DUKE ENERGY OHIO EXHIBIT_______

**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. | )<br>)<br>)<br>)<br>) | Case No. 18-568- EL-UNC |

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**DIRECT TESTIMONY OF**

**SARAH E. LAWLER**

**ON BEHALF OF**

**DUKE ENERGY OHIO, INC.**

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May 15, 2018

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## I. INTRODUCTION AND PURPOSE

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Sarah E Lawler. 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 (DEBS) as Director, Rates and Regulatory Planning for Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and Duke Energy Kentucky, Inc. DEBS provides various administrative and other services to Duke Energy Ohio and other affiliated companies of Duke Energy Corporation (Duke Energy).

**Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.**

A. I earned a Bachelor of Science in Accountancy from Miami University, Oxford, Ohio in 1993. I am also a Certified Public Accountant. I began my career in September 1993 with Coopers & Lybrand, L.L.P. as an audit associate and progressed to a senior audit associate. In August 1997, I moved to Kendle International Inc., where I held various positions in the accounting department, ultimately being promoted to Corporate Controller. In August 2003, I began working for Cinergy Corp., the parent of Duke Energy Ohio, as External Reporting Manager, where I was responsible for the Company's Securities & Exchange Commission (SEC) filings. In August 2005, I then moved into the role of Manager, Budgets & Forecasts. In June 2006, following the merger between Cinergy Corp. and Duke Energy, I became Manager, Financial Forecasting. In

February 2015, I was promoted to Utility Strategy Director, Midwest where I was responsible for the preparation of business plans and other internal managerial reporting for Duke Energy Ohio and Duke Energy Kentucky, Inc. In December 2017, I began in my current role as Director, Rates and Regulatory Planning.

**Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR, RATES AND REGULATORY PLANNING.**

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

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

A. Yes. I have provided written testimony in Manufactured Gas Plant (MGP) Rider filings, Case No. 17-596-GA-RDR and Case No 18-283-GA-RDR, the Company's proposed Electric Security Plan IV filing, Case No. 17-1263-EL-SSO and the Company's most recent annual Accelerated Main Replacement Program (AMRP) Rider filing, Case No. 17-2318-GA-RDR.

**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. Pursuant to R.C. 4928.143(F), the Commission is required to evaluate the earnings of each electric distribution utility's approved ESP to determine whether the adjustments in the 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.

Duke Energy Ohio is currently providing a standard service offer (SSO) of competitive retail electric services pursuant to an ESP that was approved by the Commission on April 2, 2015. The terms of the ESP are set forth in the Commission's Opinion and Order in Case No. 14-841-EL-SSO (ESP Order).

**Q. DID THE ESP ORDER THAT THE COMMISSION ISSUED ON APRIL 2, 2015, ADDRESS THE ADMINISTRATION OF THE SEET TO DUKE ENERGY OHIO?**

A. Yes. With regard to calculation parameters, the ESP Order did not disagree with the methodology proposed by Duke Energy Ohio and used in its prior SEET proceedings. That methodology provides as follows:

- Net income as shown on page 117, column (c), line (78) of the [FERC] Form 1, adjusted for the following, if necessary:
    - 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.

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

The adjusted net income will be divided by Common Equity to determine the resulting return on equity. Certain adjustments will be made to Common Equity.

- Common Equity used in the calculation will be the beginning and ending average common equity of Duke Energy Ohio on a stand-alone basis.
- Equity will be adjusted to eliminate the acquisition premium recorded to equity pursuant to the Duke Energy/Cinergy merger.
- Eliminate the cumulative effect of the Net Income adjustments.

**Q. DOES THE ESP ORDER DEFINE "SIGNIFICANTLY EXCESSIVE EARNINGS"?**

A. No. Pursuant to the ESP Order, the threshold for significantly excessive earnings will be determined with the context of this case for calendar year 2017.

