

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Adjust its Power Forward Rider.)	Case No. 19-1750-EL-UNC
)	

In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.)	Case No. 19-1751-GE-AAM
)	

**DUKE ENERGY OHIO, INC.'S APPLICATION FOR APPROVAL
OF ITS INFRASTRUCTURE MODERNIZATION PLAN, ADJUSTMENT TO
RIDER POWER FORWARD, AND REQUEST FOR DEFERRALS**

I. Introduction

1. Duke Energy Ohio, Inc. (Duke Energy Ohio or the Company) is an electric distribution utility as defined in R.C.4928.01(A)(6), and a natural gas company within the meaning of R.C. 4905.02(A) and 4905.03(E). As such, Duke Energy Ohio is a public utility subject to the jurisdiction of the Commission.

2. Pursuant the Commission's Order in Case No. 17-0032-EL-AIR *et al.*, as well as in accordance with authority provided by R.C. 4905.13, the Company hereby submits an application for approval to include in the Company's already established Rider Power Forward (Rider PF) its initial infrastructure modernization plan consisting of customer information system upgrades and other infrastructure investment programs (Infrastructure Modernization Plan)¹ and for deferral authority for Operations and Maintenance (O&M) costs, incremental to amounts in base electric and natural gas rates

¹ *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase of its Electric Distribution Rates*, Case No. 17-0032-EL-AIR, *et al.*, Opinion and Order, (December 19, 2018).

that have been or will be incurred in relation to the Infrastructure Modernization Plan as more fully described below.²

3. With this Application, the Company seeks approval for recovery of costs related to four components of its Infrastructure Modernization Plan, including new customer information system (CIS), known as Customer Connect, as well as three new programs which were inspired by the Public Utilities Commission of Ohio's (Commission) PowerForward initiative, to be included in Rider PF. This Application is pursuant to the Stipulation and Recommendation filed in the consolidated Case Nos. 17-0032-EL-AIR, *et al.*, 17-1263-EL-SSO, *et al.*, 17-872-EL-RDR, *et al.*, and 16-1602-EL-CSS, *et al.*, as approved by the Commission in late 2018,³ (Consolidated Cases) and described in references to Rider PF as Component Three.⁴

4. As approved, Rider PF is to enable the "evolution of the distribution grid and an enhanced customer experience."⁵ The Infrastructure Modernization Plan was one of the methods approved to facilitate that evolution through the term of the Company's approved electric security plan (ESP). The Infrastructure Modernization Plan is dynamic and will be adapted over time as new programs and investments are identified that will evolve the grid and enhance the customer experience.

5. The Infrastructure Modernization Plan components proposed herein will allow flexibility and adaptability as the Company modernizes its electric delivery, customer service, and communication infrastructure to better serve and more actively

² R.C. 4905.13

³ See: *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates*, Consolidated Case Nos. 17-0032-EL-AIR, *et al.*, Stipulation and Recommendation (April 13, 2018); and Opinion and Order pp. 84-85 (December 19, 2018).

⁴ Stipulation pp. 16-17; Order pp. 84-85.

⁵ Order, at 84.

engage with its customers. The new Customer Connect will provide the platform for the Company to better engage with its customers and enable customers and competitive suppliers to receive and use the granular data that is capable of collection through advanced metering infrastructure (AMI). The Land Mobile Radio (LMR) communication system will provide the communication network necessary to enable the Company to provide safe, and reliable service, including faster restoration during severe weather events, to better improve customer satisfaction. The Smart Cities Infrastructure Acceleration Program provides an opportunity for its municipal partners to better serve their citizens by delivering a digital infrastructure that is customizable for Smart City technologies. Finally, the Electric Vehicle (EV) Pilot will provide a narrow framework to facilitate the development of EV charging infrastructure so that the Company is able to respond to customer desires for this emerging technology, support its development and installation and operation, and encourage partnership with owners of third-party owned charging stations.

