**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Annual Application of Duke Energy Ohio, Inc., for an Adjustment to Rider AMRP Rates to Recover Costs in 2014.  In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval. | :  :  :  :  :  :  : | Case No. 15-1904-GA-RDR  Case No. 15-1905-GA-ATA |

**COMMENTS**

**AND**

**RECOMMENDATIONS**

SUBMITTED ON BEHALF OF THE STAFF OF

THE PUBLIC UTILITIES COMMISSION OF OHIO

March 21, 2016

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**COMMENTS** **AND** **RECOMMENDATIONS**

# INTRODUCTION

In accordance with the Stipulations adopted in Case Nos. 07-589-GA-AIR and 12-1685-GA-AIR, the Staff of the Public Utilities Commission of Ohio (Staff) has con­ducted an investigation in the above-referenced matter and hereby submits its findings in these Comments to the Commission. The Comments were prepared by the Staff of the Commission’s Rates & Analysis Department in conjunction with the Service Monitoring and Enforcement Department. They detail the Staff’s investigation and recommendations concerning Duke’s proposed plant-in-service additions, proposed revenue requirement, and other related matters. The Comments are the results of the Staff’s investigation and do not purport to reflect the views of the Commission, nor is the Commission bound in any man­ner by the representations and/or recommendations set forth herein.

# BACKGROUND

Duke Energy Ohio, Inc. (Duke or Company) was incorporated in Ohio on April 3, 1897, as Cincinnati Gas, Light and Coke Company. It was renamed Cincinnati Gas & Electric Company (CG&E) in 1901 and its present name Duke Energy Ohio, Inc. was adopted in 2006. Growth, acquisitions, and mergers throughout the years have resulted in the present operation in which the Company renders electric or gas service, or both, in ten counties in Ohio. Duke is a public utility engaged in the business of distribution and sale of natural gas to approximately 426,000 customers in eight southwestern Ohio counties.

On October 24, 1994, CG&E merged with PSI Resources, Inc. to form Cinergy Corporation. Prior to the merger, PSI Resources, Inc. was the parent company of PSI Energy, Inc., an electric utility serving Indiana. Following the merger, Cinergy Corpora­tion was the parent company to both CG&E and PSI Energy, Inc.

On June 1, 2005, Cinergy Corporation and Deer Holding Corporation filed an appli­cation with the Commission requesting authorization to merge Cinergy Corporation and Duke Energy Corporation. The Commission approved the merger and Cinergy was renamed Duke Energy Ohio, Inc. effective April 3, 2006.

On May 30, 2002, the Commission approved a Stipulation resolving all out­stand­ing issues associated with CG&E Case Nos. 01-1228-GA-AIR, 01-1478-GA-ALT, and 01-1539-GA-AAM including the establishment of the Accelerated Main Replace­ment Program (AMRP) rider. Under this rider, rates were established for each year and for each class of service through 2007, with rates established in 2007 to continue until the effective date of the rates set in the Company’s next base rate case. The purpose of the rider was to recover expenditures associated with the Company’s ten-year replacement of all twelve inch and smaller cast iron and bare steel gas mains in its distribution system. Under the Stipulation, the Company agreed to file annual applications supporting pro­posed adjustments to its rates and the Staff was directed to review and report on the via­bility of the proposed rates.

On June 7, 2012 in Case No. 12-1685-GA-AIR, Duke filed an application to increase its gas distribution rates, for authority to implement an alternative rate plan for its gas distribution services, and for approval to change accounting methods. On May 10, 2013, the parties to those cases filed a corrected joint stipulation (2013 Stipulation) addressing a number of issues including the AMRP. As part of the 2013 Stipula­tion, the parties agreed that the incremental increase to residential customers for AMRP would be capped at $1.00 annually on a cumulative basis through 2016. In addition, Duke would be allowed to include the amortization of deferred camera expense approved in Case No. 09-1097-GA-AAM over a five-year period beginning with the 2013 AMRP case. In addition, the Company was also permitted to include in the AMRP revenue requirement ongoing expenses for camera inspections. The parties also agreed that the AMRP rev­enue requirement calculation and procedural timelines would remain the same as was approved in prior proceedings and that the cost of capital used in the future AMRP cases would be set at the amount approved in the case.

On November 24, 2015, Duke filed a notice of intent to file an application to increase existing AMRP rider rates with a test period of twelve months ending December 31, 2015 and a date certain of December 31, 2015. The Company also filed Schedules 1 through 22 containing nine months of actual data through September 2015 and three months of projected data covering October through December 2015 in support of its notice of intent. On February 22, 2016, the Company filed its Application to increase AMRP rates along with supporting testimony and updated schedules with actual data through December 31, 2015.

# SCOPE OF STAFF’S INVESTIGATION

The Staff investigated the Company’s Application to evaluate the reasonableness of the proposed revenue requirement and the resulting increase to the AMRP rider rate. As part of its investigation, Staff performed an overview of the Applicant’s progress towards implement­ing its AMRP and Riser Replacement Program (RRP), and reviewed and analyzed the Company’s supporting documentation and work papers by tracing it to source data. The Staff issued data requests, conducted investigative interviews, and per­formed independent analyses where necessary.

To investigate the proposed rate base, the Staff reviewed aspects of the Appli­cant’s plant accounting system to ascertain if the information on mains and services assets contained in the Applicant’s plant ledgers and supporting continuing property records represented a reliable source of original cost data. The Staff also examined the computation of the Allowance for Funds Used During Construction (AFUDC) and veri­fied the existence and the used and useful nature of plant additions through physical inspections. The Staff selected a sample of transactions for more detailed review and the Commission’s Gas Pipeline Safety Staff conducted on-site inspections. In addition, the Staff reviewed post in-service carrying costs and its deferred income tax effect as well as deferred taxes on liberalized deprecation. To examine the Company’s proposed operat­ing expenses, the Staff reviewed expenses associated with depreciation, amortization of post in-service carrying charges, meter relocations, property taxes, amortization of the deferred curb-to-meter expense, and maintenance savings.

# AMRP PROGRESS

Duke reports that prior to commencing AMRP construction in 2001 it had approximately 1,200 miles of cast iron and bare steel mains in service. In 2015, the Company replaced 16 miles of cast iron and bare steel mains bringing the total AMRP replacement miles to 1,133. Altogether through 2015, Duke reports that it has replaced approximately 1,143 miles, or approximately 95%, of all bare steel and cast iron mains that was originally estimated in service in its distribution system. Duke witness Gary Hebbeler in testimony filed in this case states that the Company replaced approximately 10 miles of bare steel/cast iron mains in 2000 (prior to commencement of the AMRP) and that the remaining difference between the original 1,200 miles to be replaced and the 1,133 miles replaced under the AMRP is a true-up for the difference in mapping miles and what was included in the Company’s original plant in-service balance. In addition, Mr. Hebbeler reports that the Company has replaced approximately 120,000 main-to-curb service lines through 2015.

The Company maintains that accelerated replacement of the cast iron and bare steel mains has resulted in substantially fewer leaks on its distribution system, thereby enhancing safety and lowering maintenance costs. Duke claims that the AMRP has enabled it to avoid frequent rate cases and that its assumption of ownership of curb-to-meter service lines allows a more consistent determination regarding when such lines should be replaced.

# DUKE’S PROPOSED RECOVERY

For collection beginning with the first billing cycle in May 2016, Duke pro­poses a revenue requirement of $32,210,336.82 for the AMRP and $291,289.14 for the RRP, resulting in a combined total revenue requirement of $32,844,381.45. Using the allocation percentages and billing determinants for the AMRP and RRP established in the approved 2008 Stipulation in Case No. 07-589-GA-AIR, the Company proposes that the Rider AMRP rate be set at the $3.84 cap for residential customers that was established in the approved Case No. 12-1685-GA-AIR Stipula­tion. The Company further proposes a rate of $35.48 for general service and firm transportation customers and $0.14/CCF for interruptible transportation customers.

