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PUCO EXHIBIT FILING

Date of Hearing: 6-11-2013

Case No. 13-804-EL-UNC

PUCO Case Caption: In the Matter of the Application of Duke Energy Ohio, Inc for Administration of the Significantly Excessive Earnings Test

List of exhibits being filed:

Duke Energy Ex. 2 - Direct Testimony of Peggy Laub

Duke Energy Ex 2A - Attachments to Direct Testimony of Peggy Laub

Joint Ex. 1 - Stipulation and Recommendation

Staff Ex. 1 - Testimony of Joseph P. Buckley

Reporter's Signature: [signature]

Date Submitted: ~~May 2013~~

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the matter of the :
Application of Duke :
Energy Ohio, Inc., for :
Administration of the :
Significantly Excessive: Case No. 13-804-EL-UNC
Earnings Test under :
Section 4928.143(F), :
Revised Code, and Rule :
4901:1-35-10, Ohio :
Administrative Code. :

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PROCEEDINGS

Before Ms. Christine Pirik, Hearing Examiner, at The Public Utilities Commission of Ohio, 180 East Broad Street, Columbus, Ohio, Hearing Room 11C, on Tuesday, June 11, 2013, at 10:00 a.m.

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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. 13-804-EL-UNC

STIPULATION AND RECOMMENDATION

INTRODUCTION

Rule 4901-1-30, Ohio Administrative Code (O.A.C.) provides that any two or more parties to a proceeding may enter into a written stipulation covering the issues presented in such a proceeding. The purpose of this document is to set forth the understanding and agreement of the parties that have signed below (the Signatory Parties) and to recommend that the Public Utilities Commission of Ohio (the Commission or PUCO) approve and adopt the Stipulation and Recommendation (Stipulation), as part of its Opinion and Order in this proceeding, resolving all of the issues in the proceeding.

This Stipulation is supported by adequate data and information; represents a just and reasonable resolution of the issues in this proceeding; violates no regulatory principle or precedent; and is the product of serious bargaining among knowledgeable and capable Signatory Parties in a cooperative process and undertaken by the Signatory parties representing a wide range of interests to resolve the aforementioned issues. For purposes of resolving the issues raised by this proceeding, the Signatory parties stipulate, agree, and recommend as set forth below.

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PARTIES

This Stipulation is entered into by and among Duke Energy Ohio, Inc. (Company) and the Staff of the Public Utilities Commission of Ohio (Staff)(collectively the Stipulating Parties).

STIPULATION

In Case No. 11-3549-EL-SSO, *et al.*, the Commission approved an electric security plan (ESP) for Duke Energy Ohio. Said ESP includes provision for the application of the significantly excessive earnings test (SEET) and further establishes a 15 percent threshold below which the Company's earnings shall be deemed not to be significantly excessive. In reliance upon the SEET provisions included in its current ESP, Duke Energy Ohio has calculated its earned return on average electric common equity for the year ended December 31, 2012, to be a negative 2.76 percent. As the Company's 2012 earned return on average electric common equity is substantially below the 15 percent threshold, the Signatory Parties agree and stipulate that Duke Energy Ohio did not have significantly excessive earnings in 2012.

The Signatory Parties stipulate, agree, and recommend that the Commission admit the Company's Application and accompanying materials filed April 15, 2013, into the record of this proceeding and issue an Opinion and Order in this proceeding determining that significantly excessive earnings under Ohio Revised Code Section 4928.143(F) did not occur with respect to the Company's ESP in 2012.

PROCEDURAL ISSUES

This Stipulation is submitted for purposes of this proceeding. The agreement of the Signatory Parties reflected in this document is expressly conditioned upon its acceptance in its entirety and without alteration by the Commission. The Signatory Parties agree that if the Commission or any court of competent jurisdiction rejects all of any material part of this

Stipulation, or otherwise materially modifies its terms, any adversely affected Signatory Party shall have the right to file an application for rehearing or motion for reconsideration. If such application or motion is filed and the Commission or court does not, on rehearing or reconsideration, accept the Stipulation without material modification within forty-five days of the filing of such motion, then anytime thereafter, the adversely affected Signatory Party may terminate its Signatory Party status without penalty or cost and regain its rights as a non-Signatory Party as if it had never executed the Stipulation by filing a notice with the Commission and the other Signatory Parties. Unless the Signatory Party exercises its right to terminate its status as a Signatory Party as described above, each Signatory Party agrees to and will support the reasonableness of this Stipulation before the Commission and in any appeal from the Commission's adoption and/or enforcement of this Stipulation and will further cause its counsel to do the same. The Signatory Parties also recommend that the Commission accept and approve the terms hereof as promptly as possible.

IN WITNESS WHEREOF, this Stipulation has been signed by the authorized agents of the undersigned Parties this 6th day of June, 2013.

STAFF OF THE PUBLIC UTILITIES
COMMISSION OF OHIO

By: Devin D Parram / EHW
Devin D. Parram, Assistant Attorney General
its Attorney

DUKE ENERGY OHIO, INC.

By: Elizabeth H Watts /
Elizabeth H. Watts, Associate General Counsel
its Attorney

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This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

6/6/2013 3:05:52 PM

in

Case No(s). 13-0804-EL-UNC

Summary: Stipulation Stipulation and Recommendation electronically filed by Carys Cochern on behalf of Watts, Elizabeth H. Ms.

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.	:	Case No. 13-804-EL-UNC

PREFILED TESTIMONY
OF
JOSEPH P. BUCKLEY

UTILITIES DEPARTMENT
CAPITAL RECOVERY & FINANCIAL ANALYSIS DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit 1

May 30, 2013

1. Q. Please state your name and your business address.

A. My name is Joseph P. Buckley. My business address is 180 E. Broad Street, Columbus, Ohio 43215.

2. Q. By who are you employed?

A. I am employed by the Public Utilities Commission of Ohio (PUCO).

3. Q. Would you please state your background?

A. I received a Bachelor of Science Degree in Economics from the Ohio State University and a Master's Degree in Business Administration from the University of Dayton. In 2000, I earned the Certified in Financial Management (CFM) designation, awarded by the Institute of Management Accountants. Also I attended, The Annual Regulatory Studies Program sponsored by The National Association of Regulatory Utility Commissioners (NARUC) and The Training for Utility Management Analyst also sponsored by NARUC. I have been employed by the PUCO since 1987. Since that time I have progressed through various positions and was promoted to my current position of Utility Specialist 3, in 2000. In addition, I have worked on several joint Federal Communication Commission (FCC) and NARUC projects and audits and served on the Midwest ISO's Finance Committee as Vice-Chairman and Chairman. Also, in 2011, I was awarded the professional designation Certified Rate of

Return Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts. This designation is awarded based upon experience and successful completion of a written examination.

4. Q. What is your involvement in this proceeding?

A. I am responsible for determining if Duke Energy Ohio exceeded the common equity threshold to be used in its Significantly Excessive Earnings Test (SEET). Duke Energy Ohio's ESP established certain provisions for the calculation of SEET and established for Duke Energy Ohio a SEET threshold of 15%.[1] Based on Staff's review of the information provided in Duke Energy Ohio's SEET application Staff concurs with Duke Energy Ohio that its return on common equity for 2012 does not exceed 15%.

5. Q. What is the Staff's recommendation to the Commission in this proceeding?

A. The Staff recommends that the Commission find that Duke Energy Ohio's 2012 earnings were not excessive.

6. Q. Has Duke included in its calculation all the adjustments that were agreed upon in Electric Security Plan and Stipulation (ESP) Case No. 11-3549-EL-SSO?

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[1] *In the Matter of the Application of Duke Energy Ohio for Approval of an Electric Security Plan*, Case No. 11-3549-EL-SSO (Stipulation and Recommendation) (October 24, 2011).

A. Yes. Duke Energy Ohio filed, as detailed in the direct testimony of Company witness Peggy Laub, return on equity information that included the adjustments. Duke Energy Ohio's earnings were -2.76%, which are below the 15% SEET threshold.

7. Q. Has the Staff reviewed Duke's 2012 earnings calculation and concur with its results?

A. Yes. The Staff has reviewed Duke Energy Ohio's calculations and supporting information and finds them to be in conformance with the SEET calculation provisions contained in Duke Energy Ohio's ESP and are an accurate representation of Duke Energy Ohio's 2012 earnings.

8. Q. Doe this conclude your testimony?

A. Yes, it does. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Joseph P. Buckley, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the following parties of record, this 30th day of May, 2013.

/s/ Thomas W. McNamee

Thomas W. McNamee
Assistant Attorney General

Parties of Record:

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DUKE ENERGY OHIO EXHIBIT 2

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. 13-0804-EL-UNC

DIRECT TESTIMONY OF

PEGGY A. LAUB

ON BEHALF OF

DUKE ENERGY OHIO, INC.

