

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Review of Duke :  
Energy Ohio, Inc.'s Distribution Capital : Case No. 18-1036-EL-RDR  
Investment Rider. :

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

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**I. BACKGROUND**

On April 2, 2015, the Public Utilities Commission of Ohio (Commission) modified and approved an application for an Electric Security Plan (ESP) filed by Duke Energy Ohio, Inc. (DEO) for the period June 1, 2015, through May 31, 2018.<sup>1</sup> In the SSO Opinion and Order, the Commission established a Distribution Capital Investment (DCI) rider to allow for the recovery of capital costs for distribution infrastructure investments. The DCI rider was to be reviewed by Staff or an independent auditor annually for accounting accuracy, prudence, and compliance with the Commission's SSO Opinion and Order.<sup>2</sup>

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<sup>1</sup> *In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan, Accounting Modifications, and Tariffs for Generation Service*, Case No. 14-841-EL-SSO, *et. al.*, Opinion and Order (April 2, 2015) (SSO Opinion and Order).

<sup>2</sup> *Id.* at 70-72.

In the instant case, on June 28, 2018, the Commission issued an Entry directing the Staff of the Public Utilities Commission of Ohio (Staff) to issue a Request for Proposal (RFP) to acquire audit services to assist the Commission with the review of DEO's DCI rider. On August 1, 2018, Rehmann Consulting (the Auditor) was selected as the contractor and was directed to file a final audit report on December 7, 2018. The Auditor filed its report (the Audit Report) on December 7, 2018.

## **II. REVIEW AND RECOMMENDATIONS**

Staff has reviewed the Auditor's findings and recommendations and recommends the following:

In the Audit Report, at page 7, the Auditor makes a recommendation to reduce the revenue requirement to correct certain errors in DEO's contribution in aid of construction (CIAC) plant accounting.<sup>3</sup> Staff agrees with this recommendation. The Auditor also recommends "that a customer agreement be drafted immediately after the work order is estimated and upon receiving a signed agreement from a customer on a billable amount, that an accounts receivable control account be established for monitoring aged contributions in aid of construction receivables."<sup>4</sup> Staff supports this recommendation. Should the Commission not wish to order the implementation of this recommendation, in the alternative, Staff would recommend that DEO provide a report to Staff within six

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<sup>3</sup> *In the Matter of the Review of Duke Energy Ohio, Inc.'s Distribution Capital Investment Rider*, Case No. 18-1036-EL-RDR, Report Compliance Audit of Rider DCI at 7 (Dec. 7, 2018) (Audit Report).

<sup>4</sup> *Id.*

months of the Commission Order in this case which details the steps DEO undertook to establish an ongoing routine process which identifies and resolves CIAC plant accounting errors. Staff would further recommend that the Commission order the Auditor to examine in the next DCI Compliance Audit the use of any pre-set allocation which is used in allocating costs to CIAC.

The Auditor reports on Page 9 that ten of the fifteen sampled work orders were outside the 25% budget-variance threshold, meaning that explanatory documentation was required to explain the variance.<sup>5</sup> However, nine of the ten projects did not have such documentation. In one closed project, the overrun was identified, but the documentation lacked justification as to why the overrun was necessary. Other projects had yet to be closed at all. The Auditor, therefore, recommends that the Automatic Review for Closing Rules follow-up be more timely and that the documentation be more definitive when analyzing variances so that no overbillings or cost misallocations occur, or that the estimating system does not effectively capture all costs that will be incurred.<sup>6</sup> Staff agrees with this recommendation and further recommends that the Commission order the Auditor to review in the 2019 DCI Compliance Audit DEO's budgeting process and variance oversight procedures. Staff also recommends that the 25% budget-variance threshold be examined to determine if it is too high to be an effective control on the budgeting process and cost control oversight.

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<sup>5</sup> *Id.* at 9.

<sup>6</sup> *Id.*

On Page 10, the Auditor recommends that a deadline be established to bring the backlog of un-unitized amounts in the Federal Energy Regulatory Commission (FERC) Account 106 up to date.<sup>7</sup> Staff concurs that additional direction is needed for DEO to bring current its backlog and maintain a current unitization schedule going forward. Staff notes that the issue of the backlog unitization has been raised in the previous two DCI Compliance audits. Although DEO indicated it had established a special group to deal with the backlog issue, DEO also indicated that the special group is behind in the initiative and has not established a firm deadline for resolution. Given that this known issue continues, Staff recommends that the Commission direct DEO to bring current all non-unitized charges within one year of the Opinion and Order in this case. The recommendation, to use one year as the cutoff to address the backlog, is pursuant to DEO's own guideline that all costs should be unitized within one year of their occurrence. In order to further assist DEO in achieving and maintaining this goal, Staff recommends that the plant value of any adjustments resulting from unitizations that occur more than one year after the plant is placed in FERC Account 106, which would reduce the DCI revenue requirement, be fully credited to customers. Conversely, Staff recommends that the plant value of any unitization adjustments that increase the DCI revenue requirement would not be collected from customers. In the alternative, Staff recommends that the Commission consider disallowing all future costs which remain un-unitized one year after the plant is placed in FERC Account 106.

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<sup>7</sup> *Id.* at 10.

The Auditor recommends, at Page 11, that the backlog of the un-unitized amounts in Retirement Work in Progress (RWIP) also be brought current and maintained in a timely manner.<sup>8</sup> Similar to its recommendation above, Staff recommends that the Commission direct DEO to bring current the backlog of un-unitized amounts in RWIP within one year of being recorded in Plant Account 108 and that any increases in DCI revenue requirement for RWIP adjustments older than one year would be ineligible for recovery through the DCI. As explained by the Auditor, bringing the RWIP balances current will provide a more accurate representation of DEO's current depreciation expense.

Also on page 11, the Auditor recommends that the \$2,011,170 tree trimming adjustment ordered in Case No. 17-1118-EL-RDR be made by recording journal entries in the accounting records which will allocate the reduction of \$2,011,170 to plant FERC accounts which are typically charged these costs.<sup>9</sup> Staff concurs that DEO should record the journal entries and that DEO make the adjustment in the next DCI quarterly filing, rather than make an annual offsetting revenue requirement adjustment to the DCI every year.

On pages 5 and 6, the Auditor recommends several adjustments related to DEO including transmission plant in the DCI for recovery, unbilled CIAC, misclassifying Land Held for Future Use and the delay of the reclassification of CWIP plant-in-service. The

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<sup>8</sup> *Id.* at 11.

<sup>9</sup> *Id.*

effect of these transaction corrections is summarized on Page 34 of the Audit Report. Staff recommends that the Commission adopt the Auditor's recommendations as summarized on Page 34.

Finally, Staff recommends that the Commission direct DEO to provide work papers to Staff with the DCI filings which details each adjustment at the time it has been made.

Respectfully submitted,

**Dave Yost**  
Ohio Attorney General

**John Jones**  
Assistant Section Chief

*/s/ Steven L. Beeler*

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## **PROOF OF SERVICE**

I hereby certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following Parties of Record, this 26<sup>th</sup> day of February, 2019.

*/s/ Steven L. Beeler*

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**Steven L. Beeler**  
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**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**2/26/2019 1:58:58 PM**

**in**

**Case No(s). 18-1036-EL-RDR**

Summary: Comments electronically filed by Ms. Tonnetta Scott on behalf of PUC