Duke’s proposed 2016 revenue requirements for the AMRP and the RRP are presented on Schedules 1 and 2 of the Application. These schedules are, in turn, sup­ported by more detailed schedules contained in the Application, including:

For the AMRP:

* The original cost and accumulated depreciation reserve for AMRP property used and useful on December 31, 2014 as adjusted for 2015 additions to the plant-in-service that was used and useful by December 31, 2015 and retirement of existing assets;
* Calculation of Post in Service Carrying Charges (PISCC) on net plant additions and related deferred taxes calculated from the date that the applicable assets are used and useful until the next effective date of the AMRP rider;
* Calculation of deferred taxes on liberalized depreciation;
* Gross-up of 10.60% for rate of return (approved in Case No. 12-1685-GA- AIR) assigned to the recovery of all AMRP net capital expenditures;
* Calculation of the annualized depreciation expense for 2015 addi­tions and retirements;
* Annualized property tax expense associated with the plant additions and retirements through 2015;
* Annualized amortization of the PISCC accrued through 2015; and
* Camera work expense.

For the RRP:

* Calculation of Post in Service Carrying Charges (PISCC) on net plant additions and related deferred taxes calculated from the date that the applicable assets are used and useful until the next effective date of the AMRP rider and recorded in unique sub-accounts of Account 182.3 (Other Regulatory Assets);
* Calculation of deferred taxes on liberalized depreciation;
* Gross-up of 10.60% rate of return (approved in Case No. 12-1685-GA- AIR) assigned to the recovery of certain riser net capital expenditures;
* Calculation of the annualized depreciation expense for 2015 addi­tions and retirements;
* Annualized property tax expense associated with the plant additions and retirements through 2015; and
* Annualized amortization of the PISCC accrued through 2015.

# STAFF RECOMMENDATIONS

In the course of the investigation described above, Staff discovered that in November 2015 Duke errantly included $2,265.59 as capital additions for steel mains that were not properly classified as additions. Duke agrees that the costs were errantly included and agrees that they should be removed. As a result, Staff recommends that the Commission direct Duke to modify Schedule 3-B of its Application to remove the errant additions. Due to the relatively small size of the adjustment and the effects of rounding, Staff’s proposed adjustment will not have an impact on the original AMRP Rider rates that the Company recommended in its Application. Therefore, Staff recom­mends that the Commission authorize Duke to implement the following AMRP rider rates:

Residential $3.84 per month

General Service and Firm  
Transportation $35.48 per month

Interruptible Transportation $0.14 per Mcf

With adoption of the modification described above, Staff recommends that the Commis­sion approve Duke’s Application as filed.

Respectfully submitted

**Michael DeWine**

Ohio Attorney General

**William L. Wright,** Section Chief

*/s/ Steven L. Beeler*

**Steven L. Beeler**

Assistant Attorney General

Public Utilities Section

180 East Broad Street, 6th Floor

Columbus, OH 43215-3793

614.466.4397

614.644.8764 (fax)

[steven.beeler@puc.state.oh.us](mailto:steven.beeler@puc.state.oh.us)

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# Proof of Service

I hereby certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commis­sion of Ohio,was served by electronic mail, facsimile, or hand-delivered, upon the fol­lowing parties of record, this 21st day of March, 2016.

*/s/ Steven L. Beeler*

**Steven L. Beeler**

Assistant Attorney General

**Parties of Record:**

|  |  |
| --- | --- |
| Amy B. Spiller  Deputy General Counsel  Jeanne W. Kingery  Associate General Counsel  Duke Energy Ohio  139 E. Fourth Street, 1303-Main  P.O. Box 960  Cincinnati, Ohio 45201 |  |

[amy.spiller@duke-energy.com](mailto:amy.spiller@duke-energy.com)

[jeanne.kingery@duke-energy.com](mailto:jeanne.kingery@duke-energy.com)