April 15, 2013

Ex. 2

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PAGES

I. INTRODUCTION AND PURPOSE

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 LLC, an affiliate service company of Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) as Manager, Accounting in the Rates Department.

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.

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 U.S. 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 Manager, Accounting.

Q. **PLEASE DESCRIBE YOUR DUTIES AS MANAGER, ACCOUNTING.**

A. As Manager, Accounting, 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. I will first 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. 4928.141, which requires electric utilities to provide customers with a default standard service offer (SSO) for competitive retail electric service 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 RATES FOR COMPETITIVE RETAIL ELECTRIC SERVICE BASED ON AN ESP OR MRO?

A. Duke Energy Ohio is currently providing an SSO of competitive retail electric services pursuant to an ESP that was approved by the Commission on November 22, 2011. The terms of the ESP are set forth in a Stipulation and Recommendation that the Commission modified slightly in its November 2011 Opinion and Order.

Q. DID THE ESP STIPULATION THAT THE COMMISSION APPROVED ON NOVEMBER 22, 2011, ADDRESS THE ADMINISTRATION OF THE SEET TO DUKE ENERGY OHIO?

A. Yes. As set forth in Attachment H of the ESP Stipulation, the parties agreed that, beginning in 2013, 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] actual data reported on FERC Form 1 financial statements for the calendar year at issue, subject to only the following adjustments:
>
> - Net Income
>   - o Eliminate all impacts related to the purchase

accounting recorded pursuant to the Duke Energy/Cinergy merger.

- Eliminate all impacts of refunds to customers pursuant to R.C. 4928.143(F).
- 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.
- Eliminate all impacts of material, non-recurring revenue or expenses.
- Eliminate all impacts of parent, affiliated, or subsidiary companies and, to the extent reasonably feasible and prudently justified in the opinion of Duke Energy Ohio, eliminate the impacts of its natural gas distribution business.
- Only Rider ESSC revenue received while the Company directly owns the Legacy Generation Assets will be included in the SEET review. For the SEET review involving the year in which the Legacy Generation Assets are transferred, the Company's net income will be adjusted to exclude the impact of all revenue collected from Rider ESSC after the date of the transfer.

- Common Equity
  - o Common Equity used in the calculation will be the beginning and ending average common equity of Duke Energy Ohio on a stand-alone basis except that a thirteen month average common equity balance may be used for a review of the SEET for the year in which the Company completes the transfer of its Legacy Generation assets.
  - o Equity will be adjusted to eliminate the acquisition premium recorded to equity pursuant to the Duke Energy/Cinergy merger.
  - o Eliminate the cumulative effect of the Net Income adjustments

Q. DOES THE ESP STIPULATION IN CASE NO. 11-3549-EL-SSO, *ET AL.*, DEFINE "SIGNIFICANTLY EXCESSIVE EARNINGS"?

A. Yes. The ESP Stipulation indicates that if Duke Energy Ohio's actual annual return on ending common equity, as adjusted pursuant to Attachment H 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 2012 SEET FILING?

A. The Company has followed the guidelines found in the relevant provision of its November 22, 2011, ESP Stipulation, which were upheld by the Commission's November 22, 2011, Finding and Order in Case No. 11-3549-EL-SSO, *et al.*

Additionally, to the extent not reflected in Attachment H of the ESP Stipulation, the Company has incorporated into its SEET the Commission's recommendations from Case No. 09-789-EL-UNC.[1]

Q. PLEASE IDENTIFY THE ADDITIONAL RECOMMENDATIONS AS IDENTIFIED BY THE COMMISSION IN CASE NO. 09-786-EL-UNC.

A. The Commission's orders in that case generally defer to the Company's ESP Stipulation. For example, the Commission left the issue of earnings from off-system sales to be determined on a case-by-case basis. Consistent with Attachment H and the ESP Stipulation, the Company included <u>all</u> profits from off-system sales in its earnings calculation. Because this issue was addressed in the ESP Stipulation and the Company has already taken the most conservative view by including such profits, there is no further need to address this issue.

As I discuss further below, the Commission also directed utilities to: (1) base average equity balances on the average of the balances at the beginning and at the end of the year (Commission's Entry on Rehearing, page 6); (2) adjust out

[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).*

all impacts from affiliates and other services (*i.e.*, gas distribution) (Commission's Finding and Order, page 12); and, (3) addresses deferrals and other certain factors, as described in the Commission's Finding and Order.[2] These directives were also incorporated into Attachment H of the ESP Stipulation.

