense associated with installing the Advanced Metering Infrastructure, which is an integral component of the grid modernization project. Moreover, all customers will realize the operation and maintenance costs savings on a comparable basis as the cost savings will be flowed through Rider AU.

Similarly, Rider ASRP (Accelerated Service Replacement Program Rider) does not result in any unreasonable preference or advantage, or cause any unreasonable prejudice or disadvantage. Under the ASRP, Duke Energy Ohio will charge all customer classes the properly allocated cost of replacing both pre-1971 coated steel main-to-curb and curb-to-meter service lines and other unprotected metallic main-to-curb and curb-to-meter service lines not otherwise covered under the AMRP, as well as the relocation of ASRP-related eligible interior meters to a suitable exterior location. These services are located throughout Duke Energy Ohio's distribution system. Further, Duke Energy Ohio operates its system on an integrated basis, such that Duke Energy Ohio recovers the cost of installing, operating, and maintaining its distribution system and metering from all customers. In this respect, th Alternative Regulation e Plan tends to benefit all customers equally.

For all of the foregoing reasons, Duke Energy Ohio's Application complies with R.C. 4905.35.

Duke Energy Ohio further states that, pursuant to O.A.C. 4901:1-19-05(C)(2)(g), the Alternative Regulation Plan is in substantial compliance with the state policy goals set forth in R.C. 4929.02 and that, upon implementation, it will continue to be in such compliance. The Alternative Regulation Plan promotes the availability to customers of adequate, reliable, and reasonably priced service, as required under R.C. 4929.02(A)(1), because, as Duke Energy Ohio replaces its cast iron and bare steel mains and associated services, and the pre-1971 coated steel main-to-curb and curb-to-meter service lines and other unprotected metallic main-to-curb and curb-to-meter service lines not otherwise covered under the AMRP, its distribution service will become substantially safer and more reliable and Duke Energy Ohio's services will be more reasonably priced due to maintenance savings.

Similar cost reductions related to the services provided by the Company are applicable to Rider AU, which is expected to reflect reductions in meter reading, billing, and call center costs. Rider AMRP, Rider AU, and Rider ASRP will also mitigate the costs associated with more frequent general rate case filings, which would otherwise be necessary in the absence of such riders and associated programs.

In addition, as part of its Application filed pursuant to R.C. 4909.18, Duke Energy Ohio is proposing several new services, including a natural gas vehicle tariff and a gas-fired generation interruptible tariff, both of which are intended to promote the availability of adequate, reliable, and reasonably priced natural gas services and goods.

Consistent with R.C. 4929.02(A)(2) and (3), the Alternative Regulation Plan will not impact the Company's ability to provide unbundled and comparable natural gas services and goods that provide wholesale and retail consumers with the supplier, price, terms, conditions and quality options they elect to meet their respective needs. The Alternative Regulation Plan enhances Duke Energy Ohio's ability to provide safe and reliable natural gas distribution service for all retail natural gas customers, regardless of their supplier. Because the Alternative Regulation Plan is focused on safety and reliability through infrastructure improvements, it will not impact a customer's ability to choose a natural gas supplier. Indeed, customers will continue to have the same effective choices over the selection of gas suppliers as they do today.

Duke Energy Ohio's Alternative Regulation Plan is an innovative program for providing cost-effective supply services, as required under R.C. 4929.02(A)(4), because it will allow Duke Energy Ohio to replace mains, associated services, and meters and to implement advanced metering infrastructure in an efficient, cost-effective manner that passes through operating and maintenance savings to customers and avoids the costs associated with more frequent rate cases over the next several years. The Alternative Regulation Plan, coupled with the new rate schedules submitted as part of its Application in these proceedings, will better enable Duke Energy Ohio to support natural gas-fired merchant power plants and distributed generation, and other new service offerings for customers. This will allow Duke Energy Ohio to provide innovative, supply-side services, as referenced under R.C. 4929.02(A)(4).

By allowing Duke Energy Ohio to support merchant plants, distributed generation, and natural gas vehicles, the Company's Application recognizes the continuing emergence of competitive natural gas markets through the development and implementation of flexible regulatory treatment, consistent with R.C. 4929.02(A)(6).

Duke Energy Ohio states that its Application is designed to avoid subsidies flowing to or from regulated natural gas services and goods, in compliance with R.C. 4929.02(A)(8), as demonstrated by the various schedules filed with the Application and by testimony to be filed herewith.

