

Duke Energy Ohio's Distribution Rate

In May 2008, the Public Utilities Commission of Ohio (PUCO) approved an agreement between groups, including the Ohio Consumers' Counsel, granting a residential distribution rate increase for Duke Energy Ohio. The PUCO also updated the way the distribution rate is charged on customer bills. This new "levelized" distribution rate structure makes sure that each customer pays only their share of the costs Duke must cover to deliver gas to their home. Below are frequently asked questions about the distribution rate increase and the levelized rate structure.

What are distribution rates?

Natural gas bills are comprised of two main parts – the cost of the gas and the cost of delivering the gas. The cost of natural gas is passed on to customers through Duke's gas cost recovery charge or a gas marketer's rate. The cost of delivering natural gas is billed to customers through the distribution rate.

The distribution rate pays for all the things that Duke must do to deliver gas to its customers including installing and maintaining gas pipelines, reading gas meters, processing bills and taking customer service calls. Duke spends the same amount of money per residential customer to do these things, whether a customer uses a little natural gas each month, or a lot. Since these distribution costs do not change with customer usage, we call them "fixed costs."

How did Duke charge the distribution rate in the past?

Under Duke's old distribution rate, most of the fixed costs of delivering natural gas were billed to customers based upon the amount of gas they used each month. A small monthly customer charge paid for things like meter reading, billing and customer service. The more gas a customer used, the greater the share of Duke's fixed distribution cost they paid to have the gas delivered to their home. In other words, each customer paid a different amount for the same service.

How does the new "levelized" distribution rate work?

Customers will pay a flat monthly charge to cover their share of the fixed distribution costs that do not change with natural gas usage. A usage-based gas delivery charge will make up the remainder of the distribution rate. The flat monthly charge will help balance out, or "levelize," between the summer and winter, allowing customers to better predict and budget for bills from month-to-month.

Is the new flat monthly charge the same thing as the old customer charge?

No, the old customer charge only covered the cost of things like meter reading, billing and customer service. The remainder of the distribution costs covering the installation, maintenance, and repair of Duke's pipeline system were billed through the usage based delivery charge. The new flat monthly charge covers nearly all the fixed costs of delivering gas to customers. As a result, the usage based part of the distribution rate is now lower.

I read that Duke's rates are increasing 300 percent. Is this true?

No Duke customer will pay 300 percent more next year for natural gas delivery. The PUCO redesigned the rates so that most of the fixed costs will be charged in a flat monthly rate. A significantly smaller part of the bill will vary with the amount of gas used. After accounting for the higher flat rate and the lower usage-based rate, the total increase, which was agreed to by all the groups, is very low.

Information citing a 300 percent increase in rates compares only the old customer charge to the new flat monthly delivery charge and does not take into account that the usage-based rate is going down. So, while an average residential customer using 810 hundred cubic feet (ccf) of gas a year will see a small increase in rates due to the overall rate increase, that customer will see no impact from the change in rate design. That's because the decrease in the usage-based part of the rate offsets the increase in the flat monthly charge over the course of the year for the average consumer. This has the added benefit of spreading out the delivery costs more evenly throughout the year, so customers aren't paying more of the fixed costs during the winter months, when bills are already the highest.

How much will the average customer bill increase?

The distribution rate increase will be phased in over two years. An average Duke residential customer using 810 ccf of gas each year will see their total bill increase \$3.40 per month in year one and another 60 cents per month in year two. The increase on the average customer's bill is a result of the rate increase, not the change to a levelized rate structure.

Will any of this affect the cost of natural gas itself?

No, the cost of natural gas, which makes up 75 to 80 percent of bills, will continue to be passed on to customers through Duke's gas cost recovery charge or a gas marketer's rate. Either way, Duke's makes no profit on this part of the bill.

Will the new rate structure impact customers' energy conservation efforts?

The cost of natural gas remains the biggest part of a customer bills. Customers who make conservation efforts and energy efficiency investments will continue to see cost savings on this part of their bill.

Did the PUCO do anything to protect low income customers?

Customers at or below 175 percent of the federal poverty guidelines who are not to enrolled in the Percentage of Income Payment Plan (PIPP) will be eligible for a pilot program to reduce their flat monthly charge by \$4. The pilot program will be available to the first 10,000 customers who enroll. PIPP will continue to pay 10 percent of their gross monthly household income on each monthly bill.

When does the new distribution rate take effect?

The new distribution rate will begin appearing on customer bills in the summer of 2008. This is Duke's first distribution rate increase since 2001.

Did the PUCO consider public input in making its decision?

Yes, the PUCO held local public hearings were held in Cincinnati and Mason, Ohio. A total of 31 witnesses provided testimony.