

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Annual Application	:	
of Duke Energy Ohio, Inc., for an	:	Case No. 18-1452-GA-RDR
Adjustment to Rider AMRP Rates to	:	
Recover Costs in 2018	:	
	:	
In the Matter of the Application of Duke	:	Case No. 18-1453-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 21, 2019

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In the Matter of the Annual Application	:	
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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 Accelerated Main Replacement Program (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") 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, 2018, 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, 2018 and a date certain of December 31, 2018. In support of its notice, the Company also filed Schedules 1 through 14 containing 10 months of actual data through October 2018 and two months of projected data for November and December 2018. On February 25, 2019, the Company filed its Application to modify AMRP rates along with supporting testimony and schedules with actual data updated through December 31, 2018.

On March 8, 2019, the Attorney Examiner in this case issued an Entry establishing a procedural schedule for the case as follows:

- (a) March 21, 2019 – Deadline for filing of motions to intervene.
- (b) March 21, 2019 – Deadline for Staff and intervenors to file comments on the application.
- (c) March 25, 2019 – Deadline for Duke to file a statement, informing the Commission whether the issues raised in the comments have been resolved.
- (d) March 28, 2019 – Deadline for expert testimony by all parties.
- (e) April 3, 2019 – Deadline for some or all parties to the case to file a stipulation resolving some or all issues raised by the parties.
- (f) April 4, 2019 – Hearing date if some or all issues raised in the comments are not resolved.

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 \$26,698,223.85 for the AMRP and \$244,897.81 for the Riser Replacement Program (RRP), resulting in a combined total revenue requirement of \$26,943,121.66. 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 \$3.08 per month for residential customers, \$28.96 for general service and firm transportation customers, and \$0.11/CCF for interruptible transportation customers.

IMPACTS OF THE TAX CUTS AND JOBS ACT OF 2017

The Tax Cuts and Jobs Act of 2017 (TCJA) reduced the federal corporate income tax rate from 35% to 21%. The TCJA had two primary effects associated with ratemaking for public utilities: a reduction in a utility's federal income tax expense and the recognition of Excess Accumulated Deferred Income Taxes (EDIT).¹ Duke has incorporated these two components of the TCJA in this filing. First, in order to recognize

¹ Accumulated Deferred Income Taxes had been deferred at the previous corporate tax rate of 35%. When the tax rate was reduced to 21%, those balances were in excess of the utility's future tax obligations, which gave rise to the EDIT described above.

the new tax rate, the pre-tax rate of return has been reduced from 10.60% to 9.16%.

Second, the Company has recognized the EDIT as a regulatory liability and reduced rate base by the balance.²

STAFF RECOMMENDATIONS

Staff reviewed the Company's schedules to verify the accuracy of the EDIT balances and the computation of the reduced pre-tax rate of return. Staff confirmed the Company correctly incorporated into the revenue requirement the entire balances of EDIT associated with AMRP and Riser investments. Additionally, Staff recommends that the amortization of Rider AMRP-related EDIT be recognized in the AMRP Rider, and that the amortization be grossed up for the prevailing federal tax rate. Staff further recommends that the balances of Normalized EDIT be amortized in accordance with the Average Rate Assumption Method (ARAM), as required to conform to tax normalization rules, and that the balances of Non-Normalized EDIT be amortized over a period of 72 months (6 years).

The Staff has completed its investigation of Duke's AMRP Rider application and recommends that the Commission accept Duke's proposed Rider AMRP rates as proposed in its Application.

² The balance of Accumulated Deferred Income Taxes has been reduced by the balance of the EDIT.

Respectfully submitted,

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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 the following Parties of Record, this 21st day of March, 2019.

/s/ Steven L. Beeler

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Summary: Comments and Recommendations electronically filed by Ms. Tonneta Scott on behalf of PUC