6. As was highlighted in the Commission's PowerForward: A Roadmap to Ohio's Electric Future, "Ohio is known as the nation's test market, a reputation generally reserved for restaurants and grocery stores. But it's also a proving ground for energy policy."⁶ Duke Energy Ohio has a history of being on the leading edge of transforming Ohio's electricity system. As the Commission has expressed an interest in exploring how the distribution system can be improved through innovation to enhance the customer

⁶ Ohio Public Utilities Commission, *PowerForward: A Roadmap to Ohio's Electricity Future* (Aug. 29, 2018) (PowerForward Roadmap), p. 1 available at <https://www.puco.ohio.gov/industry-information/industry-topics/powerforward/powerforward-a-roadmap-to-ohios-electricity-future/>

experience, Duke Energy Ohio is providing solutions designed to improve the customer experience through innovation and modernization. At the same time, it is anticipated that the Commission will recognize that the programs proposed by the Company provide solid foundations for improvement to allow flexibility in the future.

II. Duke Energy Ohio's Rider PF

7. Duke Energy Ohio's Rider PF was approved in the Consolidated Cases as the mechanism to support the "modernization of energy delivery infrastructure and develop innovative products and services for retail electric customers."⁷ Specifically, Rider PF was established to recover the costs of those programs, modifications, and offerings related to the continued evolution of the distribution grid and an enhanced customer experience, including programs, modifications, and offerings that may be engendered by the Commission's PowerForward review. Rider PF was approved to recover both capital and operations and maintenance (O&M) costs not otherwise recovered in base rates or existing rider mechanisms. Rider PF has three components:

- The first component of Rider PF is limited to those incremental costs, if any, the Company incurs as a result of a Commission directive issued upon the conclusion of the PowerForward initiative.
- The second component of Rider PF is for the recovery of costs associated with AMI and data access, including the provision of interval customer energy usage data (CEUD) to customers, CRES providers and third parties; the enablement of PJM settlement data transfer enhancements, as detailed in Stipulation Attachment F; and

⁷ Order at 9.

the communication infrastructure needed to support the AMI transition, but excluding the costs of the smart meters themselves.

- The third component of Rider PF will be for the recovery of costs related to an infrastructure modernization plan, which will be filed in a separate proceeding and subject to hearing. The plan will include a proposal to upgrade the Company's CIS.

8. This Application presents Duke Energy Ohio's initial proposal to establish its Infrastructure Modernization Plan under the third component of Rider PF, as was contemplated in the settlement of the Consolidated Cases as approved by the Commission.

III. Infrastructure Modernization Plan

9. In this Application, the Company is proposing the following four initiatives for inclusion in its Infrastructure Modernization Plan at this time. Information related to the programs listed below is discussed in testimony submitted with this Application:

- Customer Connect, including a discussion of cost recovery;
- A new LMR Communication System;
- Smart Cities Infrastructure Acceleration Program; and
- A pilot electric EV charging "make ready" and incentive program (EV Pilot).

10. In support of this Application, the Company is submitting the following testimony:

- Amy B. Spiller, President Duke Energy Ohio, who describes the Company's Infrastructure Modernization Plan and how it is beneficial to customers;
- Retha Hunsicker, Vice-President, Customer Connect Solutions, who discusses the Company's Customer Connect;
- Randy L. Turner, Project Director, Enterprise Communications Improvement Programs, who supports the Company's LMR proposal;
- Timothy Duff, General Manager, Customer Solutions, Regulatory Strategy & Evaluation, who describes the Company's Smart Cities Infrastructure proposal;
- Douglas Adkins, City Manager of Middletown, Ohio, who describes how the City of Middletown would benefit from the Company's Smart Cities Infrastructure Acceleration;
- Lang W. Reynolds, Director Electrification Strategy for Duke Energy Carolinas, LLC, who supports the Company's proposal for an EV Pilot; and
- Jay P. Brown, as Lead Rates & Regulatory Strategy Analyst, who discusses the calculation of the revenue requirement for Rider PF.

