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PUCO

16-318-GA-UEX

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## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of Duke Energy Ohio, Inc. 550 South Tryon Street, Suite 4400 Charlotte, North Carolina 28202

We have performed the procedures enumerated below, which were agreed to by Duke Energy Ohio, Inc. (the "Company") and provided to the Public Utilities Commission of Ohio (the "PUCO") and the Ohio Consumers' Counsel (the "OCC"), solely to assist you in evaluating the Company's compliance with the recovery of uncollectible customer accounts receivable through an uncollectible expense recovery mechanism as described in PUCO Case 16-318-GA-UEX (the "filed mechanism") from April 1, 2015 to March 31, 2016. The Company's management is responsible for the Company's compliance with the requirements of the filed mechanism. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We performed the following procedures in relation to the filed mechanism from April 1, 2015 through March 31, 2016:

- 1) We obtained from Company management and proved the mathematical accuracy of the following items from April 1, 2015 through March 31, 2016 within the schedules forming Attachment 1 in the Company's applications filed in case 16-318-GA-UEX with the PUCO.
  - a. Bad Debts Written Off Net of customer recoveries for the period from April 1, 2015 through March 31, 2016 was presented as totaling \$4,008,943 on Attachment 1 Page 2 of the filed mechanism, but was understated by \$224,668 (April 2015 amount) and should have totaled \$4,233,611. This presentation had no impact on the calculation of the uncollectible expense recovery mechanism.
  - Recovery Uncollectible Rider for the period from April 1, 2015 through March 31, 2016 of \$2,607,310.
  - c. Carrying Charges for the period from April 1, 2015 through March 31, 2016 of \$28,229.
- 2) We compared the monthly bad debts written off net of customer recoveries from the schedule obtained in 1) a. above to the Customer Management System ("CMS") reports ED263 and ED261 and determined the amounts were in agreement. We noted that charge-offs used in the calculations related to all firm transportation customers including: "FTRT" Firm Transportation-Residential (>1 year supply billing), "FTRS" Firm Transportation-Residential (<1 year supply billing), "FTGT" Firm Transportation General, "RS" Residential, "RSPP" Residential PIPP, and "FTLT" Firm Transportation Large Customer (>1 year supply billing, and "FTLS" Firm Transportation Large Customer (<1 year supply billing) from April 1, 2015 through March 31, 2016.</p>
  - a. From the bad debts written off April 1, 2015 through March 31, 2016 from the CMS billing system, we randomly selected 25 charge-offs and obtained the customer billing history from CMS. We documented the dates and transactions leading up to the charge off of the customer's outstanding balance, including any subsequent recovery of any portion of the balance written off. For the selected accounts with recoveries, we agreed the recovery from the CMS history to inclusion in the Bad Debts Written Off –Net of Customer Recoveries from 1) a. as a credit. Additionally, we confirmed that "RSPP" Residential PIPP customer balances selected were not included in the UEX for recovery, noting no exceptions

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We noted five occurrences of charges offs post the 90 days per the policy. Management has informed us that the variance in excess of 90 days to charge off was due to the subsequent adjustment and reissuance of the final bill. Reissued bills can have charge-offs of up to 120 days after the initial final bill.

- 3) For the monthly recoveries through the uncollectible rider from April 1, 2015 through March 31, 2016 included in the schedules obtained in 1) b. above, we compared the amounts to the corresponding amounts recorded as revenue in the Company's Hyperion Financial Management accounting system noting no exceptions.
- 4) We randomly selected the months of July 2015, September 2015 and November 2015 and agreed the interest rate utilized by the Company to calculate the monthly carrying charges in 1) c. above to the average monthly intercompany moneypool rate from the Company's Treasury Manager system noting no exceptions.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be, and should not be, used by anyone other than these specified parties.

November 11, 2016

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