BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

OPINION AND ORDER

The Commission, having considered the evidence admitted at hearing, and being otherwise fully advised, hereby issues its Opinion and Order.

APPEARANCES:

Amy B. Spiller and Elizabeth H. Watts, 139 East Fourth Street, Cincinnati, Ohio 45202, on behalf of Duke Energy Ohio, Inc.

Mike DeWine, Ohio Attorney General, by Katie Johnson, Assistant Attorney General, 180 East Broad Street, Columbus, Ohio 43215, on behalf of Staff of the Commission.

Bruce J. Weston, Ohio Consumers' Counsel, by Terry Etter, Assistant Consumers' Counsel, 10 West Broad Street, Suite 1800, Columbus, Ohio 43215, and Kimberly W. Bojko, Carpenter Lipps & Leland LLP, 280 North High Street, Suite 1300, Columbus, Ohio 43215, on behalf of the residential utility customers of Duke Energy Ohio, Inc.

Colleen L. Mooney, 231 West Lima Street, Findlay, Ohio 45840, on behalf of Ohio Partners for Affordable Energy.

Joseph E. Oliker, 6100 Emerald Parkway, Dublin, Ohio 43016, on behalf of Interstate Gas Supply, Inc.

Vorys, Sater, Seymour and Pease, LLP, by M. Howard Petricoff and Gretchen L. Petrucci, 52 East Gay Street, P.O. Box 1008, Columbus, Ohio 43216-1008, on behalf of Retail Energy Supply Association.

Joseph M. Clark and Jennifer L. Spinosi, 21 East State Street, Suite 1950, Columbus, Ohio 43215, on behalf of Direct Energy Services, LLC and Direct Energy Business, LLC.

OPINION:

I. Background

Duke Energy Ohio, Inc. (Duke or Company) is an electric light company and a natural gas company, as defined in R.C. 4905.03, and a public utility under R.C. 4905.02. Duke supplies electricity to approximately 700,000 customers and natural gas to approximately 420,000 customers in southwestern Ohio, all of whom will be affected by Duke's application. (Duke Ex. 1 at 1.)

In *In re Duke Energy Ohio, Inc.*, Case No. 08-920-EL-SSO, et al. (*2008 ESP Case*), Opinion and Order (Dec. 17, 2008), the Commission approved a stipulation that, inter alia, provided a process for recovering costs associated with the electric SmartGrid system, designated Rider Distribution Reliability - Infrastructure Modernization (Rider DR-IM). The stipulation provided that, each year, Duke shall file for approval of Rider DR-IM adjustments, subject to due process, including a hearing. In *In re Duke Energy Ohio, Inc.*, Case No. 07-589-GA-AIR, et al. (*Gas Rate Case*), Opinion and Order (May 28, 2008), the Commission authorized Duke to file deployment plans for installation of an automated gas meter reading system, which would share the SmartGrid communications technology. The plan provided that Duke would recover costs related to the deployment plans through Rider Advanced Utility (Rider AU).

In *In re Duke Energy Ohio, Inc.*, Case No. 09-543-GE-UNC, et al., Opinion and Order (May 13, 2010), the Commission approved a stipulation that set the initial rates for Riders DR-IM and AU. Most recently, in *In re Duke Energy Ohio, Inc.*, Case No. 13-1141-GE-RDR (*2013 Rider Case*), Opinion and Order (Apr. 9, 2014), the Commission approved a stipulation authorizing the current rates as follows: for Rider DR-IM, \$4.83 and \$7.17 per bill per month for residential customers and nonresidential customers, respectively; for Rider AU, \$1.40 per meter per month; and, for gas-only customers, a credit of \$0.63 per meter per month.

On June 13, 2014, Duke filed its application and supporting testimony requesting authority to adjust Riders DR-IM and AU for SmartGrid deployment, pursuant to the process approved in the *Gas Rate Case* and the *2008 ESP Case* (Duke Ex. 1). Motions to intervene were filed by Interstate Gas Supply, Inc. (IGS) on July 8, 2014, the Ohio Consumers' Counsel (OCC) on July 18, 2014, Direct Energy Services, LLC and Direct Energy Business, LLC (collectively, Direct Energy) on September 12, 2014, Ohio Partners for Affordable Energy (OPAE) on September 16, 2014, and the Retail Energy Supply Association (RESA) on September 18, 2014. The attorney examiner granted the motions to intervene filed by IGS, OCC, Direct Energy, OPAE, and RESA by Entry dated October 16, 2014.

