BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Natural Gas Rates	)))	Case No. 22-507-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Form of Regulation	)))	Case No. 22-508-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc. for Tariff Approval	)))	Case No. 22-509-GA-ATA
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change Accounting Methods	)))	Case No. 22-510-GA-AAM

DUKE ENERGY OHIO, INC.'S OBJECTIONS
TO STAFF REPORT OF INVESTIGATION
AND SUMMARY OF MAJOR ISSUES

On December 21, 2022, the Rates & Analysis Department and the Service Monitoring and Enforcement Department (jointly, Staff) of the Public Utilities Commission of Ohio (the Commission) filed its Staff Report of Investigation (the Staff Report) in the above proceedings. Pursuant to R.C. 4909.19, O.A.C. 4901:1-28, and the Attorney Examiner's Entry dated December 22, 2022, Duke Energy Ohio, Inc. (Duke Energy Ohio or the Company) submits the following Objections to the Staff Report (Objections) and summary of major issues in which the Company specifically identifies areas of controversy with respect to findings, conclusions, or recommendations contained in the Staff Report. Duke Energy Ohio reserves the right to supplement or modify these Objections in the event Staff makes additional findings, conclusions, or recommendations or otherwise modifies its position with respect to any finding, conclusion, or recommendation contained in the Staff Report. The Company further reserves the right to contest issues that are newly raised between the filing of the Staff Report and the closing of the record in these proceedings.

OBJECTIONS TO THE STAFF REPORT

REVENUE REQUIREMENT

(1) Amount of Staff's Proposed Revenue Requirement. Duke Energy Ohio objects to Staff's recommendation to reduce Duke Energy Ohio's requested revenue increase to a range of $23,662,353 to $36,434,162, or an increase of 4.73 percent to 7.28 percent, over test year operating revenue. Staff's proposed revenue increase understates the magnitude of the revenue requirement to which Duke Energy Ohio is entitled and that Duke Energy Ohio supported through its Standard Filing Requirements. As more specifically described in the following objections, Staff's recommended reductions in the Company's requested increase result from a number of unreasonable, unlawful, and erroneous adjustments that would yield rates that are insufficient to provide Duke Energy Ohio with just compensation or an opportunity to earn an adequate return for providing safe, necessary, adequate, and reliable natural gas utility service to its customers.

RATE BASE

(2) Plant-In-Service – Fitness Centers. Duke Energy Ohio objects to Staff's removal of $4,077,203 from Gross Plant-in-Service associated with fitness centers and locker rooms located at the Kellogg Training Center and five Operations Service Centers. Contrary to Staff's assertions, costs associated with these fitness centers are both necessary and used and useful in providing reliable natural gas distribution service to customers, as they provide a health benefit to and promote the wellbeing of the Company's employees, which in turn allows those employees to continue to provide safe and reliable natural gas service to customers. These centers also allow the

Company to attract and retain talented employees and leaders, which contributes further to the Company's continued provision of safe and reliable utility service.

Additionally, locker rooms at training and operations centers have important uses related to the provision of natural gas service that are separate from the fitness centers themselves. For instance, Company operations staff use locker rooms at these facilities to prepare for field work and to follow proper hygiene maintenance protocols after completing field work, which is directly related to the Company's provision of natural gas distribution service to customers. These facilities are therefore necessary, used, and useful to the Company's provision of natural gas utility service.

Duke Energy Ohio also objects to the extent that Staff's removal of $4,077,203 from Gross Plant-in-Service doubly removes costs associated with the fitness centers based on Staff's transactional testing. Staff notes that $3,665,456 of the $4,077,203 adjustment represents allocated building costs as calculated by the Company in its response to Staff Data Request 107, and that the remainder is related to costs Staff sampled during its transactional testing of Plant-in-Service. However, the Company's response to Staff Data Request 107 was intended to encompass *all* allocated building costs associated with the fitness facilities, which means that Staff's additional adjustments based on its own testing double count a number of associated costs. Accordingly, even if an adjustment to remove fitness center costs from Plant-in-Service were appropriate, which the Company holds it is not, Staff's additional adjustments based on transactional testing are excessive, improper, and doubly deprive the Company of a portion of its rate base.

(3) **<u>Plant-In-Service – Capitalized Incentive Compensation</u>.** Duke Energy Ohio objects to Staff's recommendation that capitalized incentive compensation attributable to financial performance metrics be removed from rate base. Staff provides no justification for its recommendation, and it is not supported by the record in this case or mandated by precedent. The

Company's compensation policy and associated employee incentives reflect the appropriate cost of providing fair, reasonable, market-competitive compensation to Company employees and are not more than necessary to attract and retain the Company's workforce. These incentives and costs are appropriately included within capital assets per generally accepted accounting principles (GAAP) and the Company's capitalization guidelines. These costs were therefore recorded to plant additions appropriately. In the Company's last rate case, the rate base reviewed by Staff and approved by the Commission included capitalized incentives which were based on financial performance. Since that case, the Company has filed, Staff has supported, and the Commission has approved inclusion of capitalized incentives in rate base in multiple Capital Expenditure Program rider (Rider CEP) filings on behalf of the Company.[1]

(4) **Depreciation Accrual Rates and Depreciation Expense – Depreciation Study.** Duke Energy Ohio objects to the adjustment of the depreciation reserve and depreciation expense to the extent it also objects to the Staff Report regarding Plant in Service, as noted earlier in these Objections.

Duke Energy Ohio also objects to the recommendation in the Staff Report that the Company conduct and submit a depreciation study within the next five years or upon the filing of its next natural gas base rate case, whichever occurs first. Depreciation studies are inappropriate outside of a rate case. Further, Staff makes no recommendation as to how new depreciation rates based on a depreciation study outside of a rate case will be updated in customer rates when the

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[1] *See e.g., In re 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 32, (Apr. 21, 2021) (referencing Staff's Brief which noted that "inclusion of such incentives in capital assets is consistent with GAAP as well as the Commission's precedent with respect to natural gas base rates and CEP riders for other natural gas companies"). *See also In re: The Annual Application of Duke Energy Ohio, Inc, for an Adjustment to the Capital Expenditure Program Rider Rate,* Case No. 21-618-GA-RDR, Opinion and Order at 28–33, (Jul. 27, 2022) (rejecting OCC and IGS's arguments that capitalized incentives should not be included and finding: "Explicit in the Commission's order is the understanding that these financial performance incentives would continue to be capitalized in Rider CEP.")

depreciation study is complete; nor does Staff indicate how the costs of such a depreciation study will be recovered. Because the Company cannot predict whether it will file another rate case in the next five years, a depreciation study should not be required as a matter of course, particularly absent a mechanism to ensure that any adjustments to depreciation expense and recovery of the costs of such a study can be properly effectuated. Further, a review of depreciation-related expense between rate cases would focus on a single component of rates to the exclusion of all other costs of providing utility service. For all these reasons, singular review of depreciation-related expense would be inappropriate.

OPERATING INCOME

(5) Annualize Test Year Wages, Payroll Taxes, and Pension and Benefits, Schedule C-3.4. Duke Energy Ohio objects to several adjustments in the Staff Report related to annualizing test year wages and other expenses, as described in further detail below.

a. Annualized Operations and Maintenance (O&M) Wage Expense. Duke Energy Ohio objects to Staff's adjustment to test year operating income related to O&M wage expense, resulting in a reduction to annualized wages of $2,115,858. Staff unfairly cherry-picks labor as the only expense to update based on actual 2022 data, ignoring other cost categories that may have been more than the test year forecast. Furthermore, Staff did not apply a percentage increase to non-union labor. Staff applies an increase to union labor of 2.5% but ignores the 3.5% that should have been applied to non-union labor for the November and December 2021 months. The Company applied for and supported the test year (3 months actual and 9 months budget) for all cost categories. Staff's recommendation is also arbitrary in that it uses a timeframe of October 2021 through November 2022. If the Commission does not use the test year, as supported by the application, then labor, at the very least, should be based on January 2022 through December 2022, the test year in this proceeding. If the Commission does not use actuals based on January 2022 through December 2022, and instead adopts Staff's methodology of using a period outside of the test year, a 3.5% increase should be applied to the November and December 2021 months. Duke Energy Ohio also objects to adjusting the payroll taxes associated with the disputed labor adjustments. Any changes to labor should also include the corresponding change to payroll taxes.

b. **O&M Incentive Compensation.** Duke Energy Ohio objects to Staff's adjustment to remove $2,397,808 in certain incentive compensation based on financial metrics such as earnings per share, advertising for new business, and limited availability to a few highly compensated individuals. Staff also incorrectly categorizes stock-based compensation as being associated with financial metrics. Staff provides no substantive support or justification for removing these legitimate costs of providing natural gas service to customers and ignores the importance of these incentives as a component of the Company's overall compensation. The Company's short-term and long-term incentive compensation is necessary to provide market-based compensation to Duke Energy Ohio employees, including those at the highest level of the Company, who are working on behalf of customers. These costs are part of a prudent overall compensation policy that benefits customers by enabling the Company to attract, retain, and motivate the employees needed to efficiently and effectively provide natural gas service to customers. Staff also errs in proposing to reduce the Company's recovery of certain stock-based compensation on the grounds that they are related to financial metrics. First, the issuance of restricted stock units (RSUs) to employees has nothing to do with the financial results of the Company. The RSUs, which vest over a three-year period, are part of a total compensation package designed to attract and retain highly talented leaders, with the RSU portion of their compensation package issued in a currency of stock instead of cash. The extent to which RSUs vest depends on continued employment and not achievement of a financial metric. Performance shares are also part of a market-competitive total compensation package. Eligible employees must generally continue their employment with Duke Energy for a three-year period to earn a payout and the number of performance shares that participants ultimately earn is tied to Duke Energy's long-term performance. Second, while 75 percent of performance shares are based on financial metrics (50 percent to earnings per share and 25 percent to total shareholder return), Staff provides no substantive support or justification for removing these legitimate costs. Third, 25 percent of performance shares are based on a safety goal related to Total Incident Case Rate, or TICR, which measures the number of occupational injuries and illnesses per 100 employees, including staff augmentation workers. Finally, Staff eliminated 100 percent of the cost of incentives recorded as "Exec Short Term Incent." Executives participate in the same short-term incentive (STI) plan as other employees, with slight differences in how metrics are allocated. For example, executives have 20 percent of their STI allocated to individual performance metrics versus team metrics. As with other incentive pay, the executive STI is an important part of the total compensation package for executives, and Staff does not provide support for its exclusion.

The Staff Report's recommendation to remove certain incentive compensation based on "advertising for new business" appears to be referring to the portion of an employee's STI related to the Company's customer satisfaction goal (CSAT). This measure has nothing to do with advertising for new business. The CSAT metric measures the degree to which customers have a favorable perception of a given product or service provided by the Company and is included in the incentive program to keep customers central to all that the Company does. Like all other incentive compensation, this component is part of a prudent overall compensation policy that benefits customers. The costs should not be removed from the Company's costs to serve

c. **Pension and Executive Benefits.** Duke Energy Ohio further objects to Staff's adjustment to test year operating income. Staff recommends that the Company's original proforma reduction of $583,307 should be a reduction of $1,342,122. Staff's adjustment includes a reduction of $583,072 in pension and benefit expense and a reduction of $175,743 to remove Executive Benefits, including the Company's Supplemental Executive Retirement Plan (SERP), as well as other services.

Staff's adjustment to pension and benefits was based on the wage expense adjustment the Company has objected to previously. Staff then applied updated ratios for Duke Energy Ohio, Duke Energy Business Services, and Duke Other business units. This adjustment should be rejected for the same reason that the Company objects to the wage adjustment.

Staff's comment that SERP is a form of nonqualified retirement plan specific to highly compensated individuals does not state any reason for excluding a legitimate and appropriate benefit provided to Company employees (highly compensated or otherwise), particularly as part of an overall prudent rewards package necessary to attract and retain individuals supporting the provision of natural gas service to customers. Staff's exclusion of this benefit from test year operating income is therefore unjustified.

(6) **Annualized Depreciation Expense, Schedule C-3.5.** Duke Energy Ohio objects to Staff's adjustment to depreciation expense for the reasons set forth in Objections (2), (3), and (4) above. The Company incorporates the objection narratives provided in Objections (2), (3), and (4) above as fully set forth herein.

(7) **Property Tax Expense, Schedule C-3.8.** Duke Energy Ohio objects to Staff's adjustment to test year expense based on property taxes on Plant-in-Service as of March 31, 2022, to the extent it also objects to the Staff Report regarding Plant-in-Service, as noted earlier in these Objections. The Company incorporates the objection narratives provided in Objections (2) and (3) above as fully set forth herein.

(8) **Interest Expense Deductible, Schedule C-3.10.** Duke Energy Ohio objects to Staff's adjustment to the interest expense deductible to the extent it also objects to the Staff Report regarding adjustments to Rate Base, as noted earlier in these Objections. The Company incorporates the objection narratives provided in Objections (2), (3), and (4) above as if fully set forth herein.

(9) **Public Service Advertising & Customer Education, Schedule C-3.26.** Duke Energy Ohio objects to Staff's removal of expenses related to public service advertising and customer education from operating expenses. Staff provides no explanation for eliminating these expenses from operating expenses, which will in turn deprive customers of the benefits of the program. Customers expect and deserve to be informed about the Company's efforts to improve reliability, public safety, and the customer experience. Effective customer communication is the only way to provide the necessary and relevant information that customers want and need about their natural gas service, and the additional $245,500 is a necessary expense related to performing this work.

(10) Miscellaneous Expenses, Schedule C-3.18. Duke Energy Ohio objects to Staff's removal of $19,770 from test year expenses. First, Staff's adjustment double-counts $17,116.92 of expenses already removed by the Company in a pro forma.[2] At minimum, the adjustment should not include these expenses. Regardless, the majority of the adjustment is unreasonable. Staff suggests removal of "costs that were not appropriate to include for ratemaking purposes." Duke Energy Ohio objects to Staff's disallowance of out of period expenses of $17,795. Staff makes an asymmetrical assumption that certain expenses incurred before the beginning of the test period but paid in the test period cannot be included in the Company's operating income, but did not make a corresponding adjustment to include expenses incurred in the test period but not paid by the end of the actual portion of the test period (March 2022). Removing these expenses from the test year in this asymmetrical and flawed manner unreasonably reduces the revenue requirement. Duke Energy Ohio does not object, however, to $1,874 of the adjustment recommended by Staff.

(11) Integrity Management Program, Schedule C-3.22. Duke Energy Ohio objects to Staff's adjustment to remove $41,061 of the amortized balance of the Integrity Management Program deferral to the extent that this adjustment is applied to the amortization rather than the deferral. Misapplying this adjustment to the amortization instead of only the deferred expenses overstates the appropriate revenue requirement reduction.

(12) Customer Connect Amortization, Schedule C-3.24. Duke Energy Ohio objects to Staff's removal of $2,549,825 from test year operating expenses related to deferred Customer Connect development expenses. Customer Connect is the new customer billing system that the Company recently implemented, and Staff suggests that the Company should not recover its

[2] $17,016.92 of these expenses are reflected in the $123,694 value located in Line 3 of WPC-3.19a. The remaining $100 was included in the $331,078 Miscellaneous Advertising Expense that was removed as part of the pro forma in Schedule C-3.14.

expenses related to Customer Connect in this proceeding simply because the Commission has not yet issued an order on deferred accounting in a separate case that is currently pending.[3] But the Company has appropriately requested deferred accounting, and these deferred expenses can be approved for recovery in this case or the separate proceeding. Further, these costs were properly included in test year operating expenses because the system is in-service and assisting the Company in providing safe and reliable utility service. Staff has recommended that the Commission grant the deferral authority requested in Case No. 19-1751-GE-AAM.[4] Additionally, if the Company is not allowed to recover deferred expenses related to the natural gas O&M expenses associated with the Customer Connect implementation, which total $12,749,123, until it receives an order in the separate case cited above, the Company will not be able to seek recovery of these natural gas O&M expenses until the Company's next natural gas base rate case. Because the Company is not accruing carrying costs, this will result in a significant drag on the Company's earnings compared to allowing the Company to recover these necessary and reasonable expenses in this case. The Company should therefore be timely compensated for its Customer Connect deferral in test year operating expenses, and the amortized amounts are properly included in this case.

(13) Miscellaneous Flow-Through Model Adjustments. In addition to the adjustments mentioned above, Duke Energy Ohio further objects to the effect of these adjustments as they impact and flow through the revenue requirement model used by Staff. Each of the aforementioned adjustments directly impacts other expenses in the model, including pensions and benefits, payroll taxes, jurisdictional federal and state income taxes, and various income and other

[3] *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of Certain Accounting Methods*, Case No. 19-1751-GE-AAM.
[4] *Id.*, Staff Review and Recommendation, pg. 14 (April 15, 2020).

tax calculations. Adjustments made and corrected must be carried through the revenue requirement models in a proper manner to accurately reflect the Company's operating expenses and ultimate revenue requirement.

RATE OF RETURN

(14) Return on Equity (ROE). Duke Energy Ohio objects to the rate of return on common equity range proposed by Staff of 9.03 percent to 10.04 percent, and the cost of capital of 9.41 percent or total cost of equity estimate of 9.54 percent, on the grounds that they are unreasonably low due to the issues identified in the objections below. Staff's methodology is flawed, uses an arbitrary mix of data, and arbitrarily fails to use methods that were determined to be acceptable in other recent Commission proceedings. As a result, the outcome is not reasonable given the overall marketplace (*e.g.*, interest rates, inflation, and treasury yields). Staff's proposed ROE would also fail to properly compensate Duke Energy Ohio for its investments on behalf of its customers.

a. Proxy Group Composition. Duke Energy Ohio objects to the proxy group used in the Staff Report because several of the proxy companies are not comparable to Duke Energy Ohio's natural gas operations. While six of Staff's proxy companies are predominantly engaged in natural gas utility operations,[5] the remaining five are primarily engaged in electric utility and unregulated operations.[6] Further, of those five electric companies, two were engaged in significant transactions that overlap with Staff's Discounted Cash Flow (DCF) analysis, which includes market data from October 1, 2021, through September 30, 2022. For example, on October 21, 2020, Avangrid, Inc. agreed to

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[5] Atmos Energy Corporation, NiSource Inc., New Jersey Resources Corporation, Northwest Natural Holding Company, ONE Gas, Inc., and Spire Inc.

[6] Avangrid, Inc., Avista Corporation, Black Hills Corporation, CMS Energy Corporation, and CenterPoint Energy, Inc.

acquire PNM Resources, Inc., and that transaction has yet to close. Additionally, CenterPoint Energy, Inc. sold its Arkansas and Oklahoma gas distribution assets to Summit Utilities Inc. This transaction was announced April 29, 2021 and was completed on January 10, 2022. Companies like Avangrid, Inc. and CenterPoint Energy, Inc. that are subject to significant or transformative transactions during the analysis period should be excluded from the proxy group because such transactions can influence stock prices, and that influence may not solely reflect the ongoing utility operations of these companies. These companies are therefore not comparable to Duke Energy Ohio and its natural gas operations, which underwent no significant or transformative transactions during the test period.

b. Lack of a Comparable Earnings Analysis. Duke Energy Ohio objects to Staff's sole reliance on the DCF model and Capital Asset Pricing Model (CAPM). In prior cases,[7] Staff has relied upon the DCF model, CAPM approach, *and* a Comparable Earnings review (CE Review). In this case, Staff has only relied on the DCF and CAPM approaches and has not conducted a CE Review. In doing so, Staff calculated a reduced ROE range of 9.03 percent to 10.04 percent. In contrast, Duke Energy Ohio has relied on the DCF, CAPM, Risk Premium, and Expected Earnings (a CE Review approach) analyses in developing its ROE recommendation, which includes a Company-specific ROE range of 9.21 percent to 11.12 percent, with the recommended ROE for the Company at 10.30 percent. By failing to conduct a CE Review, Staff has excluded an analysis that would shed light on the appropriate ROE for the Company given certain financial performance metrics

[7] *In the Matter of the Application of Aqua Ohio, Inc. to Increase its Rates and Charges for Its Waterworks Service*, Case No. 21-0595-WW-AIR; *In the Matter of the Application of Aqua Ohio Wastewater, Inc. to Increase its Rates and Charges for Its Wastewater Service*, Case No. 21-0596-ST-AIR.

of a risk-comparable group of companies. At a minimum, Staff should include some form of a CE Review approach in its analysis, as the inclusion of a CE Review approach would provide a fuller analysis of ROE and support the Company's proposed ROE.

c. **CAPM Equity Risk Premium (ERP).** Duke Energy Ohio objects to Staff's estimate of the ERP. Staff relies on the average of two historical measures the of ERP—one using the entire historical period of 1926–2021, and one using a subset of limited to periods before, during, and after economic downturns (Downturn ERP). This approach is flawed for two reasons. First, the ERP is intended to be a forward-looking estimate of investors' required returns, but Staff relies exclusively on *historical* data. Second, Staff's reliance on an estimate of the Downturn ERP is arbitrary and inconsistent with expectations. The periods before, during, and after economic downturns are when investor uncertainty, and therefore risk, is at its highest. Yet the Downturn ERP used in the Staff Report is significantly lower than the broader historical average, which implies that investors would expect a lower risk premium during periods of increased uncertainty. This assumption is inherently flawed. As such, the Downturn ERP should be disregarded entirely.

d. **CAPM Risk-Free Rate.** Duke Energy Ohio objects to Staff's sole reliance on historical data in its estimate of the risk-free rate component of CAPM. CAPM is intended to rely on investors' expectations. As such, projections of the 30-year Treasury yield are an important consideration for investors' expectations of interest rates. The need to account for investors' expectations with regard to interest rates is reinforced by the historic level of interest rate increases by the Federal Reserve in 2022. As such, projections for interest rates—and not solely historical data—should be included in Staff's estimate of the risk-free rate.

e. **DCF Methodology.** Duke Energy Ohio objects to Staff's reliance on an alternative Value Line, Inc. (Value Line) growth earnings estimate that deviates from Value Line's published growth rates "shown in the boxed area of investor sheets." As described by Value Line, "[i]n an attempt to eliminate short-term fluctuations that may distort results, Value Line uses a three-year base period and a three-year ending period when calculating growth rates."[8] Staff's alternative calculation relies on the rate of change from a projected 2023 estimate to a projected 2025–2027 estimate. There is no reason to deviate from Value Line's published growth rate, as there is no evidence that investors rely on alternative calculations based on Value Line data that conflict with Value Line's published estimates. Further, Staff's calculation is flawed because it fails to reflect that the 2025–2027 estimate represents a three-year average value. As a result, Staff's calculation of growth erroneously understates the estimated growth over the estimated period.

RATES AND TARIFFS

(15) **Tariff Analysis – Definition of "Mercantile Customer" PUCO Gas No. 18, Sheet No. 44.13 and Addendum Sheet No. 4 Page 1 of 12.** Duke Energy Ohio objects to Staff's recommendation that the Company needs to conform its tariff's definition of "mercantile customer" to Ohio Revised Code (R.C.) 4929.01. The Company objects to this recommendation because the Company's definition already conforms to that section. R.C. 4929.01(L)(1) states, in relevant part, that "'[m]ercantile customer' means a customer that consumes, other than for residential use, more than five hundred thousand cubic feet of natural gas per year." The Company,

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[8] Value Line Publishing, Inc., *How to Invest in Common Stocks: The Complete Guide to Using the Value Line Investment Survey*, 14.

in turn, defines a "mercantile customer" according to "division (L) of section 4929.01 of the Ohio Revised Code," and summarizes that definition as a "customer that . . . consumes, other than for residential use, more than [five thousand] CCF of natural gas per year."[9] One CCF equals one hundred cubic feet; thus, five thousand CCF equals five hundred thousand cubic feet. Therefore, the Company's tariff is consistent with R.C. 4929.01, and no changes are necessary.

(16) **<u>Uncollectible Expense Rider (Rider UE-G) PUCO Gas No. 18, Sheet No. 67.12 – Convenience Fees</u>.** Duke Energy Ohio objects to the recommendation in the Staff Report that residential customers continue to be directly charged convenience fees for using credit and debit cards. Convenience fees are charged by the third-party processing companies each time a customer pays its bill using a credit card, and these individual customer fees are one of the top frustrations expressed by customers regarding bill payment and utility customer service. Charging individual customers such fees directly for using credit and debit cards to pay their utility bills, as opposed to including fee amounts in Rider UE-G as was proposed in the Company's filing, creates a customer payment experience different from virtually all other products or services that consumers purchase every day. Further, the cost of allowing credit or debit card payment of utility bills should be treated as a cost of serving customers and recovered through rate mechanisms, to allow access to all residential customers—not just those who are able and willing to pay the incremental processing charge. Removing a barrier to paying by credit or debit card may also make it easier for customers to pay their utility bills on time, which benefits customers. The Company's proposal to include these costs in Rider UE-G, its uncollectible expense rider, is therefore reasonable and should be approved.

[9] Duke Energy Ohio Application, Vol. 2, Schedule E-2, Rate FRAS, P.U.C.O. Gas No. 18, Sheet No. 44.13, pg. 3 of 24 (June 30, 2022).

(17) **<u>Charge for Reconnection of Service PUCO Gas No. 18, Sheet No. 82.5</u>.** Duke Energy Ohio objects to Staff's recommended addition of "unless the customer has a meter that can be read remotely" to part B of the Company's reconnection charge tariff. The tariff indicates that the Company will use a "soft close" process for certain customers with a meter that can be read remotely who desire to disconnect their service on a seasonal basis. A customer who has a meter that can be read remotely may still choose to be physically disconnected rather than take advantage of the soft close option. In this instance, the additional language would result in the customer not having to pay the reconnection charge even if the customer was physically disconnected and reconnected, simply by virtue of the customer having a meter that can be read remotely. This is an unfair result that inappropriately and arbitrarily favors certain customers over others. To address this issue, the Company proposes removal of Staff's proposed language in part B and changing the first sentence of part B to read: "For gas service which has been <u>physically</u> disconnected . . . ." Duke Energy Ohio also objects to Staff's recommended reduced reconnection charge, as noted in further detail below.

(18) **<u>Miscellaneous Charges – Charge for Reconnection Service, Sheet No. 82</u>.** Duke Energy Ohio objects to Staff's recommended reconnection charge of $60, reduced from the Company's proposed reconnection charge of $100. Staff recommended the reduced reconnection charge based on an "industry benchmark" calculated using the reconnection charges of three other natural gas utilities. This methodology is inherently flawed for several reasons. First, this methodology fails to consider the only thing that matters in calculating the Company's reconnection charge—that is, *the Company's actual costs* related to reconnection. The Company's proposed $100 reconnection charge was calculated based on actual cost data, and Staff has indicated no objection to this calculation methodology. In fact, on the same page of the Staff Report where Staff recommends the reduced $60 charge, Staff states that "Staff believes the provisions and resulting [miscellaneous] charges [of which the reconnection charge is one] should reflect the actual cost(s) incurred by the Applicant."[10] Averaging other gas utilities' reconnection charges to arrive at Staff's proposed reconnection charge wholly ignores the Company's actual costs, which the Company analyzed and provided.

Even if use of other utilities' reconnection charges were relevant in calculating the Company's appropriate reconnection charge, the reconnection charges averaged by Staff were calculated nearly fifteen years ago: Columbia Gas of Ohio, Inc.'s $52 charge was set in its 2008 rate case,[11] while both The East Ohio Gas Company d/b/a Dominion East Ohio and Vectren Energy Delivery of Ohio, Inc. had their $60 reconnection charges set in their respective 2007 rate cases.[12] This data is stale and merely reflects the reconnection charges set by other utilities based on their stated costs some fifteen years ago. Costs associated with reconnection have increased since that time, and Staff's use of this data fails to acknowledge that. Further, Staff's proposal here is a slippery slope: basing the Company's reconnection charge on the charges of other Ohio utilities—and applying this methodology to all other utilities' rate cases going forward—will create a cycle where no Ohio utility will ever be able to charge more than $60 for reconnection, regardless of each utility's actual costs of reconnection. This approach is circular and creates a further

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[10] Staff Report, pg. 27 (Dec. 21, 2022).

[11] *See In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Amend Filed Tariffs to Increase the Rates and Charges for Gas Distribution Service, et al.*, Case No. 08-0072-GA-AIR, Staff Report at 14 (Aug. 21, 2008) (recommending reconnection charge of $51.90) and Joint Stipulation and Recommendation at 4 (Oct. 24, 2008) (accepting the Staff Report recommendation).

[12] *See In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for its Gas Distribution Service, et al.*, Case No. 07-0829-GA-AIR, Application, Vol. 2, Schedule E-1 at 10, 17 (Aug. 30, 2007); *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. For Authority to Amend its filed Tariffs to Increase the Rates and charges for Gas Service and Related Matters, et al.*, Case No. 07-1080-GA-AIR, Application, P.U.C.O. No. 3, Sheet No. 30 at 1 (Nov. 20, 2007).

disconnect from actual cost. The Company therefore objects to Staff's use of other utilities' data and charges at all, much less data as outdated as that cited by Staff.

(19) **<u>Collection Charge (Field Visit), Sheet No. 82</u>.** Duke Energy Ohio objects to Staff's recommended field collection charge of $30, reduced from the Company's proposed field collection charge of $50, to the extent this value was calculated using the data and methodology used to calculate Staff's proposed reconnection charge of $60. As noted above, Staff inappropriately calculated the reconnection charge by averaging other utilities' reconnection charges set nearly fifteen years ago. Because the field collection charge is derived from the reconnection charge, the same errors Staff made in calculating the reconnection charge apply here.

<u>ALTERNATIVE RATE PLAN</u>

(20) **<u>Capital Expenditure Program Rider (Rider CEP) Caps</u>.** Duke Energy Ohio objects to Staff's proposed Rider CEP cap of a residential bill increase of $1.50 per year for the next five years. The Company continues to support its proposed caps on the residential Rider CEP, which are (1) a residential bill increase of up to $3 per year for the first nine months of investments made in 2022 and (2) a residential bill increase of up to $5 over the prior year's residential Rider CEP's rate for future years. These proposed caps were calculated using Company-specific data from its five-year forecast, which was then used to calculate the Company's estimated annual Rider CEP revenue requirement and total annual revenue requirement. Basing the caps on the Company's planned level of required investments supports the Company's ongoing investments and reduces the need to more frequently file rate cases, as rider proceedings and filings provide adequate consumer safeguards while limiting proceeding expenses compared to rate cases. Staff has not expressed any dissatisfaction with or objection to the Company's methodology or reasoning applied to its Rider CEP caps. The Company's proposed caps are based on the

Company's reasonable approximation of its ongoing and upcoming capital expenditures and revenue requirement, and Staff has provided no reasoning indicating otherwise.

Duke Energy Ohio also objects to Staff's recommendation to tie this rider to filing a base rate case in five years. Ohio law permits a natural gas company to implement a capital expenditure program by filing an application for approval of an alternative rate plan. If filing a base rate case every five years is Staff's ongoing recommendation each time the Company proposes to extend its CEP Rider, it will continuously require the company to file rate cases every five years to avoid losing the CEP Rider. In addition to this matter, Staff's recommendation fails to consider that there are other factors that could and should influence whether a utility would file a rate case (*e.g.*, pandemic, economic downturn, etc.).

SUMMARY OF MAJOR ISSUES

Duke Energy Ohio objects to the Staff Report in several areas related to the Company's revenue requirement, rates, charges and fees, and operational matters. Overall, Staff's proposed revenue increase in the range of $23,662,353 to $36,434,162, an increase of 4.73 percent to 7.28 percent over test year operating revenue, understates the magnitude of the revenue requirement to which the Company is entitled. The major issues and sub-issues to which the Company objects are summarized below, without limitation:

(1) Staff's overall recommendation with respect to the amount of Duke Energy Ohio's revenue increase.

(2) Staff's valuation of Duke Energy Ohio's rate base and used and useful assets for providing retail natural gas distribution service to customers, including but not limited to Staff's calculations of and adjustments to Plant-in-Service (including various fitness centers and locker room facilities and capitalized incentive compensation); and the recommendation that the Company perform a depreciation study within five years.

(3) Staff's adjustments to the operating expenses allowed for ratemaking purposes, including but not limited to test year wages, payroll taxes, and pension and benefits; public service advertising and customer education; miscellaneous expenses; the Integrity Management Program deferral; and deferred Customer Connect development expenses.

(4) Staff's recommended ROE to be used in determining the Company's allowable rate of return on rate base.

(5) Staff's rates and tariffs analysis, including but not limited to recommended adjustments pertaining to Rider UE-G and convenience fees, the reconnection charge, and the field collection charge.

(6) Staff's recommendations related to Rider CEP caps.

Dated: January 20, 2022

Respectfully submitted,
DUKE ENERGY OHIO, INC.

<u>/s/ Rocco O. D'Ascenzo</u>

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CERTIFICATE OF SERVICE

The Public Utilities Commission of Ohio's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket card who have electronically subscribed to the case. In addition, the undersigned hereby certifies that a copy of the foregoing document is also being served via electronic mail on the 20th day of January, 2023, upon the persons listed below.

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