Q. DID THE COMPANY HAVE ANY ESP-RELATED DEFERRALS IN 2012 THAT IMPACTED EARNINGS?

A. No.

Q. WILL YOU DESCRIBE THE OTHER INFORMATION THAT THE COMMISSION DIRECTED 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;

[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).

- indicators of management performance and benchmarks to other utilities;
- 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 jurisdictional electric distribution service in Ohio. This return was not necessarily approved for general electric distribution 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 directly owned approximately 3,800 megawatts of fossil generation at the end of calendar year 2012.

Q. DOES THE COMPANY HAVE A RECOVERY MECHANISM FOR FUEL COSTS IT INCURS AT ITS OPERATING PLANTS?

A. No.

Q. DOES THE COMPANY HAVE A RECOVERY MECHANISM FOR RECOVERY OF PURCHASE POWER EXPENSES?

A. Yes. The Company procures 100% of the competitive generation services provided to its SSO load through an auction process approved in the ESP Stipulation. The Company recovers the cost of this procured power via riders and passes all revenue through to the suppliers. Duke Energy Ohio makes no profit or loss on power procured via the auction process that is ultimately delivered to its SSO customers.

Q. DESCRIBE THE COMPANY'S RATE DESIGN.

A. The Company's rate design for noncompetitive service has been essentially the same since its unbundled rates became effective on January 1, 2001. The ESP Stipulation eliminated some riders that existed at the end of 2011 and added certain new riders for competitive retail services. As a result, there are new rates for competitive retail services based on allocation methods and rate design processes that were agreed to in the Company's ESP Stipulation and approved by the Commission in that case. Depending on the rate class, some customers may have energy based rates, demand based rates, or a combination of both. All customers have some form of a customer charge and some non-residential customers have demand ratchets intended to encourage efficient use of resources. For customers who shop, it is not possible for the Company to know the essentially infinite number of rate design options that may be offered by their competitive retail electric service (CRES provider).

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

A. In its most recent approved retail gas distribution rate case (Case No. 07-589-GA-AIR, *et al.*), 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 a mostly 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. As part of the ESP Stipulation, Duke Energy Ohio agreed to file an application to implement a decoupling mechanism for its non-demand-metered customers. The Commission approved the Company's subsequent application toward that end in early 2012, and the Company began accruing a deferral related to the decoupling mechanism. The decoupling mechanism excludes all demand-metered sales but will mitigate the impact of certain sales losses, particularly due to compliance with Ohio's energy efficiency mandates. I should note that the approved decoupling mechanism is based on weather-normalized sales; consequently, the Company is still exposed to weather-related earnings risks.

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

A. As provided in the Company's April 15, 2013, Application, the capital budget requirements for future electric committed investments in Ohio for remainder of the current ESP period are $258 million for 2013 and $204 million for 2014.

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

A. Yes. First, it is important to realize that there is no data that compares the Duke

Energy Ohio operating company to its peers. As such, and in an effort to address the Commission's prior directive, reference is made to the information - on a corporate-wide basis - that does not exist. 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, 2010, through December 31, 2012. The second set of numbers shows TSR for stocks purchased from January 1, 2011, through December 31, 2012. The third set of numbers shows TSR for stocks purchased from January 1, 2012, through December 31, 2012.

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 continues in its deployment of SmartGrid infrastructure in its service territory. The Company has obtained approval for pilot testing of time-differentiated rates and is 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.

IV. 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, 2012, is (2.76%).

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 2012. The source of the utility operating income for the twelve months ended December 31, 2012, is the Company's 2012 FERC Form 1 report, pages 114 to 117. Pursuant to Attachment H of the ESP Stipulation, purchase accounting recorded as a result of the Duke Energy/Cinergy merger, all impacts of refunds to customers pursuant to R.C. 4928.143(F), all impacts of mark-to-market accounting, all impacts of material, non-recurring gains/losses, all impacts of material, non-recurring revenue or expenses, and all impacts of the natural gas were eliminated. As shown on the attachment, no refunds were returned to customers during the twelve months ended December 31, 2012. 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 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, material non-recurring revenues and expenses 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, 2012. The attachment shows the common stock equity balances as of December 31, 2011, and December 31, 2012, and the calculation of the average electric common equity balance as of December 31, 2012, to be used in determining if Duke Energy Ohio has significantly excessive earnings. Pursuant to the ESP 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 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 2012 FERC Form 1, pages 200-201. The schedule shows that based on net plant, 77.92% 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 ESP 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.

