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September 5, 2018

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Duke Energy Ohio, Inc.'s Distribution Storm Rider, Case No. 18-0282-EL-RDR.*

Dear Docketing Division:

Enclosed please find the Review and Recommendations of the Staff of the Public Utilities Commission of Ohio (Staff) in the Matter of the Duke Energy Ohio, Inc.'s Distribution Storm Rider, Case No. 18-0282-EL-RDR.

Tamara S. Turkenton
Director, Rates and Analysis Department
Public Utilities Commission of Ohio

David Lipthratt
Chief, Research and Policy Division
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

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Duke Energy Ohio, Inc.
Case No. 18-0282-EL-RDR

SUMMARY

In Duke Energy Ohio's (Duke or the Company) last Electric Security Plant (ESP), Case No. 14-0841-EL-SSO, the Company was granted approval to defer major storm expenses as an asset or liability over or under $4.4 million dollars in a year. The approval also included that the Company is to file for recovery or refund when the asset or liability reached $5 million. The Company was also instructed to submit schedules of expenses to Staff for audit on a yearly basis until the balance of the asset or liability reaches $5 million.

On July 10, 2017, the Company filed the schedules under a new case, Case No. 17-1468-EL-RDR, which was established for the 2015 and 2016 storms. The total amount requested for 2015 and 2016 was $8,227,147, which is $572,853 under the two-year combined baseline of $8.8 million. Staff recommended lowering the expenses by $31,659, which would reduce the total major expenses for 2015 and 2016 to $8,195,488, resulting in a regulatory liability of $604,512 for those two years.

On March 28, 2018, the Company submitted their schedule of expenses for 2017. The Company reported total major storm expenses of $5,329,446, which is $929,446 over the $4.4 million threshold.

FINANCIAL AUDIT

In its review, Staff examined the as-filed schedules for consistency with the Commission's Opinion and Order in the ESP and to ensure proper accounting and regulatory treatment was applied. The audit consisted of a review of the financial statements for completeness, occurrence, presentation, valuation, allocation and accuracy. Staff conducted this audit through a combination of document review, interviews, and interrogatories.

Staff has completed its review of the filing and finds that the Company has appropriately included all major-storm related expenses, with the exception of the following recommended adjustments totaling $412,410.

Meals

Staff eliminated from the rider expenses associated with purchases of snacks and meals, Staff has found that it is inappropriate to include expenses related to food unless the purchases were made while on travel status. Staff notes, of the non-travel status meals, $117 of the purchases were made out-of-state, while $738 were made in-state. Staff recommends that only purchases made in Ohio should be eligible for recovery. Staff recommends an adjustment totaling $855.

Out-Of-State Expenses

Staff found numerous invoices of expenses that were incurred in Kentucky, primarily related to hotel stays. Only expenses that were incurred in Ohio are recommended for recovery, therefore Staff recommends removal of $15,033 of out-of-state expenses.

Missing Receipts

The Company was unable to provide documentation for $20,546 worth of expenses. Of this total, $18,974 was attributed to hotel stays. Staff believes that expenses for hotel stays associated with storm restoration work, while otherwise reasonable, should be disallowed if receipts are not provided. Staff recommends removal of these expenses associated with missing receipts.

Incentive Pay

As part of this rider, the Company included an expense for incentive payments, which were based upon attainment of safety-related goals. This incentive payment was calculated at three percent of labor expense. Targets for incentive pay were not met; therefore, no incentive payouts were actually made.[1] Staff recommends removal of $21,309 in incentive pay.

Mutual Assistance

In the case of storm riders, Staff typically makes an adjustment for mutual assistance revenue received by the utility. The adjustment is based on any non-incremental expenses incurred as part of the mutual assistance provided. Generally, the non-incremental costs are limited to labor expenses. The reason for the adjustment is that the employees providing mutual assistance have some amount of their labor expense already being collected in base rates, so without an adjustment, double-recovery of expenses would occur.

