Case No. 23-0618-GA-RDR

Audit of the Plant-in-Service and Capital Expenditure Program of Duke Energy Ohio, Inc. (Natural Gas)

August 15, 2023

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TABLE OF CONTENTS

Tables

Figures

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ORGANIZATION OF BLUE RIDGE'S REPORT

Blue Ridge Consulting Services, Inc. ("Blue Ridge"), the auditor selected for the review of the 2022 Capital Expenditure Program (CEP) rider of Duke Energy Ohio, Inc.—Natural Gas ("Duke" or "Company"), organized this report of its audit activity and conclusions according to the following major sections:

- *Executive Summary*: This section provides a summary of Blue Ridge's observations, findings, conclusions, and recommendations, which are presented in more detail in the body of the report.
- *Overview of Investigation*: This section explains the following elements used in Blue Ridge's analysis: background; project purpose; project scope; audit standard; materiality; information reviewed; interviews; field observations; policies and practices; and a brief summary of the variance analyses, transactional testing, and other analyses.
- *Status of Case No. 22-618-GA-RDR Recommendations*
- *Project Requirements and Related Summary Conclusions*: This section presents the requirements of the audit as identified in the Request for Proposal for this project and specifies Blue Ridge's summary conclusions regarding those requirements.
- *Detailed Analysis, Findings, and Recommendations*: This section documents Blue Ridge's analyses for those elements that require more detailed discussion than afforded in the summary conclusions section. These details lay out the paths that led to our observations, findings, and recommendations regarding the plant-in-service balances and expenditures of the CEP. In several instances, Blue Ridge used information in this report obtained from prior CEP audits. We labeled such information to identify the source and provided the data within the workpapers supporting this report.
- *Appendices*: The appendices include information reviewed and workpapers that support recommended adjustments.

EXECUTIVE SUMMARY

Since September 2011, Section 4929.111 of the Ohio Revised Code has permitted natural gas companies to apply to the Public Utilities Commission of Ohio ("Commission") for approval of a Capital Expenditure Program (CEP) for investment related to infrastructure expansion, improvement, or replacement; programs to install, upgrade, or replace technology systems; or programs to comply with government rules and regulations.

In Case Nos. 13-2417-GA-UNC and 13-2418-GA-AAM, Duke Energy Ohio, Inc.—Natural Gas ("Duke" or "Company") sought and was granted authority to create a capital expenditure program (CEP) and to begin deferring the related Post-In-Service Carrying Costs (PISCC) and depreciation and property tax expenses (the "CEP Deferral") for capital investments that were not part of its accelerated infrastructure replacement program (IRP). The Commission authorized the CEP Deferral for the period January 1, 2013, and beyond, up to the point where the deferred amount would exceed $1.50 per month for residential customers if it were included in customer rates. The Commission also restated its determination that it would consider the prudence, reasonableness, and magnitude of the CEP Deferral and capital expenditures when the Company applied for recovery.

In the 2019 CEP Alt Reg. Case, Duke sought and was granted authority to incorporate into rates all assets since date certain of the prior rate case, including all CEP assets from January 1, 2013, through December 31, 2018. Simultaneously, the Company sought and was granted, in Opinion and Order dated April 21, 2021, in Case No. 19-791-GA-ALT, authority to establish a CEP Rider and authority to recover deferrals (as authorized in Case Nos. 13-2417-GA-UNC et al.) and the underlying assets for CEP investment from 2013 through 2018. The Company was also authorized to adjust the CEP Rider rate each year to collect from customers the prior calendar year's CEP expenditures and related deferrals.

In February 2023, the Commission issued a request for proposal seeking bids to conduct a two-part audit of Duke's non-IRP plant in service with a focus on CEP assets. Blue Ridge Consulting Services, Inc. ("Blue Ridge") was awarded the audit. In accordance with the purpose outlined in the RFP, in the first part of the audit, Blue Ridge reviewed, to determine whether it could attest to, the accounting accuracy and used and useful nature of Duke's capital expenditures and corresponding depreciation reserve for the period January 1, 2022, through December 31, 2022; in the second part, Blue Ridge simultaneously assessed and formed an opinion on the necessity, reasonableness, and prudence of Duke's capital expenditures and related assets, with an emphasis on the CEP expenditures and assets, from January 1, 2022, through December 31, 2022.

Part 1 Plant-in-Service Balances

For the first part of the audit, Blue Ridge 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 for the period January 1, 2022, through December 31, 2022. Blue Ridge reviewed both total Company plant in service and that recovered through the CEP mechanism. We performed our review through variance analysis, transactional testing, field observations, and analysis of the Company-provided schedules.

Blue Ridge identified several work orders that contained expense-related items totaling $151,188 that should not be capitalized. The amounts are not reflected in the CEP revenue requirements. The Company did not include work orders that occurred after the CEP cap was met in February 2022. While these amounts are not reflected in the CEP in this proceeding, unless removed, they will be reflected in plant-in-service balances used in future filings. Blue Ridge's analysis results in the following recommended revisions to the Company total gas and CEP net plant-in-service balance.

Table 1: Total Gas Net Plant-in-Service Recommended Balance

Description	As Report 12/31/22	Total Plant Adjustments 2022	Adjusted 12/31/22
Total Plant-in-Service	$3,128,255,011	$ (151,188)	$3,128,103,823
Reserve for Depreciation	819,154,342	-	819,154,342
Net Plant	$2,309,100,669	$ (151,188)	$2,308,949,481

As Reported Source: FERC Form 2 pp 204, 219

Table 2: CEP Net Plant-in-Service Recommended Balance

Description	As Report 12/31/22	Total Plant Adjustments 2022	Adjusted 12/31/22
CEP Plant-In-Service	$ 669,533,002	$ -	$ 669,533,002
Accumulated Provisions for Depreciation	(357,587,880)	-	(357,587,880)
Net CEP Plant-In-Service	$ 311,945,122	$ -	$ 311,945,122

The Company uses PowerPlan for its plant accounting records. The system has the ability to provide detailed information by account, activity, and amount for all work orders, including blankets, down to the unit level. Through our analysis, Blue Ridge found that the Company was able to provide accurate and complete continuing property records to support its plant-in-service balances.

Based upon the descriptions of the scope provided, the work does appear to be attributed to Duke.

By the desktop inspections conducted, Blue Ridge determined that the assets were used and useful and provide benefit to the ratepayer. The assets did not appear over built. Company personnel were knowledgeable about the projects.

Part 2 Capital Expenditures Prudence Audit

For the second part of the audit, Blue Ridge purposed, as the RFP instructed, "to simultaneously assess and form an opinion on the necessity, reasonableness, and prudence of the Applicant's capital expenditures and related assets, with an emphasis on the CEP expenditures and assets from January 1, 2022, through December 31, 2022."

Blue Ridge examined the Company's processes and controls to ensure that they were sufficient so as not to adversely affect the balances in distribution utility net plant in service. Based on the documents reviewed, Blue Ridge was able to understand the Company's processes and controls that affect each of the plant balances. Furthermore, Blue Ridge examined internal audit reports conducted on various areas of the Company's operations that could impact utility plant-in-service balances and applicable IT Controls audits and FERC audits. We were satisfied with actions taken with regard to internal and other audits reviewed. Blue Ridge concluded that Duke's controls were adequate and not unreasonable.

Blue Ridge found that total gas plant capital spending increased from 2021 to 2022 ($308,824,848 to $395,611,324), representing 28% increase. Regarding the year-to-year CEP changes, the distribution plant balances increased 18% over the same period. The intangible balances (for IT) decreased 0.7% from 2021 to 2022[1] The Company explained that the CEP plant change for Distribution Improvement increased 17.58% primarily due to one project (project # Q3680). The Central Corridor Gas Pipeline was placed in service in 2022 for approximately $80 million.

Most of the Company's outside services do not supplement internal workforce but instead cover unique services. The majority of capital dollars goes to pipeline construction firms who are skilled at the installation of pipe underground. The Company's internal labor costs are approximately 15% of what is spent on various outside services. Regarding annual cost per main mile rate, in 2021, contractor labor use was approximately 88%. The majority of capital dollars spent goes to pipe contractors, who are skilled at installing pipe underground. Blue Ridge concludes that the Company is taking steps which appear to be not unreasonable to try to control individual project costs and is implementing sound cost containment strategies.

Blue Ridge's review of the CEP Schedule accuracy included the Company's proposed CEP revenue requirement schedules that support its requested recovery for authority to adjust its CEP Rider included in its application filed in Case No. 23-0618-GA-RDR on March 31, 2023.

Blue Ridge identified several work orders that contained expense-related items, totaling $151,188, that should not be capitalized:

1. Work Order 315986A—Customer Connect – Core — Adjustment of $973
2. Work Order AW2133—Butler Cnty Phase I C210 & LP07 — Adjustment of $205
3. Work Order SG581MTRS—SG DEO AMI Meters – 581 — Adjustment of $10
4. Work Order Q3680—C350 (C314V) Central Corridor — Adjustment of $150,000

No adjustment is required to the CEP revenue requirements in this case, as the Company excluded plant placed in service after February 2022 from the CEP to stay under the CEP cap. While these amounts are not reflected in the CEP revenue requirements, unless removed, they will be reflected in plant in service balances used in future filings. Therefore, Blue Ridge recommends that an adjustment to gross plant be made for each of these items:

[1] Duke's response to audit scope 2022 Data Request Staff-DR-01-001 Attachment A

Table 3: Impact of Identified Adjustments on CEP Plant Additions for the Twelve Months Ended December 31, 2022

Adj #	Description		Amount
	2022 CEP Plant Additions, Net of Retirements		**$ 389,391,909**
1	Customer Connect (WO# 3159864A)		$ (973)
	Advertisement	(105)	
	Dues	(91)	
	Informational Advertising	(575)	
	Office Supplies	(202)	
2	Entertainment (WO# AW2133)		(205)
3	Office Supplies (WO# SG581MTRS)		(10)
4	Severance/Retention (WO# Q3680)		(150,000)
	Subtotal Adjustments to 2022 Activity		$ (151,188)
	Adjusted Total Plant-In-Service		$ 389,240,722
	Less: Excess Above Cap - As Filed		(294,129,733)
	Less: Excess Above Cap - Audit Adjustments		151,188
	Total CEP Plant-In-Service		**$ 95,262,176**

Other than the minor adjustments mentioned above, Blue Ridge found nothing to indicate that the non-IRP capital expenses and assets for the period January 1, 2022, through December 31, 2022, were unnecessary, unreasonable, or imprudent. The necessity, reasonableness, and prudence of Duke's non-IRP capital expenditures was considered throughout the entire audit, including the variance analysis, transactional testing, and physical inspections and desktop reviews. Our work in that regard is discussed in the various sections of the report.

OVERVIEW OF INVESTIGATION

BACKGROUND

Since September 2011, Section 4929.111 of the Ohio Revised Code has permitted natural gas companies to apply to the Commission for approval of a Capital Expenditure Program (CEP) for investment related to infrastructure expansion, improvement, or replacement; programs to install, upgrade, or replace technology systems; or programs to comply with government rules and regulations.

In Case Nos. 13-2417-GA-UNC and 13-2418-GA-AAM, Duke sought and was granted authority to create a capital expenditure program (CEP) and to begin deferring the related Post-In-Service Carrying Costs (PISCC) and depreciation and property tax expenses (the "CEP Deferral") for capital investments that were not part of its accelerated infrastructure replacement program (IRP). The Commission authorized the CEP Deferral for the period January 1, 2013, and beyond, up to the point where the deferred amount would exceed $1.50 per month for residential customers if it were included in customer rates. The Commission also restated its determination that it would consider the prudence, reasonableness, and magnitude of the CEP Deferral and capital expenditures when the Company applied for recovery.

In the 2019 CEP Alt Reg. Case, Duke sought and was granted authority to incorporate into rates all assets since date certain of the prior rate case, including all CEP assets from January 1, 2013, through December 31, 2018. Simultaneously, the Company sought and was granted, in Opinion and Order dated April 21, 2021, in Case No. 19-791-GA-ALT, authority to establish a CEP Rider and authority to recover deferrals (as authorized in Case No. 13-2417-GA-UNC et al.) and the underlying assets for CEP investment from 2013 through 2018. The Company was also authorized to adjust the CEP Rider rate each year to collect from customers the prior calendar year's CEP expenditures and related deferrals.

The Commission prescribed an initial CEP rate cap of $3.69 per month for residential customers: Thereafter, the rate would potentially be permitted to increase in the following manner (for residential ratepayers):

CEP Rate Effective Period	CEP Investment Period	Rate RS / RFT / RSLI / RFTLI Rate Increase Cap
November 1, 2021–April 30, 2022	Through December 31, 2019	$2.92
May 1, 2022–October 31, 2022	Through December 31, 2020	$2.70
November 1, 2022–October 31, 2023	Through December 31, 2021	$1.00
November 1, 2023–October 31, 2024	Through December 31, 2022	$1.00 (and thereafter, depending on when the rate case is filed)

For the 2022 CEP, the Commission issued a request for proposal seeking bids to conduct a two-part audit of Duke's non-IRP plant in service with a focus on CEP assets. Blue Ridge was awarded the audit.

PURPOSE OF PROJECT

As defined in the RFP, the audit was to address two parts each with its own scope:[2]

[2] Public Utilities Commission of Ohio Request for Proposal No. RAD22-CEP-4.

Part 1 Non-IRP Plant In-Service Audit: Review and attest to the accounting accuracy and used and useful nature of Duke's capital expenditures and corresponding depreciation reserve for the period January 1, 2022, through December 31, 2022.

Part 2 Capital Expenditures Prudence Audit: Simultaneously assess and form an opinion on the necessity, reasonableness, and prudence of Duke's capital expenditures and related assets, with an emphasis on the CEP expenditures and assets from January 1, 2022, through December 31, 2022.

PROJECT SCOPE

The RFP delineated the following investigative scope, as organized into these two categories:

Part 1 Non-IRP Plant-in-Service Audit

- Determine total Company plant in service for each account and subaccount from January 1, 2022, through December 31, 2022.
- Audit Duke's plant in service to determine the proper value for investments by account and subaccount, with an emphasis on CEP expenditures and investments.
- Determine total Company depreciation reserve for each account and subaccount, from January 1, 2022, through December 31, 2022.
- Audit Duke's depreciation reserve to determine the proper value for investments by account and subaccount, with an emphasis on CEP expenditures and investments.
- Provide a determination as to the accuracy and completeness of Duke's historical plant records and continuing property records.
- Ensure plant-in-service transactions were properly classified as capital expenditures.
- Identify the basis used in allocating costs.
- Confirm the accuracy and reasonableness of the depreciation expense.
- Perform physical inspections to confirm the assets are used and useful.

Part 2 Capital Expenditure Program Audit

- Review CEP Case No. 13-2417-GA-UNC et al.
- Read and become familiar with all applicable testimony and workpapers.
- Conduct an analysis of the CEP program's compliance with Commission rules and orders.
- Identify and assess the necessity, reasonableness, and prudence of Duke's capital expenditures and assets for the period January 1, 2022, through December 31, 2022, with an emphasis on CEP expenditures and assets.
- Identify and assess the necessity, reasonableness, and prudence of Duke's policies and practices for plant additions, new construction, plant replacement, and plant retirements for the period January 1, 2022, through December 31, 2022.
- Identify and assess the necessity, reasonableness, and prudence of the principal causes for increases in Duke's capital expenditures coinciding with the CEP program for the period January 1, 2022, through December 31, 2022.
- Identify and assess the reasonableness and prudence of Duke's cost-containment strategies and practices in the use of outside contractors for capital expenditures and assets for the period January 1, 2022, through December 31, 2022, with an emphasis on CEP expenditures and assets.
- Identify and assess the reasonableness and prudence of Duke's cost-containment strategies and practices in the use of internal Company labor for capital expenditures and assets for the period January 1, 2022, through December 31, 2022, with an emphasis on CEP expenditures and assets.

- Utilize the Blue Ridge team's familiarity and experience with natural gas distribution utility operations and capital spending practices to identify and assess the reasonableness and prudence of Duke's capital spending policies and practices or lack of such practices not specifically identified herein.
- Recommend and support specific adjustments to the plant -in-service balance based on any findings of lack of necessity, unreasonableness, or imprudence with an emphasis on CEP expenditures and assets.
- Review and audit all CEP-related schedules and workpapers to ensure accuracy of the required CEP formula as filed in Case Nos. 13-2417-GA-UNC, 21-618-GA-RDR, 22-618-GA-RDR, and 23-618-GA-RDR. This includes, but is not limited to PISCC, property tax, depreciation, and incremental revenue.
- Review and audit all CEP-related schedules filed by Duke to verify beginning balances and accurate accounting of investments and deferrals.
- Recommend and support specific adjustments pertaining to the CEP schedules.

AUDIT STANDARD

Blue Ridge's focus is on the accounting accuracy; used and useful nature; and the necessity, reasonableness, and prudence of the capital expenditures, with an emphasis on the CEP expenditures and assets. Blue Ridge used the following standards during the course of the audit when assessing the attributes required in the project scope:

Accounting Accuracy: The stated value is supported by accurate and complete plant accounting property records. Transactions are properly recorded as capital expenditures in the appropriate FERC account(s).

Used and Useful: The assets are used in providing services and are useful to the ratepayer.

Necessity, Reasonableness, and Prudence: The decision to make the investment was reasonable at the time the decision was made and based on information then available. The decision is one that a reasonable person could have made in good faith, given the information and decision tools available at the time of the decision.

MATERIALITY

Materiality relates to the importance or significance of an amount, transaction, or discrepancy. The assessment of materiality depends on certain factors, such as an organization's revenues and expenses. For a regulated utility, the impact on a company's ratepayers should also be considered.

Under traditional cost-of-service ratemaking, revenue requirements, or cost of service, equates to the total of operating expenses, depreciation, taxes, and a rate-of-return allowance on the utility's investment in rate base. Blue Ridge used the traditional cost-of-service concept to identify materiality as it relates to changes in the plant-in-service component of rate base. Blue Ridge calculated materiality by backtracking through the Company's CEP revenue requirements calculation to determine the amount of change in gross plant in service that would result in a five percent change in the CEP Rider on an average residential customer's monthly bill. In prior audits, Blue Ridge calculated that a $10.86 million change in gross plant in service would result in five percent change in the CEP Rider on an average residential customer's monthly bill.[3] We determined that this amount is a conservative estimate of materiality and, thus, used it again in this year's review.

[3] WP-22-618-GA-RDR Sensitivity, Sample Size, and Interval.

The resultant materiality threshold was used to determine the *tolerable error* in the calculation of the sample size for detailed transactional testing. Blue Ridge's findings were not limited by the tolerable error. We reported on all our findings regardless of amount.

INFORMATION REVIEWED

Blue Ridge reviewed or is familiar with the following information as required by the RFP:

1. Case documents, including applications, testimony, work papers, stipulations (if any), and orders in Case Nos. 13-2417-GA-UNC et al. and 19-791-GA-ALT, as they relate to CEP
2. Generally accepted accounting principles (GAAP)
3. Federal Energy Regulatory Commission (FERC) Uniform System of Accounts
4. Various accounting and tax changes or decisions issued during calendar year 2022
5. The operations and regulatory environment of natural gas distribution utilities
6. The capital-spending practices and requirements of natural gas distribution utilities
7. The Pipeline and Hazardous Materials Safety Administration's (PHMSA) Pipeline Safety Regulations (49 CFR, Parts 190–199)
8. Case documents, including applications, testimony, workpapers, audit reports, and orders in in Case Nos. 21-618-GA-RDR and 22-618-GA_RDR
9. The Company's CEP application in Case No. 23-618-GA-RDR

During the audit process, Blue Ridge requested and was provided additional information. A list of the data requested is included as Appendix B. Electronic copies of the information obtained were provided to PUCO Staff ("Staff").

INTERVIEWS

With the exception of discussions during the activity of Field Inspections and Desktop Reviews, Blue Ridge determined that no new interviews were necessary. The Company's key personnel have remained in the same reporting chain structure since the last CEP audit.

FIELD OBSERVATIONS

The objectives of the field inspections focused on (1) Used and Usefulness—whether the Company assets were used and useful, providing service to the customer, and therefore, properly included in utility plant in service—and (2) Necessity, Reasonableness, and Prudence—whether the decision to make the investment was reasonable at the time the decision was made and based on information then available. The field inspections included desk top audits and /or virtual field verification to determine whether the assets appeared to be in use and, therefore, used and useful. The review also determined whether the assets appeared overbuilt (gold plated) and whether the Company selected a reasonable option to execute the work. The reviews included inspection of drawings, schematics, notes, and other documentation that supported the reasonableness of the decision to execute the work.

Additional discussion on the team's observations is included in the section labeled Field Inspections and Desktop Reviews. The field observation notes and photos are included within the confidential electronic appendices to this report.

POLICIES AND PRACTICES

Blue Ridge did not perform a management audit but did review the Company's processes and controls to ensure that they were sufficient so as to not adversely affect the balances in distribution utility net plant in service. Blue Ridge also reviewed internal audit reports conducted on various areas of the Companies' operations that could impact utility plant-in-service balances. Blue Ridge also reviewed applicable SOX and FERC audits.

Variance Analysis, Transactional Testing, and Other Analysis

To identify, quantify, and explain any significant net plant increases within the individual accounts, Blue Ridge performed account variance analyses. The Company was asked to explain any significant changes. The results of the analyses are included in this report under the section labeled Variance Analysis.

In addition, Blue Ridge selected a sample number of work orders, from the population of work orders that support the gross plant in service, for detailed transactional testing. The sample was selected using a statistically valid sampling technique. Additional work orders were selected based on professional judgment. The results of the transactional testing are included in the section labeled Detailed Transactional Testing.

Blue Ridge also performed other various analyses, including mathematical verifications and source data validation of the schedules that support the application filing.

STATUS OF CASE NO. 22-618-GA-RDR RECOMMENDATIONS

Blue Ridge performed the Plant-in-Service and Capital Expenditure Program Audit of Duke in Case No. 22-618-GA-RDR. In the December 14, 2022, Order in that case, the Commission approved the report of the Staff, dated September 26, 2022, which includes Blue Ridge's audit report adjustments and recommendations. Blue Ridge requested the status of those adjustments and recommendations as listed below. Following each adjustment and recommendation is Duke's response regarding status and Blue Ridge's associated comments.[4]

> **Adjustment #1–3**: Schedule 5 computes monthly deferred depreciation by CEP budget category. Blue Ridge found the CEP model has not accurately reflected evolving changes on two points. The first concern relates to the accurate calculation and reflection of non-deferred depreciation for Vintage 2013–18 assets as of the rate effective date in Case No. 19-0791-GA-ALT. Prior to May 3, 2021, this issue was not a concern because all depreciation was deferred. In the instant case, the Company included workpaper WP12.1 - CEP Depr Exp, which calculates non-deferred depreciation by applying the accrual rate to the gross plant balance (i.e., excluding retirements). The result rolls forward to the accumulated deferred income tax (ADIT) calculation developed on Schedule 12. However, when applied to the development of Accumulated Depreciation Expense (Schedule 1, Line 4) and the 2012 Rate Case Depreciation Offset (Schedule 11), it is inaccurate. The methodology for computing non-deferred depreciation should align with the formula for the deferred complement, which is calculated by applying the accrual rate to the corresponding plant-in-service balance (i.e., assets placed into service, ***net of retirements***). Thus, adjustments #1 and #2 remove $864,372 from Non-Deferred Depreciation in 2013–18 Retirements and add that amount to the Rider CEP Depreciation Expense.
>
> Blue Ridge also found that Annualized Depreciation under Operating Expenses (Schedule 1, Line 23) reflected only deferred depreciation expense, which understates total depreciation expense by $7.26 million, and is noted as adjustment #3.
>
> Duke Response: The Company incorporated the adjustments into the "22-0618-GA-RDR order version" of the CEP model and March 31, 2023, CEP application. The calculation adjustments were performed on WP12.1—CEP Depr Exp, Schedule 1—2022 Revenue Requirement Lines 4 and 23, and Schedule 11—Rate Base Depreciation Offset.
>
> Blue Ridge Comment: Blue Ridge is satisfied with the calculation adjustments.
>
> **Adjustment #4**: The second concern related to the CEP model regards the continued accrual of depreciation on intangible property placed into service between December 31, 2014, and November 30, 2016. These assets have a five-year life and, as of December 31, 2021, have been more than fully amortized. Blue Ridge recommends the cessation of all future depreciation and an adjustment to remove the impact of the excess expense in 2021. The $366,950 adjustment amount to be removed constitutes deferred and non-deferred depreciation in the amounts of $31,549 and $335,401, respectively.
>
> Duke Response: The Company corrected the concern by the addition of WP12.2—Fully Amortized Adjustment, which is used by WP12.1—CEP Depr Exp. Schedule 1—2022 Revenue Requirement, lines 4 and 23, and now includes adjustments for the fully amortized assets.
>
> Blue Ridge Comment: Blue Ridge is satisfied with the corrections.