In compliance with R.C. 4929.02(A)(9), the Company is not proposing to offer any non-jurisdictional or exempt services or goods as part of the Alternative Regulation Plan. As such, there is no effect of such services on any of the rates, prices, terms, or conditions of the Company's nonexempt, regulated services. Further, there is no effect of any exempt non-jurisdictional services on the financial capability of Duke Energy Ohio to comply with the policy of the state of Ohio.

The Alternative Regulation Plan will allow Duke Energy Ohio to upgrade its distribution system in an efficient manner, thus enabling Duke Energy Ohio to provide safer, more reliable, and more cost-effective service to its customers, which will enhance the state's competitiveness in the global economy, as stated in R.C. 4929.02(A)(10).

Duke Energy Ohio's policies and procedures currently facilitate additional choices for the supply of natural gas for residential customers and governmental aggregation through its Residential Firm Transportation service tariff, consistent with R.C. 4929.02(A)(11). The Application does not propose any changes to the Company's current policies or procedures regarding customer choice or governmental aggregation.

Duke Energy Ohio's current rate structure, as was approved in its last natural gas rate case filed under Case No. 07-589-GA-AIR, *et al.*, incorporates a modified straight-fixed variable rate design structure as a decoupling mechanism. This rate design promotes an alignment of Duke Energy Ohio's interests as a natural gas company with customer interest in energy efficiency and energy conservation, in accordance with R.C. 4929.02(A)(12), by significantly reducing the utility earnings throughput incentive tied to natural gas consumption. The Company's Alternative Regulation Plan does not propose to deviate from this approved rate design.

The Alternative Regulation Plan will continue to provide these benefits during and after the term of the AMRP, ASRP, and the grid modernization program. Duke Energy Ohio, therefore, will be in compliance with the state policies set forth in R.C. 4929.02 after the Alternative Regulation Plan is implemented.

SCHEDULE ALT REG I

STATEMENT OF
DUKE ENERGY OHIO, INC.,
REGARDING FINANCIAL DATA
IF PLAN IS ADOPTED

O.A.C. 4901:1-19-05(C)(2)(h) states that:

> The applicant shall also provide projected financial data through the term of the proposed plan under the assumption that the proposed plan is not adopted. This additional set of information shall be labeled as Section G.

Duke Energy Ohio submits its response to Schedule Alt Reg. I in the form of an income statement, a cash flow statement and a balance sheet, all prepared under the assumption that the proposed plan is not adopted. In order to reflect that assumption, the applicable riders have been excluded. However, the Schedules do not attempt to depict the necessity or frequency of additional rate cases if the proposed plan is not adopted as such analysis is not quantifiable at this time. The title to this Schedule is labeled as "Section G."

Duke Energy Ohio Franchised Electric and Gas
"Section G" FIVE YEAR PROJECTED INCOME STATEMENT (Without Riders)
2013-2017
($000 Omitted)

	2013	2014	2015	2016	2017
Operating Revenues	$ 1,412,798	$ 1,468,619	$ 1,508,997	$ 1,527,472	$ 1,561,076
Operating Expenses					
Cost of Goods Sold	498,941	515,786	530,953	542,270	554,200
Operation & Maintenance	351,264	366,237	381,647	394,409	403,086
Depreciation/ Amortization	163,922	175,445	185,473	177,718	181,628
Taxes Other than Income Taxes	229,815	237,355	245,608	252,868	258,431
Current Taxes	31,103	30,175	29,622	23,352	23,866
Deferred Income Taxes	14,103	14,149	9,819	14,115	14,425
Investment Tax Credit amort	(1,092)	(1,092)	(1,092)	(1,092)	(342)
Total Operating Expenses	$ 1,288,056	$ 1,338,055	$ 1,382,030	$ 1,403,639	$ 1,435,292
Other Income and Deductions	3,914	3,693	3,811	2,323	2,374
Net Interest Changes	54,102	61,716	67,037	67,550	69,036
Net Income	$ 74,553	$ 72,541	$ 63,741	$ 58,606	$ 59,122
Preferred Dividends	-	-	-	-	-
Available for Common Stock	$ 74,553	$ 72,541	$ 63,741	$ 58,606	$ 59,122

Duke Energy Ohio Franchised Electric and Gas
"Section G" FIVE YEAR PROJECTED CASH FLOW STATEMENT (Without Riders)
2013-2017
($000 Omitted)