## III. COMMISSION'S SEET GUIDELINES

**Q. WHAT GUIDELINES DID THE COMPANY FOLLOW WHEN PREPARING ITS 2017 SEET FILING?**

A. The Company has followed the guidelines found in the relevant provision of the ESP Order. Additionally, the Company has incorporated into its SEET the

Commission's recommendations from Case No. 09-786-EL-UNC (SEET Case).[1]

**Q. PLEASE IDENTIFY THE ADDITIONAL RECOMMENDATIONS OF THE COMMISSION IN THE SEET CASE.**

A. The Commission's orders in that case generally defer to each company's specific situation.

As I discuss further below, the Commission directed utilities to: (1) base average equity balances on the average of the balances at the beginning and at the end of the year;[2] (2) adjust out all impacts from affiliates and other services (*e.g.*, natural gas distribution);[3] and (3) address deferrals and other certain factors.[4]

**Q. DID THE COMPANY HAVE ANY ESP-RELATED DEFERRALS IN 2017 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:

[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.
[2] *Id.*, Entry on Rehearing, at pg. 6 (Aug. 25, 2010).
[3] *Id.*, Finding and Order, at pg. 12 (June 30, 2010).
[4] *Id*.

- whether the electric utility owns generation;
- whether the ESP includes a fuel and purchased power adjustment or similar adjustments;
- the rate design and extent to which the electric utility remains subject to weather and economic risk;
- capital commitments and future capital requirements;
- indicators of management performance and benchmarks to other utilities;
- 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 9.84 percent for its jurisdictional electric distribution service in Ohio.[5]

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

A. Yes. The Company procured 100 percent of the generation services provided to its SSO load in 2017 through an auction process approved in the ESP Order. The Company recovers the cost of this competitively procured power via riders. Duke Energy Ohio makes no profit or loss on power that is procured via the auction process and is ultimately delivered to its SSO customers.

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[5] *In the Matter of the Application of Duke Energy Ohio for an Increase in Electric Distribution Rates,* Case No. 12-1682-EL-AIR, *et al.,* Stipulation and Recommndation, at pg. 6 (April 2, 2013), and Opinion and Order, at pg. 6 (May 1, 2013).

**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 Stipulation in Case No. 11-3549-EL-SSO eliminated some riders that existed at the end of 2011 and added certain new riders for competitive retail services. As a result, there were new rates for competitive retail services based on allocation methods and rate design processes that were approved by the Commission in that case. The 2014 ESP Order further eliminated some riders for competitive service and modified the design of some riders. 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 providers.

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

A. As part of the Stipulation in Case No. 11-3549-EL-SSO, 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 mitigates 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. The administration of the SEET expressly contemplates that the impacts of Duke Energy Ohio's natural gas are to be eliminated. As such, Duke Energy Ohio does not address, in this proceeding, the weather risks relevant to its natural gas operations.

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

A. As stated in the Company's May 15, 2018, Application filed contemporaneously with my testimony in this case, the current ESP expires on May 31, 2018. The capital budget requirements for the future, committed, electric investments in Ohio are $442 million for 2018 and $475 million for 2019.

**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 that does exist, on a corporate-wide basis. Attachment SEL-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, 2015, through December 31, 2017. The second set of numbers shows the TSR for stocks purchased from January 1, 2016, through December 31, 2017. The third set of numbers shows the TSR for stocks purchased from January 1, 2017, through December 31, 2017.

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

A. Yes. Duke Energy Ohio is the first utility in Ohio to deploy smart meters across its entire service territory. Additionally, the Company has installed and/or automated with two-way communications capabilities over 1,152 system devices inside substations and over 6,723 system devices on distribution circuits. Duke Energy Ohio's self-healing teams have saved many millions of customer outage minutes annually. As a state leader in deployment of the smart grid, Duke Energy Ohio is actively participating in the Commission's "PowerForward" program to share its expertise and to work with interested stakeholders to enhance further innovation.

## IV. SCHEDULES SPONSORED BY WITNESS

**Q. PLEASE DESCRIBE ATTACHMENT SEL-1.**

A. Attachment SEL-1 is a schedule showing that the Company's return earned on average electric common equity for the year ended December 31, 2017, is 6.28 percent.