[4] Duke's response to audit scope 2022 Data Request BR-DR-01-011.

Adjustment #5: Land Acquired for Norwood Station: The land was reclassified from PHFU to Utility Plant prematurely while the associated project remained in construction and in CWIP. The CEP is overstated by $981,628.42.

Duke Response: The amount of $981,628.42 has been removed on WP4.1—Assets by FERC Account for the period February 2021 in account 27400—Non-depr Land & Land Rights.

Blue Ridge Comment: Blue Ridge is satisfied with the removal.

Adjustment #6: Duke Woodsdale Interconnect: The Company indicated that this work order should not have been included in the CEP. Therefore, the CEP is overstated by $1,909,702.34. The reduction in plant will be netted against any over amortization of intangible plant (FERC 303).

Duke Response: The amount of $1,909,702.34 has been removed on WP4.1—Assets by FERC Account for the period December 2021 in account 20310_Miscellaneous Intangible Plant—10 Yr. Note that all December 2021 additions were removed to stay under the RS rate cap.

Blue Ridge Comment: Blue Ridge is satisfied with the removal.

Adjustment #7: AFTON DR-NESTLE PURINA-BATAVIA-8" S: Company-caused delays resulted in overpayment to contractor of $60,000.

Duke Response: The amount of $60,000 has been removed on WP4.1—Assets by FERC Account for the period October 2021 in account 27602—Gas Mains—Dist Lines/Steel. Note that all October 2021 additions were removed to stay under the RS rate cap.

Blue Ridge Comment: Blue Ridge is satisfied with the removal.

Adjustment #8: STA 10097499 Bracken IM Bldg: Only AFUDC charged to the project from October 2017 through July 2018—$16,702.50.

Duke Response: The amount of $16,702.50 has been removed on WP4.1—Assets by FERC Account for the period January 2021 in account 27801—System Meas. & Reg. Station Equipment—Electronic.

Blue Ridge Comment: Blue Ridge is satisfied with the removal.

Adjustment #9: STA 120 Dicks Creek Reg Sta Replace: The Company overstated the CEP in 2021 by $627,232 for this project since the retirements were not recorded within the scope period.

Duke Response: The amount of $627,232 has been removed on WP4.2—Retirements by FERC Account for the period January 2021 in account 27900—Meas. & Reg. Station Equipment—City Gate.

Blue Ridge Comment: Blue Ridge is satisfied with the removal.

Adjustment #10: SG DEO AMI Meters – 581: Blue Ridge concludes that the $49,436 of Informational Advertising, Office Supplies & Expenses, and Dues—all involved in this work order charge—are O&M and should not be a capital cost of construction.

Duke Response: The amount of $49,436 has been removed on WP4.1—Assets by FERC Account for the period June 2021 in account 28100 Meters. Note that all June 2021 additions were removed to stay under the RS rate cap.

Blue Ridge Comment: Blue Ridge is satisfied with the removal.

Adjustment #11: CEP Eligible Assets Removed Due to Rate Cap: Blue Ridge found that based on our other findings and proposed adjustments, a need exists for additional removal of otherwise qualified CEP investments in the instant application of $61.86 million.

Duke Response: After incorporating Blue Ridge adjustments, CEP Assets of $61.86 million were removed from WP4.1—Assets by FERC Account to stay at the RS rate cap of $10.31 per month.

Blue Ridge Comment: Blue is satisfied with the removal.

Blue Ridge also offered six recommendations:

Recommendation #1: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #3), Blue Ridge recommended that since the Kellogg Training Center would be used by both Ohio and Kentucky employees, the facility usage should be tracked and non-jurisdictional companies should pay rent to be recognized as a revenue offset. In this year's audit, Duke stated that the rent schedule should be in place by the close of September 2022. Blue Ridge recommends that the next audit confirm that the recommendation was implemented.

Duke Response: The Company implemented the new Kellogg Training Center rent for Duke Energy Kentucky effective in September 2022. A revenue requirement was calculated for the facility and allocated between Duke Energy Ohio and Duke Energy Kentucky based on the number of employees being trained from each jurisdiction. The September rent entry included a true-up entry to record rent for the period January 2022 through August 2022. The monthly rent entry was set up as a recurring journal entry through February 2023, at which time the revenue requirement and OH/KY allocation was updated for the Kellogg Training Center facility and set up as a recurring journal entry through February 2024. The stipulation filed on April 28, 2023, in Case No. 22-507-GA- AIR included the inter-company rent in miscellaneous revenue.

Blue Ridge Comment: Blue Ridge believes the allocation method to be not unreasonable.

Recommendation #2: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #4), Blue Ridge found that the Company was unable to provide the formal justification documentation for a number of projects. Thus, Blue Ridge recommended that each project should have a formal justification as to why the projects are being done and that no alternatives were available. And Blue Ridge recommended that those justifications should be readily available for future reviews, particularly related to IT projects and other projects related to integrity, station upgrades, capacity issues, pressure concerns, new customers, removal of cast iron, upgrades with plastic. The Company concurred with the recommendation. Because the issue continued in the current audit, Blue Ridge recommends that the next audit confirm that the recommendation was implemented.

Duke Response: The Gas business has a formal charter process in place. The challenges with obtaining project justifications encountered in prior audits generally involved IT projects, new customers, or much older projects that pre-dated the chartering process. Those projects had been in-service for many years, but current charging activity was triggered by unitization or moving charges between accounts. In other words, the Company will likely continue to encounter difficulties for older projects. For IT projects, there are formal justifications and monthly meetings within the IT organization throughout the lifecycle of IT projects. Challenges arise for enterprise-wide IT projects where the Natural Gas Business Unit doesn't have good visibility, and the charges are held and then finally allocated to business units at in-service based on a pre-determined allocation factor.

Blue Ridge Comment: Blue Ridge believes the process to be not unreasonable.

Recommendation #3: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #5), Blue Ridge recommended that the Company establish a procedure that requires major non-blanket project changes in estimated in-service dates to be documented. Each change should be explained, and that information should be provided to Senior Management. This process should also become part of the actual to budget project variance analysis and explanations. In its review, the Commission noted the only issue to be resolved regarding this adjustment appears to be the project cost threshold at which Duke must begin to engage in the analysis detailed by Blue Ridge in its recommendation. The Commission ordered that the non-blanket project threshold should be $2 million. The Commission also directed Staff, in the next CEP RFP, to instruct the auditor to review the implementation of that threshold and report on the efficacy of the $2 million threshold in achieving its purpose. Thus, consistent with the Commission order, Blue Ridge recommends that the next CEP audit should review and report on the implementation of the recommendation and report on the efficacy of the $2 million threshold in achieving its purpose.

Duke Response: The Company has implemented a process to document changes in estimated in-service dates for major non-blanket projects. The process was implemented in December 2022 and involves the creation of a communication log, including explanation for the date change, in the Company's Maximo system for any in-service date changes that meet the $2 million project threshold. The resulting system-generated email then routes to Distribution Construction senior management for review and approval. In the Major Projects and Technical Field Operations organizations, changes in estimated in-service dates are tracked and routed via EcoSys Project Change Request functionality. The Project Change Request routes for approval to all original Charter approvers as well as the organization's VP.

Blue Ridge Comment: Blue Ridge believes the process to be not unreasonable.

Recommendation #4: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #7), Blue Ridge recommended that, while the emphasis should be to unitize the over-12-month work orders, the Company should consider what it would take to auto unitize blanket work orders to reduce the backlog. In its review of the issue, the Commission adopted Blue Ridge's recommendation and directed Duke to either develop a plan to implement auto-unitization of blanket work orders to reduce the backlog or provide a detailed explanation as to why auto-unitization of blanket work orders is not viable. Duke should work with Staff in developing such a plan, if viable, or provide Staff with its detailed explanation as to why auto-unitization of blanket work orders is not viable. If need be, the parties can revisit this issue as well as assess the Company's progress in reducing the backlog of work orders exceeding 12 months, during Duke's next natural gas base rate case. Because the same issue occurred in the current audit, Blue Ridge recommends that the next CEP audit should review and report on the status of the recommendation.

Duke Response: As of January 2023, the blanket work orders for DEO Gas Distribution were updated to auto unitize on a monthly basis. Blanket work orders for General Plant were not set to auto unitize as those blankets are handled differently. Please note that there are conditions that could prevent blanket work orders from being successfully auto-unitized each month, such as missing or inaccurate As-Builts that require working with the business to resolve.

Blue Ridge Comment: Blue Ridge believes the process to be not unreasonable. Since the change was implemented in 2023, the next audit will determine the effectiveness of the auto-unitization for the prior audit and for the work order backlog.

Recommendation #5: In reference to Adjustments #1–3, Blue Ridge found the CEP model has not accurately reflected evolving changes related to Accumulated Depreciation and Annual Depreciation Expense. Blue Ridge recommends the Company implement changes to the model to more accurately reflect non-deferred depreciation expense.

Duke Response: The Company's CEP model has been revised to more accurately reflect non-deferred depreciation expense. (See also response to Adjustments #1–3 above.)

Blue Ridge Comment: Blue Ridge is satisfied with the changes to the model.

Recommendation #6: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #6), the Commission adopted Blue Ridge's recommendation that stock-based and earnings-related incentive compensation should be monitored as part of the annual audit scope to ensure the amount recovered does not significantly increase. In this year's audit, Blue Ridge found that earnings-based incentive compensation allocated to capital increased significantly in 2021. Blue Ridge recommends that the capitalization and recovery of stock-based and earnings-related incentive compensation continue to be monitored and future recovery be considered in the next base rate case.

Duke Response: The Company concurs with the recommendation to monitor stock-based and earning-related incentive compensation as part of the CEP audit, as contemplated in the Rider CEP Stipulation in Case No. 19-0791-GA-ALT that set forth the framework for CEP cost recovery and audit. The annual CEP audit scope now includes this ongoing monitoring.

Blue Ridge Comment: Blue Ridge is satisfied with the Company's response.

PROJECT REQUIREMENTS AND RELATED SUMMARY CONCLUSIONS

The Request for Proposal (RFP) included general project requirements for the auditor investigation that included into two parts: (1) Non-IRP Plant in Service and (2) Capital Expenditures Program. The two parts are interrelated and the findings in each part are used to support Blue Ridge's ultimate recommendations. To ensure that we have addressed the specific requirements in the RFP, we have maintained the integrity of the work scope by part. The following lists include the subject areas of the RFP's required audit components and how this section of the report is organized.

<u>Part 1 Non-IRP Plant In-Service</u>

The RFP stated that the purpose for the first part of the audit was to review and attest to the accounting accuracy and used and useful nature of the Duke's non-IRP capital expenditures and corresponding depreciation reserve for the period January 1, 2022, through December 31, 2022. The RFP specified the scope items to be included in the review:

1. Plant-in-Service Balances
   - Determine total Company plant in service for each account and subaccount from January 1, 2022, through December 31, 2022.
   - Audit the Company's plant in service to determine the proper value investments by account and subaccount with an emphasis on CEP expenditures and investments.
2. Depreciation-Reserve Balances
   - Determine total Company depreciation reserve for each account and subaccount, from January 1, 2022, through December 31, 2022.
   - Audit the Company's depreciation reserve to determine the proper value for investments by account and subaccount with an emphasis on CEP expenditures and investments.
3. Historical Records
   - Provide a determination as to the accuracy and completeness of the Company's historical plant records and continuing property record.
   - Confirm the accuracy and reasonableness of the depreciation expense.
4. Classification—Capital vs. Expense
   - Ensure plant-in-service transactions were properly classified as capital expenditures.
5. Allocations
   - Identify the basis used in allocating costs.
6. Physical Inspections
   - Perform physical or virtual/desktop inspections to confirm the assets are used and useful.

<u>Part 2 Capital Expenditures Program Audit</u>

For the second part of the audit, the RFP stated the purpose as "to simultaneously assess and form an opinion on the necessity, reasonableness, and prudence of [Duke's] capital expenditures and related assets with an emphasis on the CEP expenditures and assets from January 1, 2022, through December 31, 2022." This part of the audit also includes a review and audit of all CEP schedules. Specific scope included the following items:

7. Necessity, Reasonableness, and Prudence
   - Identify and assess the necessity, reasonableness, and prudence of the Company's capital expenditures and assets for the period January 1, 2022, through December 31, 2022, with an emphasis on CEP expenditures and assets.
8. Policies and Practices
   - Identify and assess the necessity, reasonableness, and prudence of the Company's policies and practices for plant additions, new construction, plant replacement, and plant retirements.
   - Utilize the auditor's and/or retained subcontractor's familiarity and experience with natural gas distribution utility operations and capital spending practices to identify and assess the reasonableness and prudence of the Company's capital spending policies and practices or lack of such practices not specifically identified herein.
9. Causes for Increased Spending
   - Identify and assess the necessity, reasonableness, and prudence of the principal causes for increases in the Company's capital expenditures coinciding with the CEP program.
10. Cost Containment
    - Identify and assess the reasonableness and prudence of the Company's cost- containment strategies and practices in the use of outside contractors for capital expenditures and assets for the period January 1, 2022, through December 31, 2022, with an emphasis on CEP expenditures and assets.
    - Identify and assess the reasonableness and prudence of the Company's cost- containment strategies and practices in the use of internal Company labor for capital expenditures and assets for the period January 1, 2019, through December 31, 2020, with an emphasis on CEP expenditures and assets.
11. CEP Schedule Accuracy
    - Review and audit all CEP-related schedules and workpapers to ensure accuracy of the required CEP formula as filed in Case Nos. 13-2417-GA-UNC, 21-618-GA-RDR, and 22-618-GA-RDR. This includes, but is not limited to, PISCC, property tax, depreciation, and incremental revenue.
    - Conduct an analysis of the CEP program's compliance with Commission rules and orders.
    - Review and audit all CEP-related schedules filed by the Company to verify beginning balances and accurate accounting of investments and deferrals.
    - Recommend and support specific adjustments pertaining to the CEP schedules.
12. Adjustments and Other Recommendations
    - Recommend and support specific adjustments to the plant-in-service balance based on any findings or lack of necessity, unreasonableness, or imprudence, with an emphasis on CEP expenditures and assets.

The following subsections address the RFP requirements delineated above and Blue Ridge's summary conclusions based on our analysis. Additional information related to the analysis is provided in the next section of this report: Additional Detailed Analysis, Findings, and Recommendations.

1. Plant-in-Service Balances

Requirements: Determine total Company plant in service for each account and subaccount from January 1, 2022, through December 31, 2022.

Requirement: Audit Duke's plant in service to determine the proper value investments by account and subaccount, with an emphasis on CEP expenditures and investments.

2. Depreciation Reserve Balances

Requirement: Determine total Company depreciation reserve for each account and subaccount, from January 1, 2022, through December 31, 2022.

Requirement: Audit the Company's depreciation reserve to determine the proper value for investments by account and subaccount with an emphasis on CEP expenditures and investments.

Blue Ridge's investigation included a review of (1) total Company plant in service and depreciation reserve for each account/subaccount from January 1, 2022, through December 31, 2022, and (2) the necessity, reasonableness, and prudence of Duke's capital expenditures and related assets, with an emphasis on the CEP expenditures and assets for the same period.

Blue Ridge's investigation included data requests, interviews, field inspections, and analyses, including variance analysis and detailed transactional testing. Blue Ridge's investigation identified adjustments that should be applied to the plant-in-service and depreciation reserve schedules. These adjustments are addressed throughout the report and listed in Section 12 Adjustments and Other Recommendations.

Total Company Plant-in-Service and Depreciation Reserve Recommended Balance

Blue Ridge's analysis results in the following recommended revisions to the total Company net plant-in-service balance.[5]

Table 4: Total Net Plant-in-Service Recommended Balance

Description	As Report 12/31/22	Total Plant Adjustments 2022	Adjusted 12/31/22
Total Plant-in-Service	$3,128,255,011	$ (151,188)	$3,128,103,823
Reserve for Depreciation	819,154,342	-	819,154,342
Net Plant	$2,309,100,669	$ (151,188)	$2,308,949,481

As Reported Source: FERC Form 2 pp 204, 219

CEP Plant-in-Service and Depreciation Reserve Recommended Balance

In 2022, the Company reported new plant additions, net of retirements, totaling $389.4 million. However, of that amount, the Company recognized only 24.5 percent in Rider CEP to stay within the residential $11.31 rate cap stipulated in Case No. 19-0791-GA-ALT. From a financial modeling perspective, the Company calculates the revenue requirement and then makes adjustments to plant balances in workpaper 4.1 iteratively until the cap is reached.

[5] WP Duke 2022 CEP Adjustments.

Blue Ridge's analysis results in no recommended revisions to the net CEP plant-in-service balance.

Table 5: CEP Net Plant-in-Service Recommended Balance

	As Filed Dec. 31, 2022	Recommended Adjustments	Adjusted Dec. 31, 2022
CEP Plant-In-Service	$ 669,533,002	$ -	$ 669,533,002
Accumulated Provision for Depreciation	(357,587,880)	-	(357,587,880)
Net CEP Plant-In-Service	$ 311,945,122	$ -	$ 311,945,122

Blue Ridge's recommended adjustments have been included in Section 12. Adjustments and Other Recommendations.

3. Historical Records

Requirement: Provide a determination as to the accuracy and completeness of the Company's historical plant records and continuing property record.

Requirement: Confirm the accuracy and reasonableness of the depreciation expense.

Blue Ridge found that the Company was able to provide detailed continuing property records to support its plant-in-service balances except for justifications for certain older projects, any projects from the IT organization, and in some cases emergent projects.[6]

Blue Ridge confirmed the accuracy and reasonableness of the depreciation expense.

4. Classification—Capital vs. Expense

Requirement: Ensure plant-in-service transactions were properly classified as capital expenditures.

Through our transactional detail testing (Step T3), Blue Ridge identified several work orders that contained expense-related items, totaling $151,188, that should not be capitalized. These expense-related charges are not in the CEP. The Company excluded these work orders from the CEP because the in-service dates for these work orders occurred after the CEP cap was met in February 2022. While these amounts are not reflected in the CEP in this proceeding, unless removed, they will be reflected in plant-in-service balances used in future filings. Other than these minor items, Blue Ridge found that work orders included in the projects sampled are capital in nature, and the scope of work and cost detail coincided with the applicable FERC 300 accounts to which the work applies in accordance with the FERC Uniform System of Accounts (CFR 18).

5. Allocations

Requirement: Identify the basis used in allocating costs.

Blue Ridge reviewed allocation factors and found that all Duke's plant investment is jurisdictional to its gas distribution customers. Plant investment for IT projects that benefit more than one jurisdiction are allocated to each jurisdiction on a reasonable basis.

[6] Duke's response to audit scope 2022 Data Request BR-DR-01-041.

The Company provided a list of all overheads and other allocations it applies either directly or indirectly to Construction Work in Progress (CWIP). Blue Ridge found their process not unreasonable.

In Case No. 19-791-GA-ALT, the auditor and Staff recommended that incentive and stock-based compensation should be removed from the CEP Rider. In the Stipulation, the parties agreed, and the Commission approved, that incentive pay will continue to be capitalized in accordance with Duke's existing accounting policies and procedures that follow generally accepted accounting principles.[7]

In Case No. 21-618-GA-RDR, the Commission adopted Blue Ridge's Recommendation 6 regarding stock-based and earnings-related incentive compensation, as clarified by Duke and Staff that the capitalization and recovery of stock-based and earnings-related incentive compensation should be monitored as part of the annual audit scope to ensure the amount recovered does not significantly increase.[8]

Blue Ridge reviewed the stock-based and earnings-related incentive compensation for 2022 and found that earnings-based incentive compensation allocated to capital increased significantly in 2022. As noted by the Company in their response to recommendation #6 of last year's CEP audit (included in the section Status of Case No. 22-618-GA-RDR Recommendations) monitoring of the capitalization and recovery of stock-based and earnings-related incentive compensation is now a regular part of the annual CEP audit. Future recovery is expected to be considered in the next base rate case.

6. Physical Inspections

Requirement: Perform physical inspections to confirm the assets are used and useful.

By the desktop audits conducted, Blue Ridge determined that the assets were used and useful and provide benefit to the ratepayer. The assets did not appear over built. Company personnel were knowledgeable about the projects. Desktop reviews performed revealed that the Company had adequate supporting documentation for the projects, including the appropriate engineering detail. The assets that were installed were in accordance with the original scope of work. Blue Ridge found everything in the desktop reviews to be not unreasonable.

Additional details of the field reviews are included in this report's Field Inspections and Desktop Review subsection. The inspection forms and photos are included in Blue Ridge's confidential workpapers.

7. Necessity, Reasonableness, and Prudence

Requirement: Identify and assess the necessity, reasonableness, and prudence of the Company's capital expenditures and assets for the period January 1, 2021, through December 31, 2021, with an emphasis on CEP expenditures and assets.

Blue Ridge found nothing to indicate that the capital expenditures and assets for the period January 1, 2022, through December 31, 2022, were unnecessary, unreasonable, or imprudent. The necessity, reasonableness, and prudence of Duke's capital expenditures were considered throughout the entire audit, including the variance analysis, transactional testing, and physical inspections and desktop reviews. Our work in that regard is discussed in the various sections of this report.

[7] Case No. 19-791-GA-ALT, Opinion and Order (April 21, 2021), page 20.
[8] Case No. 21-618-GA-RDR Opinion and Order (July 27, 2022), {¶84}.

8. Policies and Practices

Requirement: Identify and assess the necessity, reasonableness, and prudence of the Company's policies and practices for plant additions, new construction, plant replacement, and plant retirements.

Requirement: Utilize the auditor's and/or retained subcontractor's familiarity and experience with natural gas distribution utility operations and capital spending practices to identify and assess the reasonableness and prudence of the Company's capital spending policies and practices or lack of such practices not specifically identified herein.

Blue Ridge did not perform a management audit but did review the Company's processes and controls to ensure that they were sufficient so as not to adversely affect the balances in distribution utility net plant in service. Based on the documents reviewed, Blue Ridge was able to understand the Companies' processes and controls that affect each of the plant balances. Blue Ridge also reviewed internal audit reports conducted on various areas of the Companies' operations that could impact utility plant-in-service balances. Blue Ridge also reviewed applicable SOX and FERC audits.

Blue Ridge concluded that Duke's controls were adequate and not unreasonable. Furthermore, we were satisfied with actions taken regarding all 2022 audits reviewed.

Additional details of the policies and practices reviews are included in this report's Processes and Controls subsection.

