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October 25, 2019

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

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RECEIVED-DOCKETING DIV

RE: *In the Matter of the Application of Duke Energy Ohio, Inc. to Adjust Rider AU for 2018
Grid Modernization Costs, Case No. 19-664-GA-RDR*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations regarding the application filed by Duke Energy Ohio, Inc. to adjust its Rider AU in Case No. 19-664-GA-RDR.

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

David Lipthrott
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. 19-664-GA-RDR (Rider AU)

SUMMARY

On June 25, 2019, Duke Energy Ohio, Inc. (Duke or the Company) filed an application in Case No. 19-664-GA-RDR for approval to update its advanced utility rider (Rider AU). This application is to recover 2018 Operation and Maintenance (O&M) and capital-related expenses incurred as a result of the Company's investment in grid modernization and related systems associated with gas service. The rider is designed to recover approved costs incurred over the twelve-month period ending December 31, 2018 through a per-meter customer charge. The requested revenue requirement is approximately \$2.5 million.

Staff was ordered by the Commission in its Opinion and Order dated July 2, 2019 in Case No. 18-837-GA-RDR to determine whether Duke's customers are paying charges through Rider AU for costs associated with equipment that is no longer used and useful. Staff was directed in this annual proceeding "to thoroughly evaluate this issue in the course of its review, including as necessary, a field audit or other physical verification of the Company's AMI components for its gas operations".

STAFF REVIEW AND RECOMMENDATIONS

In its review, Staff examined the as-filed schedules for consistency with the Commission's Opinion and Orders in previous grid modernization cases and to ensure proper accounting treatment was applied by the Company. The audit consisted of a review of the financial statements regarding completeness, occurrence, presentation, valuation, allocation, and accuracy. Staff conducted this audit through a combination of document reviews, interviews, and interrogatories. Staff requested documentation as needed to determine that the costs were substantiated or to conclude that an adjustment was warranted.

Capital Equipment Audit

In reviewing the plant in service, Staff first compared the transactional details within the Company's continuing property records (CPR) and its historical annual Rider AU filings. Staff found that the CPR was \$130,557 less than the amounts reported in the Company's annual Rider AU filings. In response to Staff's subsequent inquiry, the Company advised this unreconciled difference identified between the CPR and Rider AU filings could not be explained.¹

¹ See response to Staff DR #4

In order to perform a physical inspection to verify the existence and valuation of the capital assets, Staff sampled a set of transactions from the CPR transactional details provided by the Company. In response, the Company stated it was unable to tie the capital transactions from the CPR with the locations of the capital equipment. Specifically, the Company stated, "the methodology used to generate the [capital transaction detail] could not be used to link with actual addresses/coordinates as the data is maintained in a different system."² The Company provided a listing of its capital equipment with addresses as a means to perform a physical verification; however, the documentation did not include any financial information. Without financial information necessary to support the locational data of the capital equipment, Staff was unable to perform an adequate physical inspection to confirm both the existence and valuation of the capital equipment.

As a result of the Company's inability to provide sufficient financial information to support the locational data of its capital equipment, Staff was unable to adequately complete the capital equipment audit. Without an adequate audit of capital equipment, Staff is unable to express an opinion or provide a recommendation regarding the used and useful status of the capital equipment pursuant to the Commission's Opinion and Order in the previous filing for Rider AU.

CONCLUSION

Staff recommends that the Commission direct Staff to issue a request for proposal (RFP) for the necessary audit of the capital equipment and that the cost of the audit be borne by Duke. Further, Staff recommends that the Rider AU rate be suspended until the completion of the audit.

² See Response to Staff DR #4