

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Review of )  
Duke Energy Ohio, Inc.'s Distribution )  
Capital Investment Rider. )

Case No. 19-1287-EL-RDR

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**COMMENTS OF DUKE ENERGY OHIO, INC.**

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**I. INTRODUCTION**

Pursuant to the Commission's Entry on January 23, 2020, Duke Energy Ohio, Inc. (Duke Energy Ohio) submits the following comments related to an audit report prepared at the direction of the Public Utilities Commission of Ohio Staff (Staff) by Rehmann Consulting (Rehmann) and submitted to the docket in this proceeding on December 13, 2019 (Report).

**II. COMMENTS**

The audit performed by Rehmann resulted in twenty-five recommendations. Duke Energy Ohio responds below to each of those recommendations in the order in which they were provided in the audit report.

1. Rehman recommends that the issue of unposted retirements in Power Plan be corrected as planned by the December 31, 2019 Rider DCI filing to minimize the need for significant on-top entries. Duke Energy Ohio accepts this audit recommendation.
2. Rehmann recommends that the revenue requirement be reduced by (\$311,135) for the depreciation expense impact of the lag in unposted retirements and increased by \$109,064 for the accumulated depreciation impact of the lag in on top entries.

Duke Energy Ohio accepts this audit recommendation and has already made the required change for the underlying plant. The Company will make the

adjustment to the revenue requirement in the first rider filing after an order issues in this proceeding.

3. Rehmann recommends that the revenue requirement be reduced by (\$67,787) to correct the revenue requirement associated with transmission plant balances that were incorrectly included in Rider DCI plant-in-service balances. Duke Energy Ohio accepts this audit recommendation.
4. Rehmann recommends that the Rider DCI September 30, 2019 be amended to reflect an adjustment to plant-in-service for the \$198,254 transmission plant overcharges. Duke Energy Ohio accepts this audit recommendation, and has already made the adjustment.
5. Rehmann recommends that each invoice and payroll time sheet that charges a distribution plant work order and has a correlated transmission plant work order, receive a second review and signature on invoices and payroll time sheets that no charges have been misapplied. Duke Energy Ohio accepts this audit recommendation.
6. Rehmann recommends that all distribution plant work orders that have a correlated transmission plant work order, and charged the Rider DCI from July 1, 2018 to June 30, 2019 be reviewed by DEO staff for appropriate charging between distribution and transmission plant. Any detected overcharges should be quantified in a report for the revenue requirement impact and the impact applied to the December 31, 2019 Rider DCI filing.

Duke Energy Ohio respectfully disagrees with this audit recommendation. First, such a review would be difficult and overly burdensome to perform and impossible during the recommended timeframe. Second, the Company believes the

enhanced control the auditor is recommending and the Company is agreeing to in paragraph 5 is sufficient. Finally, as part of this audit, Rehmann was required to do the review it is recommending here. There is no need to re-perform the audit.

7. Rehmann recommends that the revenue requirement be reduced by (\$70,969) to correct the revenue requirement associated with FERC 105 plant-in-service balances incorrectly included in Rider DCI plant-in-service balances. Duke Energy Ohio accepts this audit recommendation.
8. Rehmann recommends that an operational audit of contractor charges be completed to determine whether competitive bids are being obtained, contractors are complying with their bid specifications, contract terms are being adhered to, duplicate payments are not made, and contractor time sheets and equipment hours are being monitored by DEO staff. Any detected overcharges and operational improvements should be quantified in a report for the revenue requirement impact and the impact applied to the March 31, 2020 Rider DCI filing.

Duke Energy Ohio accepts the recommendation to perform an operational audit, but does not believe it will be possible to complete the audit in time to apply any impact to the March 31, 2020 Rider DCI filing. Accordingly, by September 30, 2020, the Company will perform an operational audit of contractor charges for the period of work completed from January 1, 2020 to June 30, 2020 to determine the following:

- i. Competitive bids are being obtained;
- ii. Contractors are materially complying with their bid specifications;
- iii. Material contract terms are being adhered to;
- iv. Duplicate payments are not made; and

- v. Contractor time sheets and equipment hours are being monitored by Duke Energy Ohio staff.

Any detected overcharges as part of this audit would be corrected within the plant balances when detected. The impact of those overcharges on the revenue requirement would then be addressed in the next compliance audit of the July 1, 2019 to June 30, 2020 Distribution Capital Investment Rider.

- 9. Rehmann recommends when a contractor's estimated hours needed to complete the work exceeds the estimated hours produced by Maximo, then DEO authorized personnel should evaluate whether or not to approve a contract change order for the overage.

Duke Energy Ohio accepts this recommendation. Duke Energy Ohio Area Operations Directors and Project Managers will review and approve requests from contractors to complete additional work beyond the hours estimated by Maximo.

- 10. Rehmann recommends that Automatic Review for Closing (ARC) rules follow-up be completed within nine months (consistent with the Work Order Estimation Process Document that was created September 30, 2019 which Rehmann concurs with) and in conjunction with more timely unitization described below.

