**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of Duke Energy Ohio, Inc., to Adjust Rider DR-IM and Rider AU for 2013 SmartGrid Costs. | :  :  :  : | Case No. 14-1051-GE-RDR |

**POST-HEARING BRIEF**

SUBMITTED ON BEHALF OF THE STAFF OF

THE PUBLIC UTILITIES COMMISSION OF OHIO

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# INTRODUCTION

This case involves Duke Energy Ohio, Inc.’s (Duke or the Company) application to adjust its advanced utility rider (Rider AU) and its distribution reliability – infrastruc­ture modernization rider (Rider DR-IM). Duke requests an adjustment to Rider AU and Rider DR-IM to allow recovery of 2013 costs for the deployment of Duke’s grid modern­ization systems (SmartGrid). Duke also requests tariff approval and accounting recovery as may be necessary for recovery.

The Staff of the Public Utilities Commission of Ohio (Staff) audited and reviewed the Company’s filing in this case. In sum, Staff believes the Commission should approve the Company’s adjustment to Riders AU and DR-IM for 2013 subject to the conditions set forth in the argument below.

# ARGUMENT

## A. Gas Module Cost Recovery

Duke is installing gas modules on all of its gas meters to improve the efficiency and effectiveness of its collection of gas usage data.[[1]](#footnote-1) The gas modules transmit meter data and therefore increase the frequency and accuracy of meter readings and reduce the need for meter readers.[[2]](#footnote-2) Before 2011, Duke charged gas modules to the “Meters” account of the FERC Uniform System of Accounts (USOA).[[3]](#footnote-3) For the Meters account, the USOA allows utilities to record plant in service as soon as the equipment is pur­chased, even if that equipment is not “used and useful.”[[4]](#footnote-4) Beginning in 2011, however, Duke began charging the cost of gas modules to the “Communications Equipment—Gas” account, which is not allowed the same accounting treatment as the Meters account.[[5]](#footnote-5) Instead, the gas modules charged to this account must be used and useful before their costs are recoverable in rates.[[6]](#footnote-6)

In 2013, Duke charged the cost of 15,846 gas modules to the “Communications Equipment—Gas” account.[[7]](#footnote-7) These gas modules had been installed, but had not trans­mitted meter readings as of the end of 2013 because they had not completed Duke’s test­ing and certification procedures.[[8]](#footnote-8) Therefore, Staff does not consider these gas modules to be used and useful. The cost of these uncertified gas modules is $983,966, which includes purchase price, installation, overhead, and a credit for AFUDC (Allowance for Funds Used During Construction).[[9]](#footnote-9)

Staff believes it was appropriate for Duke to begin considering the gas modules as communications equipment because gas modules are actually transmitters.[[10]](#footnote-10) However, Staff recommends (1) that the $983,966 cost associated with the uncertified gas modules be removed from Rider AU capital costs until Duke completes the requisite procedures to certify these gas modules as used and useful and (2) that the Commission direct Duke to stop charging gas module costs to Rider AU until the gas modules are installed and certi­fied.[[11]](#footnote-11) This will ensure Duke will not recover the cost of gas modules until they are used and useful, as is required by the USOA.[[12]](#footnote-12)

## B. Relocation Expense Recovery

During Staff’s audit of Rider DR-IM and Rider AU, Staff found relocation expenses related to one employee that amounted to $40,610. Of this amount, 17.1% was allocated to DR-IM, which amounted to $6,944.[[13]](#footnote-13) Staff requested information, including source documents and invoices, regarding this expense via data requests to determine the prudency of the expenditure and whether it was properly included in Rider DR-IM.[[14]](#footnote-14) However, Duke did not provide Staff with the requested information.[[15]](#footnote-15) Absent the requested supporting documentation, Staff could not conduct the investigation necessary to determine whether the expense was incremental, prudent, reasonable, and appropriate for recovery in Rider DR-IM. Therefore, Staff recommends an adjustment to Rider DR-IM to exclude the $6,944 amount.[[16]](#footnote-16)

## C. Self-healing Team Performance

Distribution automation (DA) constitutes a major portion of Duke’s grid modern­ization program and Staff expects DA to improve Duke’s service reliability perfor­mance.[[17]](#footnote-17) A key component of DA involves a set of automated switches, which Duke calls “self-healing teams.”[[18]](#footnote-18) These devices can reconfigure circuits and reroute electric­ity around a fault, which reduces the number of customers that an outage affects.[[19]](#footnote-19) Staff measures self-healing team performance by computing the percent of instances when the teams operate successfully.[[20]](#footnote-20)

Staff analyzed the Company’s 2013 DA performance data and found that Duke’s self-healing teams operated in 64% of the instances that they had opportunities to oper­ate.[[21]](#footnote-21) Staff believes Duke can improve on that performance.[[22]](#footnote-22) Staff’s belief is based on Staff’s experience with another Ohio electric utility, which improved its performance from comparable lev­els to more than 90%.[[23]](#footnote-23) To improve the Company’s performance, Staff believes the Company should: (1) identify the instances where a team failed to oper­ate, (2) investigate each failure, and (3) take corrective actions to prevent failures in the future.[[24]](#footnote-24)

Duke has acknowledged that it agrees with Staff on this matter. Duke agrees that it can improve upon the 64% self-healing team performance and agrees to follow the three steps that Staff has set forth to improve the performance of Duke’s self-healing teams.[[25]](#footnote-25)