V. CONCLUSION

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 negative 2.76%. Since, the return on average electric common equity is less than the 15% specified in the ESP 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.

Ex 2A

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Case No. 13-804
December 31, 2012

Description	Source	Amount
Including Non-SSO Sales and ESP Deferrals		
Adjusted Electric Net Income	PAL-2	(60,571,934)
Average Electric Common Equity	PAL-4	2,193,642,807
Return Earned on Average Electric Common Equity		-2.76%

Ex 2A

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Adjusted Net Income
December 31, 2012

	12 Months Ended December 31, 2012		Eliminations							
Description	Total	Electric	Purchase Accounting	Mark-to-Market	Non-Recurring Gains / Losses	Non-Recurring Rev / Exp	Equity in Earnings of Subsidiaries	Amounts Refunded to Customers	Total Eliminations	Adjusted December 31, 2012
Utility Operating Income										
Operating Revenues	2,071,261,634	1,689,223,992	0			(16,031,265)			(16,031,265)	1,673,192,727
Operation Expenses	1,419,716,947	1,219,362,957	(5,662,605)	79,050		(7,739,481)			(13,323,036)	1,206,039,921
Maintenance Expenses	147,574,255	141,133,823				(811)			(811)	141,133,012
Depreciation Expense	176,543,867	138,702,981				(80,944)			(80,944)	138,622,037
Depreciation Expense for Asset Retirement Costs	4,855	4,855							0	4,855
Amort. & Depl. Of Utility Plant	23,805,122	20,192,099	(7,755,000)						(7,755,000)	12,437,099
Amort. Of Utility Plant Acquisition Adj.	19,006,130	19,006,130	(19,006,130)						(19,006,130)	0
Regulatory Debits	32,202,092	24,962,734							0	24,962,734
Less: Regulatory Credits	(14,427,800)	(6,468,534)							0	(6,468,534)
Taxes Other Than Income Taxes	202,269,268	154,035,122				26,544,676			26,544,676	180,579,798
Income Taxes - Federal	(26,047,535)	(16,519,919)	11,484,487	(28,000)	0	(12,187,456)		0	(730,969)	(17,250,888)
Income Taxes - Other	1,689,326	1,156,612				(346,304)			(346,304)	809,308
Provision For Deferred Income Taxes	419,564,560	324,089,623							0	324,089,623
Provision For Deferred Income Taxes - Credit	(397,352,642)	(337,719,482)							0	(337,719,482)
Investment Tax Credit Adj - Net	(935,034)	(715,988)							0	(715,988)
Gains From Disp Of Allow - Credit	(512,581)	(512,551)	0						0	(512,551)
Accretion Expense	191,812	191,812							0	191,812
Total Utility Operating Expenses	2,003,292,672	1,680,903,294	(20,939,248)	51,050	0	5,189,680	0	0	(14,698,518)	1,666,204,776
Net Utility Operating Income	67,988,962	8,320,698	20,939,248	(51,050)	0	(22,220,945)	0	0	(1,332,747)	6,987,951
Other Income										
Revenues From Merchandising, Jobbing and Contract Work	732,703	731,480							0	731,480
Less: Costs & Exp of Merchandising, Jobbing & Contract	864,207	892,114							0	892,114
Revenues From Nonutility Operations	108,857	25,693							0	25,693
Less: Expenses of Nonutility Operations	15,621,298	15,540,005							0	15,540,005
Non-operating Rental Income	(41,852)	(1,716)							0	(1,716)
Equity in Earnings of Subsidiary Companies	187,803,820	285,381,485					(285,381,485)		(285,381,485)	0
Interest and Dividend Income	4,671,151	4,547,847							0	4,547,847
AFUDC	6,016,006	4,870,499							0	4,870,499
Miscellaneous Non-operating Income	(14,960,928)	(15,433,485)		14,976,363					14,976,363	(457,122)
Gain on Disposition of Property	30,203	30,027			(30,027)				(30,027)	0
Total Other Income	167,854,455	263,719,711	0	14,976,363	(30,027)	0	(285,381,485)	0	(270,435,149)	(6,715,438)
Other Income Deductions										
Loss on Disposition of Property	227	227			(227)				(227)	0
Misc. Amortization	0	0							0	0
Donations	924,979	697,824							0	697,824
Life Insurance	0	0							0	0
Penalties	150,002	150,002							0	150,002
Civic, Political & Related Activities	2,625,668	1,769,176							0	1,769,176
Other Deductions	(8,619,127)	(11,224,031)		15,013,726	0	(13,939)			14,999,787	3,775,756
Total Other Income Deductions	(4,918,051)	(8,606,802)	0	15,013,726	(227)	(13,939)	0	0	14,999,560	6,392,758
Total Taxes On Other Income and Deductions	(7,782,173)	(5,944,861)	8,469	(13,234)	(10,556)	69,307	0	0	53,986	(5,890,875)
Net Other Income and Deductions	180,554,679	278,271,374	(8,469)	(24,129)	(19,244)	(55,368)	(285,381,485)	0	(285,468,695)	(7,217,321)
Net Interest Charges	73,860,272	60,548,207	(23,910)			(181,733)			(205,643)	60,342,564
Net Income	174,683,369	226,043,865	20,954,689	(75,179)	(19,244)	(22,094,580)	(285,381,485)	0	(286,615,799)	(60,571,934)
Extraordinary Items	0	0							0	0
Net Income	174,683,369	226,043,865	20,954,689	(75,179)	(19,244)	(22,094,580)	(285,381,485)	0	(286,615,799)	(60,571,934)