**Q. PLEASE DESCRIBE ATTACHMENT SEL-2.**

A. Attachment SEL-2 is a schedule showing the calculation of the Company's adjusted electric net income for the calendar year 2017. The source of the utility operating income for the twelve months ended December 31, 2017, is the Company's 2017 FERC Form 1 report, pages 114 to 117. Continuing the methodology used in prior SEET proceedings, which methodology was approved in the ESP Order, 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 business were eliminated. As shown on the attachment, no refunds were returned to customers during the twelve months ended December 31, 2017. 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 SEL-3.**

A. Attachment SEL-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 SEL-4.**

A. Attachment SEL-4 is an exhibit showing the calculation of the Company's average electric common stock equity as of December 31, 2017. The attachment shows the common stock equity balances for December 31, 2016, and December

31, 2017, and the calculation of the average electric common equity balance as of December 31, 2017, to be used in determining if Duke Energy Ohio has significantly excessive earnings. Pursuant to the ESP Order, 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 SEL-5.**

A. Attachment SEL-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 2016 and 2017 FERC Form 1, pages 200-201. The schedule shows that, based on net plant, 63.68 percent of the Company's 2017 common equity should be allocated to electric operations.

**Q. PLEASE DESCRIBE ATTACHMENT SEL-6.**

A. Attachment SEL-6 is a summary of assumptions used in this filing, most of which are from Attachment PAL-2 in Peggy A. Laub's testimony in Case No. 14-841-EL-SSO. I have discussed all of the other relevant assumptions in my testimony.

**Q. PLEASE DESCRIBE ATTACHMENT SEL-7.**

A. Attachment SEL-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 SEL-1, Duke Energy Ohio's return earned on average electric common equity is 6.28 percent. Since the return on average electric common equity is substantially less than the Company's approved 9.84 percent rate of return, the Company does not have significantly excess earnings and, therefore, no refund to customers is warranted.

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

A. Yes.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes.

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Case No. 18-568-EL-UNC
December 31, 2017



| Description | Source | Amount |
|---|---|---|
| **Including Non-SSO Sales and ESP Deferrals** | | |
| Adjusted Electric Net Income | SEL-2 | 65,025,284 |
| Average Electric Common Equity | SEL-4 | 1,034,974,886 |
| Return Earned on Average Electric Common Equity | | 6.28% |

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Adjusted Net Income
December 31, 2017

