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November 13, 2015

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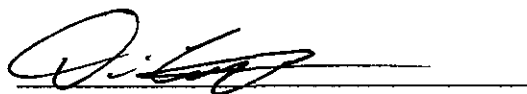
RE: *In the Matter of the Application of Duke Energy Ohio, Inc., to Adjust Rider DR-IM and Rider AU for 2014 Grid Modernization Costs, Case No. 15-0883-GE-RDR*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the application filed by Duke Energy Ohio, Inc., to adjust its Riders DR-IM and AU, in Case No. 15-883-GE-RDR.



Tamara S. Turkenton
Chief, Regulatory Services Division
Public Utilities Commission of Ohio



David Liphtratt
Chief, Research and Policy Division
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

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Duke Energy Ohio, Inc.
Case No. 15-0883-GE-RDR

SUMMARY

On June 4, 2015, Duke Energy Ohio, Inc. (Duke or the Company) filed an application to update its Grid Modernization riders in the above-captioned docket. This application includes updates for both Rider DR-IM and Rider AU, which are designed to recover approved costs incurred over a twelve month period, through a per-meter customer charge.

This filing includes documentation of capital investments and operation and maintenance expenses and calculates a return of and on capital expenditures that are considered as rate base. Subject to approval by the Commission, annually updated rider rates are intended to go into effect in the second quarter of each year.

STAFF REVIEW

In its review, Staff examined the as-filed schedules for consistency with the Commission's Opinion and Orders in previous grid modernization cases and to ensure proper accounting treatment was applied. The audit consisted of a review of the financial statement for completeness, occurrence, presentation, valuation, allocation, and accuracy. Staff conducted this audit through a combination of document review, interviews, and interrogatories. Staff requested documentation as needed to determine that the costs were substantiated or to conclude that an adjustment was warranted.

In its audit of the expenses charged to Riders DR-IM and Rider AU, Staff found transactions that it recommends should be deducted from the Company's revenue requirement. The following describes these adjustments:

Rider DR-IM

- A. Allocated Supervision & Engineering (Allocated S&E) - Allocated S&E in the amount of \$62,253.41 was included in this Rider. Staff believes these allocated labor expenses would have been incurred by Duke regardless of whether there was a Grid Modernization program and are not incremental to base rates. Therefore, Staff recommends removal of this amount from Rider DR-IM.
- B. Repairs - Several invoices from Ambient and Ericsson, totaling \$152,950, were for charges described as "Repair Out of Warranty." The Grid Modernization Rider was established to recover costs associated with the initial installation of the smart grid. "Repair out of warranty" charges are maintenance costs, not costs for the initial

installation of the smart grid. Maintenance costs are included in base rates. Therefore, Staff recommends a reduction to Rider DR-IM for this amount.

- C. Substation Camera - Staff discovered an invoice from Verizon for a substation camera that, as stated by Duke in a data request response¹, should not have been charged to the smart grid project. Staff recommends a reduction of \$557.14 to remove the cost of the camera from Rider DR-IM.
- D. Other Expenses - The Company's revenue requirement included \$2,867.44 in meals and entertainment expenses, \$16,197.98 in travel expenses, \$165.25 for overtime meals (non-travel), \$1,349.54 for personal vehicle mileage reimbursements, and \$12,255.74 in vehicle and equipment chargeback expenses. Many of these amounts were from allocations with no documentation or substantiation that they were directly related to Grid Modernization activities. In addition, Staff believes that there is an amount in base rates for these activities. Therefore, Staff recommends a reduction to Rider DR-IM in the amount of \$32,835.95.

Staff's recommended adjustments would result in a reduction of \$0.03 per month for residential customers and \$0.04 per month for non-residential customers from the Company's proposed rates. Attachment 1 shows the impact of Staff's recommended adjustments to Rider DR-IM compared to the Company's proposed rates.