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Summary of Net Income Eliminations
December 31, 2012

Account ID CB	Account Long Descr CB	12 months Ended 12/31/2012	Elimination	Income Tax Effect	Impact on Net Income
Purchase Accounting					
447208	Amort Pwr Trdg Intang or Liab	0	0	0	0
405011	Amort of Other Pur Acctg	7,755,000	(7,755,000)		
406506	Amort Exp - Acq Purch Adj	19,006,130	(19,006,130)		
		26,761,130	(26,761,130)	9,478,792	17,282,338
411849	SO2 COS - Purch Acctg	0	0		
411850	Seasonal NOx COS - Purch Acctg	0	0		
		0	0	0	0
501200	Coal Consumed Purch Acctg Adj	182,601	(182,601)		
501998	Fuel Expense-Purch Acctg	2,140,968	(2,140,968)		
509011	SO2 Emission Exp - Purch Acctg	3,339,036	(3,339,036)		
509211	Seas NOx Emiss Exp - Purch Acctg	0	0		
		5,662,605	(5,662,605)	2,005,695	3,656,910
	Above-the-line Impact		32,423,735	11,484,487	20,939,248
428200	Amort_Debt_Disc_Pur_Acctg_Adj	456,162	(456,162)		
429200	Amort_Debt_Prem_Pur_Acctg_Adj	(432,252)	432,252		
		23,910	(23,910)	8,469	15,441
	Total Purchase Accounting Adjustment	(32,447,645)	32,447,645	11,492,956	20,954,689
Mark-to-Market					
421530	Power Trading MTM Gains	(8,664,464)	8,664,464		
421531	MTM Unrealized Gain - Reserve	312,695	(312,695)		
421532	Power Trading MTM Gains-Reg	0	0		
421541	Gas MTM Gains	(901,981)	901,981		
421542	Electricity - MTM Gain I/C	(5,646,013)	5,646,013		
421543	Non Reg IC MTM Gas Gain	(76,620)	76,620		
421631	MTM Unreal Gains - EA	0	0		
	Other Income	(14,976,363)	14,976,363	5,304,628	9,671,735
426531	MTM Unreal Loss-Reserve	280,358	(280,358)		
426532	Power Trading MTM Loss	0	0		
426533	Power Trading MTM Loss-NonReg	(12,586,868)	12,586,868		
426541	Gas MTM Loss	(76,620)	76,620		
426542	Electricity - MTM Loss I/C	(1,748,637)	1,748,637		
426543	Non Reg IC MTM Gas Loss	(901,961)	901,961		
426631	MTM Unreal Losses - EA's	0	0		
	Other Income Deductions	(15,013,726)	15,013,726	(5,317,862)	(9,695,864)
	Net Other Income and Deductions	37,363	(37,363)	(13,234)	(24,129)
501128	Fuels Unrealized MTM Gain	(400,288)	400,288		
501129	Fuels Unrealized MTM Loss	321,238	(321,238)		
		(79,050)	79,050	(28,000)	(51,050)
	Total Mark-to-Market	116,413	(116,413)	(41,234)	(75,179)
Non-Recurring Gains / Losses					
421100	Gain On Disposal Of Property	30,027	(30,027)	(10,636)	(19,391)
421200	Loss On Disposal Of Property	227	(227)	80	147
426513	Other Deductions - Impairments	0	0	0	0
426553	PP&E IMPAIRMENT	0	0	0	0
426554	Impairment of Goodwill	0	0	0	0
	Total Non-Recurring Gains / Losses	29,800	(29,800)	(10,556)	(19,244)
Non-Recurring Revenue / Expense					
456640	Deferred DSM Costs	16,031,265	(16,031,265)	(5,678,274)	(10,352,991)
408121	Taxes Property - Operating	(26,544,676)	26,544,676	(9,402,124)	(17,142,562)
904001	Bad Debt Expense	(14,482,902)	14,482,902	(5,129,844)	(9,353,058)
CTA - Various	Operation Expenses	22,222,383	(22,222,383)	7,871,168	14,351,215
CTA - 935100	Maintenance Expenses	811	(811)	287	524
CTA - 403005	Depreciation Expense	80,944	(80,944)	28,670	52,274
CTA - Various	Income Taxes - Other	346,304	(346,304)	122,661	223,643
CTA - Various	Other Deductions	13,939	(13,939)	4,937	9,002
CTA - 431900	Net Interest Charges	181,733	(181,733)	64,370	117,363
	Total Non-Recurring Revenue / Expense	34,212,729	(34,212,729)	(12,118,149)	(22,094,580)
Equity in Earnings of Subsidiary Companies					
418.1	Equity in Earnings of Subsidiary Companies	285,381,485	(285,381,485)		(285,381,485)
	Total Eliminations	287,292,782	(287,292,782)	(676,983)	(286,615,799)