Duke Energy Ohio accepts the recommendation for timely ARC rules follow-up, but respectfully disagrees with the nine-month time limit. The Company's Work Order Estimation Process document (which the Company created on September 30, 2019, and with which Rehmann concurs<sup>1</sup>) permits one year for project unitization, pursuant to the Company's capital guidelines. The

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<sup>1</sup> Report, p. 28.

Company proposes to comply with the Work Order Estimation Process document, including the one-year time limit, rather than nine months.

11. Rehmann recommends that the revenue requirement be increased by \$45,927 to correct the revenue requirement associated with distribution plant balances that were incorrectly classified as transmission plant and excluded from Rider DCI plant-in-service balances. Duke Energy Ohio accepts this audit recommendation.
12. Rehmann recommends that the Vegetation Management Guidelines be evaluated for which processes should be applied at Duke Energy Ohio. Any proposed changes to the Vegetation Management Guidelines which are in addition to the changes recommended in this audit, including the non-application of provisions of the Vegetation Management Guidelines to Duke Energy Ohio, should be submitted to the Commission for approval.

Duke Energy Ohio accepts the recommendation to evaluate the Vegetation Management Guidelines for which processes should be applied at Duke Energy Ohio. Duke Energy Ohio agrees to comply (as always) with O.A.C. 4901:1-10-27(F), which requires changes to the Vegetation Management Guidelines to be filed with the Commission. Duke Energy Ohio does not agree to any additional requirements—beyond those in O.A.C. 4901:1-10-27—for making changes to its Vegetation Management Guidelines.

13. Rehmann recommends that before and after images be taken of the removed danger trees, that clearly demonstrates the removed tree meets the Vegetation Management Guidelines, and named with the longitude and latitude of the tree location for six-year storage in a Vegetation Management network drive.

Duke Energy Ohio respectfully disagrees with this recommendation. Speaking generally, the Company does not believe that such photographs would be helpful in determining whether a given tree should be categorized as capital or O&M. In order to depict whether a tree is dead, dying, diseased or leaning would require multiple photographs in most, if not all, cases. Capturing, transferring and storing photographs of each tree would create an administrative and financial burden with limited benefits above and beyond the current verification audits being performed. Finally, capturing such images is not in the current scope of work for the Company's contract foresters.

14. Rehmann recommends that the Distribution Tree Removal Form include the height of a dead, dying, or diseased tree or length of a leaning tree compared to the distance from the power line.

Duke Energy Ohio respectfully disagrees with this recommendation, as it does not take into account the constraints faced by the Company. Requiring such measurements to be recorded on the Distribution Tree Removal Form would be beyond the current scope of work of our current unit-based contracts. In any event, any such data would be only a rough estimate, as it would not be practical to give measuring wheels and range finders to all of the field personnel performing this work. Finally, the current Distribution Tree Removal Form is uniform across the Duke Energy affiliates; disrupting this uniformity by adding a field that only Duke Energy Ohio would use could lead to confusion.

15. Rehmann recommends that the Vegetation Management Guidelines define that 10% of danger trees are reviewed before they are removed and a different 10% are

reviewed after they are removed. The QA reviews should be documented on the Distribution Tree Removal Form.

Duke Energy Ohio respectfully disagrees with this recommendation, and suggests instead that a sliding scale audit procedure would be more productive. Duke Energy Ohio's draft version of its Hazard Tree Program Business Case includes a sliding scale audit depending on deficiencies found during the audit. For example, audit 10% initially if a certain number of deficiencies were found, but audit 25% if a certain larger number of deficiencies were found, then 50%, etc.

16. Rehmann recommends that the revenue requirement be reduced for the tree trimming overcharges by (\$2,692). Duke Energy Ohio accepts this audit recommendation.
17. Rehmann recommends that the Rider DCI September 30, 2019 be amended to reflect an adjustment to plant-in-service for the (\$11,538) of tree trimming overcharges. Duke Energy Ohio accepts this audit finding. Adjustments have been made to the December 2019 filing, and will be made in the general ledger in the first quarter of 2020.
18. Rehmann recommends a separate detailed audit of all tree trimming invoices charged the Rider DCI from July 1, 2018 to June 30, 2019, to cover the overcharge causes described in this Rider DCI Audit. Any detected overcharges should be quantified in a report for the revenue requirement impact and applied to the December 31, 2019 Rider DCI filing.

Duke Energy Ohio respectfully disagrees with this audit finding. The Company believes there is no systematic overcharge issue that warrants a wholesale re-audit. Improvements to reduce the risk of overcharges have been made and will

continue to be made including education of design engineers responsible for the tree trimming planning, improved communication between vegetation management and design engineering on the decisions around whether trimming should be Capital or O&M, and finally vegetation management review of tree trimming invoices. The misclassification of \$5,529 of tree trimming costs and a \$6,009 invoice duplication is negligible considering the size and scope of the Company's tree trimming activities. Furthermore, any such audit would take a considerable amount of time and would not be complete in time to apply any impact to even the March 31, 2020 Rider DCI filing (noting that the December 31, 2019 Rider DCI filing, as the audit recommendation reads, has already been filed as of the filing of these comments). Finally, as part of this audit, Rehmann was required to do the review it is recommending here. There is no need to re-perform the audit.

