BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Implement a Capital Expenditure Program.	: : : :	Case No. 13-2417-GA-UNC
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change Accounting Methods.	: : : :	Case No. 13-2418-GA-AAM

SUR-REPLY COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

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I. INTRODUCTION

On December 20, 2013, Duke Energy Ohio, Inc. (Duke or Company) filed an application for authority to implement an information and technology capital expenditure program (IT-CEP) and for approval to change accounting methods in the dockets listed above. Duke is seeking the Commission's approval to create and maintain the IT-CEP for a five year period beginning in 2013 and ending in approximately 2018. Pursuant to the Attorney Examiner's March 14, 2014 Entry in this case, the Staff filed comments on Duke's Application (Staff Comments) on May 2, 2014 and Duke filed reply comments (Duke Reply Comments) on May 16, 2014.

With some clarifications, Duke's Reply Comments agree with the points raised in the Staff Comments with one notable exception. Duke takes issue with the Staff's recommendation that the Commission should impose a $1.50 per month rate cap on the total deferrals created under the IT-CEP and other CEPs Duke may seek in the future, if the deferred amounts are included in residential rates. The Staff maintains that the recommended $1.50 per month rate cap for the IT-CEP and potential future CEPs is consistent with the caps established in the cases establishing and authorizing continuation of CEPs for Columbia Gas of Ohio Inc. (Columbia),[1] Dominion East Ohio Gas (Dominion),[2] and Vectren Energy Delivery of Ohio (Vectren).[3]

In its Reply Comments, Duke misconstrues the case histories surrounding the adoption of the $1.50 per month rate cap in the other utilities' CEP cases and misunderstands the Staff position taken in those cases to conclude that the Commission allows companies to establish multiple CEPs with $1.50 per month caps for each CEP. This

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1 *See In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of a Capital Expenditure Program and for Approval to Change Accounting Methods*, Case No. 11-5351-GA-UNC (Finding and Order) (Aug. 29, 2012); *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of a Capital Expenditure Program and for Approval to Change Accounting Methods*, Case No. 12-3221-GA-UNC, *et al.* (Finding and Order) (Oct. 9, 2013).

2 *See In the Matter of the Application of The East Ohio Gas Company d/b/a/ Dominion East Ohio to Implement a Capital Expenditure Program and for Authority to Change Accounting Methods*, Case No. 11-6024-GA-UNC (Finding and Order) (Dec. 12, 2012); *In the Matter of the Application of The East Ohio Gas Company d/b/a/ Dominion East Ohio to Implement a Capital Expenditure Program and for Authority to Change Accounting Methods*, Case No. 12-3279-GA-UNC (Finding and Order) (Oct. 9, 2013).

3 *See In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case Nos. 12-530-GA-UNC, *et al.* (Finding and Order) (Dec. 12, 2012); *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. to Implement a Capital Expenditure Program and for Authority to Change Accounting Methods*, Case No. 13-1890-GA-UNC (Finding and Order) (Dec. 4, 2013).

conclusion is incorrect. Therefore, the Staff offers these sur-reply comments to ensure that the Commission has a complete record on which to reach a decision in this case.

II. STAFF'S SUR-REPLY COMMENTS

A. The $1.50 per month rate cap that the Commission adopted for Columbia, Dominion, and Vectren applies to cumulative deferrals.

In its Comments, Duke summarizes the case histories surrounding the Commission's initial approval of CEPs for the other gas utilities in the State. Duke provides these summaries to advance a claim that the Commission authorized multiple CEPs, each with its own $1.50 per month rate cap. This is not accurate. The $1.50 per month cap that the Commission established in each of the other gas utilities CEP cases apply to the cumulative total of all CEP deferrals, regardless whether the deferrals are considered to have been created under one ongoing CEP or multiple CEPs. The Staff intended and advocated this position in comments filed in the other utilities' CEP cases and other utilities have understood and implemented their tracking mechanisms to ensure that accrued deferrals do not exceed the cumulative $1.50 per month rate cap for the cumulative total of all CEP deferrals. For example, in their most recent annual update filings, Columbia, Dominion, and Vectren each include a schedule that estimates the rate impact of the cumulative amount of deferrals under their respective CEPs. This estimated rate cap impact is derived using the cumulative amount deferred since the inception of each company's CEP (October 2011 for all three companies) through 2013. Columbia goes one step further by showing the estimated rate impact for deferrals associated with projected

CEP expenditures in 2014. These schedules clearly show that the other gas utilities understand that the $1.50 per month rate cap on CEP deferrals applies to the cumulative total of all CEP deferrals regardless whether the deferrals were created as part of one ongoing CEP or CEPs arising from multiple cases.

