BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service.	))))))	Case No. 14-841-EL-SSO
In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Amend its Certified Supplier Tariff, P.U.C.O. No. 20.	))))	Case No. 14-842-EL-ATA

MOTION OF DUKE ENERGY OHIO, INC.,
TO CONTINUE THE CAP FOR RIDER DCI

Comes now Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and hereby moves the Public Utilities Commission of Ohio (Commission) for an order lengthening the period during which the Company may continue to recover the incremental revenue requirement on distribution-related capital investments, until such time as new tariffs become effective following an order in Case No. 17-1263-EL-SSO, *et al.*, up to an average, over the course of the continuation period, of its current monthly level of capped expenditures.

Duke Energy Ohio submits the following memorandum in support of its motion.

Respectfully submitted,

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MEMORANDUM IN SUPPORT

On April 2, 2015, the Public Utilities Commission of Ohio (Commission) issued an Opinion and Order establishing the third standard service offer (SSO) of Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) in the form of an electric security plan (ESP III), for the period commencing June 1, 2015, and ending June 1, 2018. In doing so, the Commission, *inter alia*, approved the Company's Distribution Capital Investment Rider (Rider DCI), a rider intended to support work that is vital for customer reliability.

Specifically, Rider DCI provides for the timely recovery of the incremental revenue requirement on distribution-related capital investment and, thereby, enables the Company's proactive modernization of such infrastructure, making it more efficient and resilient.[1] In approving Rider DCI, the Commission specifically found that "customers increasingly expect the Company to meet high standards of reliability" and that the Company "is correct to aspire to move from a reactive to a more proactive maintenance program."[2]

The Commission also adopted the recommendations of its Staff concerning rider caps and filing requirements applicable to the anticipated quarterly rider submissions.[3] The caps established by the Commission were designed to increase over time.[4] The following table reflects the average monthly caps over the term of the ESP:

[1] Opinion and Order, at pg. 66.
[2] Opinion and Order, at pg. 71.
[3] *Id*., at pg. 72.
[4] *Id*.

Year	Annual cap allowed in Opinion and Order	Number of months in referenced year	Average cap per month
2015	$ 17,000,000	7*	$ 2,428,571
2016	$ 50,000,000	12	$ 4,166,666
2017	$ 67,000,000	12	$ 5,583,333
2018	$ 35,000,000	5**	$ 7,000,000

* Starting June 1, 2015
** Ending May 31, 2018

It is readily apparent that the annual caps authorized by the Commission's Opinion and Order were reflective of an anticipated DCI revenue requirement during the number of months in each calendar year throughout the term of the third ESP.

Looking forward to the end of the third ESP, the Opinion and Order also noted that the Company "should propose its next SSO sufficiently far in advance of the conclusion of this ESP" to blend auction prices with prices under the next SSO. To meet that goal, the Commission specifically required that the fourth SSO be proposed no later than June 1, 2017.[5] It is thus evident that that Commission believed that one year was sufficient for the processing of that SSO application. This is important in evaluating that Rider DCI cap, as the Commission, as well as Duke Energy Ohio, incontrovertibly believed that a new SSO would be in place well before the termination of ESP III. The Rider DCI cap allowing for expenditures only through the end of May was consistent with the Commission's expectations in that regard.

As mentioned above, the Company complied with the Commission's order in Case No. 14-841-EL-SSO, filing its Application for a fourth ESP (ESP IV) in Case No. 17-1263-EL-SSO, on June 1, 2017. On July 21, 2017, the Attorney Examiner established a procedural schedule leading up to a hearing date of November 13, 2017. The Company was engaged in settlement discussions with Staff and the Intervenors over several months, as evidenced by six unopposed

[5] *Id.*, at pg. 51.

motions, filed by Staff, to extend the procedural schedule.[6] In each of its motions, Staff noted that the parties were continuing settlement discussions and were exploring "whether partial or complete settlement may be reached." The Company, Staff, and Intervenors, have been acting in good faith to achieve this outcome and, indeed, a stipulation has been reached among several of the parties. The stipulation, which would resolve the Company's ESP IV proceeding, if approved, also resolves several other cases currently pending before the Commission, including, but not limited to, Duke Energy Ohio's electric distribution rate case[7] and its application to establish the Company's Price Stabilization Rider (Rider PSR).[8] The detailed and comprehensive nature of this stipulation makes it readily apparent why settlement negotiations were so lengthy.

Although Duke Energy Ohio did file its ESP IV application in a timely fashion, one could not predict the amount of time it would take to achieve a settlement, particularly one that would allow the settling parties to address several cases at once. The extensions of the procedural schedules of the now-consolidated cases were unopposed and allowed for meaningful negotiations resulting in a settlement. On May 10, 2018, the Commission issued a procedural schedule in those consolidated cases, setting the evidentiary hearing to begin on July 9, 2018. Given that the hearing will not even begin until well after the planned end of ESP III, an order approving the next SSO will not likely be issued, at the earliest, until late third quarter or the early part of the fourth quarter of 2018.