Rider AU

- A. Allocated Supervision & Engineering (Allocated S&E) - Allocated S&E in the amount of \$465.59 was included in this Rider. Staff believes these allocated labor dollars are dollars that would have been incurred by Duke regardless of whether there was a Grid Modernization program and are not incremental to base rates. Therefore, Staff recommends removal of this amount from Rider AU.
- B. Substation Camera - Staff discovered an invoice from Verizon for a substation camera that, as stated by Duke in a data request response, should not have been charged to the smart grid project. Staff recommends a reduction of \$341.48 to remove the cost of the camera from Rider AU.
- C. Other Expenses - The Company's revenue requirement included \$1,179.04 in meals and entertainment expenses, \$6,271.94 in travel expenses, \$558.96 in vehicle and equipment chargeback expenses, and \$573.80 in personal vehicle mileage reimbursements. Many of these amounts were from allocations with no documentation or substantiation that they

¹ Response to Staff DR-13-001.

were directly related to Grid Modernization activities. In addition, Staff believes that there is an amount in base rates for these activities. Therefore, Staff recommends a reduction to Rider AU in the amount of \$8,583.74.

Staff's recommended adjustments applied to the Company's application would result in no change to the Company's proposed rates or the credit for gas-only customers. Attachment 2 shows the impact of Staff's recommended adjustments to Rider AU compared to the Company's proposed rates.

CONCLUSION

Staff recommends that Duke's application filed on June 4, 2015, be approved, subject to Staff's recommendation in this Letter, for rates effective on a bills-rendered basis beginning on April 1, 2016. The effect of Staff's recommended adjustments to Rider DR-IM would result in rates of \$6.28 per month for residential customers and \$9.35 for non-residential customers, which is an increase of \$0.21 and \$0.34 for residential and non-residential customers respectively from current rates.

The effect of Staff's adjustments to Rider AU would result in a rate of \$1.30 per month for all gas and electric customers, with a credit of \$1.14 per month for gas-only customers. This compares to a current rate of \$1.46 per month with a credit of \$1.28 per month for gas-only customers, a reduction of \$0.16 to the rate and a \$0.14 to the credit.

Duke Energy Ohio
Case No. 15-0883-GE-RDR
Rider DR-IM Revenue Requirement and Rate Comparison

Line No.	Description	Adjustment	Total Rev. Req. *	Residential Rev. Req.	Non-Residential Rev. Req.	Residential Rate	Non-Residential Rate	Residential Rate Change	Non-Residential Rate Change
1	Application as filed		\$55,249,525	\$46,962,096	\$8,287,429	\$6.31	\$9.39		
2	Allocated S&E	\$62,253	\$55,189,309	\$46,910,913	\$8,278,396	\$6.30	\$9.38	(\$0.01)	(\$0.01)
3	Out of warranty repairs	\$152,950	\$55,039,252	\$46,783,364	\$8,255,888	\$6.28	\$9.36	(\$0.02)	(\$0.02)
4	Remove Substation Camera Cost	\$557	\$55,038,704	\$46,782,898	\$8,255,806	\$6.28	\$9.36	\$0.00	\$0.00
5	Other Adjustments (meals, travel, equipment, vehicle mileage)	\$32,836	\$55,006,241	\$46,755,305	\$8,250,936	\$6.28	\$9.35	\$0.00	(\$0.01)

* Includes effect of adjustment to all schedules

Number of bills: Residential 7,444,188
Non-Residential 882,192

Duke Energy Ohio
Case No. 15-0883-GE-RDR
Rider AU Revenue Requirement and Rate Comparison

Line No.	Description	Adjustment	Revenue Requirement		Per Bill Rate	Revenue Requirement		Credit Rate
			SmartGrid*			Credit		
1	Application as filed		\$6,435,390		\$1.30	\$5,647,833		\$1.14
2	Staff O&M Adjustments Included in Comments							
	Adjustment for Allocated S&E	\$466	\$6,434,940		\$1.30	\$5,647,833		\$1.14
3	Remove Cost of Substation Camera	\$341	\$6,434,606		\$1.30	\$5,647,833		\$1.14
4	Other Adjustments (meals, travel, equipment, vehicle mileage)	\$8,584	\$6,426,139		\$1.30	\$5,647,833		\$1.14

* Includes effect of adjustment to all schedules

Total No. of bills	5,058,948
Gas only customers	106,440
Bills less gas-only	4,952,508