9. Causes for Increased Spending

Requirement: Identify and assess the necessity, reasonableness, and prudence of the principal causes for increases in the Company's capital expenditures coinciding with the CEP program for the period January 1, 2022, through December 31, 2022.

Total gas plant capital spending increased from 2021 to 2022 ($308,824,848 and $395,611,324, respectively), representing a 28% increase.

The following tables summarize the budget vs. actual gas plant for 2018–2022.[9]

Table 6: Total Capital Spending Budget vs Actual for 2018—2022

Year	Budget	Full-year Actuals	Variance
2018	$101,426,508	$103,531,429	2.08%
2019	$133,126,332	$177,359,362	33.23%
2020	$218,576,115	$194,587,274	-10.98%
2021	$264,124,159	$308,824,848	16.92%
2022	$338,400,411	$395,611,324	16.91%

Regarding the year-to-year CEP changes, the distribution plant balances increased 18% from 2021 to 2022. The intangible balances (for IT) decreased 0.70% from 2021 to 2022[10] as summarized in the following table.

[9] Duke's response to audit scope 2021 Data Request DR-01-118, Attachment A, and Duke's response to audit scope 2022 Data Request DR-01-28.
[10] Duke's response to audit scope 2022 Data Request DR-01-001, Attachment A.

Table 7: CEP Total Plant Change from 2021 to 2022[11]

Budget Category	Balance at 202112	Balance at 202212	2021-2022 % Increase
Distribution Improvement	$ 543,172,041	$ 638,650,603	17.58%
Information Technology	$ 31,098,785	$ 30,882,400	-0.70%
Total CEP In-Service	$ 574,270,826	$ 669,533,002	16.59%

The Company explained that the CEP plant change for Distribution Improvement increased 17.58% primarily due to one project (project # Q3680). The Central Corridor Gas Pipeline was placed in service in 2022 for approximately $80 million.[12]

Blue Ridge concludes that the nature of the spending does not give us cause for concern.

10. Cost Containment

Requirement: Identify and assess the reasonableness and prudence of the Company's cost-containment strategies and practices in the use of outside contractors for capital expenditures and assets for the period January 1, 2022, through December 31, 2022, with an emphasis on CEP expenditures and assets.

Requirement: Identify and assess the reasonableness and prudence of the Company's cost-containment strategies and practices in the use of internal company labor for capital expenditures and assets for the period January 1, 2022, through December 31, 2022, with an emphasis on CEP expenditures and assets.

Most of the Company's outside services does not supplement internal workforce but instead cover unique services. The majority of capital dollars goes to pipeline construction firms who are skilled at the installation of pipe underground. The Company's internal labor costs are approximately 15% of what is spent on various outside services. Regarding annual cost per main mile rate, in 2021, contractor labor use was approximately 88%. The majority of capital dollars spent goes to pipe contractors, who are skilled at installing pipe underground.[13]

The Company competitively bids out work that consists of street improvements, main replacements, pressure improvements, and main extensions (8,000 feet or less and 8" in diameter or less) for distribution main. The Company has set pricing for this work established in blanket contracts that span multiple years. If it is greater than 8,000 feet or 8" diameter or larger, the job is bid out to a pool of approved contractors. The Ohio Service Line Replacement Program, which is a long-term program to replace copper and bare steel services, was also bid out with set pricing in place for multiple years. For transmission main and major projects, to obtain services and goods at the most competitive price, the Company hosted a bid event and requests, at a minimum, three competitive bids from its approved vendors for its alliance contract and/or for the scope of work on a particular project.[14]

Blue Ridge concludes that the Company is taking steps which appear to be not unreasonable to try to control individual project costs and is implementing sound cost containment strategies.

[11] Duke's response to audit scope 2022 Data Request Staff-DR-01-001.
[12] Duke's response to audit scope 2022 Data Request BR-DR-01-082.
[13] Duke's response to audit scope 2022 Data Request BR-DR-01-031.
[14] Duke's response to audit scope 2022 Data Request BR-DR-01-029.

11. CEP Schedule Accuracy

Requirement: Review and audit all CEP-related schedules and workpapers to ensure accuracy of the required CEP formula as filed in Case Nos. 13-2417-GA-UNC and 21-618-GA-RDR. This includes, but is not limited to, PISCC, property tax, depreciation, and incremental revenue.

Requirement: Conduct an analysis of the CEP program's compliance with Commission rules and orders.

Requirement: Review and audit all CEP-related schedules filed by the Company to verify beginning balances and accurate accounting of investments and deferrals.

Requirement: Recommend and support specific adjustments pertaining to the CEP schedules.

Blue Ridge's review of the CEP Schedule accuracy included a review of the Schedules 1–14 provided with the Company's filing on March 31, 2023. The Company is seeking recovery of $78.7 million (before the reflection of over- and under-recovered amounts from prior periods).

Mathematical checks were performed on each schedule and on the schedules' roll-forward balances to the revenue requirement calculation. In addition, Blue Ridge traced the values used in the schedules to source documentation and reviewed the reasonableness of the results calculated by the Company. Each major component of the proposed CEP revenue requirement and rate design is discussed below, along with Blue Ridge's comments.

Beginning Balances

Blue Ridge reviewed the Company's reconciliation of the beginning balances on Schedule 14 for consistency with the outcome in Case No. 22-618-GA-RDR. We found the Company's reflection of the Commission Order issued on December 14, 2022, not unreasonable and recommend no changes to the beginning balances in Case No 23-618-GA-RDR.

Plant in Service

Schedule 4 presents CEP plant activity and cumulative balances by budget category. In 2022, the Company reported new plant additions, net of retirements, totaling $389.4 million. However, of that amount, the Company recognized only 24.5 percent in Rider CEP to stay within the residential $11.31 rate cap stipulated in Case No. 19-0791-GA-ALT. From a financial modeling perspective, the Company calculates the revenue requirement and then makes adjustments to plant balances in workpaper 4.1 iteratively until the cap is reached.

Table 8: Incremental Eligible CEP Plant-in-Service Activity

	Balance as of Dec. 31, 2021	2022 Activity	Balance as of Dec. 31, 2022
Additions	$ 866,571,780	$ 393,102,705	$ 1,259,674,485
Retirements	(88,014,592)	(3,710,795)	(91,725,388)
Total Plant-In-Service	$ 778,557,188	$ 389,391,909	$ 1,167,949,097
Less: Excess Above Cap	(204,286,362)	(294,129,733)	(498,416,095)
Total CEP Plant-In-Service	$ 574,270,826	$ 95,262,176	$ 669,533,002
% Reflected in CEP	*73.8%*	*24.5%*	*57.3%*

Deferred Accounting Treatment

Case No. 13-2417-GA-UNC authorizes the Company to include deferred depreciation, PISCC, and property tax on CEP plant in service. The Stipulation and Recommendation in Case No. 19-0791-GA-ALT states, "The deferral of post in-service carrying costs, property tax and depreciation expense, associated with investment placed in service as of December 31, 2018, will cease once Rider CEP rates are put into effect."[15] Blue Ridge found the Company complied with the terms of the agreement, ceasing expense deferrals related to Vintage 2013–18 assets as of May 2021, the month Case No. 19-0791-GA-ALT rates went into effect, and related to Vintage 2019–20 assets as of August 2022, the month Case No. 21-0618-GA-RDR rates went into effect. The Company also applied an offset to the gross regulatory asset balance as of December 31, 2022, to reflect the cumulative amortization recovered to date.

Depreciation

Schedules 5a and 5b compute monthly deferred depreciation by CEP budget category, and WP 12.1 computes the non-deferred portion flowing directly through to annualized operating expense. Blue Ridge verified the computations and found them not unreasonable.

Post-in-Service Carrying Costs (PISCC)

Schedule 6 computes deferred post-in-service carrying costs at an annualized rate equal to the Company's authorized cost of debt of 5.32 percent. We verified the monthly net plant balances subject to PISCC and found no exceptions.

Property Tax

Schedule 7, along with supporting workpapers, computes annual property tax by plant vintage. Blue Ridge tested the computation and found the results not unreasonable.

Cumulative Offset for Incremental Revenue

Schedule 8, along with supporting workpapers, computes the incremental revenue associated with CEP investments and treats the cumulative balance as an offset to deferred expenses. Blue Ridge reviewed the computation and cross checked the value inputs against source documents. We found the calculated results not unreasonable.

2012 Rate Case Depreciation Offset

Schedule 11 computes the 2012 Rate Case Depreciation Offset. The Company's calculation complied with the Commission-approved formula in Case No. 21-0618-GA-RDR.

Accumulated Deferred Income Taxes (ADIT)

ADIT on Post in Service Carrying Costs (PISCC)
ADIT on Property Tax
ADIT on Cumulative Offset for Incremental Revenue
ADIT on Liberalized Depreciation
Total Accumulative Deferred Income Taxes

[15] Stipulation and Recommendation in Case No. Case No. 19-0791-GA-ALT, ¶ 10.

ADIT on PISCC, Property Tax, and Incremental Revenue Offset is computed by applying the 21 percent federal tax rate to the regulatory asset balances; the CEP model automatically performs the calculation on the final adjusted regulatory asset balances at Schedule 1, Lines 14 through 16.

Schedule 12 computes ADIT on liberalized depreciation. Blue Ridge reviewed the calculation and detailed supporting workpapers.[16] We found the results not unreasonable. However, to the extent Blue Ridge recommended adjustments to CEP plant assets, there could be an impact to the balance.

Revenue Requirement Computation

Schedule 1 computes the revenue requirement for the period ended December 31, 2022. Blue Ridge verified the CEP model carried forward the appropriate balances and activity computed on Schedules 4 through 13.

Residential Rate Caps

In Case No. 19-0791-GA-ALT, the Company agreed to a cap on residential customer rates at $11.31 for investment year 2022. The residential rate cap also governs the Company's deferral authority.[17] Blue Ridge found the Company's adjustment to remove CEP plant additions that would presumably exceed the caps not unreasonable.

Revenue Reconciliation

Schedule 13 computes (over) or under-recovered revenues collected from prior periods. Blue Ridge reviewed the Company's calculation and found the results not unreasonable. The cumulative under-recovered revenue balance as of December 31, 2022, is $1 million, increasing the residential rate from $11.31 to $11.46.

[16] Duke's response to audit scope 2022 Data Request BR-DR-01-085.
[17] Stipulation and Recommendation in Case No. Case No. 19-0791-GA-ALT, ¶ 4.

12. Adjustments and Other Recommendations

Requirement: Recommend and support specific adjustments to the plant in-service balance based on any findings or lack of necessity, unreasonableness, or imprudence, with an emphasis on CEP expenditures and assets.

Adjustments #1–4: Blue Ridge identified several work orders that contained expense-related items, totaling $151,188, that should not be capitalized:

1. Work Order 315986A—Customer Connect – Core — Adjustment of $973
2. Work Order AW2133—Butler Cnty Phase I C210 & LP07 — Adjustment of $205
3. Work Order SG581MTRS—SG DEO AMI Meters – 581 — Adjustment of $10
4. Work Order Q3680—C350 (C314V) Central Corridor — Adjustment of $150,000

No adjustment is required to the CEP revenue requirements in this case, as the Company excluded plant placed in service after February 2022 from the CEP to stay under the CEP cap. While these amounts are not reflected in the CEP revenue requirements, unless removed, they will be reflected in plant in service balances used in future filings. Therefore, Blue Ridge recommends that an adjustment to gross plant be made for each of these items:

Table 9: Impact of Adjustments on Gross Plant-in-Service for the Twelve Months Ended December 31, 2022 ($ in millions)

Adj #	Description		Amount
	2022 CEP Plant Additions, Net of Retirements		**$ 389,391,909**
1	Customer Connect (WO# 3159864A)		$ (973)
	Advertisement	(105)	
	Dues	(91)	
	Informational Advertising	(575)	
	Office Supplies	(202)	
2	Entertainment (WO# AW2133)		(205)
3	Office Supplies (WO# SG581MTRS)		(10)
4	Severance/Retention (WO# Q3680)		(150,000)
	Subtotal Adjustments to 2022 Activity		$ (151,188)
	Adjusted Total Plant-In-Service		$ 389,240,722
	Less: Excess Above Cap - As Filed		(294,129,733)
	Less: Excess Above Cap - Audit Adjustments		151,188
	Total CEP Plant-In-Service		**$ 95,262,176**

Blue Ridge has the following recommendations.

Recommendation #1: In 2023, the Company implemented a process to auto-unitize blanket Distribution work orders. Blue Ridge recommends that the next audit review the new procedures to determine whether the Company does reduce the backlog of blanket projects because of this new process.

Recommendation #2: The Company recently added two new FERC 303 subaccounts to amortize intangible plant over the course of each asset's expected life. Although the Company did not accrue any charges in either of the add miscellaneous intangible plant accounts during the audit scope period, Blue Ridge recommends that the Company seek Commission approval for the accounts during the next depreciation study.

Recommendation #3: Blue Ridge understands that as of the date of this report, the Company awaiting a final order from the Commission on a base rate case proceeding in Case No. 22-507-GA-AIR. However, for future base rate proceedings, Blue Ridge recommends the following formula modifications the parties should consider prior to the establishment of the rate caps.

1. The current formula established in Case No. 19-791-GA-ALT excludes the impact of deferred income taxes on the deferred depreciation regulatory asset. As of December 31, 2022, the deferred depreciation balance filed by the Company is $70,848,397. Had the related deferred tax liability been reflected, the Company would realize a corresponding reduction to rate base of $(14,878,163) (calculated as $70,848,397 x -21%). While the current formula recognizes the deferred tax liability associated with liberalized depreciation, the regulatory asset is a separate issue that appears to have been either overlooked or conflated.
2. The 2012 Rate Case Depreciation Offset in CEP rate base also has a deferred tax impact that is currently not reflected. To the extent the application of a depreciation offset is still relevant in the future, recognition of the omission would result in a deferred tax asset. As of December 31, 2021, the 2012 Rate Case Depreciation Offset filed by the Company is $(352,151,057). As such, the related deferred tax asset would increase rate base by $73,951,722 (calculated as $(352,151,057) x -21%).
3. In Case No. 21-637-GA-AIR, the parties to the Joint Settlement and Recommendation agreed to eliminate Columbia's 2008 Rate Case Depreciation Offset. However, the modified formula reflects the impact of continuing depreciation activity related to plant additions under the original program (CEP I) on the reserve and ADIT. For purposes of continuity and equity, the parties might consider aligning the formulas between utilities.

DETAILED ANALYSIS, FINDINGS, AND RECOMMENDATIONS

Blue Ridge's review was focused on determining whether Duke has accurately accounted for its non-IRP plant in service and depreciation reserve through the scope period of January 1, 2022, through December 31, 2022, with a focus on CEP expenditures, and whether those investments were used and useful, necessary, reasonable, and prudent.

The following sections discuss Blue Ridge's review of the Company's processes and controls, external and internal audit reports, variance analysis, capital spending and cost containment, detailed transactional testing, work order backlog, and field inspections and desktop reviews. We have also included our findings and recommendations.

PROCESSES AND CONTROLS

POLICIES AND PROCEDURES

Blue Ridge did not perform a management audit but did review the Company's processes and controls to ensure that they were sufficient so as to not adversely affect the balances in net plant in service. Based on the documents reviewed, Blue Ridge was able to understand the Companies' processes and controls that affect each of the plant balances.

Blue Ridge reviewed the Company's processes and controls to obtain an understanding of their impact on the plant balances. In particular, Blue Ridge reviewed the following policies and procedures.[18]

1. Plant Accounting:
   a. Capitalization vs Expense
   b. Preparation and approval of work orders
   c. Recording of CWIP, including the systems that feed the CWIP trial balance
   d. Application of AFUDC
   e. Recording and closing of additions, retirements, cost of removal, and salvage to plant
   f. Unitization process based on the retirement unit catalog
   g. Application of depreciation
   h. Contributions in Aid of Construction (CIAC)
   i. Damage Claims
2. Purchasing/Procurement
3. Accounts Payable/Disbursements
4. Accounting/Journal Entries
5. Payroll (direct charged and allocated)
6. Insurance recovery
7. Allocations
8. Work Management System
9. Information Technology
10. Capital Project selection and prioritization
11. System planning and load growth

Capitalization: The Company's capitalization policy provides compliance and guidance with respect to the accounting classification for addition, replacement, and betterment of property,

[18] Duke's response to audit scope 2022 Data Request BR-DR-01-013, Attachments—Confidential.

plant, and equipment. The policy provides regulatory & accounting guidance, key responsibilities, definitions, and capitalization guidelines for additions and replacements.

Policies and procedures for the preparation and approval of work orders; recording of CWIP; AFUDC; recording and closing of additions, retirements, cost of removal, and salvage; unitization, depreciation, and contributions in aid of construction are all covered in the Company's capitalization policy.

The Company has a separate Public Damage Natural Gas Process (End-to-End) policy that provides guidelines for damage claims.

Purchasing/Procurement: Duke has separate procedures for purchasing controls, contract administration, and authority.

Accounts Payable / Disbursements: Duke's Accounts Payable policy provides purpose, philosophy, roles and responsibilities, and the guidelines for business/corporate units. Separate policies exist for establishing approval authority controls and bank account and check disbursement and signing.

Accounting / Journal Entries: Separate policies also exist to address Duke's accounting policy and intercompany transactions policy.

Payroll: The Labor Charging and Payroll policy covers expectations, terms, and roles and responsibilities regarding employee labor charging and payroll.

Insurance: The Company does not have a formal policy and procedure for insurance claims recovery where there is first party damage. However, Blue Ridge examined a narrative of the process as well as the accounting entries the Company uses for claims that result in the replacement of a capital asset.[19]

> Gas Operations is made aware of a dig-in event or public-damage-related leak and is dispatched to the field. The field performer arrives on site, performs an assessment, and makes the scene safe. The field performer then initiates an order for the location and selects the appropriate job plan for the type of work to be performed (O&M or Capital). The selection of the job plan type determines the project accounting for the work to be performed. Each operations center/resource center has a table of job plans with corresponding project numbers that also contain the related accounting projects and FERC information in its set-up. This information is behind the scenes and does not require the field performer to populate the information; they select the job plan only.
>
> Once the repairs are performed, the costs for the repair are compiled. These costs would include labor, equipment, material, gas loss if any, and contractor costs if any. The costs are compiled by office coordinators and sent to PRG for invoice generation. PRG receives the raw costs and enters them into cost calculators that were developed and periodically updated by Duke Energy. PRG determines the compiled costs and provides that information back to the appropriate office coordinator with the claim number, invoicing details, invoice amounts, PRG fees, and invoice number. The office coordinator then goes into the billing tab for the work order for the work performed and enters the appropriate dollar amounts and accounting strings from the order and based on the job plans that were

[19] Duke's response to audit scope 2021 Data Request BR-DR-01-045.

selected. The billing tab is updated with the financial information from the invoice, and it is set to the ready state. Setting the billing tab to the ready state causes an interface to initiate that captures the financial and invoice information and sets up an account receivable within PeopleSoft. The account receivable is thereby recorded and awaits payment by the damaging party.

The result of this process is that expenses and costs of repairs are captured at the operations center/resource center level using accounting strings that are associated with the job plan selection. The other result of this process is that payments and reimbursements from damaging parties are then posted against these same accounting strings so that costs and reimbursements are captured together and offset each other.

Allocations: The Service Company Allocations group is responsible for providing current allocation percentages and the methods used according to the policy guidelines.

Work Management System: Duke provided documents giving procedural instruction to creating work orders and approving work orders.

Information Technology: The Company's IT policy covers personnel, terms, and functions that define the governance framework for it services.

Capital Project Selection and Prioritization: Duke provided a detailed flowchart addressing the selection and prioritization of capital projects. Duke also explained that the Duke Energy Natural Gas Business Unit utilizes a capital planning process that identifies specific categories for evaluation. Examples of these types of capital categories include TIMP, DIMP, Measurement & Regulation, System Infrastructure, etc. Each of these categories is assigned to a leader within the respective organization. They work with subject-matter experts within those categories to develop scope documents (charters) for projects that will be estimated and logged into the ECOSYS system. This system then allows for tracking of projects by category, compliance need, customer impact, yearly anticipated spend (for multi-year projects), and facilitates generating a year-over-year capital budget. Within each category, evaluations are conducted to ensure appropriate compliance and risk mitigation measures are met while providing visibility of resource needs by business unit, state, and resource center. Higher level discussions occur with management to ensure necessary capital funding is requested and approved to achieve these needs across all budget categories. Risk ranking methodology varies by category but typically aligns with a risk-based approach for integrity management programs as defined by PHMSA, or considers the potential customer outage impacts and system reliability during high demand conditions. As system conditions and knowledge change, project charters are developed and implemented into ECOSYS for evaluation and approval.[20]

System Planning and Load Growth: The Company does not have formal policies or procedures for this area; however, a narrative of the procedure was provided.[21] The Company stated that it performs a linear regression analysis of its most recent customer data (actual customer send out data the past five winters) to update its understanding of how customers use natural gas for baseload purposes and in response to weather (i.e., usage per heating degree day). The Company calculates the forecasted customer usage under design-day conditions (79 Heating Degree Days) and then applies its customer growth projection for the upcoming winter periods to arrive at its Design Day requirements for the future winters. The Company's sales and marketing team

[20] Duke's response to audit scope 2021 Data Request BR-DR-01-044.
[21] Duke's response to audit scope 2021 Data Request BR-DR-01-043.

develops customer growth projections by which it reviews historical customer additions, holds discussions with various business leaders, trade allies, and field sales employees, and considers forecasts of local, regional, and national business drivers (e.g., economic conditions and demographics) to derive projections of the change in its customer count over time.

Capital Spares: Duke identified the pages in its Capitalization Guidelines that identify criteria, process, and approvals for capital spares.

Blue Ridge also requested any changes in the policies that may have occurred in 2022. The Company responded with certain minor changes that had been incorporated in 2022, but after examining those changes, Blue Ridge found nothing significant that would adversely impact the balances in distribution utility net plant in service.[22]

In conclusion, Blue Ridge found that Duke's policies and procedures were adequate and not unreasonable.

SUBACCOUNTS

Blue Ridge requested and reviewed the recently added FERC 300 accounts that were not included in the most recent Commission-approved depreciation accrual rates. The Company added two additional FERC 303 subaccounts to amortize intangible plant over the course of each asset's expected life.

- 30315 Miscellaneous Intangible Plant—15 Year: Amortize intangible plant with an expected useful life of 15 years
- 30350 Miscellaneous Intangible Plant—50 Year: Amortize intangible plant with an expected useful life of 50 years[23]

Blue Ridge found that the Company did not accrue any charges in either of the added miscellaneous intangible plant FERC accounts during the audit scope period. However, Blue Ridge recommends that the Company seek Commission approval for the new accounts during the next depreciation study.

INTERNAL AUDITS

Blue Ridge requested and reviewed a list of the completed and on-going audits performed by the internal audit group during the period January 1, 2022, through December 31, 2022,[24] and selected 10 internal audit reports to examine further regarding potential findings that could have had an impact on the internal controls of the feeder systems that charge distribution work orders or feed CWIP, including those affecting payroll, materials and supplies, transportation, overheads, and contractors.

Based upon our review, the conclusions for the examined audits did not create a level of concern that the Company's controls were less than adequate. Certain audit findings will need the Company's follow-up and resolution, but those findings would not impact the CEP either directly or indirectly. Blue Ridge was satisfied, therefore, that the audit findings had no adverse impact to the CEP.[25]

[22] Duke's response to audit scope 2022 Data Request BR-DR-01-013—Confidential.
[23] Duke's response to audit scope 2022 Data Request BR-DR-01-025.
[24] Duke's response to audit scope 2022 Data Request BR-DR-01-016—Confidential.
[25] Duke's response to audit scope 2022 Data Request BR-DR-01-043—Confidential.

EXTERNAL AUDITS

The Company could be subject to various external audits, particularly of FERC. Blue Ridge requested a copy of all FERC and other regulatory audit reports issued during the scope period. The Company responded with three audits, none of which had issues and were of no impact to the CEP.[26]

SOX COMPLIANCE AUDITS

While the Company's internal auditors do not perform SOX compliance audits, individual control testing is performed by management and on behalf of management for IT controls. Controls are selected for testing based on a risk assessment performed by the SOX team. No findings were associated with any controls tested that could have an impact on utility plant-in-service balances for the scope period.[27]

CONCLUSION—PROCESSES AND CONTROLS

Blue Ridge concludes that Duke's processes and controls were adequate and not unreasonable.

VARIANCE ANALYSIS

Blue Ridge's variance analysis focused on two areas: (1) reconciliation of CEP annual additions and retirements with the Company's FERC Form 2 and (2) additions and retirements within the individual distribution and intangible plant accounts for each scope year. Blue Ridge took note of anomalous or undefined changes in balances and asked the Company for explanations. Based on its investigative and analytical evaluation of the causes and details included in the Company's explanations, Blue Ridge attempted to determine the reasonableness of those changes.

The Company provided the reconciliations for 2022 additions and retirements to the FERC Form 2 additions and retirements.[28]

Additionally, Blue Ridge asked about several accounts on the FERC Form 2 that showed transfers.[29] After reviewing the detail, Blue Ridge found one of the transfers affected the CEP in allocating an amount from the Duke Service Company to the Company's FERC account 303. After additional review of the allocation, Blue Ridge found the activity part of normal plant accounting.[30]

Blue Ridge examined the plant account additions and retirements from the CEP filing[31] to gain understanding of the specific account changes and to analyze any anomalies identified. Blue Ridge submitted four data requests to the Company to obtain explanations for anomalies identified, such as negative additions, significantly greater additions than retirements, and retirements significantly greater than additions.[32] The responses from the Company required some follow-up. However, after reviewing the responses, Blue Ridge found the activity not unreasonable and part of normal plant accounting.

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[26] Duke's response to audit scope 2022 Data Request BR-DR-01-015, Attachments—Confidential.
[27] Duke's response to audit scope 2022 Data Request BR-DR-01-017.
[28] Duke's response to audit scope 2022 Data Request BR-DR-01-044.
[29] Duke's response to audit scope 2022 Data Request BR-DR-01-048.
[30] Duke's response to audit scope 2022 Data Request BR DR-01-049.
[31] As presented in Excel spreadsheets as response to STAFF-DR-01-001 Attachment 1, tabs "WP4.1 – Assets by FERC" and "WP4.2 – Retirements by FERC."
[32] Duke's responses to audit scope 2022 Data Requests BR-DR-01-045, 046, and 047.

CONCLUSION—VARIANCE ANALYSIS

Based on the variance analyses performed, Blue Ridge was satisfied that the activity was not unreasonable.

DETAILED TRANSACTIONAL TESTING

The Company provided a list of 414 work orders that support gross plant in service from January 1, 2022, through December 31, 2022. The list included 410 CEP-related work orders and 4 non-CEP-related work orders. These work orders included $418,865,261 in assets.

In addition, the Company provided a list of major additions or replacements that were placed in service for the same period:

Table 10: List of Major Additions or Replacements placed in-service in 2022[33]

CEP Category	FP Category	FP#	FP Description	2022 Actuals - Closed to Plant
DISTRUBUTION IMPROVEMENTS	SYSST-System Infrastructure	C314V	C350 Central Corridor	161,816,174
DISTRUBUTION IMPROVEMENTS	SYSST-System Infrastructure	REG0036	STA 910 - Norwood Station	43,415,179
DISTRUBUTION IMPROVEMENTS	SYSST-System Infrastructure	GC350GMRS	C350-A000b - Glendale Milford RegS	17,842,388
DISTRUBUTION IMPROVEMENTS	RSERV-Replacement Services	GSERVMC	SERVICES M-C BLANKET	16,263,212
DISTRUBUTION IMPROVEMENTS	RSERV-Replacement Services	GASRPOH	Accelerated Service Replacement Pro	15,793,431
DISTRUBUTION IMPROVEMENTS	SYSST-System Infrastructure	GC210LP07	Butler Cnty Ph I C210 & LP07	13,476,806
DISTRUBUTION IMPROVEMENTS	NSERV-New Service	GSERVNEW	SERVICES BLANKET NEW OH BLANKET	13,059,271
DISTRUBUTION IMPROVEMENTS	RANDC-New Business	GMAINS	MAINS Pools	12,008,945
DISTRUBUTION IMPROVEMENTS	MANDR-Metering & Regulation	GSTA0022	STA 911 - Huntsville Station	9,726,663
DISTRUBUTION IMPROVEMENTS	METER-Purchased Meters, ERTS, Regulators	GPUINEW	Purchase and Install M&R BLANKET	5,239,331
COMPLIANCE	TIMP-Transmission Integrity	GCG04DIGS	Line CG04 Digs	(56,964)
DISTRUBUTION IMPROVEMENTS	MISC-Miscellaneous Projects	GWOODSINT	Duke Woodsdale Interconnect (OH)	(100,332)

Blue Ridge considered the following information when selecting projects for transactional testing.

1. Reviewed our understanding of CEP and non-regulatory-recovered projects.

   Blue Ridge reviewed its understanding of the difference between CEP and non-regulatory-recovered projects.

2. Reconciliation of Work Order / Annual Informational Reports and Plant-in-Service Schedules

   To ensure that Blue Ridge was provided a comprehensive list of work orders for review and testing, we compared the lists of work orders ("work order population") to the totals in the annual report of utility plant in service filed with the Commission. Blue Ridge was able to reconcile the total additions in the work order population for CEP and non-regulatory-recovered additions to the 2022 annual report.

3. Determining Work Order Sample

   Blue Ridge selected 33 work orders reflecting thousands of cost line items using the probability-proportional-to-size (PPS) sampling technique and professional judgement. The work orders selected based on professional judgment focused on individual (rather than blanket) work orders that have a high-dollar value and occurred from January 1, 2022, through December 2022.

[33] Duke's response to audit scope 2022 Data Request BR-DR-01-005.

To satisfy the review of these areas of focus, Blue Ridge formulated the objective criteria into the following transactional testing steps, labeled T1 through T12. Blue Ridge's observations and findings against the criteria follow.

- T1: Project Type
  - T1A: Is the work related to Duke Energy Ohio (Natural Gas)?
  - T1B: Is the work order CEP, Rider AMRP, Rider AU, or "other capital investments?
  - T1C: Is the work order specific, blanket, multi-year, or other?
  - T1D: Is the work order an addition, replacement, non-project allocation, or other?
- T2: Project Category
  - T2A: Is the work order Infrastructure Expansion, Improvement or Replacement?
  - T2B: Is the work order Installation, Upgrade or Replacement of Information Technology?
  - T2C: Is the work order a Program Reasonably Necessary to comply with Commission Rules, Regulations, and Orders?
- T3: Capital Scope
  - T3A: Is the scope of work properly classified as capital and charged to the proper FERC 300 account(s) as dictated by the FERC code of accounts (CFR 18)?
- T4: Justification
  - T4A: For specific or multi-year work orders (i.e., not blankets), does the project have detailed justification that supports that it was necessary and not unreasonable?
- T5 Approval
  - T5A: Did the work order have proper level of approval?
- T6: Budget
  - T6A: Does the work order / project have an approved budget?
  - T6B: Are the work order costs +/- 20% of the approved budget?
  - T6C: Are explanations and approvals provided for cost overruns 20% and greater over the approved budget?
- T7: In-Service Dates
  - T7A: Is the actual in-service date in line (at or before) with the estimated in-service date.
  - T7B: Was the work order in service and closed to UPIS within a reasonable time period from project completion, and if not, was AFUDC stopped?
- T8: Continuing Property Records
  - T8A: Do the Continuing Property Records support the asset completely and accurately?
- T9: Cost Categories
  - T9A: For work orders, are the cost categories (Payroll, M&S, etc.) not unreasonable and support the work order total?
  - T9B: For "other" (referring to T1d above), are the description and costs not unreasonable?
- T10: Revenue-Generating
  - T10A: For CEP additions, will the work order generate revenue? If so, how has the revenue been quantified?
- T11: Replacement projects
  - T11A: Were assets retired?
  - T11B: Was the date of retirement and cost of removal in line with the asset replacement date?
  - T11C: Is the amount of the retired asset not unreasonable?
  - T11D: Was salvage recorded?
  - T11E: Was cost of removal charged? Is the amount not unreasonable?
- T12: Field Verification
  - T12A: Is the project a candidate for field verification?

The results of the detailed transactional testing performed on the work-order sample are included in the workpapers. Specific observations and findings about the testing are listed below.

T1: Project Type

T1A: Is the work related to Duke Energy Ohio (Natural Gas)?

Based on the scope provided for blanket projects and for special (specific) work orders, the work appears to be attributed to Duke Energy Ohio or allocated to Duke Energy Ohio from the Service Company. Blue Ridge identified one work order with a project description of "Change Regulator/Relief Kentucky." However, the Company explained that the project name was incorrectly populated as "Change Regulatory/Relief Kentucky" and should have been "Change Regulatory/Relief Ohio." Duke also provided screen shot proof from PowerPlan indicating that the charges were indeed for Ohio but incorrectly labeled when responding to Blue Ridge's work order sample data request.[34] Blue Ridge found the Company's explanation not unreasonable.

As discussed in last year's CEP audit report, both Ohio and Kentucky employees use the Kellogg Training facility. The Company stated the cost to construct the Kellogg Training center was not split between Ohio and Kentucky. Some employees who are based in Kentucky may use the facility on a limited basis just as the original training center in Kentucky was used by Ohio employees previously without allocation of the facilities to Ohio. In the 2020 scope audit, Blue Ridge recommended that the facility usage be tracked and that, for its use, non-jurisdictional companies be required to pay rent to be recognized as a revenue offset. The Company stated that the rent schedule should be in place by the close of September 2022.[35] In the 2021 scope audit, Blue Ridge recommended that the next year's audit confirm the implementation. The Company noted in this year's audit that they implemented the new Kellogg Training Center rent for Duke Energy Kentucky effective in September 2022. A revenue requirement was calculated for the facility and allocated between Duke Energy Ohio and Duke Energy Kentucky based on the number of employees being trained from each jurisdiction. The September rent entry included a true-up entry to record rent for the period January 2022 through August 2022. The monthly rent entry was set up as a recurring journal entry through February 2023, at which time the revenue requirement and Ohio/Kentucky allocation for the Kellogg Training Center facility was updated and set up as a recurring journal entry through February 2024. The update will occur annually to account for new capital additions to the facility, accumulated depreciation, base rate case changes, and any change in employee state designations. The current monthly rent for Duke Energy Kentucky is $36,732.[36] Blue Ridge found the Company's explanation not unreasonable.

T1B: Is the work order CEP, Rider AMRP, Rider AU, or "other capital investments"?

CEP-related capital investments involve these three categories of work:

- Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program
- Any program to install, upgrade, or replace information technology systems
- Any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction[37]

[34] Duke's response to audit scope 2022 Data Request BR-DR-01-053.
[35] Duke's response to audit scope 2022 Data Request BR-DR-01-056.
[36] Duke's response to audit scope 2022 Data Request BR-DR-01-056.
[37] Case No. 13-2417-GA-UNC and 13-2418-GA-AAM, Finding & Order (October 1, 2014), page 11.

Rider AMRP recovers costs associated with the replacement of certain mains and risers. The rider includes some O&M expense and savings. Rider AMRP has no new plant additions in 2022.[38]

Rider AU is the Smart Grid rider that was suspended in 2019 and discontinued in 2020. Rider AU has no new plant additions in 2022.[39]

The Company did not have additions to plant in service for IRP, Rider AU, Rider AMRP work orders for calendar year 2022. The Company has no active rider mechanism that would capture 2022 additions other than Rider CEP.[40]

Blue Ridge sampled 33 work orders; 31 of the work orders were included as CEP deferrals. The remaining two work orders in the sample were classified as non-CEP, capital investments and were not included in the CEP revenue requirement calculation.

T1C: Is the work order specific, blanket, multi-year, or other?

Duke utilizes two types of projects—*specifics* and *blankets*—to capture costs for capital expenditures. Of the 33 work orders / projects in the sample that Blue Ridge tested, 27 (82%) were specifics, and 6 (18%) were blankets.

Table 11: Number of Work Orders / Projects That are Specials or Blankets

	CEP	%	Non-CEP	%	Total PIS	%
Specific	25	81%	2	100%	27	82%
Blankets	6	19%	0	0%	6	18%
Total	**31**	**100%**	**2**	**100%**	**33**	**100%**

T1D: Is the work order / project an addition, replacement, non-project allocation, or other?

Blue Ridge identified the following breakdown:

Table 12: Breakdown of Number of Additions, Replacements, etc. Sampled

	CEP	Non-CEP	Total
Additions	11	0	11
Replacements	20	2	21
Total	**31**	**2**	**33**

T2: Project Category

Blue Ridge identified the project recovery category for each work order sampled. The following table records their alignment.

Table 13: Project Recovery Category

Category	# of Work Orders
Infrastructure Expansion, Improvement or Replacement	29
Installation, Upgrade or replacement of Information Technology	2

[38] Duke's response to audit scope 2022 Data Request BR-DR-01-038.
[39] Duke's response to audit scope 2022 Data Request BR-DR-01-037.
[40] Duke's response to audit scope 2022 Data Request BR-DR-01-039.

Program Reasonably Necessary to comply with Commission Rules, Regulations, and Orders	0
Non-CEP	2
Total	**33**

T2A: Is the work order Infrastructure Expansion, Improvement or Replacement?

Blue Ridge identified 29 of the 31 CEP-related work orders / projects that were associated with infrastructure, improvement, or replacement.

T2B: Is the work order Installation, Upgrade or Replacement of Information Technology?

Blue Ridge identified two of the 31 CEP-related work orders to be associated with installation, upgrade, or replacement of information technology. Each of the IT projects found in the sample, split charges between the Company and another jurisdiction.[41]

1. CEP Related Work Order 315986A—Customer Connect-Core
   a. Company Explanation: Customer Connect-Core was a Duke Energy enterprise-wide project. To ensure that each jurisdiction is appropriately charged for its share of the program, two methods were established for charging:
      i. Direct—Costs that are direct charged to the extent possible. Examples of direct charging on the program comprise activities that can be attributable to a single jurisdiction, including conversion, dress rehearsals, deployment, training, change management, and warranty. In the case of Duke Energy Ohio, direct charging primarily took place in the months surrounding the April 2022 deployment to Midwest customers.
      ii. Allocated—Costs that cannot be direct charged are distributed to the applicable jurisdictions using the "number of customers ratio" allocation method. The Service Company allocation factors are reviewed and updated annually by Corporate Accounting in Duke Energy's Cost Allocation Manual. Customer Connect charges the Operating Unit "DCIS" (M&CR Cust Info Sys) when goods and services are for the benefit of all jurisdictions. Examples of allocated costs include planning, design, build, validate, testing, quality assurance, project controls, and production support. Please see BR-DR-01-051 Attachment for the jurisdictional allocation associated with the "number of customers ratio" allocation method.[42]

   Blue Ridge found the Company's explanation not unreasonable.

2. CEP Related Work Order GCTA3006O—INTGO_PI SCADA Data Implementation
   a. Company Explanation: PI SCADA Data Implementation was a five-state (OH, KY, TN, NC, SC) gas project, and the distribution was done based on customer count.[43]

   Blue Ridge found the Company's response not unreasonable.

T2C: Is the work order a Program Reasonably Necessary to comply with Commission Rules, Regulations, and Orders?

[41] Duke's response to audit scope 2022 Data Request BR-DR-01-051.
[42] Duke's response to audit scope 2022 Data Request BR-DR-01-051.
[43] Duke's response to audit scope 2022 Data Request BR-DR-01-051.

Blue Ridge found that none of the 31 CEP-related work orders was identified as associated with Program Reasonably Necessary to comply with Commission rules, regulations, and orders.

T3: Capital Scope

T3A: Is the scope of work properly classified as capital and charged to the proper FERC 300 account(s) as dictated by the FERC code of accounts (CFR 18)?

The Company provided descriptions of the type of work included in specific work orders in the sample. Blue Ridge evaluated the information to determine whether the work orders in the sample were appropriately classified as capital and charged to the proper Intangible, Distribution, and General Equipment FERC 300 accounts. Blue Ridge identified 10 potential expense-related cost codes[44] that warranted further review.

Table 14: Cost Code Company Explanations[45]

Resource Type	Resource Type Description	Brief Explanation
15000	Severance[46]	Used to record severance benefits received by employees, including but not limited to lump sum cash payments, COBRA coverage and outplacement services, provided by the Company to employees upon termination of employment, typically because of layoff, downsizing, or job elimination. Prior to 1/1/2023, also included Retention Bonus payments paid by the Company to selected employees whose employment is deemed critical to the Company for a specified period of time.
15001	Incentive Pay[47]	Used to record incentive payments made associated with the Short Term Incentive Plan (STI) and Union Employee Incentive Plan (UEIP) (offset to liability account).
18310	Service/Safety Awards	Charges related to the recognition of Service Anniversary awards or items purchased for Safety Awards such as shirts and hats.
31001	Advertisements	Corporate advertising campaigns
31003	Informational Advertising	Customer awareness advertising (811 Call Before You Dig, gas pipeline safety, gas choice opt out bill insert, summer disconnect letter, winter bill assistance, etc.)
33000	Office Supplies & Expenses	Cost of office supplies such as pens, paper, etc.
33001	Postage & Freight	Business-related postage and shipping costs such as UPS, FedEx, USPS, etc.
36002	IT Software Maintenance	Vendor updates, modifications and support of a software product after delivery.
40000	Travel Expenses	Other travel and transportation costs while traveling on company business.
40001	Air Travel Cost	Airline tickets purchased for company business travel.
40002	Meals and Entertain (Billable)	Cost of employee meals and expenses to be billed to an outside party.

[44] Duke's response to audit scope 2022 Data Request BR-DR-01-014.
[45] Duke's response to audit scope 2022 Data Request BR-DR-01-058.
[46] There is no connection to earnings per share or O&M expense.
[47] Balance sheet only transactions (not the actual incentive expense) and receives 0% attributable to earnings per share or O&M expense.

Resource Type	Resource Type Description	Brief Explanation
40007	PersMobileDevice reimbursement	$50 monthly reimbursement for Smartphone service; only for eligible participants in the Personal Mobile Device program.
41000	Meals and Entertainment (50%)	Cost of employee meals when overnight lodging is incurred, during power outage restoration efforts, while attending approved conferences and formal meetings, for business meetings with external customers, for employee meetings to discuss business.
49002	Dues - Deductible	Annual dues to civic or professional organizations.
49004	Entertain 100% Non-Deduct	Expenses incurred while entertaining vendors, customers, prospective customers or persons from other companies.
60007	Rent	Fees charged for use of tangible or intangible property for an agreed period, such as office rent, office equipment lease, and maintenance and other operating leases.
62000	Contract Retention	Retainage of contract payment until vendor performance can be confirmed, per contract.
69010	SA50%	Resource type to enable charges from Staff Augmentation vendors to interface with payables system. Contract employee expenses (50% deductible).
69020	SAPERDIEM	Resource type to enable charges from Staff Augmentation vendors to interface with payables system. Contract employee per diem expenses.
69030	SA100%	Resource type to enable charges from Staff Augmentation vendors to interface with payables system. Contract employee expenses (100% deductible).

Within the sample, Blue Ridge found four work orders that warranted further review:

1. CEP Related Work Order 315986A—Customer Connect - Core—$20,255,190.39
   a. Scope: Enterprise-wide Duke IT initiative. Customer engagement platform that ensures we deliver universal, simple and consistent experiences across channels.
   b. Blue Ridge initial concern: Expense related items charged to project
   c. The Company provided the invoices and supporting documentation for Resource Type Charges for Advertisements, Dues, Informational Advertising, and Office Supplies & Expense work. The Company noted that the charges are a result of service company allocations.[48]

   Blue Ridge found that this work order contained expense-related items totaling $973. However, the Company has already excluded this work from the CEP as the in-service date for this work order is 4/6/22, which is after the CEP cap was met in February 2022. Blue Ridge recommends an adjustment to gross plant of $973. **[ADJUSTMENT #1]**

2. CEP Related Work Order AW2133—Butler Cnty Phase I C210 & LP07—$13,224,422.41
   a. Scope:
      i. Tie C210 into proposed Liberty Station at 24" valve.
      ii. Purge nitrogen from C210 and gas up line.

[48] Duke's response to audit scope 2022 Data Request BR-DR-01-077—Confidential.

iii. Tie C210 into 4" C257 at intersection of Milikin Rd and Princeton Glendale Rd with 600' of 6" Steel (500 psig MAOP).
iv. Tie C210 into 4" CG82 where line C210 they cross near Hamilton Middletown Rd with 4" tap (500 psig MAOP)
v. Tie C210 into LP07 via 3,100' 12" Steel (500 psig MAOP). Cap and abandon stubs remaining on Woodsdale property.
vi. Tie LP07 into 4" CG87 on Hamilton Middletown Rd with 500' of 4" Steel (500 psig MAOP).
vii. Disconnect/Isolate LP07 from HP system on Hollybrook Dr (1" service jumper)
viii. Tie LP07 into LL00 with 1,750' of 12" Steel (500 psig MAOP).
ix. Cap and Abandon LP07 segments on Todhunter Cavern Property
x. Disconnect/Isolate LL00 from A000a.

b. Blue Ridge initial concern: Expense related items charged to project
c. The Company provided the invoices and supporting documentation for Resource Type Charges for Entertainment work. The Company noted that the charges are a result of service company allocations.[49]

Blue Ridge found that this work order contained expense-related items totaling $205. However, the Company has already excluded this work from the CEP as the in-service date for this work order is 12/6/22, which is after the CEP cap was met in February 2022. Blue Ridge recommends an adjustment to gross plant of $205. **[ADJUSTMENT #2]**

3. CEP Related Work Order Q3680—C350 (C314V) Central Corridor—$152,069,501.33
   a. Scope: Natural Gas Business Unit proposes to install 12.7 miles natural gas distribution pipeline that will enable the retirement of two propane peaking facilities, help in balancing gas supplies from north to south, and provide for greater flexibility to upgrade existing natural gas infrastructure. The pipeline will be constructed of 20" diameter steel pipe and supply the central heart of the natural gas system. The pipeline starts at an existing 24" diameter distribution pipeline at WW Feed Station and traverses 12.7 miles south through nine urban neighborhoods to the Norwood Station
   b. Blue Ridge initial concern: Expense related items charged to project
   c. The Company provided the invoices and supporting documentation for Resource Type Charges for Informational Advertising and Office Supplies & Expense work. The Company noted that the charges are a result of service company allocations.[50]

   Blue Ridge found the Company's response not unreasonable.

4. CEP Related Work Order SG581MTRS—SG DEO AMI Meters - 581—($882,564.59)
   a. Scope: SG DEO AMI Meters - 581. Installation of Transmitter Modules.
   b. Blue Ridge initial concern: Expense related items charged to project
   c. The Company provided the invoices and supporting documentation for Resource Type Charges for Office Supplies & Expense work. The Company noted that the charges are a result of service company allocations.[51]

   Blue Ridge found that this work order contained expense-related items totaling $10. However, the Company has already excluded this work from the CEP as the in-service

[49] Duke's response to audit scope 2022 Data Request BR-DR-01-077—Confidential.
[50] Duke's response to audit scope 2022 Data Request BR-DR-01-077—Confidential.
[51] Duke's response to audit scope 2022 Data Request BR-DR-01-077—Confidential.

date for this work order is a Blanket work order and the costs were incurred on 10/14/22, which is after the CEP cap was met in February 2022. Blue Ridge recommends an adjustment to gross plant of $10. **[ADJUSTMENT #3]**

T4: Justification

T4A: For specific or multi-year work orders (i.e., not blankets), does the project have detailed justification that supports that it was necessary and not unreasonable?

Of the 31 CEP work orders / projects sampled, six are blanket projects. Blanket projects do not have detailed justification, as projects within this classification are similar, typically of a smaller dollar value, and are constructed and put into service quickly (i.e., projects of fewer than 30 days). These projects represent normal recurring utility work.

The Company provided detailed documentation that supported the specific (special) work orders for 10 of the 25 specific work orders in the sample. The documentation defined the scope of the project and, for the most part, the necessity of the project.

For the remaining 15 work orders, Blue Ridge reviewed the scope of work, project type and further Company-provided information[52] to determine if the work could have had alternatives.

1. Work Order AW2128—Norwood Station 868—$9,576,371.19
   a. Funding Project: C314V
   b. Category: SYSST-System Infrastructure
   c. Actual In-Service Date: 2/28/22
   d. Scope of Work: Install new system M&R Station: Norwood Station 868. C350 (C314V) Central Corridor. (EXTEND F/L C314 FROM F/L WW TO F/L V - #868 Norwood Station.)
   e. Company Explanation:
      i. Driver of Work: Pressure Improvement
      ii. Alternative Considered: Continue to run propane air plants.[53]

   Blue Ridge found the Company's explanation not unreasonable.

2. Work Order AW2133—Butler Cnty Phase I C210 & LP07—$13,224,422.41
   a. Funding Project: GC210LP07
   b. Category: SYSST-System Infrastructure
   c. Actual In-Service Date: 12/6/22
   d. Scope of Work:
      i. Tie C210 into proposed Liberty Station at 24" valve
      ii. Purge nitrogen from C210 and gas up line.
      iii. Tie C210 into 4" C257 at intersection of Milikin Rd and Princeton Glendale Rd with 600' of 6" Steel (500 psig MAOP).
      iv. Tie C210 into 4" CG82 where line C210 they cross near Hamilton Middletown Rd with 4" tap (500 psig MAOP).
      v. Tie C210 into LP07 via 3,100' 12" Steel (500 psig MAOP). Cap and abandon stubs remaining on Woodsdale property
      vi. Tie LP07 into 4" CG87 on Hamilton Middletown Rd with 500' of 4" Steel (500 psig MAOP).
      vii. Disconnect/Isolate LP07 from HP system on Hollybrook Dr (1" service jumper)

[52] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[53] Duke's response to audit scope 2022 Data Request BR-DR-01-052.

viii. Tie LP07 into LL00 with 1,750' of 12" Steel (500 psig MAOP).
ix. Cap and Abandon LP07 segments on Todhunter Cavern Property
x. Disconnect/Isolate LL00 from A000a.

e. Company Explanation:
   i. Driver of Work: Pressure Improvement
   ii. Alternative Considered: Abandon Lines C210 & LP07 and replace 3 miles of existing 6” Line CG02 with 12”.[54]

Blue Ridge found the Company’s explanation not unreasonable.

3. Work Order AW2215—STA 910 - Norwood Station—$43,415,178.75
   a. Funding Project: REG0036
   b. Category: SYSST-System Infrastructure
   c. Actual In-Service Date: 11/7/22
   d. Scope of Work: Norwood Sta 910 to replace Norwood Sta 36.
   e. Company Explanation:
      i. Driver of Work: Norwood Station is a critical juncture located on the Cincinnati natural gas high pressure system loop. Gas is conveyed from the KO system via the 20” line V000 to the central corridor through this station. Gas is distributed to the 20” line A000 and 20" line W000 from this station. Line W000 feeds a large industrial area located to the west of Norwood. In addition, the high pressure output from the Eastern Avenue propane-air peaking plant is delivered to Norwood Station via line N for distribution to the core of our system. Norwood Station also feeds IP systems in the area. It was originally built in the 1950’s as a staffed station and a number of pits were added in 1987 that allowed the operation of this station to be automated. The existing station property is constrained, abutting Carthage Avenue to the west and surrounded by residential developments to the south and west. The grass area to the east is occupied by a number of major pipelines and a deep sanitary sewer system. The station property is located in a low area that is prone to flooding. The regulator pits are in poor condition, do not drain well and are difficult to work in. Pressure from the road embankment has caused movement of pit block walls and pit covers are deteriorated, are not very secure and have broken slide mechanisms that require extensive effort to open. The equipment in the main regulator building is antiquated, pipelines are pitted with corrosion and sound levels can be extremely high despite noise abatement attempts. Facilities are not in place to permit ILI of inlet or outlet lines. The brick office/controls building has been plagued by leaks and moisture problems and needs replaced.
      ii. Alternatives Considered: No viable alternatives.[55]

Blue Ridge found the Company’s explanation not unreasonable.

4. Work Order AW2221—C350-A000b-Glendale Milford Reg 908—$17,527,443.93
   a. Funding Project: GC350GMRS
   b. Category: SYSST-System Infrastructure
   c. Actual In-Service Date: 12/15/22
   d. Scope of Work: Glendale Milford Reg Sta 908. Construct new regulator station between Line A & Line C350

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[54] Duke’s response to audit scope 2022 Data Request BR-DR-01-052.
[55] Duke’s response to audit scope 2022 Data Request BR-DR-01-052.

e. Company Explanation:
   i. Driver of Work: Pressure Improvement
   ii. Alternatives Considered: Replace 4 miles of existing 12" Line WW with 20" but opted for installing a station.[56]

Blue Ridge found the Company's explanation not unreasonable.

5. Work Order AW2771—STA 0726 Mason Rd Capacity Improv—$1,886,916.48
   a. Funding Project: GSTA0726
   b. Category: SYSST-System Infrastructure
   c. Actual In-Service Date: 12/15/21
   d. Scope of Work: Regulator Station to include: *OPP *Odorization *Filter/Separator *Chromatograph *SCADA
   e. Company Explanation:
      i. Driver of Work: Capacity Improvement
      ii. Alternatives Considered: Continue to run propane air plants.[57]

   Blue Ridge found the Company's explanation not unreasonable.

6. Work Order AW2962—STA 911 - Huntsville Station—$9,711,109.06
   a. Funding Project: GSTA0022
   b. Category: MANDR-Metering & Regulation
   c. Actual In-Service Date: 9/28/22
   d. Scope of Work: Install new regulator station, inlet and outlet piping, valves, above ground components and piping, etc.
      Retire and remove the existing facility after completion of new regulator station. Land/easement acquisition will be required.
      Physical address: 6623 English Oaks Station, Liberty Township, OH 45044, USA
   e. Company Explanation:
      i. Driver of Work: Condition of existing equipment, obsolescence
      ii. Alternatives Considered: No viable alternatives[58]

   Blue Ridge found the Company's explanation not unreasonable.

7. Work Order AW3116—REG 0008 Grandin and Edwards RS Rep—$1,504,561.75
   a. Funding Project: GREG0821
   b. Category: MANDR-Metering & Regulation
   c. Actual In-Service Date: 11/28/22
   d. Scope of Work: Install new District regulator, inlet and outlet piping, valves, above ground components and piping, etc. in accordance with NGBU design and sizing standards.
      Retire and remove the existing facility after completion of new District regulator.
   e. Company Explanation:
      i. Driver of Work: Obsolescence of station. Station contained equipment where replacement parts are no longer available
      ii. Alternatives Considered: Conversion from 1 PSIG to 35 PSIG. Could have abandoned the 1 PSIG system and installed service regulators on individual

[56] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[57] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[58] Duke's response to audit scope 2022 Data Request BR-DR-01-052.

homes. This alternative was seen as a longer term and more expensive project in addition to being a potential burden on our customers.[59]

Blue Ridge found the Company's explanation not unreasonable.

8. Work Order AW3202—REG 0017 Franklin Town Border RS Re—$3,010,510.42
   a. Funding Project: GREG0017
   b. Category: MANDR-Metering & Regulation
   c. Actual In-Service Date: 5/2/22
   d. Scope of Work: *Install new regulator station, inlet and outlet piping, valves, above ground components and piping, etc. in accordance with NGBU design and sizing standards.
      *Retire and remove the existing facility after completion of new regulator station.
   e. Company Explanation:
      i. Driver of Work: Obsolescence of station. Station contained equipment where replacement parts are no longer available
      ii. Alternatives Considered: No viable alternative. Station is critical to servicing the surrounding area.[60]

   Blue Ridge found the Company's explanation not unreasonable.

9. Work Order AW3225—REG 0254 Wasson and Paxton RS Repla—$1,900,432.07
   a. Funding Project: GREG0254
   b. Category: MANDR-Metering & Regulation
   c. Actual In-Service Date: 5/5/22
   d. Scope of Work: Install new District regulator, inlet and outlet piping, valves, aboveground components and piping, etc.
   e. Retire and remove the existing facility after completion of new District regulator.
   f. Company Explanation:
      i. Driver of Work: Obsolescence of station. Station contained equipment where replacement parts are no longer available
      ii. Alternatives Considered: Conversion from 1 PSIG to 35 PSIG. Could have abandoned the 1 PSIG system and installed service regulators on individual homes. This alternative was seen as a longer term and more expensive project in addition to being a potential burden on our customers.[61]

   Blue Ridge found the Company's explanation not unreasonable.

10. Work Order AW3558—REG 0418 Linwood and Delta Station—$2,423,075.39
    a. Funding Project: GREG0418
    b. Category: MANDR-Metering & Regulation
    c. Actual In-Service Date: 2/19/22
    d. Scope of Work: Station Site Location
    e. New installation in pit underground.
    f. Site preparation for new district regulator, location at North End of Linwood and Delta.
       Pipeline/Station Construction - Install approximately 100' of 8" station distribution Inlet piping. Install approximately 100' of 12"-station distribution outlet piping.

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[59] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[60] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[61] Duke's response to audit scope 2022 Data Request BR-DR-01-052.

g. Tie-in and commission district regulator.
h. Abandon and remove existing district regulator Fill existing pits with grout/CDF.
i. Company Explanation:
    i. Driver of Work: Obsolescence of station. Station contained equipment where replacement parts are no longer available
    ii. Alternatives Considered: Conversion from 1 PSIG to 35 PSIG. Could have abandoned the 1 PSIG system and installed service regulators on individual homes. This alternative was seen as a longer term and more expensive project in addition to being a potential burden on our customers.[62]

Blue Ridge found the Company's explanation not unreasonable.

11. Work Order MX2217745—MX2217745 - REGULATOR 408 - CLIFTON—$1,033,995.22
    a. Funding Project: GMREG408
    b. Category: MANDR-Metering & Regulation
    c. Actual In-Service Date: 6/30/22
    d. Scope of Work: STATION 872 - CLIFTON & WARNER Install Reg 408 - Clifton and Warner. Retire Reg 10.
    e. Company Explanation:
        i. Driver of Work: Obsolescence of station. Station contained equipment where replacement parts are no longer available
        ii. Alternatives Considered: No viable alternatives[63]

    Blue Ridge found the Company's explanation not unreasonable.

12. Work Order MX6675538—STA 876 GEORGETOWN—$2,256,042.19
    a. Funding Project: GSTA875
    b. Category: MANDR-Metering & Regulation
    c. Actual In-Service Date: 11/30/22
    d. Scope of Work: STA 876 GEORGETOWN (Installing a new station and abandoning an old one.)
    e. Company Explanation:
        i. Driver of Work: Obsolescence of station. Station contained equipment where replacement parts are no longer available
        ii. Alternatives Considered: No viable alternatives[64]

    Blue Ridge found the Company's explanation not unreasonable.

13. Work Order MX6828079—REG 419 PLAINVILLE AND MURRAY—$1,657,153.87
    a. Funding Project: GMREG419
    b. Category: MANDR-Metering & Regulation
    c. Actual In-Service Date: 10/5/22
    d. Scope of Work: REG 419 PLAINVILLER AND MURRAY
    e. Company Explanation:
        i. Driver of Work: Obsolescence of station. Station contained equipment where replacement parts are no longer available
        ii. Alternatives Considered: Conversion from 1 PSIG to 35 PSIG. Could have abandoned the 1 PSIG system and installed service regulators on individual

[62] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[63] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[64] Duke's response to audit scope 2022 Data Request BR-DR-01-052.

homes. This alternative was seen as a longer term and more expensive project in addition to being a potential burden on our customers.[65]

Blue Ridge found the Company's explanation not unreasonable.

14. Work Order MX7696571—HAM 42 11.98 BRIDGE REHAB - STREET—$618,733.98
    a. Funding Project: GPUBIMP
    b. Category: GRELO-Government Relocation
    c. Actual In-Service Date: 12/15/21
    d. Scope of Work: HAM 42 11.98 BRIDGE REHAB Street Improvement - 12" Steel - IP - Reading OH - STI
    e. Company Explanation:
        i. Driver of Work: Forced governmental relocation.
        ii. Alternatives Considered: No viable alternatives[66]

Blue Ridge found the Company's explanation not unreasonable.

15. Work Order MX9751393—REG 0188 - Columbia and Maple - Reg—$827,676.46
    a. Funding Project: GREG0188
    b. Category: MANDR-Metering & Regulation
    c. Actual In-Service Date: 11/21/22
    d. Scope of Work: REG 0188 - Columbia and Maple - Reg Upgrade and RV Addition
    e. Company Explanation:
        i. Driver of Work: Obsolescence of station. Station contained equipment where replacement parts are no longer available
        ii. Alternatives Considered: No viable alternatives[67]

Blue Ridge found the Company's explanation not unreasonable.

T5 Approval

T5A: Did the work order have proper level of approval?

The Company provided the Capitalization Guidelines, which include the Approval Requirements, updated as of January 2022,[68] as well as a list of the Company's Delegation of Authority (DOA) and Approval of Business Transaction (ABT) policies.[69]

> DOA—applies to routine business transactions that are part of an individual's normal course of business for commitments with a term of 5-years or less. Routine transactions include, but are not limited to, invoice approvals, requisition approvals, employee expense approvals, project approvals, routine sales transactions, and rate case filings and settlements.[70]
>
> ABT—applies to non-routine business transactions, regardless of term, as well as routine business transactions with a term of more than 5-years. Non-routine transactions include, but are not limited to: major approvals and cost overruns; operating and capital leases; acquisitions, mergers, joint ventures, divestitures, and

[65] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[66] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[67] Duke's response to audit scope 2022 Data Request BR-DR-01-052.
[68] Duke's response to audit scope 2022 Data Request BR-DR-01-013(a), Attachment—Confidential.
[69] Duke's response to audit scope 2022 Data Request BR-DR-01-022—Confidential.
[70] Duke's response to audit scope 2022 Data Request BR-DR-01-022, Attachment 1—Confidential.

investments in new lines of business; third party service arrangements; issuance of corporate securities; credit support; guarantees; certain payroll related transactions; warranties; purchases or sales of commodities as defined herein; and intercompany transactions including services provided by one affiliate to another.[71]

Blue Ridge found the following:

- Twenty-seven work orders were approved via DOA or ABT.
- One work order had a Special Project Approval Request Form (SPAR) for real estate.
- Six work orders were ongoing blankets.

Blue Ridge did not find any issues with the LOSA approvals.

T6: Budget

When the Company was asked to provide a document that approves the capital budget, the Company provided the meeting minutes for the 2022 Board of Directors Budget meeting.[72] The budget is a months-long process in which program directors and stakeholders identify potential work for the upcoming plan years. The Company conducts a series of meetings and conversations with natural gas leaders as it works to narrow the plan down to doing the right work at the right time, while managing risk and needs of the system.[73]

The following tables provides additional budget vs. actual detail by category for 2022.

Table 15: Summary of CEP Budget to Actual Variances for 2022[74]

Category	Internal CEP Budget	Actual CEP Additions	Difference
COMPLIANCE	$28,185,563	$15,472,311	$12,713,252
DISTRUBUTION IMPROVEMENTS	$310,214,849	$380,139,014	-$69,924,165
Grand Total	**$338,400,411**	**$395,611,324**	**-$57,210,913**

The Company provided variance explanations on 230 Funding Projects.[75]

- 163 Funding Projects were emergent or trailing charges from prior budget years
- 16 Funding Projects were moved to 2023 or 2024 Budget
- 3 Funding Projects added Scope
- 6 Funding Projects encountered delays
- 3 Funding projects were placed in-service in error
- 1 Funding Project was added post budget
- 1 Funding Project encountered procedural changes after budget was created
- 5 Funding Projects varied with field finding
- 34 Funding Projects were N/A, Not in CEP, Blanket, Under-estimated, Internal Placeholders, IT project allocated to Ohio Gas or Unitization

[71] Duke's response to audit scope 2022 Data Request BR-DR-01-022, Attachment 2—Confidential.
[72] Duke's response to audit scope 2022 Data Request BR-DR-01-027—Confidential.
[73] Duke's response to audit scope 2022 Data Request BR-DR-01-026.
[74] Duke's response to audit scope 2022 Data Request BR-DR-01-028, Attachment.
[75] Duke's response to audit scope 2022 Data Request BR-DR-01-028, Attachment.

Blue Ridge found that 180 of the Variance explanations were not unreasonable. However, we required additional follow up on 82 of those funding project variance explanations. After reviewing the Company's further explanations,[76] we found them to be not unreasonable.[77]

T6A: Does the work order / project have an approved budget?

Of the specific work orders / projects in the sample, approximately 16 of 27 were properly approved. Six work orders/ projects did not have an approved budget because they were on-going blankets. The remaining five work orders/ projects were approved by the Gas Director who does not appear to have the proper authority level to approve these work orders according to the LOSA.

1. Work Order AW3202—REG 0017 Franklin Town Border RS Re
   a. Funding Project: "GREG0017"
   b. Approver: Director ($1M approval limit)
   c. Amount Approved: $2,604,030
   d. Date Approved: 3/31/22
2. Work Order AW3225—REG 0254 Wasson and Paxton RS Repla
   a. Funding Project: "GREG0254"
   b. Approver: Director ($1M approval limit)
   c. Amount Approved: $1,768,264
   d. Date Approved: 1/20/22
3. Work Order AW3558—REG 0418 Linwood and Delta Station
   a. Funding Project: "GREG0418"
   b. Approver: Director ($1M approval limit)
   c. Amount Approved: $2,009,373
   d. Date Approved: 1/20/22
4. Work Order AW4877—Emergent Crescentville Rd DOT
   a. Funding Project: "GEMCRES"
   b. Approver: Director ($1M approval limit)
   c. Amount Approved: $4,385,396
   d. Date Approved: 7/7/22
5. Work Order MX2733408—Milford Downtown Replacement Projec
   a. Funding Project: "GMILDPS"
   b. Approver: Director ($1M approval limit)
   c. Amount Approved: $1,500,185
   d. Date Approved: 10/1/21

Overall Company explanation: Those forms are signed at the General Manager level within the gas business with approval limits of $5 million. The signed forms are uploaded into the Ecosys application during the approval process, and the Gas Director digitally approves the project based on the forms signed by the General Managers. If a project is above $5 million, the project is routed to the individual with the appropriate approval authority.

Blue Ridge found the Company's explanation not unreasonable, after comparing the Funding Project Information with the Funding Authorization Request documentation.

T6B: Are the work order / project costs +/- 20% of the approved budget?

[76] Duke's response to audit scope 2022 Data Request BR-DR-01-062 through 074.
[77] Blue Ridge did not itemize the explanations here as they were not part of the sample.

Blue Ridge found the following calculated results:

Table 16: Cost Overrun Analysis

% of Sample	# in Sample	Description
33%	11	Work Orders over budget greater than 20%
15%	5	Work Orders within budget by 20%
30%	10	Work Orders over/under budget by less than 20%
3%	1	No budget amount as it was approved by BOD
18%	6	On-going blankets without budget
100%	**33**	**Total**

The Company includes a contingency as an unreserved allowance for the management of project risks and estimate uncertainty. They typically calculate 15% of the direct costs in the initial project estimate. Escalation of 2.5% is then applied[78] to account for potential cost increases over the life of the project. Blue Ridge inquired whether the additional 17.5% added to direct costs would mean that actual project overruns include those contingency and escalation costs. The Company noted that it would depend on the original approver's Delegation of Authority (DOA) limits (i.e., Approval Authority Limits). If at any time total expected project expenditures (original amount plus any cost overruns) exceed the original approver's DOA authority limit, project reapproval is required by someone with the appropriate DOA authority.[79]

The following nine funding projects had contingencies built into their Funding Authority Request (FAR). The remaining 16 funding projects did not provide the cost estimate breakdown as they were either on their 1st Revision of the project, BOD approved, or approval was done in Maximo.

Table 17: Funding Projects with Contingencies

FP#	Total Requested	Contingency	Total	% of Contingency to Requested
GC210LP07	$11,922,300	$1,054,900	$12,977,200	9%
REG0036	$39,689,500	$7,887,500	$47,577,000	20%
GC350GMRS	$20,584,434	$2,863,966	$23,448,400	14%
GSTA0726	$15,488,537	$1,607,000	$17,095,537	10%
GSTA0022	$8,352,207	$762,793	$9,115,000	9%
GREG0017	$2,302,757	$301,990	$2,604,747	13%
GSTA0045	$223,719	$28,490	$252,209	13%
GEMCRES	$3,995,896	$389,500	$4,385,396	10%
FPIT	$2,792,229	$389,100	$3,181,329	14%

Blue Ridge notes the above without a specific recommendation regarding the issue.

[78] Duke's response to audit scope 2022 Data Request BR-DR-01-075. The 2.5% for escalations is a baseline, but it may vary per project due to market conditions.
[79] Duke's response to audit scope 2021 Data Request BR-DR-01-100.

Blue Ridge found that the Company's system does not budget at a work-order level. Budgets are established at a Funding Project Level and spend is at the work order level. As a result, the Company is unable to provide or explain individual work order budget vs. actual variances.

T6C: Are explanations and approvals provided for cost overruns 20% and greater over the approved budget?

Of the total work orders / projects in the sample, approximately 11 work orders, or 33% of the sample, were overbudget by 20% or greater.

1. Work Order AW1256—Cavern Pump—$840,384.88
   a. Scope: Cavern Pump 2 repairs / improvements at the East Works Gas Plant, 2801 Riverside Drive, Cincinnati, OH 45226. Pull and Transport Cavern Pump 2. Rebuild bowl, repair and improve motor with improved thrust bearing rebuild, pothead, repair, minor pump repairs, and oil tube kit replacement Reinstall Cavern Pump 2. The motor will have improved thrust bearings installed that can handle double the standard bearing up-thrust. The motor and bowl assembly will also be labeled (name plate stamped) with the improvements to both of those items.
   b. Budget: $212,896
   c. Over budget by 295% or ($627,489)
   d. Funding Project: GESCAVRN
   e. Funding Project Budget based on Budget vs Actual (BRDR#28): #N/A
   f. Funding Project Actual based on Budget vs Actual (BRDR#28): #N/A
   g. Variance Explanation: Not in the CEP filing
   h. Company Explanation: In August of 2019, cavern pump #2 failed at the Eastern Avenue Gas Plant. In September of 2019, Moody's of Dayton, Ohio, provided a quote to replace the pump. In October, the manufacturer, Flowserve, would not honor the warranty unless a shroud cover was added to the pump. The Company ordered the shroud cover and had to expedite it to ensure system reliability so the pump would be installed in November. Once the pump was installed, the Company encountered an electrical issue and had to bring in an internal engineering group to assess. The main issue was that the electrical wiring that provided power to the pump had worn and developed issues that were not originally identified. The scope was updated to upgrade the electrical wiring and continue to rely on the backup pump which only put out half the dekatherms. Once the wiring was upgraded and replaced, Moody's installed the pump, and the project was placed in service. The original project only included the original quote from Moody's to purchase and install the pump.[80]

   Blue Ridge found that the Company incurred cost overruns due to having to add and expedite a shroud cover to the pump and resolving electrical issues that incurred after the pump was installed. The shroud cover charges could not be avoided, and the Company would not have known about the electrical issues prior to installing the pump. Therefore, the cost overruns could not have been avoided and were outside the direct control of the Company.