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Average Common Stock Equity
December 31, 2012

Description	December 31, 2011 Balance at 12-31-11	Purchase Accounting	DENA	Other Adjustments	Adjusted 12-31-11	December 31, 2012 Balance at 12-31-12	Purchase Accounting	DENA	Other Adjustments	Adjusted 12-31-12	Average Common Equity
Common Stock Equity											
201000 Common Stock	762,138,231				762,138,231	762,138,231				762,138,231	
207000 Premium on capital stock		362,457,437			362,457,437		362,457,437			362,457,437	
208000 Donat Recvd From [illegible]	28,950,000	197,206,819			226,156,819	28,950,000	197,206,819			226,156,819	
208001 Donat Recvd From Duke	1,462,336,840		(1,462,336,840)		0	1,462,336,840		(1,462,336,840)		0	
208010 Donat Recvd From Stock Tax	15,641,579	68,536,329			84,178,908	15,641,579	68,536,329			84,178,908	
210024 Gain on Redemption of Capital		147,685			147,685		147,685			147,685	
211003 Misc Paid in Capital			(1,171,128,822)		(1,171,128,822)			(696,942,147)		(696,942,147)	
211004 Miscellaneous Paid in Capital Purch Acctg	2,879,949,148	(2,879,949,148)			0	2,817,217,085	(2,879,949,148)			(62,732,063)	
211005 Miscellaneous Paid in Capital Pre-Merger Equity	557,581,008	(603,414,396)			(45,833,388)	557,581,008	(603,414,396)			(45,833,388)	
211007 Misc PIC Premerg RE for Div	140,474,493	(625,474,493)			(485,000,000)	0	(625,474,493)			(625,474,493)	
211110 PIC - Shareowner		(3,350,836)			(3,350,836)		(3,350,836)			(3,350,836)	
214010 Common stock equity inter-company		(21,760,868)			(21,760,868)		(21,760,868)			(21,760,868)	
216000 Unappropriated RE Bal	(846,467,236)	984,582,478	1,580,569,348	1,403,452,846 [2]	3,102,137,436	(852,136,141)	1,036,149,463	1,307,982,858	1,403,452,846 [2]	3,167,460,130	
216100 Unapp Ret Ernga-Curr Yr Net Income	194,332,084	74,396,681	(120,640,547)	(51,722,284) [1]	96,887,924	174,083,359	20,981,178	(173,481,757)	(376,110,521) [1]	(353,947,730)	
438000 Dividends Declared on Common Stock					0					0	
Accum other comprehensive income (loss)	(27,760,807)	(45,455,363)			(73,216,170)	42,448	(45,455,363)			(45,412,915)	
Total Common Stock Equity	$ 5,167,174,449	$ (2,311,863,858)	$ (1,173,434,961)	$ 1,351,730,562	$ 2,833,906,253	$ 5,186,453,608	$ (2,482,034,263)	$ (604,787,788)	$ 1,027,342,326	$ 2,796,593,764	2,815,250,009
Allocation to Duke Energy Ohio Electric [3]											77.92%
Average Common Equity Allocated to Duke Energy Ohio Electric											$ 2,193,842,807

