BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Annual Application of Duke Energy Ohio, Inc., for an Adjustment to Rider AMRP Rates.	: : :	Case No. 12-3028-GA-RDR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	: : :	Case No. 12-3029-GA-ATA

COMMENTS AND RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

March 25, 2013

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COMMENTS AND RECOMMENDATIONS

INTRODUCTION

In accordance with the Stipulation adopted in Case No. 07-589-GA-AIR, the Staff of the Public Utilities Commission of Ohio (Staff) has conducted its investigation in the above-referenced matter and hereby submits its findings in these comments to the Commission.

These comments were prepared by the Staff of the Commission's Utilities Department in conjunction with the staff of the Service Monitoring and Enforcement Department. Included are financial reviews of additions to plant-in-service and of the Applicant's proposed revenue requirement and other matters.

These comments and recommendations are the results of the Staff's investigation, and do not purport to reflect the views of the Commission, nor is the Commission bound in any manner by the representations and/or recommendations set forth herein.

BACKGROUND

Duke Energy Ohio, Inc. (Duke, Company, or Applicant) was incorporated in Ohio on April 3, 1897, as Cincinnati Gas, Light and Coke Company. It was renamed Cincinnati Gas & Electric Company (CG&E) in 1901 and its present name Duke Energy Ohio, Inc. was adopted in 2006. Growth, acquisitions, and mergers throughout the years have resulted in the present operation in which the Applicant renders electric or gas service, or both, in ten counties in Ohio. The Applicant is a public utility engaged in the business of distribution and sale of natural gas to approximately 421,000 customers in eight southwestern Ohio counties.

On October 24, 1994, CG&E merged with PSI Resources, Inc. to form Cinergy Corporation. Prior to the merger, PSI Resources, Inc. was the parent company of PSI Energy, Inc., an electric utility serving Indiana. Following the merger, Cinergy Corporation was the parent company to both CG&E and PSI Energy, Inc.

On June 1, 2005, Cinergy Corporation and Deer Holding Corporation filed an application with the Commission requesting authorization to merge Cinergy Corporation and Duke Energy Corporation. The Commission approved the merger and the Applicant was renamed Duke Energy Ohio, Inc. effective April 3, 2006.

On May 30, 2002, the Commission approved a Stipulation resolving all outstanding issues associated with CG&E Case Nos. 01-1228-GA-AIR, 01-1478-GA-ALT, and 01-1539-GA-AAM including the establishment of the Accelerated Main Replacement Program (AMRP) rider. Under this rider, rates were established for each year and for each class of service through 2007, with rates established in 2007 to continue until the effective date of the rates set in the Applicant's next base rate case. The purpose of the rider was to recover expenditures associated with the Company's ten-year replacement of all twelve inch and smaller cast iron and bare steel gas mains in its distribution system. Under the Stipulation, the Company agreed to file annual applications supporting proposed adjustments to its rates and the Staff was directed to review and report on the viability of the proposed rates.

On July 18, 2007 the Applicant filed applications to increase its gas distribution rates, for authority to implement an alternative rate plan for its gas distribution services, and for approval to change accounting methods. On February 28, 2008, the parties to these cases filed a joint stipulation (2008 Stipulation) resolving all issues raised in the applications except for the issue of residential rate design. As part of the 2008 Stipulation, the parties agreed that the Applicant would file actual data to support a Rider AMRP adjustment for the last nine months of 2007 (the months not included in the test year for the base rate case) and that the revenue requirement for 2008 rates would be modified to include deferred curb-to-meter and riser expenses, net of maintenance savings, for calendar year 2007. The parties further agreed and recommended that the Applicant be allowed to recover the deferred expense in any annual AMRP filing, provided that the recovery does not exceed the cumulative residential rate caps that, for 2010, 2011 and 2012 rates, respectively, were set at $3.90, $5.20 and $6.20. In addition, the parties agreed to a procedure for review of Company applications by Staff and other interested parties similar to that- created in Case No. 01-1228-GA-AIR, *et al.*, and used for prior AMRP filings. The Applicant will file a pre-filing notice each November containing nine months of actual AMRP data and three months of projected data and establishing a date certain of December 31. By February 28 of the following year, the Applicant will file an application with updates to a full year of actual data. The Staff will conduct an investigation and, unless the Staff finds the application to be unjust or unreasonable or if any other party files an objection that is not resolved by the Applicant, the Staff will recommend Commission approval of the application. The Commission approved the 2008 Stipulation in Case Nos. 07-589-GA-AIR, *et al.*, on May 28, 2008.

On November 30, 2012, the Applicant filed a notice of intent to file an application to increase existing AMRP rider rates, requesting a test period of twelve months ending December 31, 2012 and a date certain of December 31, 2012. The Applicant also provided Schedules 1 through 26 containing six months of actual data through September 2012 and three months of projected data covering October through December 2012 in support of its notice of intent. On February 27, 2013, the Applicant filed its application to increase its AMRP rates and provided updated schedules with actual data through December 31, 2012.

SCOPE OF STAFF'S INVESTIGATION

The Staff investigated the Company's application to evaluate the reasonableness of the revenue requirement proposed by the Company and the resulting proposed increase to the AMRP rider rate. These comments summarize the Staff's review, identify exceptions to the Applicant's AMRP filing, and provide explanations and recommendations to address the exceptions.

The Staff performed an overview of the Applicant's progress towards implementing its AMRP and Riser Replacement Program (RRP). The Staff also reviewed and analyzed the documentation filed by the Applicant by tracing it to supporting work papers and source data. As part of the review, the Staff issued data requests, conducted investigative interviews, and performed independent analyses where necessary.

To investigate the proposed rate base, the Staff reviewed aspects of the Applicant's plant accounting system to ascertain if the information on mains and services assets contained in the Applicant's plant ledgers and supporting continuing property records represented a reliable source of original cost data. The Staff also examined the computation of the Allowance for Funds Used During Construction (AFUDC) and verified the existence and the used and useful nature of plant additions through physical inspections. The Staff selected a sample of transactions for more detailed review and the Commission's Gas Pipeline Safety Staff conducted on-site inspections. In addition, the Staff reviewed post in-service carrying costs and its deferred income tax effect as well as deferred taxes on liberalized deprecation. To examine the Applicant's proposed operating expenses, the Staff reviewed expenses associated with depreciation, amortization of post in-service carrying charges, meter relocations, property taxes, amortization of the deferred curb-to-meter expense, and maintenance savings.

AMRP PROGRESS

The Applicant reports that prior to commencing AMRP construction in 2001 it had approximately 1,200 miles of cast iron and bare steel mains in service and that, at the end of 2012, it had replaced approximately 1,014 miles (approximately 85%) of these mains. The Applicant replaced 73 miles of cast iron and bare steel mains in 2012. The Applicant estimates that it has approximately 143 miles of mains left to replace. In addition, the Applicant reports that it has replaced approximately 99,326 main-to-curb service lines. The Applicant maintains that accelerated replacement of the cast iron and bare steel mains has resulted in substantially fewer leaks on its distribution system which has enhanced safety and lowered maintenance costs. In addition, the Applicant claims that it has avoided frequent rate cases and that its assumption of ownership of curb-to-meter service lines allows a more consistent determination of when such lines should be replaced.

APPLICANT'S PROPOSED RECOVERY

For collection beginning with the first billing cycle in May 2013, the Applicant proposes a revenue requirement of $9,618,781.41 for the AMRP and $330,342.60 for the RRP for a total revenue requirement of $9,949,124.01. Using the allocation percentages and billing determinants for the AMRP and RRP established in the 2008 Stipulation, approved by the Commission in Case No. 07-589-GA-AIR, the Applicant proposes that the Rider AMRP rate be set at $1.20 for residential customers, $10.47 for general service and firm transportation customers, and $0.04/Mcf for interruptible transportation customers.

The Applicant presented the calculation of its proposed 2013 revenue requirement for the AMRP on Schedule 1 of the Application and for the RRP on Schedule 2. These schedules are supported by more detailed schedules contained in the Application. The Applicant's calculation of the proposed revenue requirements for the AMRP and RRP includes the following:

For AMRP:

- The original cost and accumulated depreciation reserve for AMRP property used and useful on December 31, 2007 (the date certain for Case No. 07-589-GA-AIR) as adjusted for 2012 additions to the plant-in-service that was used and useful by December 31, 2012 and retirement of existing assets;

- Calculation of Post in Service Carrying Charges (PISCC) on net plant additions and related deferred taxes calculated from the date that the applicable assets are used and useful until the next effective date of the AMRP rider;

- Calculation of deferred taxes on liberalized depreciation;

- Gross-up of 11.67% for rate of return (approved in Case No. 07-589-GA-AIR) assigned to the recovery of all AMRP net capital expenditures;

- Calculation of the annualized depreciation expense for 2012 additions and retirements;

- Meter relocation expense;

- Annualized property tax expense associated with the plant additions and retirements from the date certain in Case No. 07-589-GA-AIR through 2012; and

- Annualized amortization of the PISCC accrued from the date certain from Case No. 07-589-GA-AIR (December 31, 2007) through 2012.

