



**Public Utilities
Commission**

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April 15, 2020

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

RE: *In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Adjust its Rider and for Approval to Change Accounting Methods*, Case Nos. 19-1750-EL-UNC and 19-1751-GE-AAM.

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations regarding the application filed in Case Nos. 19-1750-EL-UNC and 19-1751-GE-AAM.

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Enclosure

Cc: Parties of Record

Duke Energy Ohio
Case Nos. 19-1750-EL-UNC & 19-1751-GE-AAM

HISTORY

On March 2, 2017, Duke Energy Ohio, Inc. (“Duke” or “the Company”) filed a distribution rate case in Case No. 17-0032-EL-AIR. On June 1, 2017, the Company filed an application for an Electric Security Plan (ESP) in Case No. 17-1263-EL-SSO. Among other things, the ESP application proposed a grid modernization Rider (Rider PF) to establish new offerings designed to advance programs, services, and initiatives the Company believes reflect the current intent of the Public Utilities Commission of Ohio’s (“Commission”) grid modernization initiative. On December 19, 2018, the Commission authorized Rider PF through the approval of the global Stipulation and Recommendation (“Stipulation”) in Case Nos.17-0032-EL-AIR, et.al.¹

As stated in the Stipulation, Rider PF was intended to recover the costs of those programs, modifications, and offerings related to the continued evolution of the distribution grid and an enhanced customer experience, including programs, modifications, and offerings engendered by the Commission’s grid modernization initiative. The Stipulation further stated that Rider PF shall recover both capital costs and operation and maintenance (O&M) expenses not otherwise recovered in base rates or existing rider mechanisms.²

As detailed in the Stipulation, the rider was designed to have three components. The first component is intended to recover costs associated with any directives from the Commission’s grid modernization initiative, which will be initiated through a separate proceeding and subject to a hearing. The second component was authorized to recover costs associated with the communications infrastructure associated with the AMI transition and the data access enhancements detailed in Attachment F of the Stipulation. The third component is intended to recover costs associated with an infrastructure modernization plan. Per the Stipulation, “the plan will include a proposal to upgrade the Company’s customer information system (CIS).”³

In response to the Stipulation, the Retail Energy Supply Association (RESA) and Interstate Gas Supply, Inc. (IGS) jointly urged the Commission to require that the upgrade to the Company’s CIS include the capability for supplier consolidated billing and non-commodity billing.⁴ In its decision, the Commission recognized that these programs have the potential to serve Rider PF’s stated purpose of continuing the “evolution of the distribution grid and an enhanced customer experience.” Ultimately, the Commission dismissed the request to require that the CIS include the

¹ Case No. 17-0032-EL-AIR, et al., Opinion and Order at 43 - 45 (Dec. 19, 2018).

² Case No. 17-0032-EL-AIR, et al., Stipulation and Recommendation at 16 (April 13, 2018).

³ *Id.* at 17.

⁴ Case No. 17-0032-EL-AIR, et al., Direct Testimony of Matthew White at 6 (June 25, 2018).

capability to allow for non-commodity billing; however, the Commission stated that the CIS plan should accommodate supplier consolidated billing in this filing.⁵

In the Company’s current filing in Case Nos. 19-1750-EL-UNC and 19-1751-GE-AAM, the Company filed an application for approval of its infrastructure modernization plan and for authority to defer O&M expenses associated with the plan. The application includes a proposal to upgrade the Company’s CIS, along with three other proposed initiatives: an updated Land Mobile Radio (LMR) Communication System, a Smart Cities Infrastructure Acceleration Program, and an Electric Vehicle (EV) pilot program. The table below provides the estimated costs of each initiative allocated to electric customers, as proposed by the Company.⁶

<u>Program</u>	<u>Total Capital Costs (Millions)</u>	<u>Total O&M Costs (Millions)</u>
CIS – Customer Connect	\$40,223,747	\$36,281,850
LMR	\$11,293,569	\$519,205
Smart City Infrastructure Acceleration	\$5,000,000	\$0
EV Pilot	\$11,300,000	\$4,538,000

The cost of the CIS is estimated to be an additional \$24,271,053 in capital costs and \$21,910,165 in O&M expenses for natural gas customers. The cost of the LMR communication system is estimated to be an additional \$4,238,777 in capital costs and \$194,872 in O&M expenses for natural gas customers. These costs to the Company’s Ohio customers are allocated according to Duke Energy Corporation’s Cost Allocation Manual, of which 14.6% of the total costs are allocated to Duke Energy Ohio, with 9.1% allocated to electric customers and 5.5% allocated to natural gas customers.⁷

