**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke )

Energy Ohio, Inc., for Approval to ) Case No. 13-2417-GA-UNC

Implement a Capital Expenditure Program. )

In the Matter of the Application of Duke )

Energy Ohio, Inc., for Approval to ) Case No. 13-2418-GA-AAM

Change Accounting Methods. )

**JOINT SURREPLY COMMENTS OF DUKE ENERGY OHIO, INC., AND**

**STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO**

 Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and Staff of the Public Utilities Commission of Ohio (Staff) (collectively, the Parties) hereby tender these Joint Surreply Comments (Joint Comments)[[1]](#footnote-1) in respect of Duke Energy Ohio’s Application for Approval to Implement a Capital Expenditure Program and to Change Accounting Methods (Application), which was filed with the Public Utilities Commission of Ohio (Commission) on December 20, 2013. Subsequent to the filing of the Application, Staff and Duke Energy Ohio have each submitted comments on the Application. Staff filed its Initial Comments on May 2, 2014, and its Surreply Comments on June 26, 2014. Duke Energy Ohio filed its Reply Comments on May 16, 2014. The Parties now submit these Joint Comments, which incorporate their prior comments and serve to reflect their comprehensive agreement on matters raised in the Application. The Parties agree that their respective positions in prior comments remain unchanged except as modified in these Joint Comments and recommend that the Company’s Application be approved by the Commission, subject to the Parties’ comments and the modifications as described herein.

Through its Application, Duke Energy Ohio is seeking Commission approval for a capital expenditure program (CEP), pursuant to R.C. 4909.18 and R.C. 4929.111, to install, upgrade, or replace information technology (IT) systems used to serve its natural gas customers. The sought-after CEP was anticipated to cover the period between 2013 and 2018 during which the changes to the IT systems would occur. The Parties recommend that the CEP under R.C. 4929.111 be enlarged to include those programs delineated in R.C. 4929.111(A)(1)-(3), initiated in and for 2013 and succeeding years. For avoidance of doubt, Duke Energy Ohio and Staff acknowledge that the CEP, as recommended herein for approval under R.C. 4929.111, does not include non-jurisdictional services, any investments for which recovery has already been approved, or any other investments subsequently approved for recovery pursuant to any other mechanism, regardless of whether such other investments might also be deemed to fit within the parameters of R.C. 4929.111(A)(1)-(3). The Parties submit that the CEP, as described herein, is consistent with Duke Energy Ohio’s obligation under R.C. 4905.22 to furnish necessary and adequate services and facilities, which services and facilities are just and reasonable.

With regard to the CEP described herein, the Parties recommend that the Commission give Duke Energy Ohio accounting authority to defer post-in-service carrying costs (PISCC) on program investments for assets placed in service but not yet reflected in rates, using the Company’s cost of long-term debt as approved by the Commission in Duke Energy Ohio’s then most recent gas distribution case; defer depreciation expense and property tax expense directly associated with the assets placed in service; and establish a regulatory asset to which PISCC, depreciation expense, and property tax expense will be deferred for future recovery.

For purposes of the above-captioned proceedings (Proceedings) only, Duke Energy Ohio agrees that it shall compute the PISCC deferral on net plant but that such acquiescence here should not be interpreted as the Company’s consent to computing PISCC on net plant in all other instances.

The Parties agree that this IT CEP will not result in incremental revenue, as defined herein (Incremental Revenue),[[2]](#footnote-2) and therefore there is currently no need to adjust the deferred amounts to account for Incremental Revenue. However, for any future CEP program that generates Incremental Revenue, the Parties agree that the regulatory asset created to defer the total monthly PISCC, depreciation expense, and property tax expenses associated with the Company’s capital expenditure programs should be reduced by any Incremental Revenue directly attributable to the capital investments made under the programs pursuant to the formula adopted by the Commission in *In the Matter of the Application of Vectren Energy Delivery of Ohio to Implement a Capital Expenditure Program and for the Authority to Change Accounting Methods*, Case No. 12-530-GA-UNC, *et al*. (Finding and Order) (Dec. 12, 2012).

The Parties recommend that the CEP be subject to a cap for that period during which deferrals thereunder are being accrued. Specifically, the Parties propose that Duke Energy Ohio be permitted to accrue deferrals under the CEP until the accrued deferrals, if included in Duke Energy Ohio’s residential service rates, would cause the rates charged to residential customers to increase by more than $1.50 per month. Should the $1.50 per month threshold be exceeded, Duke Energy Ohio agrees to stop accruing future CEP deferrals until such time as it files for authority to recover existing accrued deferrals under applicable Ohio law. Notwithstanding the level of the cap identified herein, the Parties recognize that Duke Energy Ohio is not precluded from requesting a subsequent adjustment to such cap in response to changes in applicable laws or regulations or compliance activities related to pipeline safety by submitting an Application for Commission consideration.

The Parties agree that Duke Energy Ohio will make annual informational filings with regard to its CEP and recommend the following procedural schedule for consideration by the Commission. Each annual filing will be made by April 30, with the first such filing due on April 30, 2015. Within thirty days after each annual filing, Staff and any interested parties may file comments, if any. If no such comments are filed within this thirty-day period, Duke Energy Ohio’s CEP and related, ongoing deferral authority shall be deemed approved. If comments are filed within thirty days of an annual filing, Duke Energy Ohio shall be permitted ten days in which to file reply comments. Thereafter, approval of that year’s annual filing shall be determined by the Commission.

The annual informational filings identified above shall include the following:

* 1. The capital expenditure program regulatory asset balance at December 31 of each year;
	2. Calculations used to determine monthly deferred amounts, including a breakdown of investments in PISCC, depreciation expense, and property tax for each budget type;
	3. A breakdown of rate impact by customer class;
	4. Capital budget for the calendar year in which the informational filing is made and the succeeding year;
	5. Estimate of the effect that the deferred amounts would have on residential customer bills, if they were included in rates;
	6. Schedules showing the calculations and inputs for deferrals; and
	7. Explanation of any substantial deviation between the planned, estimated CEP expenditures and actual expenditures, where such substantial deviation would reasonably impede Staff’s ability to monitor or review the filing.

Duke Energy Ohio and Staff propose that the first annual filing include the information in subparts (a) – (e) above for the 2013 and 2014 calendar years. All subsequent annual filings shall pertain to the immediately preceding calendar year.

For purposes of these Proceedings, Duke Energy Ohio commits that it will not seek recovery of costs under the CEP described herein more than one time in each calendar year.

Consistent with the Commission’s findings in other gas companies’ capital expenditure program cases, the Parties recommend that the Commission find that the approvals requested in these Proceedings under R.C. 4909.18 and 4929.111 to establish a CEP and for related accounting authority are not for an increase in rates. As such, the Parties submit that the Application, as modified by the Joint Comments, should be considered an application not for an increase in rates that may be approved without a hearing. Furthermore, the Parties agree that these Joint Comments address the establishment of a CEP and accounting authority for related deferrals and that recovery of deferred amounts shall be considered in a separate proceeding.

 Respectfully submitted,

 /s/ Katie L. Johnson

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1. On August 26, 2014, the Attorney Examiner issued an Entry instructing Duke Energy Ohio to submit comments in response to Staff’s surreply comments by September 5, 2014. That deadline was extended, by motion, to September 12, 2014. [↑](#footnote-ref-1)
2. For purposes of these Joint Comments, Incremental Revenue shall equal [(Annual Number of Customer Bills Issued - Baseline Number of Customer Bills Issued) x (Cost Portion of Rate)] + [(Consumption by non-SFV customers directly attributable to program investment) x (Cost Portion of Rate)] + (Other revenues directly attributable to CEP investment). [↑](#footnote-ref-2)