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Ohio | Public Utilities Commission

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September 11, 2018

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

RE: In the Matter of *the Application of Duke Energy Ohio, Inc. for recovery of program costs, lost distribution revenue and performance incentives related to its Energy Efficiency and Demand Response Programs, Case No. 17-781-EL-RDR*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the application filed by Duke Energy Ohio, Inc., to recover costs associated with its Energy Efficiency Demand Response Rider, in Case No. 17-781-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
Energy Efficiency and Peak Demand Reduction Rider (Rider EE-PDR)
Case No. 17-781-EL-RDR

OVERVIEW

On March 31, 2017, Duke Energy Ohio (Duke or the Company) filed Case No. 17-781-EL-RDR requesting approval to adjust its Energy Efficiency and Peak Demand Reduction Rider (Rider EE-PDR) rate in order to recover costs related to statutory energy efficiency mandates. The amount Duke seeks to recover for 2016, includes actual and/or forecasted program costs, lost distribution revenues and shared savings incentives.

STAFF REVIEW

Staff audited the revenues and expenses associated with the Company's Rider EE-PDR to verify that incurred costs were prudent, eligible for recovery, and truly incremental to base rates. Staff also examined filed schedules for accuracy, completeness, occurrence, presentation, valuation and allocation. Staff conducted this audit through a combination of document reviews, interviews, and interrogatories and requested documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted.

During its review, Staff identified O&M expenses totaling $386,544 that should be deducted from the proposed Rider EE-PDR cost recovery amount. The following paragraphs generally describe Staff's recommended adjustments.

Incentives

Staff discovered within Rider EE-PDR, expenses related to incentive pay, performance awards, and restricted stock units linked to the financial performance of the Company. Consistent with past practices, Staff does not normally support the recovery of financial incentives,[1] based upon a utility's financial goals being passed on to its ratepayers.[2] Therefore, Staff recommends a deduction from the Company's proposed cost recovery amount of $299,822, which is comprised of $16,348 (80% of executive short-term incentives), $250,340 for incentives allocated, $7,300 for performance awards, and $25,834 for restricted stock units.

[1] Financial incentives include but may not be limited to: performance awards, restricted stock units, executive incentives, earnings per share, shareholder returns, stock purchases, and/or other financially motivated incentives tied to the Company's bottom line.

[2] *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs for 2014,* Case No. 15-534-EL-RDR, Opinion and Order (October 26, 2016).

Meals, Snacks, and Drinks

Staff identified many employee expense transactions for meals, food, and drinks. The Company's supporting documentation indicated that the rider was charged for lunches, team dinners, food for internal business meetings, and food and refreshments for other occasions. These charges appeared to be repetitious, excessive and not beneficial to Ohio's ratepayers. Staff's view is that meals, coffee, and other refreshments, before or after meetings, are costs that should be borne by the Company or its employees and not by its ratepayers. Staff therefore recommends that meals, snacks and drinks totaling $6,211 be deducted from the proposed cost recovery amount.

Sponsorships

Staff identified expenses charged to Rider EE-PDR that were related to a Cincinnati Reds sponsorship. Similar to promotional advertising, sponsorships are generally not recoverable in riders or base rate cases.[3] Staff recommends that these amounts totaling $34,025 be deducted from the proposed cost recovery amount.

Employee Expenses

Staff found multiple expenses that were not directly associated with Rider EE-PDR or beneficial to Ohio's ratepayers. These expenses include personal mobile device reimbursements, telephone and communications, and personal vehicle mileage reimbursements. Cellphones and telephone and communication devices have uses beyond those within the Rider EE-PDR program and the Company has allowances in base rates for mileage reimbursement. Staff recommends that the total amount of these transactions, $18,208, be deducted from the proposed cost recovery amount.

Miscellaneous Expense Charges

Staff identified expenses totaling $793 for gift card purchases, refreshments for team meetings, promotional gifts, and other miscellaneous items. After inquiries to the Company, Staff found that these items were poorly documented, not properly supported with backup documentation, and appeared to be mistakenly or incorrectly charged to Rider EE-PDR. Staff also found many items that were charged to the incorrect category within the rider. Staff recommends $793 be deducted from the proposed Rider EE-PDR cost recovery amount.

[3] *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs for 2014*, Case No. 15-534-EL-RDR, Opinion And Order (October 26, 2016).

De Minimis Expenses

Staff discovered numerous, small allocations that appeared to be non-incremental expenses or not directly associated with energy efficiency. In a previous case[4], Staff recommended and the Commission ordered that these expenses be deducted from the Rider EE-PDR. Staff recommends that the amounts of $10 and under in this filing, totaling $27,485 (net of adjustments included in other categories) be deducted from the proposed Rider EE-PDR cost recovery amount.

Shared Savings and Lost Distribution Review

Staff has reviewed the calculations for the revenue collected through the 2016 energy efficiency rider for the Companies' shared savings and lost distribution revenue. Staff notes that the appropriate shared savings recovery amounts have been agreed upon through a stipulation between the Company and Staff in Case No. 14-0457-EL-RDR, which is currently pending rehearing. Per the stipulation, Duke shall not recover a shared savings incentive for program year 2016, which is consistent with Staff's findings in this case. Staff has also reviewed the methodology used by the Company to determine the amount of lost distribution revenue for the calendar year 2016 that should be included for recovery in Rider EE-PDR. Staff believes that the Company's methodology is appropriate. However, the claimed energy savings, which form the basis for the Company's calculation of lost distribution revenue, have yet to be verified and approved through the Commission's Evaluation, Measurement, and Verification (EM&V) review process. Staff therefore recommends that any approval given by the Commission for the Company to adjust its Rider EE-PDR rate be subject to further review and potential cost adjustment as deemed necessary in subsequent proceedings in which impacts of the EM&V process are considered.

CONCLUSIONS

Staff has completed its audit of Duke's Rider EE-PDR in Case No. 17-781-EL-RDR and recommends to the Commission the following:

First, Staff recommends that the Company's request for recovery be approved, and that Staff's adjustment of $386,544, be deducted from the revenue requirement in the Company's next Rider EE-PDR case.

Second, during its audit, Staff found many expenses that were either charged to the wrong category, poorly documented, or not properly supported with backup documentation. Staff notes that the frequency of these occurrences made it difficult to perform the audit. Staff further recommends that the Commission direct the Company to confirm that EE-PDR

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[4] *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs for 2014,* Case No. 15-534-EL-RDR, Opinion And Order (October 26, 2016).

expense transactions are categorized correctly and to ensure that proper documentation is generated and available for review for each EE-PDR expense transaction (including allocations) for future Rider EE-PDR audits.

Finally, Staff recommends that the Commission direct Duke to note in its tariffs that Rider EE-PDR is subject to reconciliation, including, but not limited to, refunds or additional charges to customers, ordered by the Commission as the result of annual audits by the Commission if determined to be unreasonable or imprudent by the Commission in the docket in which those rates were approved; provided, however, that such reconciliation shall be limited to the twelve-month period upon which the rates were calculated.