2. Work Order AW3116—REG 0008 Grandin and Edwards RS Rep—$1,504,561.75
   a. Scope: Install new District regulator, inlet and outlet piping, valves, above ground components and piping, etc. in accordance with NGBU design and sizing standards. Retire and remove the existing facility after completion of new District regulator.

[80] Duke's response to audit scope 2022 Data Request BR-DR-01-080.

b. Budget: $980,944
c. Over budget by 53% or ($523,618)
d. Funding Project: GREG0821
e. Funding Project Budget based on Budget vs Actual (BRDR#28): $694,258.45
f. Funding Project Actual based on Budget vs Actual (BRDR#28): $1,504,561.75
g. Variance Explanation: The Measurement & Regulation/Metering & Regulation category came in $27M over the 2022 estimated plan. In 2021, the Company had a multitude of projects that were delayed into 2022 primarily due to lead-time challenges and supply chain issues on materials. Many of these projects had estimated 2021 in-service dates when the budget file was submitted. There were 69 funding projects that were either placed in-service in 2022 or had Trailing charges in 2022.
h. Company explanation: The primary driver behind the material delays identified above was COVID supply chain disruptions. The Company verified delivery times in both late 2020 and early 2021, at which times the manufacturers made assurances that they had the inventory and did not see any issues in meeting the Company's needs. By the time designs were far enough along to place orders, the manufacturers had encountered inventory issues, specifically attaining raw materials in order to manufacture the components that would be utilized. The largest delays were seen in ball valves, 2-inches and above, where lead times spiked in many cases to 26 weeks. In order to mitigate these issues in the future, the Company has:
    i. Increased the overall project timelines to 18 to 24 months from 12 to 15 months;
    ii. Begun ordering all lead materials at 30% design; and
    iii. Partnered with the same group that orders and tracks materials for the Company's Major Projects team to do the same tracking and ordering for the Technical Field Operations team.

Blue Ridge found the Company's explanation not unreasonable.

3. Work Order AW3558—REG 0418 Linwood and Delta Station—$2,423,075.39
    a. Scope:
        i. Station Site Location
        ii. New installation in pit underground.
        iii. Site preparation for new district regulator, location at North End of Linwood and Delta.
        Pipeline/Station Construction - Install approximately 100' of 8" station distribution Inlet piping. Install approximately 100' of 12"-station distribution outlet piping.
        iv. Tie-in and commission district regulator.
    b. Abandon and remove existing district regulator Fill existing pits with grout/CDF.
    c. Budget: $2,009,373
    d. Over budget by 21% or ($413,702)
    e. Funding Project: GREG0418
    f. Funding Project Budget based on Budget vs Actual (BRDR#28): $0.00
    g. Funding Project Actual based on Budget vs Actual (BRDR#28): $2,495,869.07
    h. Variance Explanation: The Measurement & Regulation/Metering & Regulation category came in $27M over the 2022 estimated plan. In 2021, the Company had a multitude of projects that were delayed into 2022 primarily due to lead-time

challenges and supply chain issues on materials. Many of these projects had estimated 2021 in-service dates when the budget file was submitted. There were 69 funding projects that were either placed in-service in 2022 or had Trailing charges in 2022.

i. Company explanation: The primary driver behind the material delays identified above was COVID supply chain disruptions. The Company verified delivery times in both late 2020 and early 2021, at which times the manufacturers made assurances that they had the inventory and did not see any issues in meeting the Company's needs. By the time designs were far enough along to place orders, the manufacturers had encountered inventory issues, specifically attaining raw materials in order to manufacture the components that would be utilized. The largest delays were seen in ball valves, 2-inches and above, where lead times spiked in many cases to 26 weeks. In order to mitigate these issues in the future, the Company has:
   i. Increased the overall project timelines to 18 to 24 months from 12 to 15 months;
   ii. Begun ordering all lead materials at 30% design; and
   iii. Partnered with the same group that orders and tracks materials for the Company's Major Projects team to do the same tracking and ordering for the Technical Field Operations team.

Blue Ridge found the Company's explanation not unreasonable.

4. Work Order AW4706—REG 0108 - Hamilton and Galbraith—$167,749.90
   a. Scope: *Provide new coating for station
      *Replace minor valves and sense lines
   b. Budget: $88,778
   c. Over budget by 89% or ($78,972)
   d. Funding Project: GREG0108
   e. Funding Project Budget based on Budget vs Actual (BRDR#28): $85,240.84
   f. Funding Project Actual based on Budget vs Actual (BRDR#28): $167,749.90
   g. Variance Explanation: The Measurement & Regulation category came in $27M over the 2022 estimated plan. In 2021, the Company had a multitude of projects that were delayed into 2022 primarily due to lead-time challenges and supply chain issues on materials. Many of these projects had estimated 2021 in-service dates when the budget file was submitted. There were 69 funding projects that were either placed in-service in 2022 or had Trailing charges in 2022.
   h. Company explanation: The primary driver behind the material delays identified above was COVID supply chain disruptions. The Company verified delivery times in both late 2020 and early 2021, at which times the manufacturers made assurances that they had the inventory and did not see any issues in meeting the Company's needs. By the time designs were far enough along to place orders, the manufacturers had encountered inventory issues, specifically attaining raw materials in order to manufacture the components that would be utilized. The largest delays were seen in ball valves, 2-inches and above, where lead times spiked in many cases to 26 weeks. In order to mitigate these issues in the future, the Company has:
      i. Increased the overall project timelines to 18 to 24 months from 12 to 15 months;
      ii. Begun ordering all lead materials at 30% design; and

iii. Partnered with the same group that orders and tracks materials for the Company's Major Projects team to do the same tracking and ordering for the Technical Field Operations team.

Blue Ridge found the Company's explanation not unreasonable.

5. Work Order MX1392762—MORAINE WAY - AFTON - 2 INCH STL F—$602,137.74
   a. Scope: Installing 880' of 2" steel feeder line, 20' of 4" steel, one 2" valve
   b. Budget: $115,398
   c. Over budget by 422% or ($486,740)
   d. Funding Project: GMAINS
   e. Funding Project Budget based on Budget vs Actual (BRDR#28): $0.00
   f. Funding Project Actual based on Budget vs Actual (BRDR#28): $12,008,944.89
   g. Variance Explanation: The Company experienced a budget closing error in the Customer Growth category, consisting of meters, mains and services for new customer adds. The Company spent $30M in 2022, which is typical, but the mains closing category (GMAINS) fell out of the 2022 plan (closing date did not fall within 2022 in error), resulting in a $12M variance for the year

   Blue Ridge found that this appears to be an isolated error and the Company's explanation is not unreasonable.

6. Work Order MX2217745—MX2217745 - REGULATOR 408 - CLIFTON—$1,033,995.22
   a. Scope: STATION 872 - CLIFTON & WARNER Install Reg 408 - Clifton and Warner. Retire Reg 10.
   b. Budget: $350,996
   c. Over budget by 195% or ($682,999)
   d. Funding Project: GMREG408
   e. Funding Project Budget based on Budget vs Actual (BRDR#28): $0.00
   f. Funding Project Actual based on Budget vs Actual (BRDR#28): $1,033,995.22
   g. Variance Explanation: The Measurement & Regulation category came in $27M over the 2022 estimated plan. In 2021, the Company had a multitude of projects that were delayed into 2022 primarily due to lead-time challenges and supply chain issues on materials. Many of these projects had estimated 2021 in-service dates when the budget file was submitted. There were 69 funding projects that were either placed in-service in 2022 or had Trailing charges in 2022.
   h. Company explanation: The primary driver behind the material delays identified above was COVID supply chain disruptions. The Company verified delivery times in both late 2020 and early 2021, at which times the manufacturers made assurances that they had the inventory and did not see any issues in meeting the Company's needs. By the time designs were far enough along to place orders, the manufacturers had encountered inventory issues, specifically attaining raw materials in order to manufacture the components that would be utilized. The largest delays were seen in ball valves, 2-inches and above, where lead times spiked in many cases to 26 weeks. In order to mitigate these issues in the future, the Company has:
      i. Increased the overall project timelines to 18 to 24 months from 12 to 15 months;
      ii. Begun ordering all lead materials at 30% design; and

iii. Partnered with the same group that orders and tracks materials for the Company's Major Projects team to do the same tracking and ordering for the Technical Field Operations team.

Blue Ridge found the Company's explanation not unreasonable.

7. Work Order MX2733408—Milford Downtown Replacement Projec—$2,409,535.56
   a. Scope: Install 2773' Plastic 2"; 3753' Plastic 8"; Abandon 2340' of Steel 2" & 3609' Steel 4"
   b. Budget: $1,500,185
   c. Over budget by 61% or ($909,351)
   d. Funding Project: GMILDPS
   e. Funding Project Budget based on Budget vs Actual (BRDR#28): $1,122,466.38
   f. Funding Project Actual based on Budget vs Actual (BRDR#28): $2,409,535.56
   g. Variance Explanation: Milford could not locate their municipality-owned electric facilities during project planning, and locating companies could also not find them. The Company had to use a vacuum rig to excavate around these lines for safety. This also caused additional shoring and plates to be required that had not been planned. In addition, a significant amount of main had to be moved into the road due to an unforeseen fiber duct bank that was found during installation.
   h. Company Explanation: The electric utility line is privately owned by the City of Milford, and the Company was working in the Ohio Department of Transportation's easement. The Company had no leverage to charge for the delays in this case, as the City of Milford was allowing the Company access to the DOT easement, and not requiring the Company to go through the additional expense and time to obtain its own.[81]

   Blue Ridge found the Company's explanation not unreasonable.

8. Work Order MX6675538—STA 876 GEORGETOWN—$2,256,042.19
   a. Scope: STA 876 GEORGETOWN (Installing a new station and abandoning an old one.)
   b. Budget: $300,781
   c. Over budget by 650% or ($1,955,261)
   d. Funding Project: GSTA875
   e. Funding Project Budget based on Budget vs Actual (BRDR#28): $0.00
   f. Funding Project Actual based on Budget vs Actual (BRDR#28): $2,256,042.19
   g. Variance Explanation: The Measurement & Regulation category came in $27M over the 2022 estimated plan. In 2021, the Company had a multitude of projects that were delayed into 2022 primarily due to lead-time challenges and supply chain issues on materials. Many of these projects had estimated 2021 in-service dates when the budget file was submitted. There were 69 funding projects that were either placed in-service in 2022 or had Trailing charges in 2022.
   h. Company explanation: The primary driver behind the material delays identified above was COVID supply chain disruptions. The Company verified delivery times in both late 2020 and early 2021, at which times the manufacturers made assurances that they had the inventory and did not see any issues in meeting the Company's needs. By the time designs were far enough along to place orders, the manufacturers had encountered inventory issues, specifically attaining raw materials in order to

[81] Duke's response to audit scope 2022 Data Request BR-DR-01-066.

manufacture the components that would be utilized. The largest delays were seen in ball valves, 2-inches and above, where lead times spiked in many cases to 26 weeks. In order to mitigate these issues in the future, the Company has:

i. Increased the overall project timelines to 18 to 24 months from 12 to 15 months;
ii. Begun ordering all lead materials at 30% design; and
iii. Partnered with the same group that orders and tracks materials for the Company's Major Projects team to do the same tracking and ordering for the Technical Field Operations team.

Blue Ridge found the Company's explanation not unreasonable.

9. Work Order MX6828079—REG 419 PLAINVILLE AND MURRAY—$1,657,153.87
   a. Scope: REG 419 PLAINVILLER AND MURRAY
   b. Budget: $314,543
   c. Over budget by 427% or ($1,342,611)
   d. Funding Project: GMREG419
   e. Funding Project Budget based on Budget vs Actual (BRDR#28): $0.00
   f. Funding Project Actual based on Budget vs Actual (BRDR#28): $1,671,547.02
   g. Variance Explanation: The Measurement & Regulation category came in $27M over the 2022 estimated plan. In 2021, the Company had a multitude of projects that were delayed into 2022 primarily due to lead-time challenges and supply chain issues on materials. Many of these projects had estimated 2021 in-service dates when the budget file was submitted. There were 69 funding projects that were either placed in-service in 2022 or had Trailing charges in 2022.
   h. Company explanation: The primary driver behind the material delays identified above was COVID supply chain disruptions. The Company verified delivery times in both late 2020 and early 2021, at which times the manufacturers made assurances that they had the inventory and did not see any issues in meeting the Company's needs. By the time designs were far enough along to place orders, the manufacturers had encountered inventory issues, specifically attaining raw materials in order to manufacture the components that would be utilized. The largest delays were seen in ball valves, 2-inches and above, where lead times spiked in many cases to 26 weeks. In order to mitigate these issues in the future, the Company has:
      i. Increased the overall project timelines to 18 to 24 months from 12 to 15 months;
      ii. Begun ordering all lead materials at 30% design; and
      iii. Partnered with the same group that orders and tracks materials for the Company's Major Projects team to do the same tracking and ordering for the Technical Field Operations team.

   Blue Ridge found the Company's explanation not unreasonable.

10. Work Order MX7696571—HAM 42 11.98 BRIDGE REHAB - STREET—$618,733.98
    a. Scope: HAM 42 11.98 BRIDGE REHAB Street Improvement - 12" Steel - IP - Reading OH - STI
    b. Budget: $118,262
    c. Over budget by 423% or ($500,472)
    d. Funding Project: GPUBIMP
    e. Funding Project Budget based on Budget vs Actual (BRDR#28): $5,621,856.86

f. Funding Project Actual based on Budget vs Actual (BRDR#28): $4,670,201.52
g. Variance Explanation: The budget is based on trends for smaller government relocation projects <$500k projects. The actuals placed in-service came in under.

Blue Ridge found that the Work Order was over budget by greater than 20%, However, as it is part of the broader Funding Project which was under budget and the Company does not track variance explanations on the work order level the Company's Project level explanation is not unreasonable.

11. Work Order MX9751393—REG 0188 - Columbia and Maple - Reg—$827,676.46
    a. Scope: REG 0188 - Columbia and Maple - Reg Upgrade and RV Addition
    b. Budget: $200,566
    c. Over budget by 313% or ($627,110)
    d. Funding Project: GREG0188
    e. Funding Project Budget based on Budget vs Actual (BRDR#28): $0.00
    f. Funding Project Actual based on Budget vs Actual (BRDR#28): $827,676.46
    g. Variance Explanation: The Measurement & Regulation/Metering & Regulation category came in $27M over the 2022 estimated plan. In 2021, the Company had a multitude of projects that were delayed into 2022 primarily due to lead-time challenges and supply chain issues on materials. Many of these projects had estimated 2021 in-service dates when the budget file was submitted. There were 69 funding projects that were either placed in-service in 2022 or had Trailing charges in 2022.
    h. Company explanation: The primary driver behind the material delays identified above was COVID supply chain disruptions. The Company verified delivery times in both late 2020 and early 2021, at which times the manufacturers made assurances that they had the inventory and did not see any issues in meeting the Company's needs. By the time designs were far enough along to place orders, the manufacturers had encountered inventory issues, specifically attaining raw materials in order to manufacture the components that would be utilized. The largest delays were seen in ball valves, 2-inches and above, where lead times spiked in many cases to 26 weeks. In order to mitigate these issues in the future, the Company has:
        i. Increased the overall project timelines to 18 to 24 months from 12 to 15 months;
        ii. Begun ordering all lead materials at 30% design; and
        iii. Partnered with the same group that orders and tracks materials for the Company's Major Projects team to do the same tracking and ordering for the Technical Field Operations team.

Blue Ridge found the Company's explanation not unreasonable.

T7: In-Service Dates

T7A: Is the actual in-service date[82] in line (at or before) with the estimated in-service date?[83]

Blue Ridge found that six work orders / projects in the sample were blanket or other types of work orders, such as transfers, emergent work, and adjustments, that would not typically have estimated in-service dates.

Of the 37 work orders with estimated in-service dates, two work orders had in-service dates that were over 90 days delayed from the estimated in-service date. Each of these accrued AFUDC.

1. Work Order MX6828079—REG 419 PLAINVILLE AND MURRAY—$1,657,153.87
   a. Scope: REG 419 PLAINVILLER AND MURRAY
   b. Estimated In-Service Date: 6/30/22
   c. Actual In-Service Date: 10/5/22
   d. Delay: 97
   e. Company Explanation: The Plainville and Murray project (MX6828079) had easement delays beyond the Company's control. The land services team had to work with the local school board and the City of Cincinnati and then wait for a court order so an easement could be granted. These unexpected developments led to much of the project spend occurring after the estimated in-service date of June 30, and the project being placed in-service in October 2022.[84]

   Blue Ridge found the Company's explanation not unreasonable.

2. Work Order MX9751393—REG 0188 - Columbia and Maple - Reg— $827,676.46
   a. Scope: REG 0188 - Columbia and Maple - Reg Upgrade and RV Addition
   b. Estimated In-Service Date: 3/1/22
   c. Actual In-Service Date: 11/21/22
   d. Delay: 265
   e. Company Explanation: The Columbia and Maple project (MX9751393) called for installing a new relief at the existing station. There was not enough room at this location for this relief, and the team had to work with the City of Cincinnati to grant an easement to the Company. The bulk of the spend occurred in October and November of 2022, so AFUDC never had a chance accumulate significantly.

Blue Ridge found the explanations not unreasonable.

T7B: Was the work order / project in service and closed to UPIS within a reasonable time period from project completion, and if not, was AFUDC stopped?

Blue Ridge found that, with the exception of the work orders listed above in T7 and T7A, the

[82] **In-Service Date—**Earliest of actual date when property is ready to become "used or useful" (ready for service) or is "used and useful" in providing service (in-service). AFUDC accruals cease based on the ready for service / in-service date. All references to "in-service" found in the Regulated Electric & Gas Capitalization Guidelines should be interpreted as the earlier of 1) the date when the asset becomes "ready" for use, 2) the date when the asset becomes used and useful, or 3) the date when the asset begins generating revenue. (Duke's response to audit scope 2022 Data Request BR-DR-01-013(a), Attachment, page 19—Confidential).

[83] **Estimated In-Service Date—**Estimated date when property becomes "ready for service" or "used and useful" in providing service. (Duke's response to audit scope 2022 Data Request BR-DR-01-013(a), Attachment, page 19—Confidential).

[84] Duke's response to audit scope 2022 Data Request BR-DR-01-073.

work orders were closed on a timely basis upon completion.

T8: Continuing Property Records

T8A: Do the Continuing Property Records support the asset completely and accurately?

The Company uses a current version of PowerPlan for its plant accounting records. The system has the ability to provide detailed information by account, activity, and amount for all work orders, including blankets down to the unit level.[85] Blue Ridge found that the plant detail supported the charges.

T9: Cost Categories

T9A and T9B: For work orders / projects, are the cost categories (Payroll, M&S, etc.) not unreasonable and support the work order total? For "other" (referring to T1d above), are the description and costs not unreasonable?

Capitalized overheads reflect direct and indirect costs incurred in support of construction activity that cannot easily or readily be charged directly to specific projects. Overheads consist of functional engineering and support, functional management supervision and support, and administrative and shared support.[86]

The Company provided a list of all overheads and other allocations it applies either directly or indirectly to Construction Work in Progress (CWIP), and it has not changed since the 2021 audit.[87]

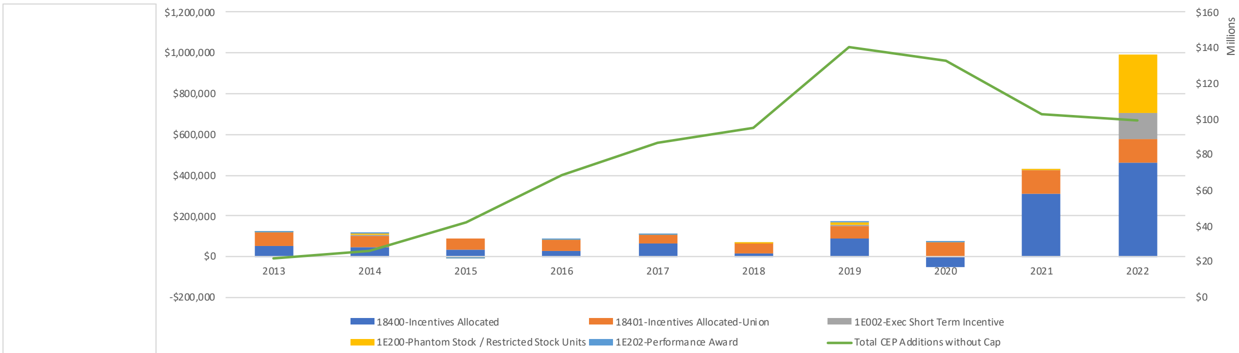
In Case No. 19-791-GA-ALT, the auditor and Staff recommended that incentive and stock-based compensation should be removed from the CEP Rider. In the Stipulation, the parties agreed, and the Commission approved, that incentive pay will continue to be capitalized in accordance with Duke's existing accounting policies and procedures that follow generally accepted accounting principles.[88]

In Case No. 21-618-GA-RDR, the Commission adopted Blue Ridge's Recommendation #6 regarding stock-based and earnings-related incentive compensation, as clarified by Duke and Staff that the capitalization and recovery of stock-based and earnings-related incentive compensation should be monitored as part of the annual audit scope to ensure the amount recovered does not significantly increase. [89]

Blue Ridge asked Duke to identify and quantify any amounts of incentive and / or stock-based compensation that relates to the Company' stock price, dividends, or financial goals included in the CEP. The information provided and the CEP additions are shown in the attached graph.

[85] Duke's Plant Accounting Interview dated 8/10/21.
[86] Duke's response to audit scope 2022 Data Request BR-DR-01-013(a), Attachment, page 103—Confidential.
[87] Duke's response to audit scope 2022 Data Request BR-DR-01-020, Attachment.
[88] Case No. 19-791-GA-ALT, Opinion and Order (April 21, 2021), page 20.
[89] Case No. 21-618-GA-RDR Opinion and Order (July 27, 2022), {¶84}.

Figure 1: Earnings Based Incentive Compensation Included in CEP Compared to CEP Additions by Year[90]



Resource Type	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
18400-Incentives Allocated	$50,266	$45,913	$31,532	$28,541	$64,329	$13,595	$87,936	-$49,161	$311,519	$464,180
18401-Incentives Allocated-Union	$67,155	$58,203	$58,596	$52,137	$42,332	$50,626	$61,519	$68,579	$113,188	$115,627
1E002-Exec Short Term Incentive	$324	$1,964	-$931	$203	$929	$40	$5,903	$983	$1,508	$126,476
1E200-Phantom Stock / Restricted Stock Units	$1,741	$6,840	-$2,560	$609	$1,709	$106	$15,225	$1,034	$586	$285,599
1E202-Performance Award	$57	$421	-$71	$17	$4	$0	$2,423	$443	$0	$0
Total CEP Incentives	**$119,543**	**$113,341**	**$86,566**	**$81,507**	**$109,303**	**$64,367**	**$173,006**	**$21,878**	**$426,800**	**$991,882**
Total CEP Additions without Cap	**$21,835,818**	**$26,322,314**	**$42,285,938**	**$68,466,517**	**$86,884,494**	**$95,136,703**	**$140,494,735**	**$132,675,819**	**$102,645,004**	**$98,972,972**

Blue Ridge found that earnings-based incentive compensation allocated to capital increased significantly in 2022. Monitoring of the capitalization and recovery of stock-based and earnings-related incentive compensation is now a regular part of the annual CEP audit. Future recovery is expected to be considered in the next base rate case.