19. Rehmann recommends that a Tree Trimming Supervisor sign, date, and list on the invoice the amount of any O&M to capital overrides.

Duke Energy Ohio respectfully disagrees with this audit recommendation, as it would not be practical to implement because invoices are processed electronically. The Company proposes to no longer update accounting after an invoice is submitted, and to instead request a corrected copy of the invoice from the vendor be sent.

20. Rehmann recommends that all CIAC entries be posted to work orders immediately upon invoicing. The revenue requirement should be reduced for the missing or untimely CIAC entries by (\$562,933). Duke Energy Ohio accepts this audit recommendation.



21. Rehmann recommends that the Rider DCI September 30, 2019 be amended to reflect an adjustment to plant-in-service for the \$296,024 CIAC overcharge. Duke Energy Ohio accepts this audit recommendation.
22. Rehmann recommends a separate detailed audit for any other CIAC postings unrecorded in work orders and therefore the Rider DCI from July 1, 2018 to June 30, 2019. Any unrecorded CIAC should be quantified in a report for the revenue requirement impact and applied to the December 31, 2019 Rider DCI filing.

Duke Energy Ohio respectfully disagrees with this audit recommendation. The Company does not believe there is a systematic issue here warranting such a wholesale re-audit. Duke Energy Ohio would, instead, suggest to allow the recently implemented improvements, outlined in the CIAC Tracking Process Document, per the auditor's recommendation in last year's audit,<sup>2</sup> to continue for some time, and then to review the effectiveness of those improvements before considering whether any separate audit is necessary. Rehmann reviewed and concluded that these enhanced controls will help ensure invoices are billed on required dates and cash collections are followed-up when due dates pass.<sup>3</sup> Finally, as part of this audit, Rehmann was required to do the review it is recommending here. There is no need to re-perform the audit.

23. Rehmann recommends that cost of removal in RWIP be captured for the incentive pay offset and for each future quarterly Rider DCI filing.

Duke Energy Ohio respectfully disagrees with this audit recommendation, and disagrees with the last four adjustments in Table 11 on page 38 of the Report.

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<sup>2</sup> See *In the Matter of the Review of Duke Energy Ohio, Inc.'s Distribution Capital Investment Rider*, Case No. 18-1036-EL-RDR, Entry, pp. 5-6 (October 23, 2019).

<sup>3</sup> Report, p. 12.

Any such adjustment would be a mere estimate, and not truly accurate. The RWIP offset, that includes the incentive charges, are offsets to the reserve that is built up over the life of an asset being removed and charged through past depreciation rates. In the stipulation for Case No. 17-0032-EL-AIR the Company agreed to remove incentive compensation related to earnings for incremental capital moving forward.<sup>4</sup> The removal cost for the assets that are being replaced have already been accrued through ongoing Commission approved depreciation rates and relate to assets that were placed in service before the date certain of Case No 17-0032-EL-AIR. The clear language of the Opinion and Order of that case allows the Company to recover earnings-based incentives on assets placed in service prior to the date certain of June 30, 2016.

24. Rehmann recommends that the revenue requirement be reduced for the incentive pay offset overcharges by \$19,527. Duke Energy Ohio respectfully disagrees with this audit recommendation for the reasons stated above in paragraph 23.
25. Rehmann recommends that the Rider DCI September 30, 2019 be amended to reflect an adjustment to the incentive pay calculation by adding \$66,361 to the cumulative total of gross plant incentives and \$69,240 to the incentive pay offset total adjustment. Duke Energy Ohio respectfully disagrees with this audit recommendation for the reasons stated above in paragraph 23.

In addition to the above comments on each audit recommendation, Duke Energy Ohio would like to clarify that it understands the audit recommendations to be summarized accurately in Summary Table 11 on page 38 of the Report. To the extent that any ambiguity is perceived in

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<sup>4</sup> *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution rates*, Case No. 17-32-EL-AIR, Opinion and Order, p. 37 (December 19, 2018).

the wording of the recommendations, the Company assumes that they are to be interpreted consistently with Table 11.

Respectfully submitted,

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### **CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing Comments of Duke Energy Ohio, Inc. was served on the following parties this 28<sup>th</sup> day of February 2020 by regular U. S. Mail, overnight delivery or electronic delivery.

/s/ Larisa M. Vaysman  
Larisa M. Vaysman

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Summary: Comments Comments of Duke Energy Ohio, Inc. electronically filed by Mrs. Tammy M Meyer on behalf of Duke Energy Ohio Inc. and D'Ascenzo, Rocco and Vaysman, Larisa