As part of the initial steps of Staff's investigation, a data request was issued inquiring about mutual assistance provided by the Company in 2017[2]. The Company's response was, "Duke Energy Ohio did not provide mutual assistance to any external companies and no mutual assistance revenue was received in 2017." Staff issued a follow-up data request to ask if internal mutual assistance was provided. In its response, the Company stated that Duke Energy Ohio provided mutual assistance to Duke Energy Florida related to Hurricane Irma in the amount of $1,798,158; however, the Company stated that no mutual assistance revenue was received from Duke Energy Florida.

Through Staff's investigation, Staff discovered that receipt of cash for mutual assistance was not recognized as revenue by the Company due to the Company's accounting treatment of internal mutual assistance. In response to Staff DR 9, the Company stated that mutual assistance revenue recognition was unnecessary because expenses incurred by the Company in connection with providing mutual assistance to Duke Energy Florida were charged directly to Duke Energy Florida via special accounting treatment set up for Hurricane Irma. In Staff DR 10, the Company claimed that its special accounting treatment had not been reviewed by its internal or external auditors

[1] See response to Staff DR #15

[2] Data Request #2

because it is standard operating procedure for employees to charge time and expenses to the storms they work on through the use of the Company's accounting system code block.

In a phone call with Staff, the Company stated that Duke Energy Ohio booked expenses directly to Duke Energy Florida's books, although Duke Energy Ohio still paid the employees' wages. In a subsequent email with Staff, the Company stated that the special accounting treatment is used to save time and gain efficiencies, and the Company confirmed that the journal entries were processed as follows (using $1,000 as a proxy figure):

Journal Entry on Duke Energy Florida's Books:		
	Debit	Credit
Expense on Duke Energy Florida's books	1,000	
Intercompany Payable to Ohio		1,000
Journal Entries on Duke Energy Ohio's Books:		
Intercompany Receivable from Florida	1,000	
Wages Payable [to Ohio employees]		1,000
Wages Payable [to Ohio employees]	1,000	
Cash		1,000

As indicated above, recognition of mutual assistance revenue as an offset against the Company's storm rider is required in order to ensure that Ohio ratepayers are compensated for non-incremental expenses that are already recovered in bases rates. While the Company's special accounting treatment compensates the Company on a cash basis, it fails to recognize the intercompany receivable as revenue. Staff's assertion is that the accounting treatment for both internal and external mutual assistance should be effectively the same, therefore the reimbursement of services provided to affiliates should be recognized as revenue. Based on the information provided by the Company[3], Staff made an adjustment to remove $354,668, which represents the non-incremental portion of expenses incurred as part of mutual assistance the Company provided to Duke Energy Florida[4].

[3] See response to Staff's Supplemental Data Request #2

[4] This was based on all straight time labor, and the allocated amount of payroll taxes, fringes, and unproductive labor. Since the data provided separated union and non-union labor (including separate union and non-union payroll, fringes, and unproductive labor), different allocations percentages were used for union and non-union. The allocation was based on the proportion of straight time labor to overall labor (Straight Time Labor / [Straight Time Labor + Overtime Labor]).

In Staff's view, the Company's special accounting treatment appears to have resulted in an intermix of the Company's books and records with that of its affiliates, which perhaps distorts the revenue recognition accounting principle. Staff has concerns that the Company's accounting treatment may not adhere to the standards of Ohio Administrative Code section 4901:1-37-04 as result of the Company recording labor expense associated with Ohio employees directly to an affiliate's books and records. Staff further recommends that the Company evaluate its accounting treatment with its internal and external auditors along with Staff to ensure that the Company's books and records are maintained separately from its affiliates in accordance with the Commission's rules, and that internal mutual assistance results in recognition of revenue.

CONCLUSION

Staff recommends an adjustment of $412,410, which would reduce the total major storm expenses for 2017 to $4,917,036, which is $517,036 over the $4.4 million threshold, resulting in a regulatory asset. In Case No. 17-1468-EL-RDR, Staff determined that the Company had $8,195,488 in major storm expenses for 2015 and 2016. This resulted in a $604,512 regulatory liability. Therefore, the combination of all three years results in a regulatory liability of $87,476.