Table 18: Cost Code Company Explanations[91]

Resource Type	Resource Type Description	Brief Explanation
15000	Severance[92]	Used to record severance benefits received by employees, including but not limited to lump sum cash payments, COBRA coverage and outplacement services, provided by the Company to employees upon termination of employment, typically because of layoff, downsizing, or job elimination. Prior to 1/1/2023, also included Retention Bonus payments paid by the Company to selected employees whose employment is deemed critical to the Company for a specified period of time.
15001	Incentive Pay[93]	Used to record incentive payments made associated with the Short Term Incentive Plan (STI) and Union Employee Incentive Plan (UEIP) (offset to liability account).
18310	Service/Safety Awards	Charges related to the recognition of Service Anniversary awards or items purchased for Safety Awards such as shirts and hats.
31001	Advertisements	Corporate advertising campaigns
31003	Informational Advertising	Customer awareness advertising (811 Call Before You Dig, gas pipeline safety, gas choice opt out bill insert, summer disconnect letter, winter bill assistance, etc.)

[90] Duke's response to audit scope 2021 Data Request BR-DR-01-136 and audit scope 2022 Data Request BR-DR-01-040.
[91] Duke's response to audit scope 2022 Data Request BR-DR-01-058.
[92] There is no connection to earnings per share or O&M expense.
[93] Balance sheet only transactions (not the actual incentive expense) and receives 0% attributable to earnings per share or O&M expense.

Resource Type	Resource Type Description	Brief Explanation
33000	Office Supplies & Expenses	Cost of office supplies such as pens, paper, etc.
40007	PersMobileDevice reimbursement	$50 monthly reimbursement for Smartphone service; only for eligible participants in the Personal Mobile Device program.
41000	Meals and Entertainment (50%)	Cost of employee meals when overnight lodging is incurred, during power outage restoration efforts, while attending approved conferences and formal meetings, for business meetings with external customers, for employee meetings to discuss business.
49002	Dues - Deductible	Annual dues to civic or professional organizations.
49004	Entertain 100% Non-Deduct	Expenses incurred while entertaining vendors, customers, prospective customers or persons from other companies.
33001	Postage & Freight	Business-related postage and shipping costs such as UPS, FedEx, USPS, etc.
36002	IT Software Maintenance	Vendor updates, modifications and support of a software product after delivery.
40000	Travel Expenses	Other travel and transportation costs while traveling on company business.
40001	Air Travel Cost	Airline tickets purchased for company business travel.
40002	Meals and Entertain (Billable)	Cost of employee meals and expenses to be billed to an outside party.
60007	Rent	Fees charged for use of tangible or intangible property for an agreed period, such as office rent, office equipment lease, and maintenance and other operating leases.
62000	Contract Retention	Retainage of contract payment until vendor performance can be confirmed, per contract.
69010	SA50%	Resource type to enable charges from Staff Augmentation vendors to interface with payables system. Contract employee expenses (50% deductible).
69020	SAPERDIEM	Resource type to enable charges from Staff Augmentation vendors to interface with payables system. Contract employee per diem expenses.
69030	SA100%	Resource type to enable charges from Staff Augmentation vendors to interface with payables system. Contract employee expenses (100% deductible).

Blue Ridge identified the following 20 work orders for further cost review.

1. Work Order 315986A—Customer Connect - Core—$20,255,190.39
   a. Blue Ridge initial concern: Resource Type charges Accounting Entry $(49,135.61)
   b. Company Explanation: Accounting Entry for $(49,135.61) was Customer Information System Utility Capital. These accounting entries were for various Labor allocation, Moving from CWIP Software to CWIP Non Reg, Moving from Duke Energy Ohio Gas to Duke Energy Progress, and Moving Capital to O&M.[94]

   Blue Ridge found the Company's explanation not unreasonable.

[94] Duke's response to audit scope 2022 Data Request BR-DR-01-062, Supplemental Attachment—Confidential.

2. Non-CEP Work Order AW1256—Cavern Pump—$840,384.88
    a. Blue Ridge initial concern: Resource Type charge: Accounting Entry—$252,907.97
    b. Company Explanation: Reclassification from 108 to 107.[95] The retirement credit is a RWIP/Cost of Removal charge. The credit is due to a reclassification of RWIP charges to CWIP due to project charge allocations.[96] The Company went further to say that as part of the unitization process the Asset Accounting department was truing up RWIP costs and reclassed the difference to CWIP.[97]

    Blue Ridge found that part of the Accounting Entry would be a true-up of RWIP, and the difference between estimated and actual would go back to CWIP as an addition to plant. The Company's explanation is not unreasonable.

3. Work Order AW1628—Todhunter Mag Anode Bed Installatio—$453,739.37
    a. Blue Ridge initial concern: Resource Type charge: Direct Mat/Purchases Accrual—$3,599.50
    b. Company Explanation: Work Order related contract employee expenses.[98]

    Blue Ridge found the Company's explanation not unreasonable.

4. Work Order AW2133—Butler Cnty Phase I C210 & LP07—$13,224,422.41
    a. Blue Ridge initial concern: Resource Type charge:
        i. Accounting Entry $18,329.84
        ii. Purchase of Land Rights $10,355.50
        iii. Staff Augmentation $167,034.01
    b. Company Explanation:
        i. Accounting Entry: Pole relocations done by Duke Energy Ohio Electric for Ohio Natural Gas
        ii. Purchase of Land Rights: Easement AP payment and mailing paperwork.[99]
        iii. Staff Augmentation: Work Order related contract employee expenses.[100]

    Blue Ridge found the Company's explanations not unreasonable.

5. Work Order AW2215—STA 910 - Norwood Station—$43,415,178.75
    a. Blue Ridge initial concern: Resource Type charge:
        i. Accounting Entry $5,445.08
        ii. Staff Augmentation $41,001.28
    b. Company Explanation:
        i. Accounting Entry: Payment to Duke Energy Ohio Electric for the extension of an electric line to a new Ohio Natural Gas station site.[101]
        ii. Staff Augmentation: Work Order related contract employee expenses.[102]

    Blue Ridge found the Company's explanations not unreasonable.

6. Work Order AW2221—C350-A000b-Glendale Milford Reg 908—$17,527,443.93

[95] Duke's response to audit scope 2022 Data Request BR-DR-01-062—Confidential.
[96] Duke's response to audit scope 2022 Data Request BR-DR-01-057.
[97] Duke's response to audit scope 2022 Data Request BR-DR-01-062, Supplemental Attachment—Confidential.
[98] Duke's response to audit scope 2022 Data Request BR-DR-01-058.
[99] Duke's response to 2022 audit Data Request BR-DR-01-062 Supp Confidential attachment.
[100] Duke's response to 2022 audit Data Request BR-DR-01-058.
[101] Duke's response to 2022 audit Data Request BR-DR-01-062 Supp Confidential attachment.
[102] Duke's response to 2022 audit Data Request BR-DR-01-058.

a. Blue Ridge initial concern: Resource Type charge:
   i. Purchase of Land Rights $300,181.00
   ii. Staff Augmentation $5,302.28
b. Company Explanation:
   i. Purchase of Land Rights:
      1. Original line was no longer necessary since line C350 was approved.
      2. Material storage agreement payment,
      3. Property impact/review payment,
      4. Easement payment,
      5. Material storage lease[103]
   ii. Staff Augmentation: Work Order related contract employee expenses.[104]

Blue Ridge found the Company's explanations not unreasonable.

7. Work Order AW2771—STA 0726 Mason Rd Capacity Improv—$1,886,916.48
   a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $9,325.30
   b. Company Explanation: Work Order related contract employee expenses.[105]

   Blue Ridge found the Company's explanation not unreasonable.

8. Work Order AW2962—STA 911 - Huntsville Station—$9,711,109.06
   a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $96,249.25
   b. Company Explanation: Work Order related contract employee expenses.[106]

   Blue Ridge found the Company's explanation not unreasonable.

9. Work Order AW3202—REG 0017 Franklin Town Border RS Re—$3,010,510.42
   a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $145.68
   b. Company Explanation: Work Order related contract employee expenses.[107]

   Blue Ridge found the Company's explanation not unreasonable.

10. Work Order AW3558—REG 0418 Linwood and Delta Station —$2,423,075.39
    a. Blue Ridge initial concern: Resource Type charge: Accounting Entry $2,985.23
    b. Company Explanation: The Company conducted pole holds (holding electrical poles in place) while Ohio Gas trenched for reg station.[108]

    Blue Ridge found the Company's explanation not unreasonable.

11. Work Order AW4877—Emergent Crescentville Rd DOT—$3,468,773.93
    a. Blue Ridge initial concern: Resource Type charge:
       i. Purchase of Land Rights $24,000.00
       ii. Staff Augmentation $10,736.20
    b. Company Explanation:
       i. Purchase of Land Rights:
          1. Material storage lease payment

[103] Duke's response to 2022 audit Data Request BR-DR-01-062 Supp Confidential attachment.
[104] Duke's response to 2022 audit Data Request BR-DR-01-058.
[105] Duke's response to 2022 audit Data Request BR-DR-01-058.
[106] Duke's response to 2022 audit Data Request BR-DR-01-058.
[107] Duke's response to 2022 audit Data Request BR-DR-01-058.
[108] Duke's response to 2022 audit Data Request BR-DR-01-062 Supp Confidential attachment.

2. Two-month lease extension[109]

ii. Staff Augmentation: Work Order related contract employee expenses.[110]

Blue Ridge found the Company's explanations not unreasonable.

12. Work Order AW4900—STA 908 Glendale-Milford - Intake—$314,944.28
    a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $1,154.75
    b. Company Explanation: Work Order related contract employee expenses.[111]

    Blue Ridge found the Company's explanation not unreasonable.

13. Work Order GCTA3006O—INTGO_PI SCADA Data Implementation—$400,025.93
    a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $17,413.22
    b. Company Explanation: Work Order related contract employee expenses.[112]

    Blue Ridge found the Company's explanation not unreasonable.

14. Work Order MCNEWP10—New M-C Plastic 2 inch and Under OH—$9,350,190.79
    a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $157,057.19
    b. Company Explanation: Work Order related contract employee expenses.[113]

    Blue Ridge found the Company's explanation not unreasonable.

15. Work Order MCRP10—Replace (non-AMRP) M-C Plastic 2 in—$11,007,261.38
    a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $189,156.83
    b. Company Explanation: Work Order related contract employee expenses.[114]

    Blue Ridge found the Company's explanation not unreasonable.

16. Work Order MCSP10—ASRP Main to Curb 2" or less—$14,171,453.88
    a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $181,123.40
    b. Company Explanation: Work Order related contract employee expenses.[115]

    Blue Ridge found the Company's explanation not unreasonable.

17. Work Order MX1392762—MORAINE WAY - AFTON - 2 INCH STL F—$602,137.74
    a. Blue Ridge initial concern: Resource Type charge: Purchase of Land Rights $2,700.00
    b. Company Explanation: Purchase of Land Rights: Material storage lease payment[116]

    Blue Ridge found the Company's explanation not unreasonable.

18. Work Order MX6675538—STA 876 GEORGETOWN—$2,256,042.19
    a. Blue Ridge initial concern: Resource Type charge:
        i. Purchase of Land Rights $9,097.03
        ii. Staff Augmentation $461.54
    b. Company Explanation:
        i. Purchase of Land Rights:

[109] Duke's response to 2022 audit Data Request BR-DR-01-062 Supp Confidential attachment.
[110] Duke's response to 2022 audit Data Request BR-DR-01-058.
[111] Duke's response to 2022 audit Data Request BR-DR-01-058.
[112] Duke's response to 2022 audit Data Request BR-DR-01-058.
[113] Duke's response to 2022 audit Data Request BR-DR-01-058.
[114] Duke's response to 2022 audit Data Request BR-DR-01-058.
[115] Duke's response to 2022 audit Data Request BR-DR-01-058.
[116] Duke's response to 2022 audit Data Request BR-DR-01-062 Supp Confidential attachment.

1. Easement acquisition costs conducted
2. Right of way AP payment[117]

ii. Staff Augmentation: Work Order related contract employee expenses.[118]

Blue Ridge found the Company's explanations not unreasonable.

19. Work Order Q3680—C350 (C314V) Central Corridor—$152,069,501.33
    a. Blue Ridge initial concern: Resource Type charge:
        i. Accounting Entry $11,925.76
        ii. Purchase of Land Rights $108,434.83
        iii. Severance $150,000.00
        iv. Staff Augmentation $843,166.50
    b. Company Explanation:
        i. Accounting Entry:
            1. Environmental testing
            2. Rebate
            3. Material storage lease payment
        ii. Purchase of Land Rights
            1. Reclass
            2. Earnest money land fee payment
            3. Land settlement closing fee
            4. Refund of excess funds related to escrow liability coverage
            5. Right of way
            6. Damage to soccer fields payment
            7. Damage to sign
        iii. Severance: The accrual represents three months' worth of cost of the total value of a Retention Bonus Award awarded to the VP of Special Projects. Total value of the award is accrued over the three-year vesting period (4/1/2019 thru 4/1/2022). The VP worked 100% on the Central Corridor Project as the main project oversight and the payments were to retain him through the completion of the project before his ultimate retirement in May 2022.[119]
        iv. Staff Augmentation: Work Order related contract employee expenses.[120]

    Blue Ridge found the Company's explanation on the Accounting Entry, Purchase of Land Rights, and Staff Augmentation not unreasonable. However, we believe a retention bonus of $150,000 paid to a VP to remain on a project is not a cost of construction and, therefore, should not be included in project costs. The Company reached the CEP cap in February 2022, the same month this work order was placed in service (February 8, 2022). Therefore, this adjustment has no impact to the CEP filing. Blue Ridge does, however, recommend an adjustment to Gross Plant for $150,000. **[ADJUSTMENT #4]**

20. Work Order SG581MTRS—SG DEO AMI Meters - 581—($882,564.59)
    a. Blue Ridge initial concern: Resource Type charge: Staff Augmentation $245,112.36
    b. Company Explanation: Work Order related contract employee expenses.[121]

[117] Duke's response to 2022 audit Data Request BR-DR-01-062 Supp Confidential attachment.
[118] Duke's response to 2022 audit Data Request BR-DR-01-058.
[119] Duke's response to 2022 audit Data Request BR-DR-01-062 Supp Confidential attachment.
[120] Duke's response to 2022 audit Data Request BR-DR-01-058.
[121] Duke's response to 2022 audit Data Request BR-DR-01-058.

Blue Ridge found the Company's explanation not unreasonable.

T10: Revenue-Generating

T10A: For CEP additions, will the work order generate revenue? If so, how has the revenue been quantified?

The Company utilizes certain funding projects to identify whether a project will generate additional revenue for new service. Detail projects / charge projects are mapped to the funding project through PowerPlan. Funding Projects GSERVNEW, GPUINEW, GPUINMR and GMAINS can be used to identify projects for the new meters, mains run to new subdivisions, and the new services. These projects are included within Rider CEP. However, the Company offsets Rider CEP deferrals for PISCC, depreciation, and property tax by the incremental revenue estimated in Schedule 8—Incremental Revenue.[122]

Blue Ridge identified seven work orders that potentially generated additional revenue based on their Funding Projects.

1. Work Order AW2771—STA 0726 Mason Rd Capacity Improv—$1,886,916.48
   a. Project Category: Betterment
   b. Funding Project: GSTA0726
   c. Category: SYSST-System Infrastructure
2. Work Order MX1392762—MORAINE WAY - AFTON - 2 INCH STL F—$602,137.74
   a. Project Category: Customer Growth
   b. Funding Project: GMAINS
   c. Category: RANDC-New Business
3. Work Order MX2733408—Milford Downtown Replacement Projec—$2,409,535.56
   a. Project Category: Betterment
   b. Funding Project: GMILDPS
   c. Category: SYSST-System Infrastructure
4. Work Order MX4217307—BUT-CR609-0.00 PID 109468 - Middlet—$844,244.73
   a. Project Category: Betterment
   b. Funding Project: GEM15169
   c. Category: GRELO-Government Relocation
5. Work Order MX7696571—HAM 42 11.98 BRIDGE REHAB - STREET—$618,733.98
   a. Project Category: Betterment
   b. Funding Project: GPUBIMP
   c. Category: GRELO-Government Relocation
6. Work Order MX9751393—REG 0188 - Columbia and Maple - Reg—$827,676.46
   a. Project Category: Betterment
   b. Funding Project: GREG0188
   c. Category: MANDR-Metering & Regulation
7. Work Order Q3680—C350 (C314V) Central Corridor—$152,069,501.33
   a. Project Category: Betterment
   b. Funding Project: C314V
   c. Category: SYSST-System Infrastructure

Company Explanation: None of the projects above will yield incremental revenue except for MX1392762—MORAINE WAY - AFTON. This project entails running main, a new service, and

[122] Duke's response to audit scope 2021 Data Request BR-DR-01-040.

a meter to a new customer.[123]

Blue Ridge found that this Work Order is part of a funding project that is included in the CEP Rider and is part of the estimated incremental revenue that is subject to the revenue offset calculation. Therefore, these items are not an issue.

T11: Replacement projects

When the meaning for "Replacements" is not otherwise indicated in the context, the Company understands Replacements to be the construction or installation of electric plant in place of property retired, together with the removal of the property retired.[124]

Typically, when a unit of property is replaced, the new unit is capitalized, and the old unit is retired. However, if only a portion of the unit of property is replaced, the Company must expense the cost unless there is a substantial betterment or replacement of the property as defined within the Company Capitalization Guidelines.[125]

T11A: Were assets retired?

Of the 33 work orders selected for testing, approximately 10 were of the type of work for which retirements would not be expected (such as new main and service line additions, reclassifications, and other adjustments and transfers). The remaining 23 work orders / projects represented replacement work, such as service line replacements, public improvement, and replacements for age and condition.

When replacing a minor item of property with an identical one, the Company will expense the cost of the replacement using the appropriate maintenance expense account unless a substantial betterment occurs.[126]

Blue Ridge identified the following one replacement work order that had neither retirements nor cost of removal charges.

1. Work Order AW4877—Emergent Crescentville Rd DOT—$3,468,773.93
    a. Company Explanation: Retirements charges of $(8,763.27) were posted in April 2023 and $9,913.27 were Cost of Removal charges.[127]

    Blue Ridge found that the Company incurred Retirement and Cost of Removal charges for this work order in 2023. However, since the Company was already over their cap in February 2022 and this project was placed in-service on 9/21/22, no adjustment is necessary. This issue is one of timing and will be accounted for in the 2023 CEP Plant and Reserve balances.

T11B: Was the date of retirement and cost of removal in line with the asset replacement date?

Blankets are closed every month. Blue Ridge reviewed the asset replacement and asset retirement dates for Special Projects (specific projects). Blue Ridge identified seven replacement work orders that had no retirement charges within the scope period, but they did have retirement charges in prior periods.

[123] Duke's response to audit scope 2022 Data Request BR-DR-01-055.
[124] Duke's response to audit scope 2021 Data Request BR-DR-01-011(a), Attachment, page 20—Confidential.
[125] Duke's response to audit scope 2021 Data Request BR-DR-01-011(a), Attachment, page 6—Confidential.
[126] Duke's response to audit scope 2022 Data Request BR-DR-01-013(a), Attachment, page 32—Confidential.
[127] Duke's response to audit scope 2022 Data Request BR-DR-01-081.

1. Work Order AW3116—REG 0008 Grandin and Edwards RS Rep—$1,504,561.75
2. Work Order AW3202—REG 0017 Franklin Town Border RS Re—$3,010,510.42
3. Work Order AW3225—REG 0254 Wasson and Paxton RS Repla—$1,900,432.07
4. Work Order AW3304—STA 0302 Brown County Repair—$150,943.90
5. Work Order MX2217745—MX2217745 - REGULATOR 408 - CLIFTON—$1,033,995.22
6. Work Order MX6675538—STA 876 GEORGETOWN—$2,256,042.19
7. Work Order MX6828079—REG 419 PLAINVILLE AND MURRAY—$1,657,153.87

Company Overall Explanation: The work orders listed above do not have retirements recorded prior to 2022. The transactions recorded prior to 2022 are RWIP/Cost of Removal charges.[128]

Blue Ridge found the Company's explanation not unreasonable.

Blue Ridge identified three replacement work orders that had retirement credits within the scope period.

1. Work Order AW1256—Cavern Pump—$840,384.88
   a. Retirement credit of $(252,908) in 2022
   b. Company Explanation: The retirement credit is a RWIP/Cost of Removal charge. The credit is due to a reclassification of RWIP charges to CWIP due to project charge allocations.[129]

   Blue Ridge found the Company's explanation not unreasonable.

2. Work Order MX4217307—BUT-CR609-0.00 PID 109468 - Middlet—$844,244.73
   a. Retirement credit of $(1,081) in 2022
   b. Company Explanation: The retirement credit is a RWIP/Cost of Removal charge. The credit is due to a reclassification of RWIP charges to CWIP due to project charge allocations.[130]

   Blue Ridge found the Company's explanation not unreasonable.

3. Work Order Q3680—C350 (C314V) Central Corridor—$152,069,501.33
   a. Retirement credit of $(6,298) in 2022
   b. Company Explanation: The retirement credit is a Salvage charge. The credit is due to a reclassification of salvage charges to CWIP, as the project was CWIP only.[131]

Blue Ridge found the Company's explanations not unreasonable.

T11C: Is the amount of the retired asset not unreasonable?

Retired assets are based on the original cost of the asset retired. We were satisfied that assets were retired for replacement work orders.

T11D: Was salvage recorded?

The Company defines salvage value as the amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale, or, if retained,

[128] Duke's response to audit scope 2022 Data Request BR-DR-01-060.
[129] Duke's response to audit scope 2022 Data Request BR-DR-01-057.
[130] Duke's response to audit scope 2022 Data Request BR-DR-01-057.
[131] Duke's response to audit scope 2022 Data Request BR-DR-01-057.

the amount at which the material recoverable is chargeable to materials and supplies or other appropriate account.[132]

While Blue Ridge found that no projects within the sample included salvage, we did find that the Company's treatment of salvage is not unreasonable.

T11E: Was cost of removal (COR) charged? Is the amount not unreasonable?

The Company defines Cost of Removal as the cost of demolishing, dismantling, tearing down, or otherwise removing plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation.[133]

The Cost of Removal derivation allocation true-up process drives movement between accounts on a closed-to-plant mechanism where the unitization process occurs in a different year from in-service as the project is trued-up from the original estimate to the as-builts.[134]

The Company records estimated Cost of Removal when the projects are closed. A true-up occurs when the work orders are unitized. Therefore, as the work order sits in Completed Construction not Classified, the Cost of Removal is an estimate.[135]

T12: Field Verification

T12A: Is the project a candidate for field verification?

Blue Ridge identified 11 work orders / projects within the sample as candidates for field visits. Further discussion on field inspections and desktop audits are below in Section: Field Inspections and Desktop Reviews.