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

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Net Plant Allocation Factor
December 31, 2012

	Duke Energy Ohio, Inc.		
Description	Gas	Electric	Total
Gross Plant	1,671,709,907	6,721,916,300	8,393,626,207
Accumulated Depreciation	443,535,557	2,387,287,381	2,830,822,938
Net Plant	1,228,174,350	4,334,628,919	5,562,803,269
Allocation Percentage	22.08%	77.92%	100.00%

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

Source of Data per Stipulation in Case No. 11-3549-EL-SSO:

1 Source of data is actual data from FERC Form 1 for the calendar year at issue.

Adjustments to Net Income per Stipulation in Case No. 11-3549-EL-SSO:

2 Eliminate all impacts related to the purchase accounting recorded pursuant to the Duke Energy / Cinergy Corp. Merger.

3 Eliminate all impacts of refunds to customers pursuant to R.C. 4928.143(F)

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.

6 Eliminate all impacts of material, non-recurring revenue or expenses.

7 Eliminate all impacts of parent, affiliated, or subsidiary companies and, to the extent reasonably feasible and prudently justified in the opinion of Duke Energy Ohio, eliminate the impacts of its natural gas distribution business.

8 Only Rider ESCC revenue received while the Company directly owns the Legacy Generation Assets will be included in the SEET review. For the SEET review involving the year in which the Legacy Generation Assets are transferred, the Company's net income will be adjusted to exclude the impact of all revenue collected from Rider ESSC after the date of transfer.

Adjustments to Common Equity per Stipulation in Case No. 11-3549-EL-SSO:

9 Common Equity used in the calculation will be the beginning and ending average common equity of Duke Energy Ohio on a stand-alone basis (i.e., equity associated with subsidiaries will be excluded and common equity will be allocated between gas and electric service to the extent practicable) except that a thirteen month average common equity balance may be used for a review of the SEET for the year in which the Company completes the transfer of its Legacy Generation assets.

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

11 Eliminate the cumulative effect of the Net Income adjustments.

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

Attachment PAL-7

	Duke	Rank		Percentile Rank
From January 2010 to:				
Mar-10	-3.8%	13	(a)	36.8%
Jun-10	-4.3%	9	(a)	57.9%
Sep-10	7.5%	10	(a)	52.6%
Dec-10	9.5%	10	(a)	52.6%
Mar-11	13.2%	9	(a)	57.9%
Jun-11	18.9%	9	(a)	57.9%
Sep-11	28.1%	6	(b)	72.2%
Dec-11	42.7%	6	(b)	72.2%
Mar-12	37.9%	7	(b)	64.7%
Jun-12	53.1%	6	(b)	70.6%
Sep-12	45.0%	9	(b)	52.9%
Dec-12	44.6%	7	(b)	64.7%
From January 2011 to:				
Mar-11	3.3%	9	(a)	57.9%
Jun-11	8.6%	10	(a)	52.6%
Sep-11	16.9%	6	(b)	72.2%
Dec-11	30.3%	4	(b)	83.3%
Mar-12	25.9%	5	(b)	76.5%
Jun-12	39.8%	5	(b)	76.5%
Sep-12	32.4%	6	(b)	70.6%
Dec-12	32.0%	4	(b)	82.4%
From January 2012 to:				
Mar-12	-3.4%	14	(b)	27.8%
Jun-12	7.3%	9	(b)	55.6%
Sep-12	1.7%	14	(b)	27.8%
Dec-12	1.4%	9	(b)	55.6%

Note: (a) Prior to August 25, 2011, components of Philadelphia Utility Index were: 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.

Note: (b) On August 25, 2011, Progress Energy was replaced in the Philadelphia Utility Index (UTY) by Covanta. At the completion of the merger with Exelon, Constellation Energy was replaced by El Paso Electric. Per the LTI plan, Duke performance will be measured against the remaining UTY companies (excluding Progress Energy Covanta, Constellation and El Paso).