

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)	
Energy Ohio, Inc., to Adjust Rider DR – IM)	Case No. 12-1811-GE-RDR
And Rider AU for 2011 SmartGrid Costs)	

Comments of the
Staff of the
Public Utilities Commission of Ohio

November 21, 2012

Background

Duke Energy Ohio filed this application to increase the rates of Rider DR-IM and Rider AU with no reference to, or condition upon any other filing. In that sense, the instant filing resembles prior filings for recovery of investments and expenses, which have been or are being recovered through these riders. The filing includes documentation of capital investments and O&M expenses, and it calculates a revenue requirement that includes a return of, and on, capital expenditures that are considered as rate base. Duke has also filed in Case No. 12-1685-GA-AIR to roll into base rates all plant and equipment on the books in Rider AU, through the date certain in that case, and a level of O&M expenses as presented in the test year in that case.

These Staff comments address the instant filing and the schedules associated with Rider AU independent of the filing in the rate case. Staff recommends that the rates recommended herein go into effect on April 1, 2013. Should the Commission approve any element of the gas base rate case, which impacts the underlying costs included in Rider AU, the Rider AU rates will need to be adjusted. Staff therefore recommends that this case remain open until Case No. 12-1685-GA-AIR is finally decided in order to accommodate the contingency that Rider AU may need to be adjusted.

Duke's Request to Recover Under Collected Dollars from the 2010 Revenue Requirement

Riders DR-IM and AU are designed to recover approved costs incurred over a twelve month period, through a customer charge billed over a twelve-month period. Subject to approval by the Commission, the intent is that these riders go into effect roughly around April 1st each year. Riders DR-IM and AU, which are currently recovering the 2010 revenue requirement, did not go into effect until about July 1, 2012. Thus the prior rates;

- 1 • Rider DR-IM: \$1.06 per month for residential customers
- 2 • Rider DR-IM: \$1.69 per month for non residential customers
- 3 • Rider AU: \$0.99 per month for combination gas/electric customers
- 4 • Rider AU: \$0.68 per month for gas-only customers

5 were in effect for 15 months, three months longer than intended. Had the schedule been
6 maintained, the current rates,

- 7 • Rider DR-IM: \$2.24 per month for residential customers
- 8 • Rider DR-IM: \$3.31 per month for non residential customers
- 9 • Rider AU: \$1.97 per month for combination gas/electric customers
- 10 • Rider AU: \$1.05 per month for gas-only customers

11 would have gone into effect on April 1, 2012 instead of July 1, 2012.

12 As a result, and based upon an expectation that the rates resulting from the instant application
13 will go into effect on April 1, 2013, thus restoring the original annual rate cycle, Duke has
14 included in the proposed rates a premium intended to collect three months of the difference
15 between the current rate and the prior rate. The calculation of the revenue deficit experienced
16 because Riders DR-IM and AU went into effect 3 months later than designed is shown in
17 Schedule 15 in both Riders.

Staff has no issue with the reasonableness of this calculation or the proposal to include the under collected amounts prospectively in the rates resulting from this application. Likewise, Staff supports the concept of re-establishing an annual rate cycle commencing on April 1 of each year. The premium requested in the instant application will be recovered during the year beginning April 1, 2013.

Revisions to the Application

Staff made four revisions to the schedules that were filed by Duke, one based on methodological differences, and three based on computational corrections. These revisions are described below.

Methodological Change for Calculating Rider AU Rates

Two separate rates are needed for Rider AU – a rate to be billed to customers who are combination gas and electric customers, and a rate to be billed to customers who only receive gas from Duke. In Item 6 of the approved stipulation in Case No. 09-543-GE-UNC, the parties agreed that beginning in 2010, Duke's gas-only customers residing outside its electric service territory would only be charged costs that are specific to serving gas customers, and would not be charged an allocation of most common costs for SmartGrid. Accordingly, the stipulation states that project management office (PMO) costs and IT costs common to both gas and electric are examples of common costs that would not be recovered from these gas-only customers.

To prevent gas-only customers from being inappropriately charged for common costs that do not apply to them, Duke developed a credit for gas-only customers. Duke first calculated an overall rate for all customers; then it directly calculated a credit based on the common costs that should be excluded. This methodology leaves the Company short of its revenue requirement.

Staff directly calculated the two rates – one for combination customers, and one for gas-only customers - using the costs applicable to each. Staff then derived the credit for gas-only customers by subtracting one rate from the other. This approach “proves out” when calculating the revenue requirement, whereas Duke’s approach did not. The impact of the change is to raise the rate for combination customers by \$0.02 per month, and to lower the rate (increase the credit) for gas-only customers by \$0.03 per month.

Computational Revisions to Filed Schedules

There were three computational revisions made by Staff to the filed schedules supporting Rider AU.

1. The total revenue requirement for Rider AU is calculated on Schedule 1. The Company reported an error in the calculation of the Deferred O&M Expense and Carrying Costs (Schedule 1, Line13). The dollar amount that appears on this line is derived from Schedule 10, and is calculated by subtracting the end of year 2010 balance from the end of year 2011 balance, resulting in an amount identifying the total expense attributable to the year 2011. The formula contained in the Excel spreadsheet that is used to calculate the expense on Schedule 1, Line 13, has an improper cell reference.