On October 17, 2014, comments were filed by IGS, OCC (OCC Ex. 13), OPAE (OPAE Ex. 1), Staff (Staff Ex. 1), and RESA. On October 31, 2014, reply comments were filed by Duke (Duke Ex. 7) and RESA.

The hearing in this matter was initially scheduled to commence on November 4, 2014. Following several requests by the parties to extend the procedural schedule in this case, the hearing was held, as rescheduled, on February 19, 2015. At the hearing, Peggy A. Laub, Donald L. Schneider, Jr., Joseph R. Thomas, and Elizabeth Q. White testified for Duke, James D. Williams testified for OCC, and Craig Smith, Peter Baker, and Kimberly Childs testified for Staff. Briefs were filed by Duke, OPAE, IGS, Staff, and OCC on March 9, 2015. Reply briefs were filed by Duke, OPAE, Staff, and OCC on March 16, 2015.

II. Summary of the Application and Comments

The following is a summary of the application and the relevant comments that were submitted at hearing.

A. Application

Duke requests an increase for Rider DR-IM of $6.07 and $9.01 per bill per month for residential customers and nonresidential customers, respectively. According to Duke witness Laub, the increase in residential rates is below the $6.75 cap established in the *2013 Rider Case*. For Rider AU, Duke requests the charge be increased to $1.50 per meter per month and, for gas-only customers, there be a credit of $1.28 per meter per month. (Duke Ex. 2A at 10-11, 14-15; Duke Ex. 2B at 1-3.)

In support of Duke's application, Duke witness Schneider explains that the field deployment portion of the Company's grid modernization program is almost complete. In 2013, Duke installed or upgraded over 326 system devices inside substations and over 2,855 system devices on distribution circuits, which was 97.4 percent of Duke's 2013 planned deployment or 3,181 of 3,266 planned system devices for 2013. Mr. Schneider further explains that 2013 was the fourth year for full-scale, advanced metering infrastructure (AMI) deployment. The Company installed 197,172 electric meters, 89,296 gas meters/modules, and 22,053 communications nodes. (Duke Ex. 3 at 3.)

Duke witness Schneider further provides that, through April 2014, Duke has installed a total of 716,074 electric meters, 433,126 gas modules, 12,957 auto meter reading gas modules, and 141,259 communications nodes, and has certified 668,879 of the electric meters installed and 417,479 of the gas modules installed. Meters are certified to identify when the meter has successfully been commissioned and verified and the meter data is ready to be used for billing. Duke's AMI deployment is approximately 99.9 percent complete, with planned completion to occur by the fourth quarter of 2014. Since the AMI deployment is substantially complete, Duke's projects team is now working with its operations personnel to complete all business transaction items and to close out any remaining metering installations and communications network fine-tuning. (Duke Ex. 3 at 3-4.)

With respect to distribution automation (DA) deployment through the first quarter of 2014, Duke has installed and/or automated with two-way communications capabilities a total of 1,145 system devices inside substations and over 6,723 system devices on distribution circuits. These numbers put the total planned DA deployment at approximately 99.9 percent complete, with deployment planned for completion by mid-2014. With the completion of DA deployment, Duke will have installed and/or automated with two-way communications capabilities a total of 1,152 system devices inside substations and over 6,723 system devices on distribution circuits. (Duke Ex. 3 at 4.)

Duke witness Schneider also explains Duke's performance with respect to the system average interruption frequency index (SAIFI), which is a utility industry standard for reporting the average number of sustained, greater than five minutes, interruptions per customer per year. In the *2008 ESP Case*, Duke committed to achieving specified SAIFI targets for each year of deployment. Mr. Schneider states that Duke met or exceeded its SAIFI targets for 2009, 2010, 2011, 2012, and 2013. (Duke Ex. 3 at 5-6.)