| Description | Form No. 1 Page, Line, Column | Account Level | 12 Months Ended December 31, 2017: Total | 12 Months Ended December 31, 2017: Electric | Eliminations: Purchase Accounting | Eliminations: Mark-to-Market | Eliminations: Non-Recurring Gains / Losses | Eliminations: Non-Recurring Rev / Exp | Eliminations: Equity in Earnings of Subsidiaries | Eliminations: Amounts Refunded to Customers | Eliminations: Total Eliminations | Adjusted December 31, 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Utility Operating Income** | | | | | | | | | | | | |
| Operating Revenues | 114.2.c.g | Level 6 | 1,485,839,468 | 1,069,937,445 | | | | | | | 0 | 1,069,937,445 |
| Operation Expenses | 114.4.c.g | Level 8 | 671,202,267 | 515,717,785 | | | | 103,682 | | | 103,682 | 515,821,467 |
| Maintenance Expenses | 114.5.c.g | Level 8 | 80,531,457 | 71,418,781 | | | | 0 | | | 0 | 71,418,781 |
| Depreciation Expense | 114.6.c.g | Level 9 | 145,562,304 | 99,491,329 | | | | (977,720) | | | (977,720) | 98,513,609 |
| Depreciation Expense for Asset Retirement Costs | 114.7.c.g | Level 9 | 0 | 0 | | | | | | | 0 | 0 |
| Amort. & Depl. Of Utility Plant | 114.8.c.g | Level 9 | 13,075,352 | 9,233,928 | | | | | | | 0 | 9,233,928 |
| Amort. Of Utility Plant Acquisition Adj. | 114.9.c.g | Level 9 | 0 | 0 | | | | | | | 0 | 0 |
| Regulatory Debits | 114.12.c.g | FERC Page | 70,010,647 | 46,926,944 | | | | | | | 0 | 46,926,944 |
| Less: Regulatory Credits | 114.13.c.g | FERC Page | (22,519,034) | (22,263,025) | | | | | | | 0 | (22,263,025) |
| Taxes Other Than Income Taxes | 114.14.c.g | Level 8 | 266,016,905 | 212,475,848 | | | | (4,187,547) | | | (4,187,547) | 208,288,301 |
| Income Taxes - Federal | 114.15.c.g | Level 8 | (21,115,214) | (38,881,716) | | 0 | 0 | 2,204,982 | | 0 | 2,204,982 | (36,676,734) |
| Income Taxes - Other | 114.16.c.g | Level 8 | 280,301 | (531,413) | | | | | | | 0 | (531,413) |
| Provision For Deferred Income Taxes | 114.17.c.g | Level 9 | 275,876,183 | 189,872,070 | | | | | | | 0 | 189,872,070 |
| Provision For Deferred Income Taxes - Credit | 114.18.c.g | Level 9 | (198,154,368) | (122,157,242) | | | | | | | 0 | (122,157,242) |
| Investment Tax Credit Adj - Net | 114.19.c.g | Level 8 | (415,822) | (231,244) | | | | | | | 0 | (231,244) |
| Gains From Disp Of Allow - Credit | 114.20-23.c.g | Level 8 | 0 | 0 | | | | | | | 0 | 0 |
| Accretion Expense | 114.24.c.g | Level 8 | 0 | 0 | | | | | | | 0 | 0 |
| Total Utility Operating Expenses | | | 1,280,350,978 | 961,072,045 | 0 | 0 | 0 | (2,856,603) | 0 | 0 | (2,856,603) | 958,215,442 |
| Net Utility Operating Income | | | 205,488,490 | 108,865,400 | 0 | 0 | 0 | 2,856,603 | 0 | 0 | 2,856,603 | 111,722,003 |
| **Other Income** | | | | | | | | | | | | |
| Revenues From Merchandising, Jobbing and Contract Work | 117.31.c | Level 7 | 1,916,712 | 1,915,708 | | | | | | | 0 | 1,915,708 |
| Less: Costs & Exp of Merchandising, Jobbing & Contract | 117.32.c | Level 7 | 1,961,207 | 1,960,311 | | | | | | | 0 | 1,960,311 |
| Revenues From Nonutility Operations | 117.33.c | Level 9 | (639) | (620) | | | | | | | 0 | (620) |
| Less: Expenses of Nonutility Operations | 117.34.c | Level 9 | 142,850 | 141,416 | | | | | | | 0 | 141,416 |
| Non-operating Rental Income | 117.35.c | Level 8 | (58,499) | (35,290) | | | | | | | 0 | (35,290) |
| Equity in Earnings of Subsidiary Companies | 117.36.c | Work Paper | 58,476,337 | 30,885,226 | | | | | (30,885,226) | | (30,885,226) | 0 |
| Interest and Dividend Income | 117.37.c | Level 7 | 4,512,287 | 2,759,021 | | | | | | | 0 | 2,759,021 |
| AFUDC | 117.38.c | Level 7 | 8,038,039 | 6,125,613 | | | | | | | 0 | 6,125,613 |
| Miscellaneous Non-operating Income | 117.39.c | Level 8 | (447,195) | (1,000,105) | | 0 | | | | | 0 | (1,000,105) |
| Gain on Disposition of Property | 117.40.c | Level 8 | 269,461 | 248,337 | | | (248,337) | | | | (248,337) | 0 |
| Total Other Income | | | 70,602,446 | 38,796,163 | 0 | 0 | (248,337) | 0 | (30,885,226) | 0 | (31,133,563) | 7,662,600 |
| **Other Income Deductions** | | | | | | | | | | | | |
| Loss on Disposition of Property | 117.43.c | Account 421.2 | 175,914 | 173,546 | | | (173,546) | | | | (173,546) | 0 |
| Misc. Amortization | 117.44.c | Level 8 | 0 | 0 | | | | | | | 0 | 0 |
| Donations | 117.45.c | Level 8 | 819,630 | 488,156 | | | | | | | 0 | 488,156 |
| Life Insurance | 117.46.c | Level 8 | 39,580 | 39,580 | | | | | | | 0 | 39,580 |
| Penalties | 117.47.c | Level 8 | 507 | 337 | | | | | | | 0 | 337 |
| Civic, Political & Related Activities | 117.48.c | Level 8 | 1,763,876 | 1,075,159 | | | | | | | 0 | 1,075,159 |
| Other Deductions | 117.49.c | Level 8 | 8,133,364 | 5,742,493 | | 0 | (18,704) | 7,208 | | | (11,496) | 5,730,997 |
| Total Other Income Deductions | | | 10,932,871 | 7,519,271 | 0 | 0 | (192,250) | 7,208 | 0 | 0 | (185,042) | 7,334,229 |
| Total Taxes On Other Income and Deductions | 117.59.c | Level 6 | (811,262) | (3,934,429) | (13,706) | 0 | (19,833) | | 0 | 0 | (33,539) | (3,967,968) |
| Net Other Income and Deductions | | | 60,480,837 | 35,211,321 | 13,706 | 0 | (36,254) | (7,208) | (30,885,226) | 0 | (30,914,982) | 4,296,339 |
| Net Interest Charges | 117.70.c | Level 4 | 73,949,030 | 50,954,298 | 38,760 | | | 0 | | | 38,760 | 50,993,058 |
| Net Income | 117.78.c | | 192,020,297 | 93,122,423 | (25,054) | 0 | (36,254) | 2,849,395 | (30,885,226) | 0 | (28,097,139) | 65,025,284 |