For the RRP:

- The original cost of 2012 riser additions to plant-in-service as adjusted for depreciation;

- Calculation of Post in Service Carrying Charges (PISCC) on net plant additions and related deferred taxes calculated from the date that the applicable assets are used and useful until the next effective date of the AMRP rider and recorded in unique sub-accounts of Account 182.3 (“Other Regulatory Assets”);

- Calculation of deferred taxes on liberalized depreciation;
- Gross-up of 11.67% rate of return (approved in Case No. 07-589-GA-AIR) assigned to the recovery of certain riser net capital expenditures;
- Calculation of the annualized depreciation expense for 2012 additions and retirements;
- Annualized property tax expense associated with the plant additions and retirements from the date certain in Case No. 07-589-GA-AIR through 2012, and
- Annualized amortization of the PISCC accrued from the date certain from Case No. 07-589-GA-AIR (December 31, 2007) through 2012.

STAFF RECOMMENDATIONS

While, based upon its review, the Staff believes that the Applicant has supported its filing with adequate data and information, the Staff makes the following recommendations to ensure that the AMRP revenue requirement is just and reasonable:

1. On Schedule 21, the Applicant calculated “Gas Maintenance Account Savings” by totaling its 2012 expenses (3months Actual and 9 months Budgeted) in Accounts 885000 (Maintenance Supervision/Engineering), 887000 (Maintenance of Mains), and 892000 (Maintenance of Services) and comparing the result to the baseline for these accounts presently included in base rates established in Case No. 07-589-GA-AIR, *et.al*. Schedule 21 shows a savings of $617,138 in 2012 composite expenses over the baseline expense levels.

Currently, Duke has pending a natural gas base rate filing in Case No. 12-1685-GA-AIR, et al. Already included in that filing are operation and maintenance expenses for the three accounts discussed above. Therefore, any reduction in operation and maintenance expenses associated with pipeline infrastructure replacement will be reflected in the new base rates established in Case No. 12-1685-GA-AIR, *et al*.

In the 2009 AMRP case, Duke and parties entered into a Stipulation which, among other things, included a schedule of minimum maintenance savings for years 2010 through 2016. For year 2012, Duke and parties agreed to apply as savings the greater of the actual maintenance savings as described above, or a minimum savings of $619,573. For purposes of calculating the AMRP revenue requirement in this case, Staff recommends use of the stipulated $619,573 savings amount as it was applied by Duke in the filing on February 28, 2012. The net savings effect for this AMRP is $2,435. This amount is used to reduce the AMRP revenue requirement as shown on Schedule 1 of Duke's filing.

2. Schedule 20 of the AMRP filing shows Meter Relocation Expenses. This schedule represents the expense associated with moving gas meters from inside locations to safer outside locations in association with AMRP work. As these relocations are an expense, they are already being accounted for in Duke's pending gas base rate case having a 2012 test year. The $130,232.19

of expense should be removed from the AMRP revenue requirement for this case.

Subject to the Staff's recommendations detailed above, the Staff supports a Commission finding that the Applicant's proposed revenue requirements and rate class allocations are just and reasonable. Staff recommends a revenue requirement of $9,488,549.30 for the AMRP and $330,342.60 for the Riser Replacement Program for a total revenue requirement of $9,818,891.82. The resulting AMRP rates are as follows:

Residential	$1.18 per month
General Service and Firm Transportation	$10.33 per month
Interruptible Transportation	$0.04 per Mcf

With adoption of the Staff's recommendations as noted above, the Staff recommends approval of Duke's Application in this case.

Respectfully submitted

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by electronic mail, facsimile, or hand-delivered, upon the following parties of record, this 25th day of March, 2013.

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