B. <u>Comments and Reply Comments</u>

Staff conducted its audit in this case through a combination of document review, interviews, and interrogatories. Staff selected a sample of Duke's distribution and substation automation equipment and conducted a field verification audit. Sites were selected and verified throughout Duke's territory, which includes Hamilton, Butler, Warren, Brown, and Clermont Counties. In the audit, Staff tested both the distribution and substation automation equipment. Staff notes no discrepancies in automated substation equipment. However, aside from four capacitor banks in need of repair, Staff notes that switches in Duke's automated distribution equipment known as "self-healing teams," which can reconfigure circuits and re-route electricity around a fault, were operating in only 64 percent of the instances where they had opportunities to operate. Staff, therefore, recommends that Duke investigate each operational failure and make the needed corrections. Staff states that it will continue to monitor the success rate of Duke's self-healing teams to verify their performance improvement. (Staff Ex. 1 at 3-5, 10-11.)

Staff states that, as part of its grid modernization program, Duke is installing "gas modules" on all of its gas meters. Staff explains that these modules transmit meter data, which reduces the need for meter readers, and that, until 2011, Duke charged the cost of these modules to its "Meters" account. Further, Staff explains that the Uniform System of Accounts (USOA) of the Federal Energy Regulatory Commission (FERC) allows utilities to record plant in service as soon as the equipment is purchased for this account, even if the equipment is not used and useful. In 2013, however, Duke charged the cost of its gas modules to "Communication Equipment - Gas" account, which is not allowed the same special accounting treatment. Instead, the gas modules charged to this account must be used and useful before their costs are recoverable in rates. During 2013, Duke charged 15,846 gas modules to the "Communication Equipment - Gas" account, which the Company installed but did not certify as used and useful. The cost associated with these uncertified gas modules is $983,966. Staff maintains that gas modules charged to "Communication Equipment – Gas" must be used and useful before costs related to these modules are recoverable in rates. Accordingly, Staff recommends that $983,966 be removed from Rider AU capital costs until Duke certifies the gas module installations as used and useful. Further, Staff requests that the Commission instruct Duke to cease charging gas module purchases to Rider AU until the gas modules are installed and certified. (Staff Ex. 1 at 5-6, 10, 11.)

Staff notes that Duke's Rider DR-IM pre-tax rate of return calculation included the Ohio Commercial Activities Tax (CAT) as part of the gross revenue conversion factor. In addition, the annualized return on rate base in Rider DR-IM was grossed up for CAT. Thus, the return on rate base has been grossed up for CAT twice. Staff recommends that the gross revenue conversion factor be removed from CAT, resulting in a reduction to the rate of return from 10.70 percent to 10.68 percent and a total reduced revenue requirement of $37,277. (Staff Ex. 1 at 6-7, 10, 11.)

During the audit, Staff identified $40,610 in relocation expenses related to one employee and, of this amount, 17.1 percent was allocated to Rider DR-IM in this case. Staff states that invoices for the relocation expense have not been received from the Company and that, absent the requested supporting documentation, it has made an adjustment to exclude $6,944 (17.1 percent of $40,610) from operations and maintenance (O&M) expenses. Staff also found an invoice amount that was paid to a vendor three times when it should have been paid only once. Staff, therefore, recommends that the Commission order Duke to adjust Rider DR-IM to exclude $1,825 of O&M expenses from the rider in order to reverse the two duplicate payments that the Company erroneously made. (Staff Ex. 1 at 7, 10, 11.) In its reply comments, Duke states that it accepts all of Staff's comments (Duke Ex. 7 at 1).

OCC states that Duke's SmartGrid program is not living up to expectations regarding the detection and restoration of outages. Further, OCC is concerned about the number of estimated bills Duke issued in 2013 because of SmartGrid failures. OCC argues that Duke's application should not be approved unless the Commission follows its recommendations regarding these issues. (OCC Ex. 13 at 2.)