The \$3,065,611 on Line 13 of the application as filed is the result of subtracting the end of year 2010 balance *before* adjustments from the end of year 2011 balance. The annual expense should have been based on the end of year 2010 balance *after* adjustments subtracted from the end of year 2011 balance. The corrected amount on Line 13 should be \$3,302,962, an increase of \$237,351. This correction added \$0.05 to the monthly rate.

2. The Company notified Staff of an error on Schedule 3, Depreciation. A formulaic calculation was linked to the wrong Excel spreadsheet row on Schedule 2, Plant Additions. Correcting this error had no effect on the rate.

3. On Schedule 4, PISCC, Staff detected an error. The formulaic calculation referenced an incorrect Excel spreadsheet cell on Schedule 2, Plant Additions. Correcting this error had no effect on the rate.

Financial Audit Procedures

Staff initiated its audit of capital additions by requesting a listing of total charges, by project, for each plant account included in Schedule 2 of Duke's application to adjust Riders DR-IM and AU. From that list, Staff selected certain large-dollar projects and from those projects, selected certain cost categories having the highest expenditure levels during year 2011. For each such selection, Staff requested a detailed listing of all associated charges, and from each such listing, Staff selected an audit sample and requested supporting documentation for each item in that sample. After reviewing such documentation, Staff requested additional documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted.

Allocation Errors

Costs associated with certain projects were charged to both Electric Rider DR-IM and Gas Rider AU. Duke informed Staff that for one of those projects relating to the electric outage management system, costs were erroneously split between electric and gas when they should have been charged entirely to Electric Rider DR-IM. To correct this error, Staff recommends

1 that the \$45,425 Duke erroneously charged to the gas plant account 20300 be reclassified to
2 electric plant account 30300. Since these software-programming costs were originally treated as
3 common costs, they were also charged to “PMO and Common Plant Additions”, which is used to
4 compute the gas-only customer credit. To correct this error, Staff also recommends a \$45,425
5 reduction to gas account 20300 for “PMO & Common Plant additions”.

6 In its response to Staff’s request for a listing of charges by project for each plant account, Duke
7 described an error it made in allocating the cost of a shared computer software project between
8 Electric Rider DR-IM and Gas Rider AU. This error resulted in a \$367,426 over-charge to Gas
9 account 20300 and a corresponding under-charge to Electric account 30300. Staff recommends
10 this error be corrected by reclassifying \$367,426 from Gas account 20300 to Electric account
11 30300. Since these are common costs shared between electric and gas, Staff also recommends a
12 \$367,426 reduction to Gas account 20300 for “PMO & Common Plant additions” that is used to
13 compute the Gas-Only credit.

14 **Gas Modules Not Used & Useful**

15 As part of its Smart Grid program, Duke is installing “gas modules” on all of its gas meters. The
16 gas modules transmit meter data and thereby reduce the need for meter readers. Until 2011,
17 Duke charged the cost of gas modules to the “Meters” account. For this account, FERC
18 guidelines allow utilities to record plant in service as soon as it is purchased, with no “used and
19 useful” requirement.

20 In its Rider AU application in this case, however, Duke reclassified the cost of its gas modules
21 from the Meters account (28102) to the Communication Equipment – Gas account (29700).

Staff agrees that it is more appropriate to charge the cost of gas module transmitters to this Communication Equipment account. However the special accounting treatment of booking assets as plant in service as soon as they are purchased is not allowed for this account, as it is for meters. Instead, the gas modules must be used and useful before their costs are recoverable in rates. As of year-end 2011, Duke had on hand 17,588 uninstalled gas modules valued at \$748,424 (including the associated Stores Loading charge). Adjusting for AFUDC reduces this total to \$737,170. Staff recommends a \$737,170 reduction to plant account 29700 to remove the cost associated with uninstalled gas modules.

Replacement Gas Meters

In the Commission-approved Stipulation filed in Case No. 09-543-GE-UNC, Duke agreed not to seek recovery through Rider AU for the cost of replacement gas meters. During its audit of costs relating to Duke's installation of gas modules (which are attached to gas meters), Staff noted that early in 2011, Duke had been charging the cost of gas meters to Rider AU. Although Duke recorded corrective adjustments later in 2011 to remove these charges, it omitted the associated \$39,287 Stores Loading charge from one of those adjustments. To correct this omission, Staff recommends that gas plant account 29700 be reduced by \$39,287 to remove that Stores Loading charge related to replacement gas meters.

Field Verification Audits

Staff conducted a field verification audit of Duke's DA equipment installed in 2011. In its application Duke states that it installed and/or upgraded over 860 devices on distribution circuits and over 260 system devices inside substations. Staff selected for purpose of verification a

sample of equipment and devices throughout Duke's territory including Hamilton, Butler, Warren, Clermont and Clinton Counties. Below are the results of Staff audits of installed and/or upgraded devices on distribution circuits and substations:

Devices on Distribution Circuits

- **Project ID SGOHDLSEC** – Consists of electronic reclosers, hydraulic reclosers and sectionalizers. Staff verified the placement of equipment and devices at 42 of 161 sites with no discrepancies found.

