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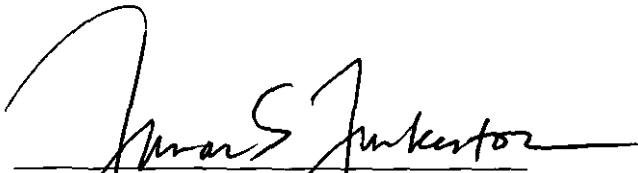
November 28, 2018

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

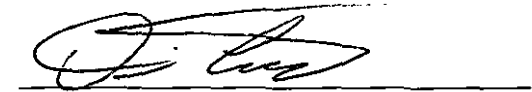
RE: *In the Matter of the Duke Energy Ohio, Inc.'s Distribution Storm Rider, Case No. 18-0282-EL-RDR.*

Dear Docketing Division:

Enclosed please find the Staff's Reply Comments in regard to Duke Energy Ohio, Inc.'s Distribution Storm Rider in Case No. 18-0282-EL-RDR.



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



David Lipthrott
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. 18-0282-EL-RDR

SUMMARY

In Duke Energy Ohio's (Duke or the Company) last Electric Security Plant (ESP), Case No. 14-0841-EL-SSO, the Company was granted approval to defer major storm expenses as an asset or liability over or under \$4.4 million dollars in a year. The approval also included that the Company is to file for recovery or refund when the asset or liability reached \$5 million. The Company was also instructed to submit schedules of expenses to Staff or audit on a yearly basis until the balance of the asset or liability reaches \$5 million.

On March 28, 2018, the Company submitted an application for recovery of expenses for 2017. The Company reported total major storm expenses of \$5,329,446, which is \$929,446 over the \$4.4 million threshold.

On September 5, 2018, Staff filed its Review and Recommendation in regards to the Company's application for recovery of their 2017 storm expenses. Staff's review resulted in a recommended adjustment of \$412,410.

On November 14, 2018, the Company filed comments in response to Staff's recommended adjustments. Detailed below are Staff's response to the Company's comments.

STAFF COMMENTS

Out of State Expenses

The Staff recommended a disallowance of \$15,033 associated with expenses incurred in Kentucky. Staff understands that Duke's facilities are located in the Greater Cincinnati metropolitan area and that this area encompasses Northern Kentucky for business purposes. Staff's reason for the disallowance was based on the fact that Staff was unable to determine if the lodging expenses were actually for storm restoration work performed in Ohio.

During Staff's review, it was unclear based on the allocations and the information provided that all costs associated with out of state lodging was for the benefit of Duke Energy Ohio's customers. The Company provided expense reports to Staff that had certain employee information redacted, and the Company declined to provide the expense reports without redactions. Because of these redactions within the expense support, it was impossible for Staff to determine if all of these expenses were properly allocated. During the investigation, Staff discovered out of state expenses that were allocated between Ohio and Kentucky restoration projections, but others were charged 100% directly to Ohio. For example, only certain travel expenses were allocated between Ohio and Kentucky; whereas, hotel expenses were fully allocated to Ohio. In order to illustrate the inconsistent application of allocations, of the \$15,033 in expenses incurred in Kentucky, 89.63% were hotel stays that were fully allocated to Ohio; 7.72% in travel expenses were fully allocated to Ohio; but only 2.65% in travel expenses were allocated between Ohio and Kentucky. Given the

aforementioned difficulty in reviewing the support with the redactions, and the fact that the vast majority of expenses incurred in Kentucky were fully allocated to Ohio, Staff determined there was insufficient support for recovery of these expense.

Missing Receipts

Staff recommended disallowance of \$18,974 in expenses related to hotel stays because the expenses had no supporting documentation. After Staff submitted its findings, the Company provided Staff with documentation for \$10,109 in expenses related to the missing hotel receipts. Staff reviewed the receipts and determined that of this total, \$9,762 in expenses had sufficient documentation and were appropriate for recovery; however, two receipts totaling \$347 listed "Guaranteed No Show". Staff contacted the hotel chain to confirm that a "no show" is charged when an individual misses his or her hotel stay, therefore, Staff recommends disallowance. This additional documentation reduces Staff's recommended disallowance associated with missing receipts to \$9,212.