OCC is concerned that Duke's automated switches, its self-healing teams, have not performed up to expectations. OCC states that, according to information provided in discovery, in 2013, Duke's self-healing teams operated 42 times and were successful only 27 times, a 64 percent success rate. OCC argues that Duke's customers should be receiving better performance from Duke in detecting and repairing outages through the self-healing teams. According to OCC, the Commission should consider the following: making Duke's future collection of SmartGrid costs dependent on Duke achieving at least a 90 percent success rate for its self-healing teams; and requiring Duke to publicly file a complete report concerning the status of the self-healing team deployments. Further, OCC observes that Duke should be tracking outage data related to self-healing teams. (OCC Ex. 13 at 3-4.) In response, Duke states that, pursuant to the stipulation in the *2013 Rider Case*, the Company recently agreed to provide information related to the operation of its self-healing teams and that the Company has only begun collecting the necessary information in 2014, pursuant to that stipulation. Duke states that the Company will provide the data, along with other non-cost metrics, with its next application for approval. However, although the Company has agreed to provide the report, it does not agree that its previous year's cost recovery should be dependent upon a 90 percent success rate. Duke notes that building, developing, and maintaining a system for grid modernization is a science and an art. Further, each of the various systems and elements of the program create complexities and difficulties that require experience and time to achieve full benefits. (Duke Ex. 7 at 1-2.)

OCC notes that Duke has had a significant number of instances where customer bills had to be estimated because smart meters failed to register and/or transmit usage data. OCC states that the number of estimated bills raises concerns relating to the price Duke's customers will be charged if they opt out of having a smart meter. Further, OCC maintains that the number of Duke's customers who received estimated bills provides support for making sure that those customers who do opt out pay charges that are reasonable. OCC states that the Commission, therefore, should examine why Duke's smart meters failed to register and/or transmit usage data, and should require Duke to remedy the problem. (OCC Ex. 13 at 8-9.) Duke states that it does not agree that there is a problem with respect to estimated reads from AMI meters. Duke notes that, as the Company completes its deployment of advanced meters, its number of estimated bills for advanced meters is very low as compared to traditional meters. Duke states that, for the year 2013, the Company had approximately 10 percent of traditional meters estimated, while estimated reads for advanced meters were lower than 0.02 percent. According to Duke, the high number of estimated reads for traditional meters is due to the fact that many of those meters are located inside the customer premises and access to the meter is difficult. Thus, the installation of advanced meters has greatly reduced the need to estimate reads. (Duke Ex. 7 at 2-3.)

OPAE states that, in past Duke rider cases, there have been issues of proper cost recovery and proper recognition of benefits to customers. OPAE maintains that it has an interest in the identification and recognition of customer benefits that are realized from the smart grid programs, so that cost recovery through the riders can be reduced. According to OPAE, it relies on Staff to issue its findings regarding the 2013 costs to be recovered through the smart grid riders to be set in this proceeding, and the corresponding benefits that will serve to reduce cost recovery through the riders. OPAE maintains that, absent Staff's report, it cannot comment on these cost recovery and benefit recognition issues. (OPAE Ex. 1 at 1-2.) Duke responds that, as an intervening party, OPAE may do its own due diligence and engage in discovery to the extent it has any concerns. However, having neglected to do so, it is disingenuous of OPAE to raise any issue with respect to the revenue requirement. (Duke Ex. 7 at 4.)

III. Summary of the Evidence and Conclusions

At the hearing held on February 19, 2015, the following six issues were litigated: the extent to which Duke's self-healing teams are operating as intended, gas module cost recovery charged to Rider AU, the inclusion of the CAT in Rider DR-IM's rate of return calculation, the inclusion of employee relocation expenses in Rider DR-IM, the recovery of over-paid amounts for a vendor's invoice, and Duke's estimated billing.

A. Self-Healing Teams

An important part of the DA portion of Duke's grid modernization program involves a set of automated switches or "self-healing teams." These devices are designed to reconfigure circuits and re-route electricity around a fault, thereby reducing the number of customers affected by an outage. Staff analyzed data on the self-healing teams that was provided by Duke and found that Duke's self-healing teams were operating in 64 percent of the instances where they had opportunities to operate. Staff believes Duke can improve on that performance and recommends that Duke take the following three steps: (1) identifying the instances where a team failed to operate, (2) investigating each such failure, and (3) taking corrective action to prevent such failures in the future. (Staff Ex. 3 at 3-4.)