As part of the application, the Company requested authority to defer the incremental O&M expenses associated with the implementation of the programs for electric customers, dating back to January 1, 2018. As proposed, these deferred expenses would be eligible for recovery through Rider PF and the Company would receive carrying charges on the deferred balance, based on the actual cost of long-term debt.⁸

The Company also requested authority to defer the incremental O&M expenses associated with the implementation of the CIS and LMR programs for natural gas customers, dating back to January 1, 2018. As proposed, the Company would seek recovery of these expenses as part of its

⁵ See Case No. 17-0032-EL-AIR, et al., Opinion and Order at 86 (Dec. 19, 2018).

⁶ Case No. 19-1751-GE-AAM, Staff DR-03-01 Attachment.

⁷ Case No. 19-1750-EL-UNC, Staff DR-05-07.

⁸ Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Jay P. Brown at 6 (Sept. 24, 2019).

next natural gas base rate case, and the Company would receive carrying charges on the deferred balance, based on the actual cost of long-term debt.⁹

⁹ Id.

STAFF REVIEW AND RECOMMENDATIONS

A. Customer Information System (CIS) – “Customer Connect”

1. Overview: As proposed, the Company seeks recovery of the costs allocated to Ohio for the enterprise-wide replacement of the CIS through Rider PF, which includes approximately \$40.2M in capital costs and \$36.3M in O&M expenses allocated to electric customers. The Company is proposing a SAP solution, called “Customer Connect”, as the platform for the new enterprise-wide CIS, which will replace the current CIS in place in Ohio since 1993.

As described in the supporting testimony, the CIS manages: “billing, accounts receivable, and rates for the Company and is the central repository for customer information.”¹⁰ Duke states that the new CIS will provide benefits to Duke, its customers, and to its business partners. According to Duke, the proposed CIS will enable the Company to automate billing processes such as net metering which Duke currently performs manually; enable Duke to expand self-service options and tools to customers; provide Duke with analytics on customer behaviors to personalize customer experiences; and provide a customer-centric account history instead of one that is premise-based, which will allow Duke customer information to be available in other Duke jurisdictions when customers relocate. Duke also proposed to recover the cost to implement its seamless move operational plan (see Case No. 19-2151-EL-EDI), if approved by the Commission, as part of its CIS plan.

Further, as part of the supporting testimony, Duke states that it plans to seek specific waivers of Commission rules to implement Customer Connect. Specifically, Duke stated:

... the Customer Connect program is unique in that the Company is completing a universal design for all of Duke Energy’s regulated utilities and have incorporated many of the out-of-the-box and modern capabilities. To ensure that new system and associated business processes comply with Commission rules, it will be necessary to request these waivers well in advance of the implementation to allow sufficient time to complete the ‘build’ phase of the Program and complete robust testing prior to the first deployment in early 2021.¹¹

2. Staff Recommendation: Duke was directed by the Commission to include a proposal to upgrade its CIS in the current case and recover the costs through Rider PF. Staff believes that the Company’s CIS replacement will enhance the customer experience, both among direct customers and business partners, and will enable new products and services for customers through the expanded functionality. The benefits associated with the implementation of the new CIS include automation of more complex billing options (e.g. net-metering and time-of-use rates) and more tailored customer preferences (e.g. new options for customers to state their communication

¹⁰ Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Retha Hunsicker at 2 (Sept. 24, 2019).

¹¹ Id at 13.

preference and payment method). The project will also enable the Company to associate customer information with the individual, instead of the customer's premise. Finally, the new CIS will allow the Company to introduce the universal bill-format that was approved by the Commission in Case No. 19-1593-GE-UNC.¹²

However, Staff also has concerns regarding the lack of detailed information on what is needed to accommodate supplier consolidated billing in the proposed CIS plan, including any estimates around the cost of implementation. As stated above, the Commission previously directed the Company to accommodate supplier consolidated billing in the CIS plan in the current case to more fully explore the issue. In the supporting testimony, the Company states that:

... the requirements to support supplier consolidated billing are unknown, and the Company believes a project would be needed to assess the level of effort and cost to implement this functionality in Customer Connect. The design and build of Customer Connect is nearly complete and testing of the solution will begin in early 2020; therefore, any project to assess the requirements to implement supplier consolidated billing could not begin until late 2023, after the deployment and stabilization of Customer Connect.¹³

Duke could not provide further details to Staff through discovery.¹⁴ Accordingly, Staff does not believe that Duke's CIS plan includes enough information to fully explore the issues around supplier consolidated billing. As such, Staff was not able to evaluate the merits of whether supplier consolidated billing should be included as part of Duke's CIS implementation.

Staff further notes that the proposed CIS does not include a grievance redress system, which provides the capability to receive, document, track, acknowledge, escalate, forward, and act on a customer's complaint. Staff believes there could be increased benefits to customers associated with the expanded functionality of a grievance redress system. As such, Staff recommends that the Company consider a grievance redress system as part of the CIS design.

Finally, Staff believes that any new system or associated business practices Duke designs needs to comply with all the current Commission rules and if a waiver is requested during the "build" phase, it should only be for a very limited time period.

¹² Case No. 19-1593-GE-UNC, Finding & Order at 10 (Dec. 18, 2019).

¹³ Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Retha Hunsicker at 20 (Sept. 24, 2019).

¹⁴ Case No. 19-1750-EL-UNC, Staff DR-07-006(d).

B. Land Mobile Radio (LMR) Communication System

1. Overview: As proposed, the Company seeks recovery of the costs allocated to Ohio for the enterprise-wide replacement of the existing LMR communication systems through Rider PF, which includes approximately \$11.3M in total capital costs and \$0.5M in O&M expenses allocated to electric customers. The upgraded LMR would replace four separate LMR systems currently used throughout Duke’s regional jurisdictions with a single LMR solution interoperable across all regions.

The LMR communication system is a ‘person-to-person voice communication system’ used by utility field crews to communicate during operations and outage restoration. The LMR communication system provides “one-to-one” and “one-to-many” options for communication between field workers and the control center. The Company operates the LMR communication system utilizing private spectrum licensed by the Federal Communications Commission, so that it can operate reliably in remote areas and during times of extreme weather and natural disasters when cellular service may not be available.

In Ohio, the new standards-based system (Harris P25 Mobile Radio) will replace the existing Motorola iDEN Radio, which is “over 14 years old and no longer supported by the vendor.”¹⁵ The Request for Proposals (RFP) for the LMR replacement project was issued in November of 2017 and the implementation timeline for Duke Energy Midwest, which includes Indiana, Ohio, and Kentucky, is estimated to be completed during the 2019-2021 timeframe.

2. Staff Recommendation: Staff believes that the replacement of the LMR communication system will provide a number of benefits; however, Staff does not believe that the costs associated with the project should be recovered through Rider PF.

Rider PF was authorized under R.C. 4928.143(B)(2)(h), which allows for “distribution infrastructure and modernization incentives” for electric utilities.¹⁶ Accordingly, the Commission established Rider PF to “recover costs associated with the modernization of the distribution system and an enhanced customer experience.” While the LMR communication system is used during operations and outage restoration, Staff does not believe it is an investment in distribution infrastructure or modernization nor does it directly enhance the customer experience. Instead, it maintains the ability to have a reliable communications system for operations and outage restoration through an investment in updated technology. Staff believes that Duke should propose to recover any LMR costs through a base rate case.

Staff further notes that through the Company’s enterprise-level decision-making process, it initiated the LMR communications system replacement well before the current rider recovery

¹⁵ Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Randy L. Turner at 7 (Sept. 24, 2019).

¹⁶ See R.C. 4928.143(B)(2)(h).

mechanism even existed. The RFP associated with the project was issued on November 21, 2017.¹⁷ Rider PF was authorized through the Commission's Opinion & Order in Case Nos. 17-0032-EL-AIR, et al. on December 19, 2018, and neither the Stipulation nor the Opinion & Order reference the LMR replacement project underway.

¹⁷ Case Nos. 19-1750-EL-UNC, et al., OCC-POD-02-016.

C. Smart Cities Infrastructure Acceleration Program

1. Overview: As proposed, the Company seeks recovery of the costs associated with the implementation of the Smart Cities Infrastructure Acceleration Program. The costs consist of \$5M in funding for municipalities who currently take service on Company-owned street lighting tariffs to replace existing wood street lighting poles with multi-use poles that can better support smart city technologies, in terms of the loading capacity and the wiring necessary. The \$5M includes not only the cost of the new multi-use pole, but also the planning, design, project management, and construction costs for both removal of the existing poles and installation of the new multi-use poles.

The Company uses “smart cities” to refer to:

Cities that employ new technologies to operate more safely, efficiently, and effectively. Some examples of technologies associated with this term include but are not limited to: security/safety cameras, pedestrian counters, traffic control devices, environmental sensors (air quality, temperature, hazardous gases, etc.), waste management sensors, gunshot detection sensors, parking space monitoring, digital banners, Wi-Fi networks, small cell wireless.¹⁸

The proposed multi-use poles included in the program are 40 feet tall, have a 10-inch diameter, and a maximum allowable loading of 1,045 pounds, as compared to the existing wood street lighting poles, which are 30 feet tall and have a maximum allowable loading of 600 pounds.¹⁹ The multi-use poles also have internal circuits that can be dedicated to electrical wiring and communication wiring. Given the location of the existing poles, the Company believes it is well positioned to help municipalities meet their objectives for deploying smart city technologies. Further, the Company believes that providing a financial incentive will “showcase the value of Smart City applications and facilitate the proliferation of smart cities devices.”²⁰

The Company plans to make up to 200 multi-use poles available on a first-come, first-served basis with each participating municipality eligible for up to 30 multi-use poles. If the cost associated with deployment exceeds \$25,000 per pole, then the municipality would be responsible for the excess costs. Per the supporting testimony, the Company will:

... collaborate with cities interested in deploying Smart City technologies. In order to participate, cities will need to develop a proposal and commit to deploy technologies to (1) identify and replace existing streetlight poles in strategic locations that would benefit most from multi-use poles or other infrastructure

¹⁸ Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Timothy J. Duff at 4-5 (Sept. 24, 2019).

¹⁹ Case Nos. 19-1750-EL-UNC, et al., OCC-INT-02-10.

²⁰ Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Timothy J. Duff at 10 (Sept. 24, 2019).

upgrades necessary to accommodate Smart City technologies and (2) ensure that the infrastructure is suitable to support the desired Smart City technologies. Once the cities develop a plan, the Company and the City together will come to the Commission with details on the deployment.²¹

2. Staff Recommendation: Staff does not support Duke’s proposed Smart Cities Infrastructure Acceleration Program, as proposed. Though Staff appreciates the advancement that the installation of multi-use poles and smart cities technologies can provide, it does not believe that the Company demonstrated that it has explored alternatives to avoid charging all customers in its service territory with the costs of multi-use poles for specific municipalities. Further, without a formal commitment from any municipalities regarding the types of smart cities technologies that would be deployed, it is impossible to know the benefits associated with the project and how they relate to the costs to all ratepayers.

Staff further notes that the Company already has a number of tariff offerings that would help to spread out the up-front costs associated with a street lighting pole replacement project, though not eliminate those costs entirely. Currently, the Company offers five different street lighting tariff options, including Rate SL (Street Lighting Service), Rate SE (Street Lighting Service – Overhead Equivalent), Rate UOLS (Unmetered Outdoor Lighting Electric Service), Rate OL-E (Outdoor Lighting Equipment Installation), and Rate LED (LED Outdoor Lighting Electric Service).

For instance, under Duke’s Rate OL-E, a customer can contract for the outdoor lighting equipment of their choosing, then pay two charges throughout the contract period, which can be up to 20 years: one to cover installation costs and one to cover maintenance costs. There is also an option for customers to make an up-front payment of their choosing to reduce the monthly charges over the contract period.

Under the Company’s proposal, a municipal customer participating in the proposed Smart Cities Infrastructure Acceleration Program would continue to pay the applicable distribution charges for the lamp and luminaire, but would be exempt from the distribution charges for any wood poles replaced with multi-use poles.²² For the wood street lighting poles being removed, it appears that the customer would also have to pay the sacrifice value under Rates SL and SE as well as the undepreciated amounts under Rate OL-E and Rate LED. As mentioned above, the costs associated with the new multi-use poles would be recovered through Rider PF. Any “smart” technologies installed on the multi-use pole would be billed under the applicable provisions of Rate GS-FL (Optional Unmetered General Service Rate For Small Fixed Loads).²³

Staff believes that existing or modified street lighting tariff options, combined with revenues received through Rate GS-FL, and potential revenues to the municipalities associated with the

²¹ Id. at 11.

²² Case Nos. 19-1750-EL-UNC, Staff-DR-003-02.

²³ Case Nos. 19-1750-EL-UNC, Staff-DR-003-04.

smart cities technologies themselves should all be reviewed as part of a potential plan to recover the costs associated with installation of multi-use poles.

D. Electric Vehicle Pilot

1. Overview: As proposed, the Company's EV pilot includes five distinct programs: i) a DC Fast Charging (DCFC) program, ii) an Electric School Bus program, iii) an Electric Transit Bus program, iv) a Residential Level II charger program, and v) a Commercial Level II charger program. In total, the Company estimates the costs of the five programs to be approximately \$11.3M in capital costs and \$4.5 in O&M expenses, which includes general and administrative expenses, program marketing, and network fees. Three of the programs consist of incentives for "make-ready" investments (i.e., incentives for the costs associated with making a site ready for an EV charging station, but not including the cost of the charging station itself) and two of the programs consist of incentives in the form of rebates. For the "make-ready" investments, the Company proposes to install, own, and operate the necessary "make-ready" infrastructure; whereas, the customer would install, own, and operate the EV charging station equipment, as proposed.

The DC Fast Charge program is designed to incentivize 25 DCFC units, at a minimum, through funding up to \$50,000 in incentives per location for "make-ready" investments. Of the estimated \$50,000 incentive per location, approximately 54% of the costs are associated with distribution system work,²⁴ approximately 32% of the costs are associated with behind-the-meter site work,²⁵ and approximately 14% of the costs are included for contingency purposes.²⁶ As proposed, the Company also states that it may advocate for additional incentive opportunities and/or direct ownership of the DCFC units, if needed, to ensure the program is fully subscribed, subject to a mid-deployment report and review. Participating customers are required to provide data on the utilization of DCFC units.

The Electric School Bus program is designed to incentivize the procurement of 10 EV school buses to provide transportation services to public school systems through rebates, which will fund up to \$215,000 per bus. As proposed, the Company will have ownership rights over the school bus battery at the end of its useful life, which is estimated to be 8-12 years. As part of the terms and conditions associated with the proposed program, participants must provide all charging data and must allow the Company to implement load management through the term of the program (e.g. curtailment, bidirectional power flow, etc).

The Electric Transit Bus program is designed to incentivize 10 DCFC units for transit customers (e.g. transit agencies, universities, airports, etc.), through funding up to \$30,000 in incentives per location for "make-ready" investments. Participating customers are required to provide data on the

²⁴ As proposed, the distribution system work could include, but is not limited to transformer install or upgrade, pole replacement or installation, boring or trenching, conduit install, service install, meter install, etc.

²⁵ As proposed, the behind-the-meter site work could include, but is not limited to site drawings, permitting, concrete work, meter cabinet installation, main load center and structure installation, conduit and wiring from meter base to EVSE stub out, site signage, landscape and pavement restoration, etc.

²⁶ Case Nos. 19-1750-EL-UNC, Staff DR-02-002.

utilization of DCFC units and other data and information associated with the transit customer's energy usage.

The Residential Level II charger program is designed to incentivize 1,000 Level II charging stations through \$500 rebates provided to eligible residential customers. The program also includes an additional \$500 rebate for up to 1,000 eligible residential customers who participate in managed EV charging and load management events. As proposed, the Company estimates costs associated with networking, collection, and management of EV charging data and information to be an additional \$511 per customer.

The Commercial Level II charger program is designed to incentivize 1,200 Level II charging stations through funding up to \$5,000 in incentives per unit for "make-ready" investments. Of the 1,200 chargers, 600 will be made available for commercial customers with publicly available locations. The remaining 600 will be allocated evenly (200 each) among commercial customers with fleet operations, private workplaces, and multi-unit dwellings. Participating commercial customers are required to provide data on the utilization of Level II units and other data and information associated with the commercial customer's energy usage.

2. Staff Recommendation: Staff believes that a well-designed EV program can provide benefits to ratepayers and further state policy.²⁷ Staff also believes there is value in exploring the impacts of EV charging infrastructure on the distribution system to help inform distribution system planning and rate design. Through the terms and conditions associated with participation in the rebate program, the Company could gather the data and information needed to study system impacts (e.g. load profiles, utilization rates, etc.), along with establishing participation in load management programs. Standards and protocols can also be included (e.g. Open Charge Point Protocol 2.0) to ensure that smart charging is possible, either user-managed through rate design signals or supplier-managed through market or other signals.

However, Staff has concerns with some aspects of the Company's EV pilot programs as proposed and has several recommended modifications to the program design to achieve the same benefits in a simpler, more targeted, and potentially more cost-effective manner.

To start, Staff has concern with the "make-ready" aspects of the program design included in the DCFC, Electric Transit Bus, and Commercial Level II charger programs and believes that a rebate program can provide direct incentives for investing in EV charging infrastructure without the potential for anti-competitive practices associated with the Company installing, owning, and operating infrastructure behind the meter. This would also be administratively simpler, as the

²⁷ See R.C. 4928.02(D) (Encourage innovation and market access for cost-effective supply-and demand-side retail electric service including, but not limited to, demand-side management, time-differentiated pricing, waste energy recovery systems, smart grid programs, and implementation of advanced metering infrastructure); R.C. 4928.02(N) (Facilitate the state's effectiveness in the global economy).

Company would not need to take title to and assume responsibility for maintenance of behind the meter site work on a participating customer's property.²⁸

Second, the Company and Staff are generally aligned on the potential benefits associated with providing incentives strategically to facilitate the development of intra- and inter-state corridor travel.²⁹ For this reason, Staff recommends that the Company further modify the incentives in the DCFC program to focus on areas where investment would assist in the establishment of "corridor-ready" alternative fuel corridors for EVs, as defined by the U.S. Department of Transportation's Federal Highway Administration (FHA).³⁰

Third, Staff believes that any ratepayer-funded incentives for investing in EV charging infrastructure should be limited to infrastructure that will be made available to the public or, at least, made available in locations with multiple users (e.g. multi-unit dwellings or workplaces). As such, Staff does not support the Residential Level II charger program for individual residential customers, but notes that the Company should implement rate design offerings for residential EV customers to incent shifting EV charging to off-peak hours.

In summary, Staff recommends that the program be modified to change the proposed DCFC, Electric Transit Bus, and Commercial Level II charger programs to rebate programs that provide direct incentives for investing in EV charging infrastructure, instead of providing incentives for "make-ready" work. Staff further recommends that the program be modified so that the incentives for the DCFC program focus on areas where investment would assist in the establishment of "corridor-ready" alternative fuel corridors for EVs, as defined by the FHA. Finally, Staff believes that the program should be modified to eliminate the proposed Residential Level II charger program and, instead, focus on incentives at sites where EV infrastructure will be made available to the public or, at a minimum, to multiple users.

²⁸ See Case Nos. 19-1750-EL-UNC, Staff DR-02-012 and FERC USoA 371.

²⁹ Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Lang W. Reynolds at 15 (Sept. 24, 2019).

³⁰ A "Corridor-Ready" NHS Segment has public DC Fast Charging no greater than 50 miles between one station/site and the next on corridor, and no greater than 5 miles off the highway. Additionally, each DC Fast Charging site should have both J1772 combo (CCS) and CHAdeMO connectors.
https://www.fhwa.dot.gov/environment/alternative_fuel_corridors/

E. Deferral Authority

1. Overview: As proposed, the Company seeks authority to defer the incremental O&M expenses associated with the development and implementation of the CIS, LMR communication system, and EV programs, as of January 1, 2018, for costs allocated to both electric and natural gas customers.

O&M Expenses (Electric & Natural Gas)			
<u>Component</u>	<u>Electric</u>	<u>Natural Gas</u>	<u>Staff Position on Deferral</u>
1) Customer Information System	\$36,281,850	\$21,910,165	Yes, with modification detailed below.
2) Land Mobile Radio	\$519,205	\$194,872	No
3) Smart Cities Infrastructure Acceleration Program	\$0	\$0	No
4) EV Pilot	\$4,538,000	\$0	No

The deferred O&M expenses allocated to electric customers would be eligible for recovery through Rider PF over a five-year period and the Company would receive carrying charges on the deferred balance, based on the actual cost of long-term debt.³¹ The Company plans to seek recovery of the capital costs and deferred O&M expenses allocated to natural gas customers in its next natural gas base rate case.³²

Staff historically evaluates applications for authority to defer expenses by applying the following six criteria:

- (1) Whether the utility's current level of costs included in the last rate case is insufficient;
- (2) Whether the costs requested to be deferred are material in nature;
- (3) Whether the problem was outside of the Company's control;
- (4) Whether the expenditures are atypical and infrequent;
- (5) Whether the costs would result in financial harm to the Company;
- (6) Whether the Commission could encourage the utility to do something it would not otherwise do through the granting of the deferral authority.³³

³¹ Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Jay P. Brown at 6 (Sept. 24, 2019).

³² Case Nos. 19-1750-EL-UNC, et al., Direct Testimony of Amy B. Spiller at 20 (Sept. 24, 2019).

³³ See, e.g., *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 15-1238-GA-AAM, Finding and Order (July 6, 2016); *In re Duke Energy Ohio, Inc.*, Case No. 09-1097-GAAAM, Finding and Order (Mar. 24, 2010); *In re The Dayton Power & Light Co.*, Case No. 08-1332-EL-AAM, Finding and Order (Jan. 14, 2009); *In re Citizens Utilities Co. of Ohio*, Case No. 98-1701-WS-AAM, Finding and Order (Apr. 29, 1999); *In re The Ohio Suburban Water Co.*, Case No. 92-1130-WW-AAM, Entry (Dec. 17, 1992); *In re The Cincinnati Gas & Elec. Co.*, Case No. 90-2017-EL-AAM, Entry (Mar. 14, 1991).