11. The Company is focused on transforming the customer experience and relationship⁸ and continues to deploy technologies to support its provision of safe, and reliable utility service for the benefit of its customers. This customer-centric focus is critical to allowing customers to have more control over and choices regarding their energy usage. It is readily apparent that the electric distribution business is changing and, in order to incorporate the innovation that is vital to the Company's customers' personal and professional demands, the infrastructure on which customers depend must also evolve. These concepts are aligned with the Commission's own PowerForward initiative and are therefore appropriate for inclusion in Rider PF.

12. Historically, the Company's legacy CIS enabled only premises-based communication. Specifically, the legacy CIS' primary function, when designed, was to use the aggregated usage data for billing purposes. And this is understandable given the historic function of meters which supplied the needed information for billing a customer. The industry, however, is no longer limited to such simplistic forms of communication and the legacy CIS is no longer able to adapt to support the necessary advanced functionality desired by both customers and competitive market participants. Electric meters and associated components have the capability of recording more granular data. This data, in turn, can create personalized opportunities for customers according to their preferences, whether in the form of rate options or other usage-related services. Through the proposals in these proceedings, Duke Energy Ohio intends to continue transforming to position its customers to have more control, convenience, and information. Duke

⁸ See e.g. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates*, Consolidated Case Nos. 17-0032-EL-AIR, *et al.*, Direct Testimony of Alexander 'Sasha' Weintraub pp. 3-7 (March 16, 2017).

Energy witness Retha Hunsicker provides information regarding the need for and the costs associated with the new CIS, referred to as Customer Connect. In this Application, the Company is seeking deferral authority for O&M expenses associated with Customer Connect for both its natural gas and electric operations, effective January 1, 2018.

13. The next component of the Infrastructure Modernization Plan proposed for inclusion in Rider PF is for a LMR project. LMR is a person-to-person communication system consisting of two-way radio transceivers (AM audio transmitter and receiver in one unit) that can be mobile, installed in vehicles, or portable (hand-held). An LMR system is used by field operations employees to efficiently coordinate work when restoring power or natural gas service, including both during storms and other outages. LMR technology is designed to continue operation during severe weather events that impact and interrupt other forms of communication such as cellular-based devices. LMRs are used to coordinate a wide range of communication requirements, including coordination of people and materials, important safety and security needs, and quick response in times of emergency, outages and restoration of utility services. The Company's current LMR is antiquated, past its useful life, no longer supported by its manufacturer, and must be upgraded. Duke Energy Ohio witness Randy L. Turner will provide detailed descriptions of the equipment and systems needed and how and why such LMRs are used. Mr. Turner will further discuss other options considered and why the proposed solution is the best option for the necessary functions.

14. The third component proposed for inclusion in Rider PF, the Smart Cities Infrastructure Acceleration Program, is a pilot that would test and provide a foundation through a measured deployment and replacement of energy delivery/lighting

infrastructure that is capable of supporting Smart City-related technologies. This program is designed to provide a digital technology infrastructure through modernization of its outdoor lighting infrastructure so to enable municipalities in the Company's service territory to cost-effectively offer innovative solutions to experience greater safety and technology-based efficiencies. The Smart Cities Infrastructure Acceleration Program is proposed as an ideal forward-thinking demonstration of exactly what can be achieved with new electric distribution technology. Leveraging the existing infrastructure, it operates for customers in many of the desirable locations for Smart Cities systems, Duke Energy Ohio can easily and economically accommodate the smart cities system attachments described by Mr. Timothy Duff in his testimony. Many Ohio cities in which Duke Energy Ohio provides street lighting systems, such as Middletown and Cincinnati, have expressed interest in implementing Smart City systems. Mr. Douglas Adkins, the City Manager of the City of Middletown describes how the City of Middletown would like to utilize smart street lights to transform city operations across a wide range of areas, including energy efficiency, crime prevention and detection, traffic congestion, and pedestrian safety.

15. The final component of the Infrastructure Modernization being proposed in this Application is an EV Pilot. As was recognized by the Commission in its PowerForward Roadmap, EVs are gaining greater acceptance and are seen more frequently on the highways today. However, EVs are not reaching their full potential and cannot do so until an adequate supporting infrastructure evolves.

As EVs gain greater acceptance, charging infrastructure becomes increasing imperative. Duke Energy Ohio's EV Pilot is designed to move its territory in

Southwest Ohio, and in turn, assist the entire state in moving forward as a participant in the global economy. The Company's EV Pilot is intended to assist in deployment of energy charging infrastructure beginning in 2020 for a period of three years. The goal of the pilot would be to: 1) facilitate installation of a foundational level of fast charging infrastructure in southwest Ohio; 2) to study the timing and effects of charging multiple types of electric vehicles; and 3) to provide cost share to Volkswagen (VW) Settlement Mitigation Trust funding to the advantage of Ohio customers.

Through the EV Pilot, the Company will provide all available data to the Commission and the Staff that will assist in determining best practices and potential benefits of increased electric transportation including benefits to ratepayers from increasing electric utilization. The Company will report operational data and results on an annual basis and will prepare a final report at the end of the three-year pilot. Duke Energy Ohio witness Lang W. Reynolds will describe, in greater detail, the proposal for EV charging and explain why this is an important initiative for Duke Energy Ohio's service territory.

IV. Adjustment to Rider PF

16. Through this Application, Duke Energy Ohio seeks to adjust its Rider PF to recover the costs of the Infrastructure Modernization Plan proposed herein, as well as necessary deferral authority. Duke Energy Ohio Witness Jay P. Brown supports the Company's proposal to adjust Rider PF to recover the costs of the four components to the Infrastructure Modernization Plan, including the estimated revenue requirement impact that would be included in Rider PF and explains that these costs are incremental to what is currently embedded in the Company's Base Rates.

V. Request for Deferral Authority

17. Under R.C. 4905.13, the Commission “may establish a system of accounts to be kept by public utilities” and “may prescribe the manner in which such accounts shall be kept.”⁹ The Federal Energy Regulatory Commission (FERC) has established a Uniform System of Accounts (USOA) for both electric and gas utilities. This system of accounts is applicable to Ohio’s regulated electric and gas utilities only to the extent it has been adopted by the Commission. Such adoption results from Ohio Administrative Code (O.A.C.) 4901:1-9-05¹⁰ and 4901:1-13-01¹¹, respectively.

18. Under this authority, the Commission has determined, through the promulgation of O.A.C. 4901:1-9-05(A) and 4901:1-13-13(A), that electric and natural gas utilities shall keep their books of accounts and records in accordance with the FERC-prescribed USOA except to the extent that the provisions of said USOA are inconsistent in any way with any outstanding orders of the Commission.¹² Further, both O.A.C. 4901:1-9-05(B) and 4901:1-13-13(B) authorize the Commission to require the creation and maintenance of additional accounts.¹³

19. Duke Energy Ohio, is the only combination electric and natural gas utility in the state of Ohio, with a customer base that includes electric only, natural gas only, and combination electric and natural gas customers. And two of the components of the proposed Infrastructure Modernization Plan, Customer Connect and LMR, will provide benefits to customers that receive either or both services from Duke Energy Ohio.

⁹ R.C. 4905.13.

¹⁰ O.A.C. 4901:1-9-05.

¹¹ O.A.C. 4901:1-13-01.

¹² See O.A.C. 4901:1-9-05(A) and 4901:1-13-13(A).

¹³ See O.A.C. 4901:1-9-05(B) and 4901:1-13-13(B).

Therefore, it is reasonable for the Company to seek, and the Commission to authorize, similar accounting treatment for both pools of services.