OCC notes that, after five years' experience with its SmartGrid system in Ohio, Duke's self-healing teams still failed to function properly 15 out of 42 times in 2013 and that customers should be receiving better performance from Duke in detecting and repairing outages through the self-healing teams. OCC states that, because Duke is seeking to collect costs from customers related to self-healing team deployments, it should be expected that the Commission and customers would know why the self-healing teams did not operate successfully and whether Duke's corrective actions are effective. The Commission, therefore, should require Duke to publicly file an annual report describing each unsuccessful operation of the self-healing teams, the corrective action taken by Duke, and whether that action was successful. Further, in order to determine if customers were spared an outage because of the self-healing teams, the Commission should require Duke to separately track the performance of self-healing teams during major events. OCC argues that Duke should be required to reduce the amount to be collected from customers through Rider DR-IM by the amount of costs associated with the 15 self-healing team failures in 2013. In addition, Duke's future collection of SmartGrid costs should be dependent on Duke achieving at least a 90 percent success rate for its self-healing teams. (OCC Br. at 23-24; OCC Ex. 1 at 7-8.) OPAE agrees with OCC's recommendations concerning self-healing teams (OPAE Br. at 5).

In response, Duke first notes that the Company agreed, in the *2013 Rider Case* stipulation, to provide the information that is being sought by OCC in its Non-Cost Metrics Report. Duke asserts, however, that what OCC complains of is a simple misunderstanding with respect to the nature and timing of the report to be provided. Duke explains that the Non-Cost Metrics Report is provided annually and contains a year's worth of data for each item listed. Further, in order to include a year's worth of data, subsequent to the approval of the *2013 Rider Case* stipulation, the Company would need to provide the relevant information for 2014, in the year 2015. Thus, OCC's complaint that the information is not complete is a year too soon. In addition, Duke states that, according to the testimony of Staff witness Baker (Tr. at 213), the provision in the stipulation calling for information on self-healing teams, which was authored by Staff, only intended that the Company provide data that Staff could use to compute the success rate of self-healing teams, and Staff was satisfied with the data provided. OCC, therefore, is mistaken in complaining that the requisite data was not provided. Duke states that the Company has started tracking the information that was agreed to in the *2013 Rider Case* stipulation and that such information will be provided in the Non-Cost Metrics Report for this year. (Duke Br. at 3-5.)

The Commission, after reviewing our approval of the *2013 Rider Case* stipulation and the testimony presented by Staff witness Baker in this proceeding, agrees with Duke's contention that the information requested on self-healing teams in the *2013 Rider Case* stipulation has been provided to Staff and that more information on the self-healing teams is due in Duke's 2015 Non-Cost Metrics Report. The Commission, therefore, believes that it would be prudent to wait for that report before making any decisions with respect to the cost effectiveness of Duke's self-healing-teams technology. Moreover, based on the record in this proceeding, we believe that such technology is still being developed, and it appears to be improving. There is nothing in the record to suggest that the development of self-healing teams should be tied to Duke's achieving a 90 percent success rate, or that would justify deducting the costs of failures experienced in the operation of self-healing teams from Duke's cost recovery through Rider DR-IM in this case, as OCC suggests. Consequently, without evidence indicating otherwise, it would be inappropriate to consider disallowing costs associated with that technology at this time.