| Account ID CB | Account Long Descr CB | Account Node Name | 12 months Ended 12/31/2017 | Elimination | Income Tax Effect | Impact on Net Income |
|---|---|---|---|---|---|---|
| **Purchase Accounting** | | | | | | |
| 428200 | Amort_Debt_Disc_Pur_Acctg_Adj | | 393,492 | (393,492) | | |
| 429200 | Amort_Debt_Prem_Pur_Acctg_Adj | | (432,252) | 432,252 | | |
| | | | (38,760) | 38,760 | (13,706) | (25,054) |
| | Total Purchase Accounting Adjustment | | (38,760) | 38,760 | (13,706) | (25,054) |
| **Mark-to-Market** | | | | | | |
| 421530 | Power Trading MTM Gains | REVENUE | 0 | 0 | | |
| 421631 | MTM Unreal Gains - EA | FUEL | 0 | 0 | | |
| | **Other Income** | | 0 | 0 | 0 | 0 |
| 426531 | MTM Unreal Loss-Reserve | REVENUE | 0 | 0 | | |
| 426631 | MTM Unreal Losses - EA's | FUEL | 0 | 0 | | |
| | **Other Income Deductions** | | 0 | 0 | 0 | 0 |
| | Net Other Income and Deductions | | 0 | 0 | 0 | 0 |
| | Total Mark-to-Market | | 0 | 0 | 0 | 0 |
| **Non-Recurring Gains / Losses** | | | | | | |
| 421100 | Gain On Disposal Of Property | F_TOT_OTH_INC | 248,337 | (248,337) | 87,815 | (160,522) |
| 421200 | E Loss On Disposal Of Property | F_TOT_OTH_INC_DED | 173,546 | (173,546) | 61,368 | 112,178 |
| 426510 | E Other | F_TOT_OTH_INC_DED | 18,704 | (18,704) | 6,614 | 12,090 |
| 426513 | E Other Deductions - Impairments | F_TOT_OTH_INC_DED | 0 | 0 | 0 | 0 |
| 426551 | E Impairment & other related charges | F_TOT_OTH_INC_DED | 0 | 0 | 0 | 0 |
| 426553 | E PP&E IMPAIRMENT | F_TOT_OTH_INC_DED | 0 | 0 | 0 | 0 |
| 426554 | E Impairment of Goodwill | F_TOT_OTH_INC_DED | 0 | 0 | 0 | 0 |
| | Total Non-Recurring Gains / Losses | | 56,087 | (56,087) | (19,833) | (36,254) |
| **Non-Recurring Revenue / Expense** | | | | | | |
| CTA - Various | Operation Expenses | | (103,682) | 103,682 | (36,663) | (67,019) |
| CTA - 935100 | Maintenance Expenses | | 0 | 0 | 0 | 0 |
| CTA - 404200 | Depreciation Expense | | 977,720 | (977,720) | 345,733 | 631,987 |
| CTA - Various | Income Taxes & Other Taxes | | 0 | 0 | 0 | 0 |
| CTA - Various | Other Deductions | | (7,208) | 7,208 | 0 | (7,208) |
| CTA - 431900 | Net Interest Charges | | 0 | 0 | 0 | 0 |
| Def Tax Basis | Property Tax Adjustment | | 4,187,547 | (4,187,547) | 0 | 4,187,547 |
| Def Tax Basis | Deferred Tax | | 0 | 0 | 1,895,912 | (1,895,912) |
| | Total Non-Recurring Revenue / Expense | | 5,054,377 | (5,054,377) | 2,204,982 | 2,849,395 |
| **Equity in Earnings of Subsidiary Companies** | | | | | | |
| 418.1 | Equity in Earnings of Subsidiary Companies | | 30,885,226 | (30,885,226) | | (30,885,226) |
| | Total Eliminations | | 35,956,930 | (35,956,930) | 2,171,443 | (28,097,139) |