	2013	2014	2015	2016	2017
Net Income	$ 74,553	$ 72,541	$ 63,741	$ 58,606	$ 59,122
Depreciation and Amortization	163,922	175,445	185,473	177,718	181,628
Amortization of Debt Costs	1,550	1,482	1,478	1,436	1,436
Losses/(Gains) on Sale of Assets	(837)	(837)	(837)	(837)	(837)
Deferred Income Taxes and ITC	13,011	13,057	8,727	13,023	14,083
Contributions to company-sponsored pension plan	(24,000)	(26,000)	-	-	-
Receivables	(7,934)	(7,258)	(4,464)	(2,173)	(2,221)
Accounts Payables	8,953	3,017	5,004	5,059	5,170
Income Taxes Accrued	16,766	0	0	0	0
Taxes Other than income Accrued	19,274	14,226	12,467	9,448	9,655
Interest Accrued	2,067	2,067	2,067	2,067	2,112
Equity AFUDC	(3,077)	(2,856)	(2,974)	(2,956)	(2,940)
Other Assets and Liabilitites	5,617	7,426	(7,853)	(11,677)	(11,934)
Net Cash from Operating Activities	**$ 269,866**	**$ 252,312**	**$ 262,831**	**$ 249,713**	**$ 255,274**
Capital Expenditures	(326,698)	(294,542)	(271,337)	(256,400)	(270,500)
AFUDC Debt	(1,120)	(1,168)	(1,201)	(1,240)	(1,260)
Net Cash from Investing Activities	**$ (327,818)**	**$ (295,710)**	**$ (272,538)**	**$ (257,640)**	**$ (271,760)**
Money Pool Payable	24,360	25,160	27,205	28,483	29,110
Net Cash from Financing Activities	**$ 24,360**	**$ 25,160**	**$ 27,205**	**$ 28,483**	**$ 29,110**
Net (Decrease) Increase in Cash and Cash Equivalents	**$ (33,592)**	**$ (18,238)**	**$ 17,498**	**$ 20,556**	**$ 12,624**

Duke Energy Ohio Franchised Electric and Gas
"Section G" FIVE YEAR PROJECTED BALANCE SHEET STATEMENT (Without Riders)
2013-2017
($000 Omitted)

	2013	2014	2015	2016	2017
Assets:					
Cash and Cash Equivalents	18,102	-	17,363	37,919	50,543
Receivables	308,729	315,987	320,451	322,625	329,722
Inventory	72,515	72,515	72,515	72,515	72,515
Other Current Assets	97,093	97,093	97,093	97,093	97,093
Total Current Assets	496,439	485,594	507,421	530,151	549,872
Goodwill	746,919	746,919	746,919	746,919	746,919
Intangibles, Net	220	220	220	220	220
Other	37,459	37,661	37,862	38,064	38,901
Total Investments and Other Assets	784,598	784,799	785,001	785,202	786,040
PP&E Net	3,709,786	3,873,199	4,010,276	4,129,553	4,220,404
Deferred debt expense	11,706	11,706	11,706	11,706	11,706
Regulatory Assets Related to Income Taxes	78,505	78,505	78,505	78,505	78,505
Other long-term assets	350,712	334,854	321,359	318,220	325,221
Total Regulatory Assets and Deferred Debits	440,923	425,065	411,571	408,431	394,111
Total Assets	$ 5,431,746	$ 5,568,658	$ 5,714,268	$ 5,853,337	$ 5,950,427
Liabilities:					
Accounts Payable	225,214	236,248	247,116	258,188	263,868
Notes Payable and Commercial Paper	51,706	76,866	104,071	132,554	135,470
Taxes Accrued	117,759	131,985	144,453	153,900	157,286
Interest Accrued	17,032	19,099	21,166	23,233	25,345
Other Current Liabilities	40,326	40,326	40,326	40,326	41,214
Total Current Liabilities	452,037	504,525	557,132	608,202	623,184
Long-term debt, including current maturities	1,317,589	1,319,071	1,320,550	1,321,986	1,323,421
Deferred Income Taxes	948,550	962,699	972,519	986,633	1,001,058
Investment tax credit	3,618	2,526	1,434	342	-
Asset Retirement Obligations	15,831	15,831	15,831	15,831	15,831
Other long-term liabilities	308,076	305,418	324,475	339,409	346,876
Total Deferred Credits and Other Liabilities	1,276,076	1,286,475	1,314,259	1,342,216	1,363,766
Common Stock	382,847	382,847	382,847	382,847	382,847
Additional Paid in Capital	1,654,779	1,654,779	1,654,779	1,654,779	1,654,779
Retained Earnings	273,866	348,419	420,960	484,702	543,308
Current year Net Income	74,553	72,541	63,741	58,606	59,122
Equity	2,386,045	2,458,586	2,522,327	2,580,934	2,640,056
Total Liabilities and Equity	$ 5,431,746	$ 5,568,657	$ 5,714,268	$ 5,853,337	$ 5,950,427