B. Gas Modules

Gas modules, communication devices that transmit meter data, are being installed by Duke on all of its gas meters to facilitate the collection of gas usage data. These modules increase the frequency and accuracy of meter readings and reduce the need for meter readers. In 2013, Duke charged, as capital costs in Rider AU, the cost of 15,846 gas modules that had been installed but were not yet transmitting meter readings, because Duke had not completed testing and certification procedures on the modules. However, according to the USOA, which gas companies are required, under Ohio Adm.Code 4901:1-13-13(A), to use in their accounting, capital costs, such as gas modules, charged to the "Communication Equipment - Gas" account must be used and useful before the costs are recoverable in rates. Because these gas modules have not yet been certified as operational and, thus, are not yet used and useful, Staff recommends that the cost of the modules, $983,966, be removed from Rider AU capital costs until Duke completes the requisite procedures to certify the modules as used and useful. Staff also recommends that the Commission direct Duke to stop charging gas module costs to Rider AU until the gas modules are installed and certified. (Staff Ex. 3 at 5-6.) OCC and OPAE agree with Staff's position on this issue (OCC Br. at 26-27; OPAE Br. at 5-6).

In response, Duke notes that Staff witness Baker agreed that, once the gas modules are placed in service and are used and useful in 2014, the cost would be appropriate to include in next year's grid modernization cost recovery proceeding. Further, Duke states that the Company disagrees with Staff's assessment that FERC precludes the inclusion of a reasonable amount of gas module cost recovery in Rider AU, but is willing to forgo recovery until the calendar year 2014 filing. (Duke Br. at 3.)

The Commission agrees with Staff's proposal that the cost of the gas modules, $983,966, should be disallowed for recovery through Rider AU in this proceeding. We believe that this determination, which is in agreement with FERC's USOA requirement that capital costs charged to the "Communication Equipment - Gas" account be used and useful before the costs are recoverable in rates, is reasonable and consistent with our past precedent. Only those gas module costs that are used and useful during the year in question should be included in the Company's rider calculations for cost recovery. However, as pointed out by Staff (Tr. at 224), once the gas modules are certified and deemed used and useful, it would be appropriate to include the gas module cost for recovery in Duke's 2015 proceeding for the recovery of 2014 costs through Rider AU. Accordingly, Duke is directed to remove the $983,966 cost of the gas modules from Rider AU in this case.

C. *Commercial Activities Tax*

In its application, Duke included recovery for the CAT in Rider DR-IM twice. Staff witness Smith testified that, as part of its application, the Company included the CAT in the pre-tax rate of return calculation in Schedule 7. However, the CAT was also included in the annualized revenue requirement in Schedule 1, which incorporated the Schedule 7 rate of return in its calculation. Mr. Smith testified that, by including the CAT in both Schedule 7 and Schedule 1, the Company has increased its revenue requirement by $37,277. Mr. Smith recommends that the Company remove the CAT from the gross revenue conversion factor in Schedule 7, resulting in a lower rate of return on Schedule 7 from 10.70 percent to 10.68 percent and a revenue requirement that is decreased by $37,277. (Staff Ex. 2 at 2-4.) OCC agrees with Staff that Duke's revenue requirement should be reduced by $37,277 (OCC Br. at 26-27).

In response, Duke states that the Company agrees with Staff's recommendation. Duke witness Laub testified that Schedules 1, 7, and 13 should be revised to show the change resulting from the correction to the CAT. Ms. Laub notes that this change reduces the Company's revenue requirement by $37,277, and lowers the rate of return from 10.70 percent to 10.68 percent. (Tr. at 9-11; Duke Ex. 2B.)

The Commission agrees with Staff's recommendation. According to Duke's computations, as Staff points out, the CAT was included twice in Duke's rate of return calculation. Accordingly, in order to rectify this error, Duke's revenue requirement should be reduced by $37,277.

D. Relocation Expense

In the course of the audit, Staff discovered $40,610 in relocation expenses related to one employee. The allocation of this amount to Rider DR-IM was $6,944. Staff witness Childs testified Staff requested information regarding these expenses via data requests, but that Duke did not provide Staff with the requested information. Ms. Childs testified that, consequently, Staff could not investigate whether the expense was incremental, prudent, reasonable, and appropriate for recovery in Rider DR-IM. Staff recommends an adjustment to exclude this amount from Rider DR-IM. (Staff Ex. 4 at 3.) OCC and OPAE agree with Staff's position on this issue (OCC Br. at 26-27; OPAE Br. at 6).