Mutual Assistance

There is a reduced incentive to provide mutual assistance, the Company asserts, if Staff recommends adjusting for non-incremental expenses incurred as part of mutual assistance provided during storm restoration. Staff disagrees because these non-incremental costs represent costs which are already recovered in base rates. Base rates are intended to recover costs associated with providing service to Ohio ratepayers, and without this adjustment, Ohio ratepayers would be paying for costs incurred by the Company in providing service outside of Ohio. Interestingly, a reduction in incentive would only occur if the PUCO did not permit recovery for mutual assistance expenses for storm restoration in Ohio. Since the PUCO permits recovery of these types of costs, it demonstrates that Ohio utilities are in fact incentivized to expeditiously restore storm damage in Ohio.

Additionally, Staff disagrees with the Company's claim that adjusting for non-incremental expenses for mutual assistance would only be appropriate if Duke Energy Florida is permitted to recover these costs from its own customers. Costs which the Florida Public Service Commission (FPSC) permits for recovery are irrelevant since the PUCO has no legal authority in Florida. If the FPSC does not permit Duke Energy Florida to recover mutual assistance costs incurred in Florida, then Duke Energy Florida would need to address the policy with the FPSC.

Staff frequently recommends an adjustment for non-incremental expenses associated with providing mutual assistance outside of Ohio. This adjustment is typically based on the revenue received in providing the mutual assistance. An adjustment of this nature is not new, nor is it unique to Duke Energy Ohio. Therefore, Staff reaffirms its recommendation that an adjustment be made to remove \$354,668 in non-incremental expenses associated with providing mutual assistance outside of Ohio.

Accounting for Mutual Assistance

Staff finds it important to clarify and refine the recommendation that the Company recognize mutual assistance provided to affiliates as revenue. During Staff's audit of storm riders, an adjustment is typically made to reduce the revenue requirement by any mutual assistance revenue received by an electric utility. The adjustment represents compensation received for non-incremental expenses incurred in providing mutual assistance outside of Ohio. With Duke, no revenue was received because of the Company's accounting treatment of affiliate transactions. When the Company provides mutual assistance to non-affiliated companies, any compensation received would be accounted for as revenue. As discussed above, Staff typically adjusts a storm rider's revenue requirement by the amount of revenue received by the utility for any non-incremental mutual assistance expenses incurred. If adjustments of this nature are only measured by the revenue received, then no adjustment would be made in this case because of how Duke accounts for affiliate transactions. Consequently, Staff found it important to establish an equivalency between the Company's accounting for affiliate transactions, and the accounting for non-affiliate transactions. Finally, Staff findings did not assert that the Company's accounting treatment of affiliate transactions is not in accordance with Generally Accepted Accounting Principles and Staff rejects the Company's argument that Staff had implicitly or explicitly suggested that the Company's financial statements had been misstated.

As part of Staff's Review and Recommendation, Staff discussed concerns that the Company's accounting treatment may not adhere to the standards of Ohio Administrative Code section 4601:1-37-04. Staff finds that the Company has misinterpreted Staff's recommendation that its internal and external auditors review the accounting treatment of affiliate transactions. The Company states in its Comments that "there is no need for the Company to incur unnecessary costs to perform yet another audit [of its financial statements]". Staff is not recommending such an audit, rather Staff's recommendation is to have the Company review the accounting treatment with internal and external auditors in order to ensure it adheres to Ohio Adm.Code 4601:1-37-04.

CONCLUSION

Staff's Review and Recommendation letter filed on September 5th, 2018 recommended a total adjustment of \$412,410. After review of the missing documentation, Staff refines its recommendation to recognize \$9,762 associated with receipts not previously provided and also deemed appropriate for recovery. Staff recommends a final adjustment of \$402,648.