In this Application, the Company is requesting deferral authority for multiple programs. Staff has evaluated each of the programs on a standalone basis applying the criteria to each individual program. Staff's evaluation of the six criteria was based on the Application, interviews of Company personnel, and the Company's responses to various interrogatories.

2. Staff Recommendation

i) Customer Information System

Staff recommends that the Commission approve deferral authority for the CIS Program. However, Staff rejects the Company's proposal to amortize and recover costs over five years. Staff recommends that the deferred O&M not be eligible for recovery until Staff deems the CIS is used and useful and placed into service.

(1) Whether the current level of costs included in the last rate case is insufficient.

Staff finds that the current level of costs included in the Company's last electric base distribution rate case (Case No. 17-0032-EL-AIR) is insufficient to recover the costs associated with the CIS. The Company had proposed including forecasted costs for a new CIS, but ultimately the proposed costs were removed from the revenue requirement as part of the Stipulation. Given that the Company is proposing to recover approximately \$36.3 million in costs that are not built into rates, Staff finds that current electric rates are insufficient.

Regarding the approximately \$21.9 million in O&M expenses proposed to be allocated to the Company's natural gas distribution business, the Company's last distribution rate case included no costs associated with a new CIS. Given that the Company is proposing to recover approximately \$21.9 million in costs that are not built into rates, Staff finds that current gas rates are insufficient.

(2) Whether the costs requested to be deferred are material in nature.

Staff finds the costs associated with CIS to be material in nature to both the electric and gas operations. The Company is proposing to incur O&M expenditures over a six-year period with an average annual spend of approximately \$6 million and \$3.7 million for electric and gas businesses, respectively. The electric average spend represents 1.64% of operating costs and the gas average spend represents 1.16% of operating costs of the last distribution rate cases. Given that on average the Company is incurring expenses at this level over a six-year period, Staff finds that these amounts are material in nature.

(3) Whether the problem was outside of the Company's control.

Although the obsolescence of the current CIS is outside the Company's control, the timing of the deployment of a new CIS was at the Company's discretion.

(4) Whether the expenditures are atypical and infrequent.

Deployment of new a CIS is generally an atypical and infrequent activity. The Company last replaced its CIS approximately 30 years ago. For this reason Staff finds the expenditures to be atypical and infrequent.

(5) Whether the costs would result in financial harm to the Company.

Staff finds that the costs currently embedded in the last electric and natural gas base distribution rates are insufficient to recover the O&M expenses for the new CIS and the expenses are material in nature. If the Company is unable to recover the costs associated with the new CIS system, then there is the potential for financial harm.

(6) Whether the Commission could encourage the utility to do something it would not otherwise do through the granting of the deferral authority.

Staff finds that the Company does not need to be encouraged to deploy a new CIS.

ii) Land Mobile Radio

Staff recommends that the Commission deny deferral authority for the LMR program. Staff recommends denial based primarily on Staff's determination that the costs included in current rates are sufficient and the costs would not result in financial harm to the Company.

(1) Whether the current level of costs included in the last rate case is insufficient.

In the current application, the Company is requesting deferral authority associated with LMR expenditures of \$519,205 and \$194,872 in electric and gas, respectively. Staff agrees with the Company that the costs included in the last electric and gas distribution rate cases do not specifically include costs associated with LMR; however, based on Staff's evaluation of the materiality of the projected annual expenditures, Staff avers that the costs included in the last rate cases are sufficient.

(2) Whether the costs requested to be deferred are material in nature.

The Company's highest estimated spend for LMR in one year is approximately \$277,000, which represents 0.075% of operating expenses included in electric distribution rates.³⁴ Likewise, the Company is requesting to defer costs allocated to gas totaling \$194,872, which amounts to 0.06% of total gas operating expenses.³⁵ Staff finds that the costs requested to be deferred are not material in nature.

(3) Whether the problem was outside of the Company's control.

³⁴ Subtracting the required operating income of \$98,205,883 from the revenue requirement of \$467,775,683 results in total operating expenses of \$369,569,800 included in base rates.

³⁵ See *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates*, Case No. 12-1685-GA-AIR, et al., Finding and Order at 19 (November 11, 2013).

The Company's current LMR system is no longer supported by vendors and the Company is required to use "grey market" (i.e., a market in which goods have been manufactured by or with the consent of the brand owner but are sold outside of the brand owner's approved distribution channels) to purchase replacement parts. Although the lack of vendor support is outside the Company's control, the timing of the deployment of a new LMR was at the Company's discretion. The Company could have updated the system prior to its most recent distribution rate case.

(4) Whether the expenditures are atypical and infrequent.

Deployment of a new LMR system is generally an atypical and infrequent activity. The Company last replaced its LMR approximately 14 years ago; therefore, Staff finds the expenditures to be atypical and infrequent.

(5) Whether the costs would result in financial harm to the Company.

Since Staff has determined that the costs included in the previous rate case are not insufficient and the costs are immaterial, Staff finds that the costs would not result in financial harm to the Company if deferral authority is not authorized.

(6) Whether the Commission could encourage the utility to do something it would not otherwise do through the granting of the deferral authority.

Staff finds that given the Company's claim that replacement parts are becoming increasingly difficult to find, the Company does not need encouragement to deploy a new LMR system.

iii) Electric Vehicle Programs

Staff recommends that the Commission deny deferral authority for the EV Program. Staff bases this recommendation primarily on Staff's determination that the costs included in current rates are sufficient and the costs would not result in financial harm to the Company. In addition, given Staff's recommendation detailed above to modify the EV programs there will be no deferral authority required, if the Commission adopts Staff's recommendation

(1) Whether the current level of costs included in the last rate case is insufficient.

Staff agrees with the Company that the costs included in its last electric rate case do not specifically include costs associated with electric vehicle charging; however, Staff finds that the costs included in current rates are sufficient to recover EV program costs given that the \$4.5 million will be incurred over a period of three years, or an average of \$1.5 million annually.

(2) Whether the costs requested to be deferred are material in nature.

The Company projects that the \$4.5 million will be spent over a period of three years.³⁶ During the three-year period, the largest annual expenditure projected is \$2,465,293 in 2021, and the second largest is projected to be \$1,713,543 in 2022. The spending in these two years make up the vast majority of the \$4.5 million total spending projected, so Staff focused its analysis of materiality on these two years. Compared to the level of operating expenses included in base rates, the spending in 2021 and 2022 represent 0.67% and 0.46% of the operating expenses included in base rates, respectively.³⁷ Based on this comparison, Staff finds that the costs requested to be deferred are not material in nature.

(3) Whether the problem was outside of the Company's control.

In its Application, the Company's states its EV Program will "facilitate the development of EV charging infrastructure so that the Company is able to respond to customer desires for this emerging technology, support its development and installation and operation, and encourage partnership with owners of third-party owned charging stations." Staff avers that this program is not a necessary requirement for a utility to provide safe and reliable electric service to its customers. Given that the EV Program amounts to an ancillary service, and the scope of the program is fully within Duke's discretion, Staff finds that this problem is not outside the Company's control.

(4) Whether the expenditures are atypical and infrequent.

Based on Staff's understanding, the EV Program proposed in the Application represents the Company's first foray into developing an electric vehicle infrastructure in its Ohio service territory. As a result, Staff finds that the expenditures are atypical and infrequent.

(5) Whether the costs would result in financial harm to the Company.

Since Staff has determined that the costs included in the previous rate case are sufficient, the costs are immaterial, and the expenditures are not outside the Company's control, Staff finds that the costs would not result in financial harm to the Company if deferral authority is not authorized.

(6) Whether the Commission could encourage the utility to do something it would not otherwise do through the granting of the deferral authority.

As discussed, Staff determined that developing an electric vehicle infrastructure in the Company's service territory is not a requirement in providing safe and reliable electric service to its customers; however, Staff understands that the EV Program is part of the Company's broader goal of modernizing the electric grid. Staff avers the Commission could encourage

³⁶ Case No. 19-1751-GE-AAM, Staff DR01-001 Attachment.

³⁷ Subtracting the required operating income of \$98,205,883 from the revenue requirement of \$467,775,683 results in total operating expenses of \$369,569,800 included in base rates.

broader efforts to modernize the electric grid, including developing electric vehicle infrastructure.

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Summary: Staff Review and Recommendation In the Matter of the Application of Duke Energy Ohio, Inc., for Authority to Adjust its Rider and for Approval to Change Accounting Methods, Case Nos. 19-1750-EL-UNC and 19-1751-GE-AAM. electronically filed by Ms. Krystina M Schaefer on behalf of PUCO Staff