In response, Duke states that the Company disagrees with Staff's assessment regarding the relocation expense allocation to Rider DR-IM. Duke states that the expense was properly documented in Staff Data Request 51 and is included in Rider DR-IM as a necessary employment expense related to a grid modernization employee. (Duke Br. at 3.)

Upon consideration of this issue, the Commission first notes Staff witness Childs' direct testimony, that Staff had requested information on the relocation expenses in question via data requests, but that Duke did not provide that requested information (Staff Ex. 4 at 3; Tr. at 228-229). The Commission also notes that Ms. Childs seemed to confirm her direct testimony, during cross-examination by OCC, in stating that Duke disagreed with Staff's proposal concerning the relocation expenses, and had not adjusted its requested revenue requirement in this case to remove the $6,944, as recommended by Staff (Tr. at 228-229). Duke had no questions for Ms. Childs on cross-examination (Tr. at 230). However, as noted above, Duke states on brief that the expense was necessarily incurred in order to relocate an employee who worked on the Company's grid modernization project and that the Company has already properly documented the expense in Staff Data Request 51. We observe that Staff Data Request 51 states the following:

> REQUEST:
> Was each and every dedicated service company smart grid employee, hired from external sources/applicants? How many?
>
> RESPONSE:
> Service company employees provide services that are allocated to the various business units such as Duke Energy Ohio. Duke Energy has over seven thousand service company employees. It is difficult to retrieve the hiring history of all the service company employees that currently work on smart grid projects.
>
> For this filing, only capital labor costs are included. These capital labor dollars are not in base rates.

(OCC Ex. 2.) We agree with Staff that Duke has not provided the requested information that would allow Staff to form an opinion or, ultimately, the Commission to make a determination on this issue. The Commission, therefore, concludes that Duke's proposed cost recovery of relocation expenses through Rider DR-IM should be reduced by $6,944 in order to reflect only the inclusion of costs that have been properly documented by Duke with the information requested by Staff.

E. Over-Paid Invoice

In the course of the audit of Rider DR-IM, Staff discovered a vendor's invoice that had been paid three times. Staff notes that the two duplicate payments of the invoice, amounting to $1,825, were made by the Company in error. Staff, therefore, recommends that the O&M expense amount of Rider DR-IM be adjusted to exclude the $1,825 overpayment. (Staff Ex. 4 at 2-3; Tr. at 228.) Duke, OCC, and OPAE agree with Staff's recommendation (Duke Br. at 3; OCC Br. at 26-27; OPAE Br. at 6).

The Commission also agrees with Staff's recommendation. Accordingly, we find that Duke's proposed cost recovery through Rider DR-IM should be reduced by $1,825 for duplicate payments made by the Company to a vendor.

F. Estimated Billing

OCC witness Williams testified that, during 2013, Duke rendered estimated bills for 18,040 electric and 1,526 gas accounts. Further, of those estimated reads, about 45 percent were caused by meter issues, 40 percent were attributable to failures of meters' communications systems, and 15 percent were due to issues related to Customer Information Systems data. (OCC Ex. 1 at 19-20, Attach. JDW-6.) According to OCC, although Duke has reduced the number of estimated bills compared to pre-SmartGrid years, the number of estimated bills since SmartGrid has been deployed still raises concerns. OCC states that, with Duke's estimated billing, customers are not getting the service they should, considering the amounts they are paying through the SmartGrid riders. OCC also states that customers with smart meters need those meters to generate actual usage data periodically every day in order to make time-differentiated rates worthwhile. Consequently, OCC argues that the Commission should examine why Duke's smart meters failed to register and/or transmit usage data, and should require Duke to remedy the problem. (OCC Br. at 25-26.) OPAE supports OCC's recommendations for more scrutiny of Duke's numbers of estimated bills (OPAE Br. at 1-2).

