Ohio | Public Utilities Commission

Mike DeWine, Governor
Jenifer French, Chair

December 17, 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 Recovery of Program Costs, Lost Distribution Revenue and Performance Incentives Related to its Energy Efficiency and Demand Response Programs,* Case No. 20-0613-EL-RDR

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations regarding the application filed in Case No. 20-0613-EL-RDR.

Kristin B DuPree

Kristin DuPree
Rates & Analysis Department
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

Duke Energy Ohio
Energy Efficiency and Peak Demand Reduction Rider (Rider EE-PDR)
Case No. 20-613-EL-RDR

OVERVIEW

On April 14, 2020, Duke Energy Ohio (Duke or the Company) filed an application in Case No. 20-613-EL-RDR requesting approval to adjust its Energy Efficiency and Peak Demand Reduction Rider (Rider EE-PDR) rate in order to recover costs related to statutory energy efficiency mandates. The amount Duke seeks to recover for 2019, includes actual and/or forecasted program costs, lost distribution revenues and shared savings incentives.

STAFF REVIEW

Staff audited the revenues and expenses associated with the Company's Rider EE-PDR to verify that incurred costs were prudent, eligible for recovery, and truly incremental to base rates. Staff also examined filed schedules for accuracy, completeness, occurrence, presentation, valuation and allocation. Staff conducted this audit through a combination of document reviews, interviews, and interrogatories and requested documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted.

During its review, Staff identified operation and maintenance (O&M) expenses totaling $278,460 that should be deducted from the proposed Rider EE-PDR cost recovery amount. The following generally describe Staff's recommended adjustments.

Incentives

Staff discovered, within Rider EE-PDR, expenses related to incentive pay, performance awards, executive short-term incentives, and restricted stock units that were linked to the financial performance of the Company or were not related to distribution service. Consistent with past practices, Staff does not support the recovery of financial incentives,[1] based upon a utility company's financial goals, being passed on to its ratepayers.[2] In the Finding and Order in Case Nos. 16-664-EL-RDR and 17-781-EL-RDR, the Commission agreed with Staff's position and concluded that "[w]hile not all of the performance goals may be explicitly tied to financial objectives, they are correlated with Duke's bottom line and meeting shareholder interests."[3]

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[1] Financial incentives include but may not be limited to: performance awards, restricted stock units, executive incentives, earnings per share, shareholder returns, stock purchases, company earnings, and/or any other financially motivated incentives tied to the Company's bottom line and/or meeting shareholder interests.

[2] *See, e.g., In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs,* Case No. 15-534-EL-RDR, Staff Review and Recommendations (June 23, 2016).

[3] *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs,* Case Nos. 16-664-EL-RDR and 17-781-EL-RDR, Finding and Order at 6 (May 15, 2019).

Staff requested information from Duke regarding their employee incentive plans in order to trace, verify, and separate employee pay incentives by non-financial and financial goals. During this review, Staff found that within their incentive plans, the team goals, individual goals and portions of their operational excellence goals were tied to the Company's bottom line. Staff also found that portions of their safety goals were related to generation activities, all of which are not appropriate for recovery. Regarding restricted stock units and performance awards (performance shares and tandem dividends), Staff found that these programs promote and are inherently tied to the achievement of annual financial performance objectives and the Company's bottom line.

As a result of this review, Staff identified and allowed incentive pay that was related to non-financial goals and removed all other incentive pay that was unsubstantiated, tied to generation, and/or related to the Company's financial goals. Staff therefore recommends a deduction from the Company's proposed cost recovery, in the amount of $265,110, which is comprised of $197,139 for incentives allocated, $9,029 for performance awards, $34,059 for restricted stock units, and $24,883 for executive short-term incentives.

Meals, Snacks, Entertainment, and Drinks

Staff identified various employee expense transactions for meals, food, entertainment, and drinks. The Company's supporting documentation indicated that expenses for team dinners, food for internal business meetings, and food and refreshments for other occasions were included in the rider. These expenses appeared to be repetitious, excessive and not beneficial to Ohio's ratepayers. Staff's view is that these items are costs that should be borne by the Company or its employees and not by its ratepayers. Staff therefore recommends that meals, snacks and drinks totaling $3,248 be deducted from the proposed cost recovery amount.

Employee Expenses

Staff found multiple expenses that were either not directly associated with Rider EE-PDR, not properly supported by back up documentation, and/or not beneficial to Ohio's ratepayers. These expenses include personal mobile device reimbursements of $5,924, personal vehicle mileage of $2,269, and telephone and communications of $54. Staff believes that mobile phones and other communication devices are not incremental in nature and are not expenses that should be charged to the EE-PDR rider. The personal vehicle mileage was not supported by sufficient back up documentation, and staff was unable to determine whether the expenses were incremental to base rates or appropriately charged to the rider. Therefore, Staff recommends that the total amount of these transactions, $8,247, be deducted from the proposed cost recovery amount.

Miscellaneous Expense Charges

Staff identified other miscellaneous items totaling $1,855. Staff found that these expenses were not sufficiently supported with back up documentation, not beneficial to Ohio's ratepayers, considered non-incremental, and/or were charged to Rider EE-PDR in error. Therefore, Staff recommends that these miscellaneous expenses totaling $1,855 be deducted from the proposed cost recovery amount.

Shared Savings and Lost Distribution Review

Staff has reviewed the calculations for the revenue collected through the 2019 energy efficiency rider for the Company's shared savings and lost distribution revenue. On September 27, 2019, the Commission approved a Stipulation in Case No. 16-576-EL-POR, which capped the Company's recovery on shared savings at $8 million after taxes, annually. On November 18, 2020, the Commission modified the Stipulation and capped shared savings at 7.8 million, before taxes, annually for years 2017 through 2020.[4]

Staff has reviewed the documents and calculations provided by the Company for the 2019 shared savings. Staff notes that the Company has also provided updated calculations in response to Staff's data request that demonstrate shared savings collection and recovery of 7.8 million dollars, before taxes. Staff believes this is the appropriate amount to recover per Commission order but notes that this issue is pending rehearing before the Commission in Case No. 16-576-EL-POR. Staff has also reviewed the methodology used by the Company to determine the amount of lost distribution revenue for the calendar year 2019 that should be included for recovery in Rider EE-PDR. Staff believes that the Company's methodology is appropriate. However, the claimed energy savings, which form the basis for the Company's calculation of lost distribution revenue, have yet to be verified and approved through the Commission's Evaluation, Measurement, and Verification (EM&V) review process. Staff therefore recommends that any approval given by the Commission for the Company to adjust its Rider EE-PDR rate be subject to further review and potential cost adjustment as deemed necessary in subsequent proceedings in which impacts of the EM&V process are considered.

CONCLUSIONS

Staff has completed its audit of Duke's Rider EE-PDR in Case No. 20-613-EL-RDR and recommends to the Commission the following:

First, Staff recommends that the Company's request for recovery be approved, and that Staff's adjustment of $278,460, plus applicable carrying charges, be deducted from the revenue requirement in the Company's next Rider EE-PDR case.

Second, Staff continues to find the same expenses in Rider EE-PDR, which were previously found to be non-incremental, not related to EE, and/or inappropriate for recovery and thus not beneficial to Ohio's ratepayers. These expenses include meals & entertainment, personal vehicle mileage, telephone communications, and personal mobile device reimbursement. In the past, the Commission has agreed with Staff's exclusion of these expenses and it is consistent with the Finding & Orders in Case Nos. 16-664-EL-RDR and 17-781-EL-RDR[5], and Case No. 18-397-EL-

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[4] *In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of its 2017-2019 Energy Efficiency and Peak Demand Reduction Program Portfolio Plan (Duke POR Case)*, Case No. 16-576-EL-POR, Third Entry on Rehearing at 22 (Nov. 18, 2020).
This issue is currently pending before the Commission after Duke raised it in its Fourth Application for Rehearing. *See Duke POR Case*, Case No. 16-576-EL-POR, Application for Rehearing (Dec. 18, 2020).

[5] *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs,* Case Nos. 16-664-EL-RDR and 17-781-EL-RDR, Finding and Order at 6 (May 15, 2019).

RDR.[6]–Based on these orders, Staff recommends that Duke be instructed to no longer include these expense categories in future Rider EE-PDR filings.

Finally, Staff recommends that any approval given by the Commission for the Company to adjust its Rider EE-PDR rate, be subject to further review and potential cost adjustment as deemed necessary in subsequent proceedings in which impacts of the EM&V process are considered.

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[6] *In The Matter of the Application Of Duke Energy Ohio, Inc. For Recovery Of Program Costs, Lost Distribution Revenue, And Performance Incentives Related To Its Energy Efficiency And Demand Response Programs,* Case No. 18-397-EL-RDR, Finding and Order at 5 (July 31, 2019)