

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Annual Application of :  
Duke Energy Ohio, Inc., for an : Case No. 13-2231-GA-RDR  
Adjustment to Rider AMRP Rates. :

In the Matter of the Application of Duke :  
Energy Ohio, Inc., for Tariff Approval. : Case No. 13-2232-GA-ATA  
:

**COMMENTS  
AND  
RECOMMENDATIONS  
SUBMITTED ON BEHALF OF THE STAFF OF  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

March 24, 2014

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**INTRODUCTION**

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

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

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

## **BACKGROUND**

Duke Energy Ohio, Inc. (Duke, Company, or Applicant) was incorporated in Ohio on April 3, 1897, as Cincinnati Gas, Light and Coke Company. It was renamed Cincinnati Gas & Electric Company (CG&E) in 1901 and its present name Duke Energy Ohio, Inc. was adopted in 2006. Growth, acquisitions, and mergers throughout the years have resulted in the present operation in which the Applicant renders electric or gas service, or both, in ten counties in Ohio. The Applicant is a public utility engaged in the business of distribution and sale of natural gas to approximately 424,000 customers in eight southwestern Ohio counties.

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

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

On May 30, 2002, the Commission approved a Stipulation resolving all outstanding issues associated with CG&E Case Nos. 01-1228-GA-AIR, 01-1478-GA-ALT, and 01-1539-GA-AAM including the establishment of the Accelerated Main Replacement Program (AMRP) rider. Under this rider, rates were established for each year and for each class of service through 2007, with rates established in 2007 to continue until the

effective date of the rates set in the Applicant's next base rate case. The purpose of the rider was to recover expenditures associated with the Company's ten-year replacement of all twelve inch and smaller cast iron and bare steel gas mains in its distribution system. Under the Stipulation, the Company agreed to file annual applications supporting proposed adjustments to its rates and the Staff was directed to review and report on the viability of the proposed rates.

On June 7, 2012 the Applicant filed an application to increase its gas distribution rates, for authority to implement an alternative rate plan for its gas distribution services, and for approval to change accounting methods. On May 10, 2013, the parties to these cases filed a corrected joint stipulation (2013 Stipulation) addressing a number of issues including AMRP. As part of the 2013 Stipulation, the parties agreed that the incremental increase to residential customers for AMRP be capped at \$1.00 annually on a cumulative basis through 2016. In addition, Applicant would be allowed to include beginning with the 2013 AMRP case the amortization of deferred camera expense approved in Case No. 09-1097-GA-AAM over a five-year period; and to also include in the AMRP revenue requirement expenses related to ongoing camera inspection work. Further, parties agreed that the AMRP revenue requirement calculation and procedural timelines remain the same as was approved in prior proceedings and that the cost of capital used in the future AMRP cases be updated to that which was approved in Case No. 12-1685-GA-AIR, *et al.*

On November 27, 2013, the Applicant filed a notice of intent to file an application to increase existing AMRP rider rates, requesting a test period of twelve months ending

December 31, 2013 and a date certain of December 31, 2013. The Applicant also provided Schedules 1 through 25 containing nine months of actual data through September 2013 and three months of projected data covering October through December 2013 in support of its notice of intent. On February 27, 2014, the Applicant filed its application to increase its AMRP rates and provided testimony and updated schedules with actual data through December 31, 2013.

### **SCOPE OF STAFF'S INVESTIGATION**

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

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

To investigate the proposed rate base, the Staff reviewed aspects of the Applicant's plant accounting system to ascertain if the information on mains and services assets contained in the Applicant's plant ledgers and supporting continuing property records represented a reliable source of original cost data. The Staff also examined the

computation of the Allowance for Funds Used During Construction (AFUDC) and verified the existence and the used and useful nature of plant additions through physical inspections. The Staff selected a sample of transactions for more detailed review and the Commission's Gas Pipeline Safety Staff conducted on-site inspections. In addition, the Staff reviewed post in-service carrying costs and its deferred income tax effect as well as deferred taxes on liberalized depreciation. To examine the Applicant's proposed operating expenses, the Staff reviewed expenses associated with depreciation, amortization of post in-service carrying charges, meter relocations, property taxes, amortization of the deferred curb-to-meter expense, and maintenance savings.