20. Accordingly, Duke Energy Ohio requests authority to defer the incremental O&M costs attributable to the development and implementation of its new CIS, Customer Connect, as of January 1, 2018, that are allocable to both electric and natural gas business operations. Likewise, the Company is requesting authority to defer the O&M costs attributable to the implementation of LMR for natural gas operations. The benefits attributable to the Customer Connect System and LMR are allocable to both electric and natural gas customers. The Company also requests authority to recover carrying costs on the deferred balance, based on the Company's actual cost of long-term debt. Duke Energy Ohio proposes to record this cost as a regulatory asset on its balance sheet in Account 182.3, Other Regulatory Assets, in accordance with the FERC Unified System of Accounts Prescribed for Natural Gas Companies.¹⁴ Commission approval of the requested accounting treatment is necessary for the Company to assert probability of recovery of such expenditure under generally accepted accounting procedures.

21. In some recent deferral authority proceedings, Staff of the Commission (Staff) has delineated six criteria that it believes the Commission has historically considered in determining whether to grant such deferral authority. Those criteria are described by Staff as:

- Whether the current level of revenue from base rates or riders are sufficient to cover the costs;

¹⁴ 18 C.F.R Part 201.

- Whether the costs requests to be deferred are material in nature;
- Whether the reason for requesting the deferral was outside of the utility's control;
- Whether the expenses are atypical and infrequent;
- Whether the costs would result in financial harm to the Company; and
- Whether the Commission's approval of deferral authority could encourage the utility to do something it would not otherwise do through the granting of deferral authority.¹⁵

It is critical to note, however, that the Commission does not require an applicant to meet every one of the factors identified by Staff. For example, in the same case cited above, the Commission granted the deferral request based on its determination that the expenditure being considered was atypical or infrequent and that the Commission could thereby encourage the applicant to take an action that the Commission deemed desirable.¹⁶

22. In response to the aforementioned criteria, Duke Energy Ohio states that these costs to be deferred are incremental to amounts currently reflected in the Company's electric and natural gas base rates and that current levels of base rates are insufficient to cover such costs. Duke Energy Ohio's last natural gas rate case was

¹⁵ See, e.g., *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of a Grid Modernization Opt-Out Tariff and for a Change in Accounting Procedures Including a Cost Recovery Mechanism*, Case No. 14-1160-EL-UNC, *et al.*, Pre-filed Testimony of David M Liphtratt, at pp. 5-6 (October 2, 2015).

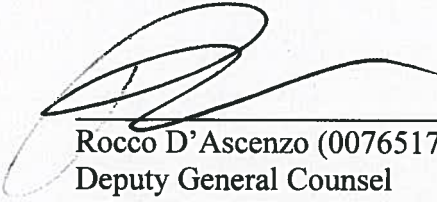
¹⁶ *Id.*, Opinion and Order, at p. 7 (April 27, 2016).

approved November 13, 2013, and based upon a test year that ended December 31, 2012. Likewise, the Company's electric rates were recently established but were based upon a test year that ended March 31, 2017. The costs reflected in these two programs are costs that have been incurred since January 1, 2018, (*i.e.*, Customer Connect) or that will be incurred in the future upon approval of the Infrastructure Modernization Plan (*i.e.*, LMR). In either case, such O&M costs fall beyond the respective test periods from the Company's most recent rate cases.

23. Likewise, as explained by the testimony in support of the Application in these proceedings, the costs to be deferred are material and significant in nature, as well as atypical and infrequent. These costs are necessary to incur to timely complete the development of the Customer Connect system and the implementation of LMR. Absent the requested deferral authority, incurring such costs could cause financial harm to the Company, and indeed delay implementation of the projects thereby denying customers the ability to receive timely value and benefits provided by these programs or otherwise accelerate costly and material base rate proceedings.

THEREFORE, consistent with the information provided above as supported by the Company witnesses in testimony included with this Application, Duke Energy Ohio respectfully requests that the Commission approve the implementation of the proposed Infrastructure Modernization Plan herein for inclusion in its Rider PF and the requested deferral authority.

Respectfully submitted,



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