

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE REVIEW OF DUKE
ENERGY OHIO, INC.'S ALTERNATIVE
ENERGY RECOVERY RIDER.

CASE NO. 19-51-EL-RDR

FINDING AND ORDER

Entered in the Journal on December 4, 2019

I. SUMMARY

{¶ 1} The Commission adopts the recommendations found in the audit report of Duke Energy Ohio, Inc.'s Alternative Energy Recovery Rider.

II. PROCEDURAL HISTORY

{¶ 2} Duke Energy Ohio, Inc. (Duke or the Company) is an electric distribution utility (EDU) as defined by R.C. 4928.01(A)(6) and a public utility as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4928.141 provides that an EDU shall provide consumers within its certified territory a standard service offer (SSO) of all competitive retail electric services necessary to maintain essential electric services to customers, including a firm supply of electric generation services. The SSO may be either a market rate offer in accordance with R.C. 4928.142 or an electric security plan (ESP) in accordance with R.C. 4928.143.

{¶ 4} On December 19, 2018, the Commission approved a stipulation and recommendation filed by Duke and other parties that, among other things, included an ESP for the period June 1, 2018, through May 31, 2024. *In re Duke Energy Ohio, Inc.*, Case No. 17-1263- EL-SSO, et al., Opinion and Order (Dec. 19, 2018). In the Opinion and Order, the Commission continued Duke's Alternative Energy Recovery Rider (Rider AER-R). In accordance with the stipulation, through Rider AER-R, Duke may recover the costs it incurs in complying with the alternative energy portfolio standard requirements of R.C. 4928.64. Rider AER-R is filed quarterly and is subject to true-up and annual audits

{¶ 5} On January 23, 2019, the Commission issued an Entry directing Staff to issue a request for proposal to acquire audit services to assist the Commission with the review of Duke's Rider AER-R. Bidders were directed to demonstrate their understanding of the project and the work required by showing a clear understanding of the tasks to be completed, the experience and qualifications of the personnel who will perform the work, and the anticipated breakdown of costs and timing.

{¶ 6} On March 27, 2019, the Commission issued an Entry selecting Larkin & Association, PLLC (Larkin) to perform the consulting activities for Duke's Rider AER-R and directed Duke and Staff to enter into a contract with Larkin for the purpose of providing payment for its auditing services. Thereafter, on August 28, 2019, Larkin submitted its audit report.

{¶ 7} In accordance with an October 1, 2019 Entry, comments regarding the audit report were filed by Duke on November 1, 2019. Reply comments were filed by Staff on November 14, 2019.

III. DISCUSSION

{¶ 8} On August 28, 2019, Larkin filed the management/performance and financial audit report on Duke's Rider AER-R for the period of January 1, 2017 through December 31, 2018. The report examined Duke's compliance with Rider AER-R, as it was originally implemented, as well as Commission-adopted recommendations and modifications from previous Rider AER-R audits. *See, In re Duke Energy Ohio, Inc.*, Case No. 12-802-EL-RDR (2012 Audit), *In re Duke Energy Ohio, Inc.*, Case No. 12-3111-EL-RDR (2013 Audit), and *In re Duke Energy Ohio, Inc.*, Case No. 15-1854-EL-RDR (2014/2015 Audit and 2016 Audit).

{¶ 9} Regarding Duke's compliance with previous audit recommendations, Larkin found that, overall, the Company is generally compliant. Larkin suggests that previous recommendations should be continued, as applicable.

{¶ 10} Upon a review of Duke's management practices, Larkin submitted five recommendations. First, Larkin states Duke should continue to monitor and document market compliance, renewable energy credit (REC) inventory, and renewable portfolio standard (RPS) compliance. Larkin also recommends the Company evaluate the impact of recent legislation, specifically House Bill 6 (HB 6), which was signed into law on July 23, 2019. After considering the effect of HB 6, Larkin states Duke should evaluate and consider whether a "dollar cost averaging approach" could result in systemic cost savings.

{¶ 11} As to Larkin's fourth recommendation, the auditor explains that Duke's year-end adjustments for RPS compliance, both 2017 and 2018, resulted in putting RECs that were accounted for as a cost of RPS compliance back into the REC inventory. Larkin states this was the result of over-estimating RPS compliance requirements, caused by over-forecasting retail load and the impact of customer switching. According to Larkin, Duke should evaluate ways to improve forecasting. Larkin submits that Duke could mitigate the forecasting issue going forward by using a lower fixed allocation percentage from residential sales. Alternatively, although more difficult and uncertain, Larkin states Duke could employ modeling in an attempt to forecast.

{¶ 12} Larkin's final recommendation from the audit of Duke's management practices concerns the Ohio GoGreen Program. Larkin suggests Duke should consider: recording the difference between program revenue and cost into a regulatory liability account; evaluating the allocation of the annual GoGreen REC purchases for the Ohio program; continuing to make GoGreen REC purchases separately from Ohio RPS compliance purchases; and continuing to purchase GoGreen RECs that are Green-e Certified.

{¶ 13} After conducting the financial audit, Larkin renews its management audit recommendation that Duke should consider recording the difference between GoGreen Program revenue and cost into a regulatory liability account. Additionally, Larkin

recommends Duke comply with previous financial audit recommendation related to RPS compliance.

{¶ 14} In comments, Duke largely agrees to implement Larkin's recommendations. Regarding the auditor's forecasting recommendation, Duke states that Larkin's initial recommendation—to use a lower fixed allocation percentage from residential sales—is easily achievable. However, Duke explains that Larkin's alternative method, to employ modeling, would be difficult to accomplish. Staff replies that both Duke and Larkin appear to be in agreement that using the fixed allocation percentage is the preferred option

{¶ 15} Duke additionally asserts that Larkin's recommendation, from both the management and financial audit, to record the difference from program revenue and cost into a regulatory liability account is inappropriate. Duke explains that the GoGreen Program is intended to be profit and loss neutral and recording the difference as a regulatory liability would have unintended and unapproved rate implications. Further, the Company submits that the program is under new internal management that will consider additional analysis and adjustments. In response, Staff contends that the audit recommendation merely asks that the Company consider the suggested treatment. According to Staff, Larkin's recommendation does not require any specific changes.

{¶ 16} Upon review, the Commission adopts the findings outlined in the audit report regarding the previous audits. In doing so, we find Duke should continue to apply the recommendations adopted in previous Commission orders from the *2012, 2013, 2014-2015, and 2016 Audits* on an ongoing basis and should continue to document its rationale. As to Larkin's management and financial audit recommendations, upon consideration of the audit report and the comments, the Commission finds the recommendations set forth in the audit report should be adopted in their entirety. The Commission agrees with Staff that Duke and Larkin are in agreement on the best method to improve forecasting. We additionally agree with Staff concerning Larkin's recommendation regarding how the difference between GoGreen Program revenue and costs is recorded. Duke is not required

to implement the alternative method but should document the Company's consideration of such a treatment.

IV. ORDER

{¶ 17} It is, therefore,

{¶ 18} ORDERED, That the recommendations in the audit report be adopted as discussed herein. It is, further,

{¶ 19} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Sam Randazzo, Chairman

M. Beth Trombold

Lawrence K. Friedeman

Daniel R. Conway

Dennis P. Deters

NJW/hac

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