- **Project ID SGOHDLCAP** – Consists of capacitor bank controllers and capacitor bank controller modems. Staff verified the placement of equipment and devices at 76 of 536 sites. At six sites Staff found one or more cut-outs open, which indicates the capacitor banks were not fully functional. Duke personnel advised that at the time of the physical audit performed by Staff, the Company was in the process of reprogramming the Distribution Management System (DMS) with a built-in alarm time delay. Duke had experienced a high amount of false alarms due to communication interruptions with the cellular network.

The reprogramming was completed on November 1, 2012. The built-in time delay will in most cases allow the cellular network to reestablish communications without producing a false alarm. Duke stated that operation technicians are working exclusively on the 2010/2011 deployed capacitor bank controls that are not working for any reason. The operation technicians are repairing what they can onsite, and entering work order tickets for repairs that cannot be made during the visit.

Staff finds the Company's explanation satisfactory. Staff recommends that Duke report back to the Facility and Operations Field Division (FOFD) the results of reprogramming the DMS and whether the reprogramming has alleviated the problem with false alarms related to communication interruptions. Staff also recommends that Duke report back to FOFD the results of efforts to remediate capacitor bank controls that are not working for any other reason.

- **Project ID SGOHDLLS** – Consists of line sensors. Staff verified the placement of devices at 21 of 59 sites with no discrepancies found.
- **Project ID SGOHDLREC** – Consists of electronic reclosers and electronic recloser modems. Staff verified the placement of equipment and devices at 14 of 44 sites with no discrepancies found.
- **Project ID SGSHT111-711 2011 Self Healing Teams** – Consists of electronic reclosers and recloser controllers. Staff verified the placement of equipment and devices at 26 of 26 sites with no discrepancies found.

Substations (SA) Equipment

- **Project ID F0306 – Wyscarver Substation.** Staff verified the placement of six voltage regulator controllers and one communications remote terminal unit (RTU) Duke personnel indicate the one RTU was added and charged to this project and should have been noted in the 2011 Rider filing.
- **Project ID F6344 – Oakley Substation.** Staff verified the placement of eleven circuit breaker relays and six load tap changer controllers with no discrepancies found.

- 1 • **Project ID F9684 – Midway Substation.** Staff verified the placement of four circuit
2 breaker relays and three voltage regulator controllers with no discrepancies found.
- 3 • **Project ID G0394 – Elmwood Substation.** Staff verified the placement of nine circuit
4 breaker relays and two load tap changer controllers with no discrepancies found.
- 5 • **Project ID G0619 – Remington Substation.** Staff verified the placement of four circuit
6 breaker relays and three load tap changer controllers with no discrepancies found.
- 7 • **Project ID G0704 – Hopewell Substation.** Staff verified the placement of one
8 communications RTU, two circuit breakers, one load tap changer controller and three
9 voltage regulator controllers with no discrepancies found.
- 10 • **Project ID G0999 – Glenview Substation.** Staff verified the placement of four circuit
11 breaker relays and two load tap changer controllers with no discrepancies found.
- 12 • **Project ID G1000 – Mapleknoll Substation.** Staff verified the placement of six circuit
13 breaker relays and two load tap changer controllers. Documents provided by Duke
14 indicated five circuit breaker relays were replaced in this substation. Mapleknoll has five
15 circuits, but circuit 43 is fed from both busses; therefore, there are two relays for that
16 circuit. Duke personnel state six relays were charged to this project and six instead of
17 five should have been noted in document provided to Staff.
- 18 • **Project ID G1038 – Lateral Substation.** Staff verified the placement of seven circuit
19 breaker relays and two load tap changer controllers with no discrepancies found.
- 20 • **Project ID G1122 – Terminal Substation.** Staff verified the placement of six circuit
21 breaker relays, one load tap changer controller and six voltage regulator controllers with
22 no discrepancies found.

- 1 • **Project ID G1143 – New Burlington Substation.** Staff verified the placement of one
2 load tap changer controller with no discrepancies found.
- 3 • **Project ID G1263 – Montfort Heights Substation.** Staff verified the placement of three
4 voltage regulator controllers with no discrepancies found.
- 5 • **Project ID G1804 – Mt. Healthy Substation.** Staff verified the placement of four
6 circuit breaker relays and two load tap changer controllers with no discrepancies found.

1 **Impacts of Staff's Revisions and Recommended Adjustments**

2 Attachment 1 shows the impacts of all recommended adjustments to Rider DR-IM. It includes
3 the final rate recommended by Staff for the next annual period.

4 Attachment 2 shows the impacts of all recommended adjustments to Rider AU. It includes the
5 final rate recommended by Staff for the next annual period.

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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Comments** was served by electronic mail upon all parties of record, this 21st day of November, 2012.

/s/Thomas G. Lindgren

Thomas G. Lindgren

Assistant Attorney General

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in

Case No(s). 12-1811-GE-RDR

Summary: Comments electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO