

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke)	
Energy Ohio, Inc., for Approval of a Grid)	
Modernization Opt-Out Tariff and for a)	Case No. 14-1160-EL-UNC
Change in Accounting Procedures Including)	Case No. 14-1161-EL-AAM
a Cost Recovery Mechanism.)	

INITIAL POST HEARING BRIEF OF DUKE ENERGY OHIO, INC.

I. INTRODUCTION

Pursuant to an Entry of the Public Utilities Commission of Ohio (Commission) in Case No. 12-2050-EL-ORD,¹ (Entry) Duke Energy Ohio, Inc., (Duke Energy Ohio) submitted an application for approval of an opt-out tariff and cost recovery mechanism. The Commission's Entry stated that:

“Further, the principle of cost causation actually requires that advanced meter opt-out service customers be required to pay the riders for recovery of the costs of advanced meter deployment and redeployment, as their actions actually cause a portion of the cost of redeployment. Accordingly, the Commission finds that the electric utility's rider or mechanism for advanced meter deployment should recover the costs of advanced meter deployment and redeployment, and advanced meter opt-out service customers should be required to pay the rider.”

Consistent with this Entry, Duke Energy Ohio carefully and extensively reviewed its operations and the facilities and systems needed to provide customers the ability to refuse an advanced meter and opt for a traditional meter. The tariff submitted pursuant to the Commission's Entry proposed both a one-time fee for installation of a non-traditional meter, and

¹ In the Matter of the Commission's Review of Chapter 4901:1-10, Ohio Administrative Code, Regarding Electric Companies, Entry on Rehearing, (December 18, 2013).

a monthly charge for ongoing service of a non-traditional meter. Additionally, the application in this case also explained that the Company had incurred additional costs due to the need to change its Information Technology (IT) systems in order to enable any eligible customer to elect not to have an advanced meter. Duke Energy Ohio witness Justin C. Brown testified to these costs and explained that they were necessitated by the Commission's Entry since the costs were directly related to the opt-out rule. The original estimate for IT work was detailed in the Company's application and the projected costs were \$686,140. However, due to effective internal management and limited bugs during development, actual costs were \$243,122. The Company requested a deferral of these costs until it is able to recover them in the next electric distribution base rate case that is filed. Since the opt-out option is available to all residential electric customers, this is a reasonable and natural approach. Thus the Company endeavored to comply with the Commission's directives and provide the best available information related to its internal costs to provide opt-out service. The Company is in the best position to know exactly what should be included in such costs. The Commission, in reliance upon its own Entry, should approve the costs as submitted by the Company.

II. DISCUSSION

A. The Costs for Information Technology Changes to Support Opt Out Should Be Approved.

Duke Energy Ohio witness Justin C. Brown provided highly detailed testimony to explain the steps and processes necessary to allow for customers to opt-out of using an advanced meter. Mr. Brown explained that he focused his efforts on complying with the Commission's requirements.² The Company immediately established an IT project to make necessary changes to the customer service systems so that customer service representatives who respond to customer calls could properly identify opt-out customers, ensure that they have the desired meter

² Duke Energy Ohio Exh.2 at p.2.

type, and apply opt-out fees where billing matters are discussed. The Company proposed a deferral of these IT costs in order to alleviate the high one-time costs to opt out customers. As the opt-out program is one that is an option for all customers to avail themselves of, this is an appropriate mechanism.³

In response to the Company's request, Staff witness David M. Lipthrott has recommended the Commission not grant the request for deferral. Mr. Lipthrott does not suggest in his testimony any other means of recovery. To support his recommendation, Mr. Lipthrott is seeking to establish criteria for review of a deferral request that has never been used by the Commission and that is inconsistent with virtually every prior deferral request ever reviewed by the Commission. While this may be a new initiative of the Staff, the application of these criteria is random and poorly considered.

A regulatory deferral is a well-established accounting mechanism that permits a utility to recognize an expense that would not be otherwise recognized, but that qualifies for deferral because it is expected to be included, by a regulator in establishing rates in the future that can be charged to customers.⁴ A review of prior applications to the Commission for deferrals since at least 2008 demonstrates that the Commission has granted requests for deferrals in one-time costs at least thirteen times.⁵ The Staff's new criteria were applied in none of these prior cases.

³ Id. at p.4

⁴ International Financial Reporting Standard 14. <http://ifrs.wiley.com/technical-summaries/ifrs-14-regulatory-deferral-accounts>.

⁵ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Defer Environmental Investigation and Remediation Costs*, Case No. 08-6-6-GA-AAM, Entry, (September 9, 2008), *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedures*, Case No. 08-1209-EL-AAM, Finding and Order, (February 19, 2009), *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Modify their Accounting Procedure for Certain Storm-related Costs*, Case No.08-1301-EL-AAM, Finding and Order, (December 19, 2009), *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Change Accounting Methods*, Case No.09-371-GA-AAM, Entry, (July 8, 2009), *In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Defer Environmental Investigation and Remediation Costs*, Case No. 09-712-EL-AAM, Entry (November 12, 2009), *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Change Accounting Methods*, Case No. 12-1135-GA-AAM, Entry (July 18, 2012), *In the Matter of the Application of The Dayton Power and Light Company for Authority to Modify its Accounting Procedures For Certain Storm-Related Service Restoration Costs*, Case No. 12-

Indeed, Staff rarely even offered comments in most of these cases. However, in at least one of them, Staff filed detailed comments that never mentioned the criteria now being used.⁶ Indeed, as recently as November 2014, Staff submitted comments recommending a deferral with no mention of these new criteria.⁷ Likewise, in another recent proceeding wherein Dayton Power and Light Company (DP&L) sought approval to defer costs for changes to bill format, the Staff submitted comments but made no mention of the criteria it seeks to support in this case.⁸ The DP&L request was approved by the Commission.⁹

When asked whether there was any Commission precedent for Staff's proposed criteria, Mr. Lipthrott incorrectly claimed that the criteria had been applied in Case No.15-222-GA-AAM.¹⁰ Upon review of the Commission's Finding and Order in that case however, there is no mention of the criteria that Staff claims was approved in that case. While Mr. Lipthrott may believe that these criteria may be reasonable, there is no previous Commission decision that supports this belief. Mr. Lipthrott further claims that the criteria originated out of a 1998 proceeding.¹¹ However the case referred to by Mr. Lipthrott fails again to support his claims. In that case, Citizen's Utility Company (Citizen's) sought to defer costs related to Y2K system

2281-EL-AAM, (December 19, 2012), *In the Matter of the Application for Approval to Establish a Regulatory Asset*, Case No.12-3224-GA-AAM, Finding and Order, (October 30, 2013), *In the Matter of the Application for Authority to Recover Certain Storm-Related Restoration Costs*, Case No. 12-3266-EL-AAM, *et al.*, Entry, (October 23, 2013), *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Change Accounting Methods*, Case No.14-1615-GA-AAM, *In the Matter of the Application of the Dayton Power and Light Company for Approval of a Revised Bill Format for Electric Service and For Approval of Certain Accounting Authority*, Case No.14-2042-EL-AAM, Finding and Order, (April 8, 2015), *In the Matter of the Application of Ohio Gas Company for Approval to Change Accounting Methods*, Case No.15-222-GA-AAM, (Finding and Order, (July 29, 2015).

⁶ *In the Matter of the Application for Authority to Recover Certain Storm-Related Restoration Costs*, Case No. 12-3266-EL-AAM, *et al.*, Comments of Staff, (June 17, 2013).

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⁸ *In the Matter of the Application of the Dayton Power and Light Company for Approval of a Revised Bill Format for Electric Service and For Approval of Certain Accounting Authority*, Case No.14-2042-EL-AAM, *Staff's Review and Recommendations*, (March 17, 2015).

⁹ *In the Matter of the Application of the Dayton Power and Light Company for Approval of a Revised Bill Format for Electric Service and For Approval of Certain Accounting Authority*, Case No.14-2042-EL-AAM, Finding and Order, (April 8, 2015).

¹⁰ *In the Matter of the Application of Ohio Gas Company for Approval to Change Accounting Methods*, Case No.15-222-GA-AAM, (Finding and Order, (July 29, 2015).

¹¹ Transcript pg.165.

compliance and mitigation efforts. In support of its application, Citizen's made three arguments broadly categorized under headings that match the criteria that Staff seeks to support. The Company in that case failed to provide sufficient support for its application and the Commission declined to approve the deferral and dismissed the case. The Commission did not refer to the arguments advanced by Citizen's in its Finding and Order. Again, there is no Commission precedent for the Staff's newly minted criteria. The criteria seem to originate out of nowhere and are being applied randomly in this case. Such random and unsupported analysis is unfairly applied in this instance. Particularly in light of the fact that Staff makes no recommendation for recovery of the costs elsewhere. Thus, the Commission should approve the request for deferral and recovery in the next base rate proceeding.