In anticipation of this likely gap, the Company filed a motion seeking an extension of the riders that were approved in ESP III, recognizing that the pricing of generation supply would

[6] *See* Entries Granting Staff's Motions for Extensions on November 14, 2017; November 27, 2017; December 18, 2017; January 4, 2018; January 31, 2018; and February 15, 2018.
[7] *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates*, Case No. 17-32-EL-AIR, *et al.*
[8] *In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Modify Rider PSR,* Case No. 17-872-EL-RDR, *et al.*

continue under R.C. 4928.143(C)(2)(b). In that motion, the Company indicated that it could work within the existing 2018 cap for Rider DCI through July 31. However, given the fact that the hearing is not scheduled to begin until July 9, 2018, it is now evident that there is no reasonable expectation that the Company can be assured of an order approving its pending ESP IV case before that time. Therefore, the Company is now seeking a continuation of Rider DCI at the average 2018 monthly cap levels, until such time as tariffs resulting from the ESP IV order become effective. For clarity's sake, as discussed above, the Commission authorized $35 million for DCI recovery in 2018, representing an amount that would be eligible for recovery over a five-month period, from January 1, 2018, through May 31, 2018. This equates to an average of $7 million per month. Through this request, the Company is not seeking an increase in the average monthly Rider DCI revenue that was approved by the Commission as part of ESP III but, rather, just a continuation of the existing average monthly Rider DCI cap of approximately $7 million, until such time as the Commission issues its order addressing the stipulation resolving the ESP IV.

If the Commission does not provide the relief requested and permit the Company to continue Rider DCI and to extend the current monthly revenue caps, the Company will be left with two untenable alternatives: 1) continuing distribution capital investments without recovery, further eroding the Company's earnings and risking potential credit quality downgrades, thereby ultimately impairing access to capital markets; or 2) halting further distribution capital deployment investment at the risk of reliability degradation.

Interrupting the revenue recovery associated with Rider DCI would have a dramatically negative impact on the Company's credit ratings metrics. As rating agencies consider the credit quality of companies, of great importance is the ratio between cash from operations and debt. If cash received through Rider DCI were to be interrupted, that ratio would reduce, along with the analysts' evaluation of the Company.

The Company will be making its annual filing for the significantly excessive earnings test (SEET) on May 15, 2018, which will include its calculation of return on equity (ROE) for 2017. For 2017, the Company's ROE was 6.28 percent on $1.034 billion of equity allocated to its Ohio electric business. Assuming Rider DCI generates an average of $7 million per month of revenue, the impact on ROE of discontinuing Rider DCI would be a reduction of 53 basis points for <u>each</u> month ($7 million * (1 – tax rate) ÷ $1.034 billion). In addition to the impact on ROE, the loss of the cash flow generated by the Rider DCI would jeopardize the Company's already low debt coverage ratios. In the Company's 2017 FERC Form 1, the Company's total debt (on a stand-alone basis) was $1.617 billion[9] and its cash from operations (CFO) was $314 million.[10] Dividing the cash from operations by the debt balance, the CFO/debt ratio for 2017 was 19.4 percent. Similar to the issue with the ROE above, the CFO/debt ratio will also be significantly impacted by any disruption in the Rider DCI. At $7 million per month, every month Rider DCI is not being collected would have an approximate 34 basis point impact on an already low CFO/debt coverage ratio.

If, instead of continuing distribution capital investments without recovery, the Company were to choose the alternative of halting further distribution capital deployment, it would risk reliability degradation. This would delay the important objectives that are furthered by Rider DCI and would unnecessarily complicate the completion of projects that involve substantial resource coordination. Temporary suspension of these distribution projects would also

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[9] FERC Form 1, Annual Report for Duke Energy Ohio for 2017, page 112, line 24.
[10] *Id*., at page 120, line 22.

undermine the Commission's worthy goal of promoting "proactive" rather than "reactive" investment in the modernization of Duke Energy Ohio's distribution grid.

It is undeniable that the Company's proactive investment in its distribution system advances the state's economy, facilitates improved service reliability, and further aligns the expectations of Duke Energy Ohio and its customers. Indeed, the Commission has approved, and for many EDUs has reapproved, such rider mechanisms for all of the state's electric distribution utilities.[11]

Allowing Rider DCI to lapse would jeopardize either the Company's ability to continue investing in its distribution system or its financial integrity. For the reasons stated herein, Duke Energy Ohio respectfully requests that the Commission issue an order allowing the average monthly cap on Rider DCI revenue to continue until such time as new tariffs become effective following an order in Case No. 17-1263-EL-SSO, *et al.*

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[11] *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 10-388-EL-SSO, Opinion and Order, at pp. 11-12, 46(August 25, 2010); *see also In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 12-1230-EL-SSO, Opinion and Order, at pp. 10-11, 57 (July 18, 2012); *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 11-346-EL-SSO, *et al*., Opinion and Order, at pp. 46-47 (August 8, 2012); *In the Matter of the Application of The Dayton Power and Light Company to Establish a Standard Service Offer in the Form of an Electric Security Plan*, Case No. 16-395-EL-SSO, *et al.*, Opinion and Order, at pg. 54 (Oct. 20, 2017).

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served on the following parties via ordinary mail delivery, postage prepaid, and/or electronic mail delivery on this 11th day of May, 2018.

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