## D. Commercial Activities Tax Recovery

In its Application, Duke included recovery for the Ohio Commercial Activities Tax (CAT) in Rider DR-IM twice.[[26]](#footnote-26) Therefore, to ensure Duke only recovers for CAT once, Staff recommends that the Company remove CAT from the gross revenue conver­sion factor in Schedule 7.[[27]](#footnote-27) This change results in a lower rate of return on Schedule 7 from 10.70% to 10.68% and a revenue requirement that is decreased by $37,277.[[28]](#footnote-28) The Company agrees with Staff on this matter. Specifically, Duke agrees (1) that CAT should be removed from the gross revenue con­version factor in Schedule 7, (2) that the rate of return on Schedule 7 should be 10.68%, and (3) that the revenue requirement should be decreased by $37,277.[[29]](#footnote-29)

## E. Recovery of Triple Paid Invoice

During Staff’s audit of Rider DR-IM, Staff found an invoice amount that was paid to a vendor three times when it should have been paid only once.[[30]](#footnote-30) Therefore, Staff rec­ommends that the operation and maintenance (O&M) expense amount of Rider DR-IM be adjusted to exclude $1,825, which is the amount that the invoice was over paid to the vendor.[[31]](#footnote-31) This will prevent the Company from recovering the two duplicate payments that the Company made in error.[[32]](#footnote-32) The Company agrees with Staff’s adjustment to exclude $1,825 from the O&M expense amount of Rider DR-IM.[[33]](#footnote-33)

# CONCLUSION

In sum, Staff has audited and reviewed Duke’s application and believes that, sub­ject to the conditions set forth herein by Staff, the Commission should approve the Com­pany’s adjustment to Riders AU and DR-IM for 2013.

Respectfully submitted,

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Section Chief

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# PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Post-Hearing Brief** submitted on behalf of the Staff of the Public Utilities Commis­sion of Ohio,was served by regular U.S. mail, postage pre­paid, electronic mail, or hand-delivered, upon the following Parties of Record, this 9th day of March, 2015.

/s/ Katie L. Johnson

**Katie L. Johnson**

Assistant Attorney General

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1. *In the Matter of the Application of Duke Energy Ohio, Inc. to Adjust Rider DR-IM and Rider AU for 2013 Grid Modernization Costs*, Case No. 14-1051-GE-RDR (“*In re Duke*”) (Prefiled Testimony of Peter K. Baker at 5) (Dec. 31, 2013) (“Baker Testimony”). [↑](#footnote-ref-1)
2. *Id*. [↑](#footnote-ref-2)
3. Duke is required to keep its books in accordance with the USOA. Ohio Adm.Code 4901:1-13-13(A). [↑](#footnote-ref-3)
4. Baker Testimony at 5-6. [↑](#footnote-ref-4)
5. *Id*. [↑](#footnote-ref-5)
6. *Id*. [↑](#footnote-ref-6)
7. Baker Testimony at 6-7. [↑](#footnote-ref-7)
8. *Id*. [↑](#footnote-ref-8)
9. *Id*. at 7. [↑](#footnote-ref-9)
10. *Id*. at 6. [↑](#footnote-ref-10)
11. Baker Testimony at 7. [↑](#footnote-ref-11)
12. To the extent that the gas modules are put in service and certified as used and use­ful in 2014 Staff would deem them to be appropriately included for recovery as part of 2014 Rider AU costs. Transcript at 224 (Feb. 19, 2015). [↑](#footnote-ref-12)
13. *In re Duke* (Prefiled Testimony of Kimberly Childs at 3) (Dec. 31, 2014) (“Childs Testimony”). [↑](#footnote-ref-13)
14. *In re Duke* (Prefiled Testimony of Kimberly Childs at 3) (Dec. 31, 2014); Staff Comments at 7 (Oct. 17, 2014). [↑](#footnote-ref-14)
15. Childs Testimony at 3. [↑](#footnote-ref-15)
16. Childs Testimony at 3. [↑](#footnote-ref-16)
17. Baker Testimony at 3. [↑](#footnote-ref-17)
18. *Id*. [↑](#footnote-ref-18)
19. *Id*. [↑](#footnote-ref-19)
20. *Id*. [↑](#footnote-ref-20)
21. *Id*. at 4. [↑](#footnote-ref-21)
22. *Id*. [↑](#footnote-ref-22)
23. Baker Testimony at 4. [↑](#footnote-ref-23)
24. *Id*. [↑](#footnote-ref-24)
25. Transcript at 104-105 (Feb. 19, 2015). [↑](#footnote-ref-25)
26. *In re Duke* (Prefiled Testimony of Craig Smith at 2) (Dec. 31, 2014) (“Smith Testimony”). [↑](#footnote-ref-26)
27. Smith Testimony at 4. [↑](#footnote-ref-27)
28. *Id*. [↑](#footnote-ref-28)
29. Transcript at 9, 10, 204 (Feb. 19, 2015). [↑](#footnote-ref-29)
30. Childs Testimony at 2-3, Tr. at 21. [↑](#footnote-ref-30)
31. Childs Testimony at 2-3. [↑](#footnote-ref-31)
32. *Id*. [↑](#footnote-ref-32)
33. Transcript at 21 (Feb. 19, 2015). [↑](#footnote-ref-33)