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Average Common Stock Equity
December 31, 2017

| | December 31, 2016 | | | | | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Description | Balance at 12-31-16 | Other Adjustments | Remove Equity in Subsidiaries | Goodwill | Adjusted 12-31-16 | Balance at 12-31-17 | Other Adjustments | Remove Equity in Subsidiaries | Goodwill & Remove Non-Regulated | Adjusted 12-31-17 | Average Common Equity |
| Common Stock Equity | | | | | | | | | | | |
| 201000 Common Stock | 762,136,231 | | | | 762,136,231 | 762,136,231 | | | | 762,136,231 | |
| 207001 Premium on capital stock | 0 | | | | 0 | 0 | | | | 0 | |
| 208000 Donat Recvd From Stkhld | 28,950,000 | | | | 28,950,000 | 28,950,000 | | | | 28,950,000 | |
| 208001 Donat Recvd From Duke | 1,462,336,840 | | | | 1,462,336,840 | 1,462,336,840 | | | | 1,462,336,840 | |
| 208010 Donat Recvd From Stkhld Tax | 15,641,578 | | | | 15,641,578 | 15,641,578 | | | | 15,641,578 | |
| 210020 Gain on Redemption of Capital | 0 | | | | 0 | 0 | | | | 0 | |
| 211003 Misc Paid in Capital | (1,955,982,307) | | | | (1,955,982,307) | (1,955,982,307) | | | | (1,955,982,307) | |
| 211004 Miscellaneous Paid in Capital Purch Acctg | 943,842,010 | | | (746,918,647) | 196,923,363 | 943,842,010 | | | (746,918,647) | 196,923,363 | |
| 0211008 Misc PIC Pushdown Adj RE | 1,642,546,493 | | | | 1,642,546,493 | 1,617,546,493 | | | | 1,617,546,493 | |
| 211005 Miscellaneous Paid in Capital Pre-Merger Equity | 557,581,098 | | | | 557,581,098 | 557,581,098 | | | | 557,581,098 | |
| 211007 Misc PIC Premerg RE for Div | 0 | | | | 0 | 0 | | | | 0 | |
| 211110 PIC - Sharesaver | 0 | | | | 0 | 0 | | | | 0 | |
| 214010 Common stock equity inter-company | 0 | | | | 0 | 0 | | | | 0 | |
| 216000 Unappropriated RE Bal | 397,382,727 | | (645,701,441) | | (248,318,714) | (871,542,471) | | (123,767,608) | | (995,310,079) | |
| 216100 Unapp Ret Erngs-Curr Yr Net Income | (847,216,306) | (17,279,174) | | | (864,495,480) | 613,729,189 | 2,788,087 [2] | (613,729,189) | | 2,788,087 | |
| 438000 Dividends Declared on Common Stock | 0 | | | 0 | 0 | 0 | | | | 0 | |
| Accum other comprehensive income (loss) | 0 | | | | 0 | 0 | | | | 0 | |
| Total Common Stock Equity | $ 3,007,218,364 | $ (17,279,174) | $ (645,701,441) | $ (746,918,647) | $ 1,597,319,102 | $ 3,174,238,661 | $ 2,788,087 | $ (737,496,797) | $ (746,918,647) | $ 1,692,611,304 | |
| Allocation to Duke Energy Ohio Electric [1] | | | | | 62.11% | | | | | 63.68% | |
| Average Common Equity Allocated to Duke Energy Ohio Electric | | | | | $ 992,094,894 | | | | | $ 1,077,854,878 | $ 1,034,974,886 |