### **AMRP PROGRESS**

The Applicant reports that prior to commencing AMRP construction in 2001 it had approximately 1,200 miles of cast iron and bare steel mains in service and that, at the end of 2013, it had replaced approximately 1,061 miles (approximately 88%) of these mains. The Applicant replaced 47 miles of cast iron and bare steel mains in 2013. The Applicant estimates that it has approximately 85 miles of mains left to replace. In addition, the Applicant reports that it has replaced approximately 105,749 main-to-curb service lines. The Applicant maintains that accelerated replacement of the cast iron and bare steel mains has resulted in substantially fewer leaks on its distribution system which has enhanced safety and lowered maintenance costs. In addition, the Applicant claims that it has avoided frequent rate cases and that its assumption of ownership of curb-to-meter

service lines allows a more consistent determination of when such lines should be replaced.

### **APPLICANT'S PROPOSED RECOVERY**

For collection beginning with the first billing cycle in May 2014, the Applicant proposes a revenue requirement of \$19,601,340.88 for the AMRP and \$310,120.21 for the RRP for a total revenue requirement of \$19,911,461.09. Using the allocation percentages and billing determinants for the AMRP and RRP established in the 2008 Stipulation, approved by the Commission in Case No. 07-589-GA-AIR, the Applicant proposes that the Rider AMRP rate be set at \$2.00 for residential customers, \$21.33 for general service and firm transportation customers, and \$0.08/Mcf for interruptible transportation customers.

The Applicant presented the calculation of its proposed 2014 revenue requirement for the AMRP on Schedule 1 of the Application and for the RRP on Schedule 2. These schedules are supported by more detailed schedules contained in the Application. The Applicant's calculation of the proposed revenue requirements for the AMRP and RRP includes the following:

For AMRP:

- The original cost and accumulated depreciation reserve for AMRP property used and useful on December 31, 2012 as adjusted for 2013 additions to the plant-in-service that was used and useful by December 31, 2013 and retirement of existing assets;
- Calculation of Post in Service Carrying Charges (PISCC) on net plant additions and related deferred taxes calculated from the date that the applicable assets are used and useful until the next effective date of the AMRP rider;



- Calculation of deferred taxes on liberalized depreciation;
- Gross-up of 10.60% for rate of return (approved in Case No. 12-1685-GA-AIR) assigned to the recovery of all AMRP net capital expenditures;
- Calculation of the annualized depreciation expense for 2013 additions and retirements;
- Meter relocation expense;
- Annualized property tax expense associated with the plant additions and retirements through 2013; and
- Annualized amortization of the PISCC accrued through 2013.

For the RRP:

- Calculation of Post in Service Carrying Charges (PISCC) on net plant additions and related deferred taxes calculated from the date that the applicable assets are used and useful until the next effective date of the AMRP rider and recorded in unique sub-accounts of Account 182.3 (“Other Regulatory Assets”);
- Calculation of deferred taxes on liberalized depreciation;
- Gross-up of 10.60% rate of return (approved in Case No. 12-1685-GA-AIR) assigned to the recovery of certain riser net capital expenditures;
- Calculation of the annualized depreciation expense for 2012 additions and retirements;
- Annualized property tax expense associated with the plant additions and retirements through 2013, and;
- Annualized amortization of the PISCC accrued through 2013.

### **STAFF RECOMMENDATION**

The Staff believes that the Applicant has supported its filing with adequate data and information. Staff agrees with the Company that the AMRP revenue requirement is

just and reasonable. On Schedule 20, the Applicant calculated “Gas Maintenance Account Savings” by totaling its 2013 expenses in Accounts 885000 (Maintenance Supervision/Engineering), 887000 (Maintenance of Mains), and 892000 (Maintenance of Services) and comparing the result to the baseline for these accounts presently included in base rates established in Case Nos. 07-589-GA-AIR, *et.al.*, and 12-1685-GA-AIR *et.al.* Schedule 20 shows a savings of \$73,082 in 2013 composite expenses over the baseline expense levels. Staff recommends that the Commission adopt the operation and maintenance expense savings amount to reduce the revenue requirement as incorporated by Duke on Schedule 1 of the filing.

The Staff supports a Commission finding that the Applicant’s proposed revenue requirements and rate class allocations are just and reasonable. Staff recommends a revenue requirement of \$19,601,340.88 for the AMRP and \$310,120.21 for the Riser Replacement Program for a total revenue requirement of \$19,911,461.09. The resulting AMRP rates are as follows:

Residential	\$2.00 per month
General Service and Firm Transportation	\$21.33 per month
Interruptible Transportation	\$0.08 per Mcf

The Staff recommends approval of Duke’s Application in this case.

Respectfully submitted

**Michael DeWine**  
Ohio Attorney General

**William L. Wright**, Section Chief

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### **PROOF OF SERVICE**

I hereby certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by electronic mail, facsimile, or hand-delivered, upon the following parties of record, this 24th day of March, 2014.

/s/ Steven L. Beeler  
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Summary: Comments electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO