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October 22, 2021

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 an Adjustment to the Capital Expenditure Program Rider Rate, *Case No. 21-618-GA-RDR*.

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendation in regard to Duke Energy Ohio, Inc., application in Case No. 21-618-GA-RDR for Approval of its Capital Expenditure Program rider rate adjustment.

Sincerely,

Marianne Townsend
Chief, Regulatory Utility Services
Rates and Analysis, Dept.
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

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Duke Energy Ohio, Inc.
Capital Expenditure Program Rider
Case No. 21-618-GA-RDR

INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (PUCO or Commission) Opinion and Order in Case No. 19-0791-GA-ALT (Order),¹ on April 21, 2021, Duke Energy Ohio, Inc., (Duke Energy Ohio or the Company) filed an application to adjust its Capital Expenditure Program (CEP) rider rate in Case No. 21-618-GA-RDR.

On June 2, 2021, the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge or Auditor) as the auditor to assist the Staff of the PUCO (Staff) in performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Duke's CEP Rider.

On October 14, 2021, Blue Ridge submitted its audit for the 2021 annual adjustment to the CEP rider rate for Duke Energy Ohio (Blue Ridge Report).

This review provides Staff's conclusion and recommendations to the Commission regarding Duke's application to adjust its CEP rider as filed in Case No. 21-618-GA-RDR.

BACKGROUND

Under R.C. 4929.111, a natural gas company may file an application to implement a CEP for infrastructure expansion, improvement, or replacement; to install, upgrade, or replace information technology systems; or to comply with rules, regulation, or orders of the Commission or other governmental entity having jurisdiction. If the Commission finds that the CEP is consistent with the Company's obligation to furnish necessary and adequate services and facilities, and finds those services and facilities to be just and reasonable, the Commission shall approve the application and authorize deferral or recovery of both a regulatory asset for post in-service carrying costs (PISCC) on the portion of assets of the CEP placed in service but not reflected in rates as plant in service, and a regulatory asset for the incremental depreciation and the property tax expense directly attributable to the CEP but not reflected in rates.

In 2013, the Company filed an application to implement a capital expenditure program (CEP) and modify its accounting procedures in Case Nos. 13-2417-GA-UNC and 13-2418-GA-AAM. The Commission authorized the Company to accrue CEP Deferral expenses until the rates to recover the deferrals for the residential customers (Rate RS) reach \$1.50 per month.² The Commission stated its determination that it would consider the prudence, reasonableness, and magnitude of the CEP deferral and capital expenditures when the Company applies for recovery.

In 2021, in Case No. 19-0791-GA-ALT, the Commission authorized the Company to implement a new alternative rate plan and create the CEP rider to recover historic and ongoing CEP costs and CEP deferrals (CEP Investment). The rates for incorporating historic CEP Investments through

¹ *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Form of Regulation to Establish a Capital Expenditure Program Rider Mechanism*, Case No. 19-791-GA-ALT, Opinion and Order at 9 (April 21, 2021).

² *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 13-2417-GA-UNC, et al., Finding and Order at 23 (Oct. 1, 2014).

December 31, 2018, were set for residential customers at \$3.69 per meter per month.³ To mitigate the rate impact for customers, the rates for recovery of CEP investments through December 31, 2019, were capped at a maximum rate of \$6.61 effective November of 2021, with a subsequent rate adjustment for CEP investments through December 31, 2020, capped at a maximum rate of \$9.31 effective May 2022.⁴

DUKE'S APPLICATION FOR CEP RIDER

Duke filed its application to adjust the CEP rider rate for residential customers (Rate RS) to \$6.61 effective November 2021 and \$9.31 effective May 2022 for CEP investment through December 31, 2020⁵ as Ordered by the Commission. The application included a total CEP Rider revenue requirement of \$63,444,390 to recover CEP investments through Dec. 31, 2020, which includes CEP plant additions of \$614,102,338, and retirements of \$73,713,556. The application includes total plant in service for the period of \$292,363,869; accumulated depreciation of (\$248,024,913); and total deferred expenses and total deferred taxes on expenses (depreciation, PISCC, and property tax) of \$125,309,141 net of cumulative offset for incremental revenue of \$ (27,554,185). Annualized operating expenses include depreciation, property tax expense, and regulatory assets amortization.

THE CEP RIDER INVESTIGATION

Staff divided its review into two parts: 1) investigating the application and supporting schedules to determine if Duke's filed exhibits justify the reasonableness of the revenue requirement proposed by the Company; and 2) plant investigation performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Duke's CEP rider. The Commission selected Blue Ridge as the auditor to assist Staff in conducting the investigation.

Staff reviewed the Company's application and supporting testimony, analyzed documentation associated with expenses and deferrals for depreciation, property tax, and PISCC. Staff also reviewed proposed tariffs, bill impacts, and revenue requirement calculations. As part of its review, Staff issued data requests, contacted Company representatives to obtain clarifying and follow-up data, and performed independent analysis when necessary. Finally, Staff reviewed the Order, stipulation, and auditor report from Case No. 19-791-GA-ALT to ensure the Company was in compliance with all recommendations and requirements.

Blue Ridge conducted an audit of Duke's CEP capital expenditures. The Auditor reviewed the accounting accuracy and used and useful nature of Duke's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals from January 1, 2019 through December 31, 2020. The Auditor also assessed necessity, prudence, lawfulness, and reasonableness of the CEP expenditures. The Auditor reviewed the information required by the Request for Proposal; reviewed responses to data requests; conducted interviews; performed virtual field inspections and desk top reviews; reviewed the Company's

³ *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Form of Regulation to Establish a Capital Expenditure Program Rider Mechanism*, Case No. 19-791-GA-ALT, Opinion and Order at 47 (April 21, 2021).

⁴ *Id.* at 47.

⁵ *In the Matter of the Application of Duke Energy Ohio, Inc., for an Adjustment to the Capital Expenditure Program Rider Rate*, Case No. 21-618-GA-RDR (CEP Audit Case), Application, Attachment A (April 23, 2021).

processes and procedures; and performed various analyses as detailed in the Blue Ridge Report.

STAFF'S RESPONSE AND RECOMMENDATIONS

Staff has completed its investigation of Duke's proposed CEP Rider application. Staff fully adopts the Blue Ridge Report. Based on the Auditor's adjustments and recommendations, the new rate is approximately \$6.23 for 2019 and \$9.09 for 2020 for residential customers. While Staff agrees with and adopts the recommendations in the Blue Ridge Report, Staff specifically highlights the following recommendations: ⁶

1. Adjust post in service carrying costs (PISCC), property tax, AFUDC, and understated retirements (Adjustment #1, #2, #9, #10);
2. Adjust rate case depreciation offset and ADIT on liberalized depreciation (Adjustment #3, #4, #5);
3. Remove non-CEP plant and plant not in-service (Adjustment #6, #7);
4. Remove premium on land acquisition (Adjustment #8); and
5. Restore CEP assets removed due to rate cap (Adjustment #11).

Financial Earnings Review

In its Opinion and Order, the Commission directed Staff to monitor measures of profitability as part of Duke's annual filings.⁷ Below is a chart showing three measures of profitability for some of Ohio's natural gas local distribution companies (LDC) as well as a median of LDC returns nationwide.⁸

	Return On Equity	Return On Total Capital	Return On Total Assets
	3-Yr Average	3-Yr Average	3-Yr Average
Median LDC Returns (National)	7.94%	4.64%	2.86%
Ohio LDC Returns			
Columbia Gas of Ohio, Inc.- OH	11.27%	5.98%	3.79%
Duke Energy Ohio, Inc.- OH	5.98%	3.89%	2.72%
Eastern Natural Gas Company- OH	-23.15%	-23.15%	-7.74%
Northeast Ohio Natural Gas Corp.- OH	3.67%	2.34%	1.61%
Ohio Gas Company- OH	10.42%	10.42%	7.60%
Pike Natural Gas Co- OH	-120.79%	-120.97%	-3.26%
Vectren Energy Delivery of Ohio, Inc.- OH	8.36%	3.91%	2.44%
The East Ohio Gas Company - OH	8.85%	4.54%	3.16%

⁶ *Plant-in-Service and Capital Expenditure Program Audit of Duke Energy Ohio, Inc. (Natural Gas)* (Blue Ridge Report), at 35-36, Case No. 21-618-GA-RDR (Oct. 14, 2021).

⁷ See *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Form of Regulation to Establish a Capital Expenditure Program Rider Mechanism*, Case No. 19-0791-GA-ALT, Opinion and Order at 39 (April 21, 2021).

⁸ Data provided by S&P Global Marketplace Intelligence for years 2018, 2019, and 2020.

The data above offers a high-level look at financial results and provides a means of comparing results among local and national LDC peers. Based upon the information shown in the table above, Staff avers that the metrics indicate that Duke has not significantly over-earned or under-earned.

Based upon the investigation described above, Staff believes that in all other areas the Company has supported its filing with adequate data and information to ensure that the CEP rider's revenue requirement and resulting rider rates are just and reasonable. Therefore, Staff recommends that the Commission approve Duke's application for the CEP rider as modified by these comments.

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Summary: Staff Review and Recommendation in the Matter of Duke Energy Ohio, Inc., for Approval of its Annual Capital Expenditure Program Rider Rate Adjustment. electronically filed by Ms. Nicci Crocker on behalf of PUCO Staff