[1] Source: Attachment SEL-5
[2] Source: SEL-3 Income Adjustments

Duke Energy Ohio, Inc.
Significantly Excessive Earnings Test
Net Plant Allocation Factor
December 31, 2017



| 2017 | Duke Energy Ohio, Inc. | | |
|---|---|---|---|
| Description | Gas | Electric | Total |
| Gross Plant (Line 13) | 2,160,722,631 | 3,808,759,401 | 5,969,482,032 |
| Accumulated Depreciation (Line 33) | 619,272,586 | 1,106,650,022 | 1,725,922,608 |
| Net Plant | 1,541,450,045 | 2,702,109,379 | 4,243,559,424 |
| Allocation Percentage | 36.32% | 63.68% | 100.00% |

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

<u>Source of Data per Order in Case No. 14-841-EL-SSO:</u>

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

<u>Adjustments to Net Income per Order in Case No. 14-841-EL-SSO:</u>

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.

<u>Adjustments to Common Equity per Order in Case No. 14-841-EL-SSO:</u>

8 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).
9 Eliminate the acquisition premium recorded to equity pursuant to the Duke / Cinergy Corp. merger.
10 Eliminate the cumulative effect of the Net Income adjustments.

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

| | Duke | Rank | Percentile Rank |
|---|---|---|---|
| From January 2015 to: | | | |
| Mar-15 | -7.2% | 14 | 31.5% |
| Jun-15 | -13.7% | 14 | 31.5% |
| Sep-15 | -11.2% | 14 | 31.5% |
| Dec-15 | -10.8% | 14 | 31.5% |
| Mar-16 | 1.9% | 14 | 31.5% |
| Jun-16 | 9.5% | 14 | 31.5% |
| Sep-16 | 3.2% | 14 | 27.7% |
| Dec-16 | 1.3% | 16 | 16.6% |
| Mar-17 | 8.2% | 15 | 22.2% |
| Jun-17 | 11.4% | 13 | 33.3% |
| Sep-17 | 13.0% | 14 | 27.7% |
| Dec-17 | 14.4% | 13 | 33.3% |
| From January 2016 to: | | | |
| Mar-16 | 13.5% | 14 | 31.5% |
| Jun-16 | 20.1% | 10 | 52.6% |
| Sep-16 | 19.3% | 12 | 38.8% |
| Dec-16 | 14.3% | 14 | 27.7% |
| Mar-17 | 24.3% | 12 | 38.8% |
| Jun-17 | 31.9% | 13 | 33.3% |
| Sep-17 | 33.7% | 12 | 38.8% |
| Dec-17 | 35.3% | 11 | 44.4% |
| From January 2017 to: | | | |
| Mar-17 | 8.8% | 8 | 63.1% |
| Jun-17 | 15.4% | 10 | 52.6% |
| Sep-17 | 17.0% | 10 | 52.6% |
| Dec-17 | 18.4% | 14 | 31.5% |