B. Duke's suggestion that it would be inconsistent for the Commission to institute the same $1.50 per month rate cap that it adopted for the other gas utilities because its IT-CEP involves capital expenditures on IT assets with relatively short depreciation lives compared to the assets of the other utilities is misplaced. Two of the other utilities expressly include annual IT expenditures in their CEP that are greater than the annual amounts proposed in Duke's IT-CEP.

Duke argues in its Reply Comments that the capital expenditures under its IT-CEP are for IT assets with relatively short depreciation lives compared to expenditures for longer-lived assets (such as regulating stations, meters, and meter sets), therefore its depreciation expense will be relatively higher than for the other companies.[4] To rectify this imbalance, Duke recommends that any rate cap on its CEP deferrals should apply only to the IT-CEP and not the IT-CEP in combination with any future CEPs.[5] The Company's argument, however, fails to note that the capital expenditures for the other utilities effectively includes all of their capital spending that is not covered by their respective

[4] *In the Matter of the Application of Duke Energy Ohio, Inc. to Implement a Capital Expenditure Program and for Authority to Change Accounting Methods*, Case No. 13-2417-GA-UNC, *et al.* (Duke Reply Comments at 9) (May 16, 2014).

[5] *Id.*

infrastructure replacement programs, including expenditures for IT improvements and replacements. As discussed above, the other large gas utilities treat their capital spending and associated deferrals under their CEPs as one comprehensive program covering past and future years. For compliance with the $1.50 per month rate cap, they track the potential impact on residential rates of their CEP deferrals on a cumulative basis. In applications and annual update filings for their CEPs, Columbia and Dominion expressly delineate estimated IT expenditures in their total projected capital spending covered by their CEP. As can be seen in the chart below, assuming that Duke's total estimated IT-CEP expenditures of $20.0 million to $25.0 million is spread out evenly over the approximate five years that the Company is requesting, then the resulting $4.0 million – $5.0 million per year is considerably less than the average IT expenditures projected by Columbia and Dominion.

Avg. Annual IT and Total CEP Expenditures for Duke, Columbia, and Dominion

Projected Expenditures/Company	Duke (2013 – 2018) (millions)	Columbia (10/11 thru 12/14) (millions)	Dominion (10/11 thru 12/14) (millions)
Average Annual IT Capital Expenditures	$4.0 – $5.0	$9.23	$12.0
Average Annual Total CEP Capital Expenditures	$4.0 – $5.0	$83.38	$91.69

Columbia and Dominion's IT expenditures are for assets with similar depreciable lives as those proposed by Duke and comprise only a small part of their average total projected CEP annual expenditures, yet both companies agreed with the cumulative $1.50 per month rate cap. In addition, the proposed cap is consistent with the rate cap adopted in the other utilities cases. The other utilities' cap applies to all of their capital expenditures that are not covered by an infrastructure replacement program. This would be similar to a cap on any of Duke's multiple CEPs for capital expenditures in addition to the IT-CEP. This cap has been applied in all CEP cases and the cap should be adopted for Duke as well.

III. CONCLUSION

The Commission adopted a $1.50 per month cap on the other gas utilities' total CEP deferrals. Therefore, as recommended in the Staff's initial Comments, the Commission should establish the same $1.50 per month cap on Duke's total accrued CEP deferrals for both the IT-CEP and for the IT-CEP in combination with any future CEPs.

Respectfully Submitted,

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IV. CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Sur-Reply Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by electronic mail upon the following parties of record, this 26th day of June, 2014.

/s/ Katie L. Johnson

Katie L. Johnson
Assistant Attorney General

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