Concerning the issue of estimated bills, Duke witness White explains that, in 2008, 8.8 percent of the Company's meters resulted in estimated reads and that, in 2013, estimated reads have been reduced to 0.19 percent (Duke Ex. 6 at 4). Duke witness Thomas also testified that the Company continually improves the process of eliminating estimated meter reads in an effort to improve the end result (Duke Ex. 5 at 3). With respect to OCC's contention that a problem exists with the Company's estimated billing practices, Duke cites to the testimony of OCC witness Williams and states that he was unable to cite any specific shortcomings or prove that Duke has too many estimated bills (Tr. at 185). Duke points out that advanced meters are not immune to failure and that failed meters inside a customer's premises can require repeated attempts to arrange an appointment with the customer to replace the meter; as a result, there can be a longer period of estimation for failed inside meters. Further, Duke states that, while it is impossible to expect that every estimated bill can and should be eliminated, the Company's deployment of its grid modernization has resulted in undeniable improvements in customer billing. (Duke Br. at 5-7.)

After evaluating the arguments of the parties, the Commission agrees with Duke's position on this issue. While we believe that actual meter reads certainly are preferable to estimated ones, we are mindful that, because of equipment and software problems, actual meter reads may not always be attainable, even with AMI technology and smart meters. The statistics presented by Duke at hearing, that the percentage of estimated reads has declined from 8.8 percent to 0.19 percent, indicate that the Company is continuing, and appears to be succeeding, in its program to reduce the number of estimated bills that are rendered to customers. OCC presented no evidence at hearing to challenge Duke's statistics on estimated meter reads. OCC merely argues that Duke should be doing better with its AMI technology. Yet, the evidence of record indicates that Duke is doing just that - reducing estimated meter reads and the resulting estimated bills to customers. Therefore, based on the facts presented to us on this record, the Commission believes that our intervention in Duke's efforts to improve its meter-reading program is not warranted in this case.

CONCLUSION:

Upon consideration of the application in this case, the Commission finds that, with the modifications set forth in this Opinion and Order, Duke's application to adjust its Rider DR-IM and Rider AU rates is reasonable and should be approved. Accordingly, Duke shall file revised calculations, along with tariffs, consistent with the modifications delineated in this Opinion and Order. Provided that Duke files revised calculations, along with final tariffs, consistent with this Opinion and Order, Duke may implement new rates for Riders DR-IM and AU and the new rates shall be effective on a date not earlier than the date upon which the final tariff pages are filed with the Commission.

FINDINGS OF FACT AND CONCLUSIONS OF LAW:

(1) Duke is an electric light company and a natural gas company, as defined in R.C. 4905.03, and a public utility under R.C. 4905.02.

(2) On June 13, 2014, Duke filed its application to adjust Riders DR-IM and AU.

(3) By Entry dated October 16, 2014, IGS, OCC, Direct Energy, OPAE, and RESA were granted intervention in this matter.

(4) On October 17, 2014, comments were filed by IGS, OCC, OPAE, Staff, and RESA. On October 31, 2014, reply comments were filed by Duke and RESA.

(5) The evidentiary hearing was held on February 19, 2015.

(6) Briefs and reply briefs were filed on March 9, 2015, and March 16, 2015, respectively.

(7) Duke's application to adjust its Rider DR-IM and Rider AU rates is reasonable and should be approved, with the modifications set forth in this Opinion and Order.

ORDER:

It is, therefore,

ORDERED, That, with the modifications set forth in this Opinion and Order, Duke's application to adjust its rates for Riders DR-IM and AU is reasonable and should be approved. It is, further,

ORDERED, That, provided Duke files revised calculations, along with final tariffs, consistent with this Opinion and Order, Duke be authorized to implement new rates for Riders DR-IM and AU. It is, further,

ORDERED, That Duke observe all directives set forth in this Opinion and Order. It is, further,

ORDERED, That Duke is authorized to file tariffs, in final form, consistent with this Opinion and Order. Duke shall file one copy in this case docket and one copy in its TRF docket. It is, further,

ORDERED, That the effective date of the new tariffs shall be a date not earlier than the date upon which the final tariff pages are filed with the Commission. It is, further,

ORDERED, That nothing in this Opinion and Order shall be binding upon the Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further, *ORDERED,* That a copy of this Opinion and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Thomas W. Johnson, Chairman

Steven D. Lesser

Lynn Slaby

M. Beth Trombold

Asim Z. Haque

KKS/vrm

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Barcy F. McNeal
Secretary