

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Annual Application	:	
of Duke Energy Ohio, Inc., for an	:	Case No. 17-2318-GA-RDR
Adjustment to Rider AMRP Rates to	:	
Recover Costs in 2017	:	
	:	
In the Matter of the Application of Duke	:	Case No. 17-2319-GA-ATA
Energy Ohio, Inc., for Tariff Approval.	:	

**COMMENTS
AND
RECOMMENDATIONS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

March 28, 2018

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Annual Application	:	
of Duke Energy Ohio, Inc., for an	:	Case No. 17-2318-GA-RDR
Adjustment to Rider AMRP Rates to	:	
Recover Costs in 2016.	:	
	:	
In the Matter of the Application of Duke	:	Case No. 17-2319-GA-ATA
Energy Ohio, Inc., for Tariff Approval.	:	

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 Staff of the Commission's Rates & Analysis Department. They detail the Staff's investigation and recommendations concerning Duke's proposed adjustments to its AMRP Rider rates. 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) is a public utility under R.C. 4905 and a natural gas company pursuant to R.C. 4905.03 that is engaged in the business of distribution and sale of natural gas to approximately 430,000 customers in eight southwestern Ohio counties.

On May 30, 2002, the Commission approved a Stipulation (2002 Stipulation) resolving all outstanding issues associated with Case Nos. 01-1228-GA-AIR, 01-1478-GA-ALT, and 01-1539-GA-AAM including the establishment of Duke's (then known as The Cincinnati Gas & Electric Company or "CG&E") 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 2002 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. Duke's AMRP and Rider AMRP were reauthorized by the Commission in a May 8, 2008 Opinion and Order in Case No. 07-589-GA-AIR, *et al*, which, among other things, modified the processes and timelines for Duke's annual Rider AMRP applications and related Staff and intervenor review.

On June 7, 2012 in Case No. 12-1685-GA-AIR, *et al*., 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.

In accordance with prior approved schedules, on November 28, 2017, Duke filed a notice of intent to file an application to modify existing AMRP rider rates and establishing a test period of twelve months ending December 31, 2017 and a date certain of December 31, 2017. In support of its notice, the Company also filed Schedules 1 through 14 containing 10 months of actual data through October 2017 and two months of projected data for November and December 2017. On February 26, 2018, the Company filed its Application to modify AMRP rates along with supporting testimony and schedules with actual data updated through December 31, 2017.

STAFF'S INVESTIGATION

The Staff investigated the Company's Application to evaluate the reasonableness of the proposed revenue requirement and the resulting decrease to the AMRP rider rate. The Staff reviewed the Company's Application, schedules, testimony, and related documentation and traced the data contained therein to supporting work papers and source data. In addition, Staff issued data requests, asked clarifying and follow-up questions, and performed independent analyses where necessary.

AMRP PROGRESS

Duke completed the AMRP in 2015 and states that, as of 2016, it no longer has any bare steel or cast iron mains in its system. However, it will continue to incur costs related to the AMRP such as depreciation and property tax expenses and continue to reduce Rider AMRP by the annual operation and maintenance savings. As a result, the Company will continue to file annual applications until the AMRP costs are included in its base rates in its next base rate case.

DUKE'S PROPOSED RECOVERY

For collection beginning with the first billing cycle in May 2018, Duke proposes a revenue requirement of \$28,378,696.81 for the AMRP and \$253,505.14 for the RRP, resulting in a combined total revenue requirement of \$28,632,202.00. The Company indicates that the proposed AMRP and RRP revenue requirements include a reduction in the pre-tax rate of return from 10.60 percent to 9.16 percent in order to reflect the federal income tax rate reduction from 35 percent to 21 percent pursuant to enactment of the Tax

Cut and Jobs Act of 2017 (TCJA). With these reductions in place and utilizing the allocation percentages and billing determinants for the AMRP and RRP approved in Case No. 12-1685-GA-AIR, the Company proposes that the Rider AMRP rate be set at \$3.30 per month for residential customers, \$31.00 for general service and firm transportation customers, and \$0.11/CCF for interruptible transportation customers.

STAFF RECOMMENDATIONS

In Case No. 18-0047-AU-COI, the Commission is investigating the financial impact of the Tax Cut and Jobs Act of 2017 and determining what, if any, adjustments should be made to utility company rates in Ohio as a result of the federal income tax rate reduction. The Commission's investigation is ongoing and the Commission has issued no directives to utilities on how to reflect the tax rate change in their rates. Staff notes that Duke's Application and proposal for addressing the impact of the TCJA tax reduction does not include a discussion or recognition of excess deferred income taxes (EDIT) that may be present due to accumulation of deferred income taxes (ADIT) at the prior 35 percent federal income tax rate versus the 21 percent rate under the TCJA. Similarly, Duke filed its Application, including its proposal for recognizing the federal income tax rate reduction, on February 26, 2018. Because Staff comments are due on March 28, 2018, Staff will continue its investigation of these matters, including reviewing Duke's proposed approach to recognizing the federal income tax rate reduction filed on February 26, 2018, and follow any Commission findings in Case No. 18-0047-AU-COI. Staff reserves the right to recommend adjustments to Duke's AMRP Rider

rates proposed to take effect in 2019, including potential refunds to customers, on the basis of Staff's ongoing investigation and/or Commission findings and directives in the 18-0047-AU-COI case. Therefore, Staff recommends that the Commission accept Duke's proposed Rider AMRP rates as proposed in its Application, subject to potential reconciliation, adjustments, or refunds next year. Staff recommends that, in its Opinion and Order in this case, the Commission expressly notify Duke that next year's AMRP Rider rate may be adjusted to reflect any reconciliation or refunds resulting from ongoing investigations of the impacts of the federal income tax rate reduction. In addition, Staff recommends that the Commission direct Duke to note in its tariffs that Rider AMRP is subject to reconciliation and potential refunds as determined by the Commission.

Respectfully submitted

Michael DeWine
Ohio Attorney General

William L. Wright
Section Chief

Steven L. Beeler

Steven L. Beeler
Assistant Attorney General
Public Utilities Section
30 East Broad Street, 16th Floor
Columbus, OH 43215-3714
614.728-9481
866.524.1223 (fax)
steven.beeler@ohioattorneygeneral.gov

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon applicant's counsel below, this 28th day of March, 2018.

Steven L. Beeler

Steven L. Beeler

Assistant Attorney General

Parties of Record:

Jeanne W. Kingery
Rocco O. D'Ascenzo
Duke Energy Ohio
139 E. Fourth Street, 1303-Main
P.O. Box 960
Cincinnati, Ohio 45201
jeanne.kingery@duke-energy.com
rocco.d'ascenzo@duke-energy.com

Zachary E. Woltz
Terry Etter
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, Ohio 43215-4213
zachary.woltz@occ.ohio.gov
terry.etter@occ.ohio.gov

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

3/28/2018 2:06:55 PM

in

Case No(s). 17-2318-GA-RDR, 17-2319-GA-ATA

Summary: Comments electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO