



# Public Utilities Commission

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## Commissioners

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September 26, 2022

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. 22-618-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. 22-618-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

180 East Broad Street  
Columbus, Ohio 43215-3793

(614) 466-3016  
[www.PUCO.ohio.gov](http://www.PUCO.ohio.gov)

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**Duke Energy Ohio, Inc.**  
**Capital Expenditure Program Rider**  
**Case No. 22-618-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),<sup>1</sup> on March 31, 2022, 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. 22-618-GA-RDR. On July 27, 2022, the Commission issued a final Order in Case No. 21-618-GA-RDR, and on August 9, 2022, Duke filed amended schedules in compliance with this order.<sup>2</sup>

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 July 29, 2022, the Commission adjusted the timeline for the audit.

On September 15, 2022, Blue Ridge submitted its audit report for the 2022 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. 22-618-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 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) reached \$1.50 per month.<sup>3</sup> The Commission stated in its

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<sup>1</sup> *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).

<sup>2</sup> *In the Matter of the Application of Duke Energy Ohio, Inc. For an Adjustment to the Capital Expenditure Program Rider Rate*, Case No. 21-621-GA-RDR, Opinion and Order (July 27, 2022) and *In the Matter of the Application of Duke Energy Ohio, Inc. For an Adjustment to the Capital Expenditure Program Rider Rate*, Case No. 22-621-GA-RDR, Opinion and Order at 11 (July 29, 2022).

<sup>3</sup> *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).

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 a CEP rider to recover historic and ongoing CEP costs and CEP deferrals (CEP Investment). The rates for incorporating historic CEP Investments through December 31, 2018, were set for residential customers at \$3.69 per meter per month.<sup>4</sup> The rates for recovery of CEP investments through December 31, 2021, were capped at a maximum rate of \$11.31 effective November of 2022, plus reconciliation for over and under recovery from prior years.

## **DUKE'S APPLICATION FOR CEP RIDER**

Duke filed its revised application to adjust the CEP rider rate for residential customers (Rate RS) to \$11.82 effective November 2022 for CEP investment through December 31, 2021<sup>5</sup> as Ordered by the Commission. The application included a total CEP Rider revenue requirement of \$80,873,892 to recover CEP investments through Dec. 31, 2021, which includes CEP plant additions of \$716,264,441, and retirements of \$76,515,579. The application includes total plant in service for the period of \$639,748,862; accumulated depreciation of (\$303,259,271); and total deferred expenses and total deferred taxes on expenses (depreciation, PISCC, and property tax) of \$164,439,820 net of cumulative offset for incremental revenue of \$ (29,800,306). Annualized operating expenses include depreciation, property tax expense, and regulatory assets amortization. The application also includes a revenue reconciliation adjustment of \$10,294,285.

## **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 Nos. 19-791-GA-ALT and 21-618-GA-RDR 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

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<sup>4</sup> *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).

<sup>5</sup> *In the Matter of the Application of Duke Energy Ohio, Inc., for an Adjustment to the Capital Expenditure Program Rider Rate*, Case No. 22-618-GA-RDR (CEP Audit Case), Revised Schedules, Schedule 1 (August 9, 2022).

January 1, 2021 through December 31, 2021. 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 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 \$11.82 for residential customers which includes an under recovery reconciliation. While Staff agrees with and adopts the recommendations in the Blue Ridge Report, Staff specifically highlights the following recommendations:<sup>6</sup>

1. Correcting the depreciation calculation (Adjustments #1 –3);<sup>7</sup>
2. Correcting the over amortization of intangible property (Adjustment #4);<sup>8</sup>
3. Correcting the premature reclassification of land acquired for the Norwood Station (Adjustment #5);<sup>9</sup>
4. Removing workorder that was included in error to the CEP (Adjustment #6);<sup>10</sup>
5. Correcting overpayment to contractor due to Company-caused delays (Adjustment #7);<sup>11</sup>
6. Adjusting AFUDC charges to a project (Adjustment #8);<sup>12</sup>
7. Correcting a project overstatement in the 2021 CEP (Adjustment #9);<sup>13</sup>
8. Removing items recorded as capital that should be recorded as O&M expenses (Adjustment #10);<sup>14</sup>
9. Removing CEP Eligible Assets due to rate cap (Adjustment #11);<sup>15</sup>
10. Following all general recommendations that do not have an impact on the revenue requirement (Recommendations #1 –6).<sup>16</sup>

## Financial Earnings Review

In its Opinion and Order,<sup>17</sup> the Commission directed Staff to monitor measures of profitability as part of Duke's annual filings. 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.<sup>18</sup>

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<sup>6</sup> *Plant-in-Service and Capital Expenditure Program Audit of Duke Energy Ohio, Inc. (Natural Gas)* (Blue Ridge Report), at 35, Case No. 22-618-GA-RDR (September 15, 2022).

<sup>7</sup> *CEP Audit Case*, Blue Ridge Report at 35.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 36.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 36-37.

<sup>17</sup> 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).

<sup>18</sup> Data provided by S&P Global Marketplace Intelligence for years 2019, 2020, and 2021.

	Return on Equity	Return on Capital	Return on Assets
	3-Yr Average	3-Yr Average	3-Yr Average
Median LDC Returns (National)	8.03%	4.64%	2.78%
<b>Ohio LDC Returns</b>			
Columbia Gas of Ohio, Inc.- OH	8.34%	4.29%	2.74%
Duke Energy Ohio, Inc.- OH	5.80%	3.71%	2.66%
Eastern Natural Gas Company- OH	-16.39%	-16.39%	-5.47%
Northeast Ohio Natural Gas Corp.- OH	2.96%	1.89%	1.26%
Ohio Gas Company- OH	9.35%	9.35%	7.02%
Pike Natural Gas Co- OH	-51.04%	-51.04%	-3.06%
Suburban Natural Gas Co.- OH	1.66%	1.16%	0.68%
The East Ohio Gas Company- OH	8.88%	5.39%	3.51%
Vectren Energy Delivery of Ohio, Inc.- OH	8.09%	3.96%	2.60%

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.

## Conclusion

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.

**This foregoing document was electronically filed with the Public Utilities  
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**Case No(s). 22-0618-GA-RDR**

Summary: Staff Review and Recommendation electronically filed by Ms. Nicci  
Crocker on behalf of PUCO Staff