The Office of the Ohio Consumers' Counsel, (OCC) submitted the testimony of James D. Williams to argue that the Company should not recover these costs. But Mr. Williams misunderstands the nature of the charges in the first place, and Mr. Williams has no knowledge of the work that was performed in order to accomplish the changes to support the opt out program.

B. The Monthly Charge for Ongoing Service of Traditional Meters Should Be Approved.

When customers express an interest in opting out of an advanced meter service, they cause additional work that was not anticipated when the Company proposed deployment of grid modernization. Likewise, by virtue of opting out of such service, customers decrease economies of scale that would otherwise provide benefits to the overall population of customers. Accordingly, there are ongoing costs that must be paid by the opt-out customer to create equity and fairness with the overall population of customers.

Duke Energy Ohio witness Justin C. Brown testified that the ongoing costs include manual meter reads, both on and off-cycle, and physical meter inspection for revenue assurance.¹² Customers who opt out of having an advanced meter will be located throughout the service territory and the population of such customers will vary from one month the next. Thus, there will be more drive time between each manual read and meter route planning will present challenges not previously experienced.¹³

Likewise maintenance of communications on the system may present challenges when customers opt out. Thus, the Company may need to locate and install additional communication devices to solve for these gaps.¹⁴ Mr. Brown's exhaustive study of the work necessary to provide this ongoing service, after consulting with subject matter experts, is \$40.53 per month. As Duke Energy Ohio is in the best position to understand the recurring costs involved in providing this service, the Commission should approve the cost as proposed by the Company.

C. The One Time Charge for Providing a Traditional Meter to a Customer with an Advanced Meter Should Be Approved.

As noted above, the Commission explicitly directed utilities to recover costs for opt-out service from customers who wish to opt-out. Accordingly, and as explained by Duke Energy Ohio witness Justin C. Brown, the Company will be required to maintain a separate meter stock in order to serve opt-out customers.¹⁵ Likewise, the Company will be required to repair, test, store and purchase non-AMI meters.¹⁶ And when a customer requests to participate in the opt-out tariff, it will be necessary to remove and install the traditional meter. As detailed in JCB-2, attached to Mr. Brown's testimony, the Company has undertaken an internal survey of these

¹² Direct Testimony of Justin C. Brown, Duke Energy Ohio Exh.2 at p.5

¹³ Id. p.6

¹⁴ Id.

¹⁵ Id. p.5

¹⁶ Id. p.5

costs. The one-time fee per customer is \$126.70, assuming a deferral for the balance of the IT costs is approved.

Mr. Brown explained his methodology for gathering the information that is included in the cost estimate. Mr. Brown has direct responsibility for providing just this sort of information to the Ohio Commission.¹⁷ And he had responsibility for checking with each of the subject matter experts to gather and evaluate the information that was ultimately included in the application.¹⁸ With respect to each of the cost elements included in the tariff, Mr. Brown consulted with subject matter experts and then collated the information that comprises the proposed tariff.

Short of parading into the hearing a team of twenty people, the Company relied upon Mr. Brown's knowledge, expertise and collaboration with subject matter experts within the Company to provide the best-known information to support its proposed tariff. While parties may not agree with the numbers as proposed for one reason or another, undoubtedly, Duke Energy Ohio is in the best possible position to know what costs are incurred internally to create an opt-out program. For this reason, the Commission should approve the Company's proposed tariff as submitted in the application.

III. Conclusion

The Commission has stated that customers seeking to opt-out should bear such costs. Duke Energy Ohio has undertaken a detailed review of its internal operations in order to ascertain exactly what costs will be incurred in providing opt-out service to customers who express an interest in taking service under the tariff. The proposed tariff is based upon years of

¹⁷ Trans. p.12.

¹⁸ Id.

experience in the field and current utility operations that will be impacted by this program. For these reasons, the opt-out tariff proposed by Duke Energy Ohio should be approved as filed.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was delivered by U.S. mail (postage prepaid), personal delivery, or electronic mail, on this 30th day of November, 2015, to the following parties.


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Summary: Brief Initial Post Hearing Brief of Duke Energy Ohio, Inc. electronically filed by Carys Cochern on behalf of Watts, Elizabeth H. Ms.