Insurance Recovery

The Company indicated that no significant events related to Utility Plant occurred from January 1, 2022, through December 31, 2022, that resulted in an insurance claim recovery greater than $50,000. In addition, there were no pending Utility Plant-in-Service insurance claim recoveries as of December 31, 2022, that are not recorded or accrued that would be charged to capital. No damage claims were charged to capital in 2022. Any capital damage claims would have followed this process and accounting treatment:

1. The field performer arriving on the damage site initiates an order for the location and selects the appropriate job plan for the type of work to be performed (O&M or Capital).
2. The selection of the job plan type determines the project accounting for the work to be performed.
3. Each operations center/resource center has a table of job plans with corresponding project numbers that also contain the related accounting projects and FERC information in its set-up. (This information behind the scenes and does not require the field performer to populate the information; they select the job plan only.)
4. Once the repairs are performed, the costs for the repair are compiled, including labor, equipment, material, gas loss, if any, and contractor costs, if any.

[132] Duke's response to audit scope 2021 Data Request BR-DR-01-011(a), Attachment, page 126—Confidential.
[133] Duke's response to audit scope 2021 Data Request BR-DR-01-011(a), Attachment, page 126—Confidential.
[134] Duke's response to audit scope 2020 Data Request BR-DR-01-101.
[135] Duke's response to audit scope 2021 Data Request BR-DR-01-135.

5. An office coordinator then goes into the billing tab for the work order for the work performed and enters the appropriate dollar amounts and accounting strings from the order and based on the job plans that were selected.[136]

UNITIZATION BACKLOG

Blue Ridge reviewed the unitization backlog for two reasons. First, it provides an indication of how well the Company controls the process, and second, if the backlog were both significant and old, it represents a potential reserve issue.

The purpose of unitization is to assign costs to the appropriate FERC 300 account so that the accrual for depreciation is appropriate Therefore, to the extent work orders remain in Completed Construction not Classified, it could distort the accrual for depreciation and the accumulated reserve. This process is even more important for the Company because the Company books retirement and Cost of Removal estimates when the work orders are closed and then trues them upon unitization. Therefore, significant delays in unitization will create mismatches between estimates and actual retirements and Cost of Removal in any calendar year. That would result in overstatement/understatement of the CEP.

In the Gas utility industry, it is not uncommon for work orders to remain in FERC 106 for several months, waiting for the completion of the project. Frequently projects cannot be 100% completed because of weather conditions that may obstruct the Company's ability to complete paving and seeding and other functions. In accordance with FERC accounting, a project can be substantially complete, used and useful, and waiting for completion of work that does not hinder the functionality of the asset(s).

The following table summarizes the Work Order Backlog as of December 31, 2022.

Table 19: Work Order Backlog as of December 31, 2022

Length of Backlog	2020		2021		2022	
	Amount	Work Orders Backlogged	Amount	Work Orders Backlogged	Amount	Work Orders Backlogged
Under three Months	$0	0	$95,002,182	78	$102,839,101	80
Four to 12 Months	$11,350,813	55	$23,449,799	124	$211,696,938	76
Over 12 Months	$54,607,170	474	$22,659,141	77	$2,026,243	100
Blanket Work Orders	$93,158,235	57	$129,056,227	120	$139,137,820	40
Grand Total	**$159,116,218**	**586**	**$270,167,349**	**399**	**$455,700,102**	**296**

As of December 31, 2022, $456 million was recorded in FERC 106 (Construction Completed not Classified). Assets in FERC 106 are considered in service based on information provided by operations personnel. All work orders are closed to FERC 106. Blanket projects make up 31% of the backlog. Blanket projects are routine type work with a limited number of retirement units of property, e.g., service lines. Most companies have the ability to close and auto-unitize that type of work order directly to plant in service (FERC 101) and circumvent the interim step using FERC 106. According to the Company, as of January 2023, the blanket work orders for DEO Gas Distribution were updated to auto-unitize on a monthly basis. Blanket work orders for General Plant were not set to auto-unitize as those blankets are handled differently. This new process was not implemented until 2023. Therefore, Blue Ridge recommends that the next audit review the new procedures to determine whether the Company does reduce the backlog of blanket projects.

[136] Duke's response to audit scope audit scope 2022 Data Request BR-DR-01-024.

FIELD INSPECTIONS AND DESKTOP REVIEWS

For the field inspections and detailed desktop reviews, Blue Ridge selected a total of 11 work orders.

The following criteria were used for the field inspection and/or desktop review:

- The assets were operational (used and useful) and providing service to the customer.
- The purpose of the project was reasonable.
- The assets that were installed were in accordance with the original scope of work, and no assets were installed that were not in the original scope of work.
- The equipment that was installed matched the equipment that was capitalized.
- Company personnel understood the scope of work and were able to provide staff with detailed answers to questions about the work.
- Problems identified during the process of construction were identified and discussed.
- The project was not over built or "gold plated."

Work orders / projects were excluded from selection for the following reasons:

1. The work cannot be visually seen because it is underground or out of sight.
2. The workorder is an adjustment or transfer of dollars and therefore no physical assets have been installed
3. The workorder is a blanket and therefore multiple assets have been installed at various locations and therefore, it would not be practical to try and find them. In addition, those assets are generally minor in terms of dollar value. An example is meters installed at multiple locations.
4. The workorder is for installed software and it would be difficult to review an entire software program to see what was added. An example is PowerPlan.
5. The workorder is for a mass unitization where the total dollars are large but each workorder is small

The field observations were performed by Blue Ridge and Commission Staff with assistance from Company representatives. The field verifications were performed on July 24 and 25, 2023. Information for each work order / project was provided to the observation team and a standard questionnaire was completed for each location. Where possible, pictures were taken of the installed assets. For the detailed desktop reviews, pictures of the selected project documents, before and after gas pressure simulation models, detailed asset attribute tables, and before and after drawings were available. The completed questionnaires and applicable pictures are included as confidential workpapers with this report.

The following list provides information for the field-inspected, desktop-reviewed, and combination (desktop-reviewed and field-audited) projects:

Table 20: List of Field Inspections[137]

Work Order	Work Order Description	Funding Project	In-Service Date	2022 charge actual closing
AW3116	REG 0008 Grandin and Edwards RS Rep	GREG0821	11/28/22	$1,504,561.75
AW2771	STA 0726 Mason Rd Capacity Improv	GSTA0726	12/15/21	$1,886,916.48
AW3202	REG 0017 Franklin Town Border RS Re	GREG0017	5/2/22	$3,010,510.42

[137] Duke's response to audit scope 2022 Data Request BR-DR-01-076—Confidential.

Work Order	Work Order Description	Funding Project	In-Service Date	2022 charge actual closing
AW2128	Norwood Station 868	C314V	2/28/22	$9,576,371.19
AW2962	STA 911 - Huntsville Station	GSTA0022	9/28/22	$9,711,109.06
AW2221	C350-A000b-Glendale Milford Reg 908	GC350GMRS	12/15/22	$17,527,443.93
MX6675538	STA 876 GEORGETOWN	GSTA875	11/30/22	$2,256,042.19
AW3304	STA 0302 Brown County Repair	GSTA0302		$150,943.90
MX1392762	MORAINE WAY - AFTON - 2 INCH STL F	GMAINS		$602,137.74
MX4217307	BUT-CR609-0.00 PID 109468 - Middlet	GEM15169		$844,244.73
AW4706	REG 0108 - Hamilton and Galbraith	GREG0108		$167,749.90

Blue Ridge had these conclusions from the field inspections and desktop reviews:

- The assets audited were operational (used and useful) and providing service to the customer.
- The purposes of the audited projects were reasonable.
- The assets that were installed were in accordance with the original scope of work, and no assets were installed that were not in the original scope of work.
- Company personnel understood the scope of work and were able to provide Staff and Blue Ridge with detailed answers and supporting documentation to questions about the work.
- The projects audited were determined not to be over built or “gold plated.”
- The equipment that was installed matched the equipment that was capitalized.
- The Company provided adequate documentation to support projects that were reviewed as Desktop audits.
- Problems identified during the process of construction were identified and discussed.

APPENDICES

Appendix A: Background Information Reviewed

Appendix B: Data Requests and Information Provided

Appendix C: Workpapers

APPENDIX A: INFORMATION REVIEWED

Blue Ridge reviewed the applicable testimony, workpapers, and Commission orders in the following case numbers.

- Case No. 13-2417-GA-UNC, et al.
- Case No. 19-0791-GA-ALT
- Case No. 21-0618-GA-RDR
- Case No. 22-618-GA-RDR
- Case No. 23-0618-GA-RDR

The following excerpts from Commission orders relevant to the CEP are provided below.

Case No. 13-2417-GA-UNC, et. al.

The Company's annual information filings are provided under this case number.

On October 1, 2014, the Commission's Finding and Order was issued. The following are key points related to the CEP.

(2) On December 20, 2013, Duke filed an application for authority to implement an information technology capital expenditure program (CEP), pursuant to R.C. 4909.18 and 4929.111. Duke seeks to implement the CEP to install, upgrade, or replace information technology systems. In its application, Duke explains that the CEP will involve substantial redesign and upgrades for systems that Duke uses to provide natural gas service to its customers. The upgrades will improve efficiencies through such means as additional automated processes, quality assurance review, and enhanced regulatory and management reporting capabilities. Moreover, Duke contends that the upgrades will allow it to provide information consistent with the Commission's current compliance rules and regulations. Duke plans to initiate a five-year program beginning in 2013 and ending in 2018. The total cost for the CEP, exclusive of carrying costs, is expected to range between $20 and $25 million.

(3) To inform the Commission and interested persons, Duke proposes to disclose, through annual informational reports filed by April 30 of each year, the amount of capital expenditures for the prior year. To allow responses from interested persons, Duke suggests that Staff and intervenors be allowed to file comments within 30 days of the filing of each annual report. If no comments are filed, Duke requests that its CEP and its related ongoing deferral authority be deemed approved. If comments are filed, Duke requests that it be permitted to file reply comments within 15 days.

(4) In addition to the approval of its CEP, Duke seeks authority to change its accounting methods. Specifically, Duke requests authority to capitalize post-in-service carrying costs (PISCC) on program investments for assets placed in service but not yet reflected in rates; defer depreciation expense and property tax expense directly attributable to the CEP; and establish a regulatory asset to which PISCC, depreciation expense, and property tax expense will be deferred for recovery in a subsequent, separate proceeding. Moreover, Duke notes that any accrual for deferral of PISCC, depreciation expense, and property tax expense associated with the CEP shall be recorded in accordance with the system of accounts established by the Commission under R.C. 4905.13. Furthermore, Duke maintains that it follows the Federal Energy Regulatory Commission Unified System of Accounts that is applicable to natural gas companies when accounting for the actual costs of capital projects. Duke informs the Commission that PISCC will be based upon the Company's cost of long-term debt as approved by the Commission in Duke's most recent natural gas distribution base rate case. In re Duke Energy Ohio, Inc., Case No. 12-1685-GA-AIR, et al.. Opinion and Order (Nov. 13, 2013). Duke notes

that recovery of any deferred amounts will be sought in a separate proceeding to assess the prudence and reasonableness of the amounts deferred. In accordance with R.C. 4929.111(E), Duke states that it will not request recovery of costs under the CEP more than one time in each calendar year.

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(8) Staff made nine comments and recommendations. First, Staff notes that the CEP and associated deferrals are limited to capital expenditures related to Duke's gas operations. Staff explains that information technology upgrades may benefit both regulated and nonregulated services, or both electric and natural gas services, although the statute that authorizes CEPs only applies to natural gas utility service. Staff further explains that any capital expenditures that are shared between services would need to be apportioned and allocated to each service to ensure that only expenditures directly related to the utility's natural gas operations are included in the CEP. Because Duke's planned information technology redesign and upgrades will be made on systems that only serve its natural gas distribution functions. Staff confirms that no cost sharing or allocation will be necessary. In its reply comments, Duke clarifies that the underlying systems may be used by other parts of the business, although the redesign and upgrades will concern only functionality associated with the natural gas business.

(9) In its second comment. Staff states that, in prior cases, the Commission has directed that the regulatory asset created to defer the total monthly PISCC, depreciation expenses, and property tax expenses associated with CEPs be reduced by any incremental revenue directly attributable to the capital investments made under the programs. Staff notes that, in response to a data request, Duke stated that its planned capital investments under the CEP will not involve any new products or services to customers and, thus, the CEP investments will not generate incremental revenue. Staff agrees with Duke's assertion and believes that no adjustment to reduce the Company's monthly deferrals for incremental revenue will be necessary.

(10) Thirdly, Staff recommends that the deferred PISCC be applied to net plant rather than gross plant. Staff explains that, in response to a data request. Staff discovered that Duke intends to apply the PISCC to gross plant additions that have not been adjusted to net out accumulated depreciation or the retirement of existing plants. According to Staff, Duke's proposed formula is inconsistent with the Commission's past practice and will lead to the PISCC being applied to inflated plant balances and deferral of inflated PISCC amounts. Staff contends that Duke should be directed to compute the PISCC deferral on a net plant basis, meaning gross plant additions less retirements, accumulated depreciation, and cost of removal, if applicable. In its reply comments, Duke does not object to Staff's proposal, although Duke does not concede that computing PISCC on a net plant basis is appropriate in all other instances.

(11) In its fourth comment, although Staff supports Duke's proposal for a five-year CEP and recognizes that Duke may seek to implement additional CEPs, Staff recommends that accrual of deferred amounts under the CEP, or the CEP in conjunction with other future CEPs, be capped at $1.50 per month for residential customers, if the deferrals were to be included in residential rates. Staff notes that its recommendation is consistent with the orders issued for the CEPs of the other large natural gas companies. In re Columbia Gas of Ohio, Inc., Case No. 11-5351-GA-UNC {Columbia), Finding and Order (Aug. 29, 2012); In re Dominion East Ohio, Case No. 11-6024-GA-UNC (Dominion), Finding and Order (Dec. 12, 2012); In re Vectren Energy Delivery of Ohio, Inc., Case No. 12-530-GA-UNC (Vectren), Finding and Order (Dec. 12, 2012). Upon reaching the cap of $1.50 per month. Staff recommends Duke be required to file for recovery of the deferred amounts. Staff explains that the purpose of the cap is to prevent the accruing of deferrals from rising to excessive levels and to avoid rate shock for customers.

Emphasizing that the Commission did not impose a cumulative cap of $1.50 per month on all CEPs that each of the other large natural gas companies has implemented and may implement in the future, Duke opposes Staff's recommendation. For support, Duke points out that R.C. 4929.111 does not limit deferred balances or mandate recovery proceedings upon exceeding a certain dollar threshold and, instead, sets a maximum amount for the deferral. Duke contends that Staff's recommended cap implies a time limit for accruing deferrals that is at odds with R.C. 4929.111(H), which states that deferrals will cease when rates reflecting the cost of those assets are effective. Duke states that, because the General Assembly wanted to limit recovery to no more than one time per year and identified when deferrals would cease, the General Assembly did not contemplate the imposition of relatively small caps that, once met, would require the initiation of cost recovery proceedings.

Reviewing the details of Columbia, Dominion, and Vectren, Duke concludes that the caps in those prior cases were the result of agreement and were applied only to individual CEPs, not multiple programs. Duke highlights that Staff did not recommend, in any of the previous cases, that the $1.50 per month cap apply to all CEPs to be implemented in the future and the Commission did not impose a comprehensive, cumulative cap of $1.50 per month on all current or future programs. Duke argues that Staff's recommended cap is arbitrary, requires information that is not known and that cannot be known, and, therefore, would not necessarily guard against rate shock. Further, according to Duke, many of the types of expenditures at issue in Columbia and Vectren had longer depreciable lives than the expenditures under Duke's CEP. Duke contends that information technology expenditures typically have relatively short depreciable lives of five years, which will cause the depreciation expense to be relatively higher. Ultimately, Duke requests that the cap of $1.50 per month be applied only to its proposed CEP. In addition, Duke requests that Staff's comment and recommendation be modified to allow for the cap to be revisited.

(12) Additionally, in its fifth comment. Staff notes that Duke requests authority to continue its CEP for a five-year period and, instead of annual applications, Duke proposes to submit annual informational filings and to have an abbreviated automatic approval process for annual continuation based upon its annual filings. Although Staff does not object to Duke's proposal. Staff recommends Duke maintain records to support the development and continuation of the CEP, associated deferrals, and any future recovery of any amounts deferred under the program. In its comments, Duke states that it does not object to Staff's recommendation.

(13) In its sixth comment. Staff points out that, in its application, Duke gave notice that its actual CEP costs could vary from the estimates that it provided, due to the Company's management of its capital expenditures budget and the stages in which the information system will be redesigned and upgraded. Staff states that it agrees that Duke's actual costs could vary from its estimates and that Duke should have the flexibility to balance the implementation of the CEP with its capital budgeting requirements. Nevertheless, Staff states that it must be able rely on cost estimates and other data that Duke provides. Toward this end. Staff recommends Duke be required to explain any significant changes in its annual informational filings. In the event of frequent substantial deviations from estimates and previously filed information that impede Staff's ability to monitor the CEP, Staff advises that the Commission should reserve the option of revisiting this matter, as it has done for the other large natural gas companies. Duke does not disagree with Staff's recommendation. However, Duke emphasizes that a reasonableness standard should apply to determine if any variance impedes Staffs ability to monitor the CEP.

(14) Further, in its seventh comment. Staff states that it supports Duke's proposal to provide annual informational filings, but recommends that Duke provide the same type of information that

the other natural gas companies provide with respect to their CEPs. Duke does not oppose Staff's recommendation. However, Duke points out that it has not yet proposed a rate methodology with regard to recovery of the amounts deferred under the CEP. Duke, therefore, suggests that Staff's comment be modified to clarify that the information required to be filed may be preliminary in nature, derived from assumptions, and subject to revision when the recovery of costs is requested.

(15) In its eighth comment. Staff recommends that the annual process for review of Duke's ongoing CEP should be the same process approved for the other natural gas companies. Staff notes that, in Columbia and Vectren, the Commission allowed the companies to continue their CEPs through annual informational filings, with comments to be filed within 30 days and reply comments within 40 days. Staff further notes that, if no comments are filed within 30 days, authority to continue the CEP is deemed granted and, if comments are filed, the Commission will determine if additional review is necessary and decide within 60 days what form the review should take. Staff explains that Duke proposes a similar process, except that it suggests 15 days for reply comments if comments are filed. Staff does not oppose Duke's proposal, but believes the time constraints in CEP cases should be as consistent as possible. Staff, therefore, suggests that Duke could file a motion to request additional time, as necessary. Duke, in its comments, states that it does not object to Staff's recommendation of a 10-day response time to file reply comments.

(16) Finally, in its ninth comment. Staff recommends that, in order to avoid future disagreement, the Commission clarify that it is only granting authority to establish the proposed CEP and the related accounting authority. Staff further recommends the Commission specify that recovery of any deferred amounts will be determined in a separate proceeding. Staff comments that the Commission has made these clarifications in similar cases. Duke responds that it understands that the reasonableness of the costs under the CEP for which Duke will seek recovery will be determined in a subsequent proceeding and, therefore, Duke believes that Staff's recommendations are unnecessary.

On June 26, 2014, Staff filed a motion for leave to file surreply comments, as well as its surreply comments. Regarding its recommendation of a $1.50 per month cap. Staff maintains that its recommendation for Duke is consistent with the caps established in Columbia, Dominion, and Vectren and subsequent CEP cases for those companies. Staff claims that Duke has misconstrued the case histories and misunderstands Staff’s position in those cases. Specifically, Staff asserts that the $1.50 per month cap that the Commission adopted in Columbia, Dominion, and Vectren applies to the cumulative total of all deferrals, regardless of whether the deferrals are considered to have been created under one ongoing CEP or multiple programs. Staff contends that it advocated this position and that the other utilities understood and implemented their tracking mechanisms accordingly. Staff also challenges Duke's assertion that it should be treated differently because its information technology expenditures involve relatively short depreciation lives. Staff contends that Duke failed to account for the fact that two of the other utilities expressly include annual information technology assets with similar depreciable lives in their CEPs that are greater than the annual amounts proposed in Duke's CEP. Staff points out that, nevertheless, both companies are subject to a cumulative $1.50 per month cap.

(18) On September 12, 2014, Duke and Staff filed joint surreply comments, noting that, with certain modifications to the application and prior comments, the parties have reached a comprehensive agreement. The following is a summary of the provisions agreed to by Duke and Staff and is not intended to replace or supersede their agreement:

(a) The CEP should be enlarged to include those programs delineated in R.C. 4929.111(A)(1) through (A)(3), initiated in and for 2013 and succeeding years.

(b) The proposed CEP meets Duke's obligation under R.C. 4905.22 to furnish necessary and adequate services and facilities that are just and reasonable.

(c) Duke should be granted accounting authority to defer PISCC on program investments for assets placed in service but not yet reflected in rates, using the Company's cost of long-term debt as approved in its most recent gas distribution case; defer depreciation expense and property tax expense directly associated with the assets placed in service; and establish a regulatory asset to which PISCC, depreciation expense, and property tax expense will be deferred for future recovery. For purposes of the above-captioned proceedings only, Duke agrees to compute the PISCC deferral on a net plant basis.

(d) Duke's CEP will not result in incremental revenue and, consequently, there is no need to adjust the deferred amounts to account for incremental revenue. For any future CEP that generates incremental revenue, the regulatory asset created to defer the total monthly PISCC, depreciation expense, and property tax expense associated with Duke's CEPs should be reduced by any incremental revenue directly attributable to the capital investments made under the programs pursuant to the formula adopted in Vectren.

(e) The CEP should be subject to a cap for the period during which deferrals are being accrued. Specifically, Duke should be allowed to accrue deferrals under the CEP until the accrued deferrals, if included in Duke's residential service rates, would cause the rates charged to residential customers to increase by more than $1.50 per month. If deferrals exceed the $1.50 per month threshold, Duke will stop accruing future CEP deferrals until it files for authority to recover existing accrued deferrals. Duke is not precluded from submitting an application to the Commission for a subsequent adjustment to the cap in response to changes in applicable laws, regulations, or compliance activities related to pipeline safety.

(f) Duke will make annual informational filings regarding its CEP on April 30, beginning in 2015. Within 30 days after each annual filing. Staff and any interested parties may file comments. If no comments are filed, Duke's CEP and related ongoing deferral authority shall be deemed approved. If comments are filed within 30 days, Duke shall be permitted 10 days to file reply comments. The Commission shall determine whether that year's filing shall be approved.

(g) Duke's annual filings shall consist of the following information: the CEP regulatory asset balance at December 31 of each year; calculations used to determine monthly deferred amounts, including a breakdown of investments in PISCC, depreciation expense, and property tax for each budget type; a breakdown of rate impact by customer class; capital budget for the calendar year in which the informational filing is made and the succeeding year; estimate of the effect that the deferred amounts would have on residential customer bills, if they were included in rates; schedules showing the calculations and inputs for deferrals; and explanation of any substantial deviation between the planned, estimated CEP expenditures and actual expenditures, where such substantial deviation would reasonably impede Staff's ability to monitor or review the filing. The first annual filing will include all of the above information, except for schedules showing the calculations and inputs for deferrals and explanation of any substantial deviation in estimated and actual CEP expenditures, for the 2013 and 2014 calendar years. All subsequent annual filings shall pertain to the immediately preceding calendar year.

(h) For purposes of these proceedings, Duke will not seek recovery of costs under the CEP more than one time in each calendar year.

(i) The parties recommend that the Commission find that the approvals requested in these proceedings under R.C. 4909.18 and 4929.111 to establish a CEP and for related accounting authority are not for an increase in rates. Accordingly, the parties contend that the application, as modified by the joint surreply comments, should be considered an application not for an increase in rates and may be approved without a hearing.

(j) Duke and Staff agree that the joint surreply comments address the establishment of a CEP and accounting authority for related deferrals and that recovery of deferred amounts shall be considered in a separate proceeding.

(19) R.C. 4929.111(A) provides that a natural gas company may file an application with the Commission under R.C. 4909.18, 4929.05, or 4929.11 to implement a CEP for any of the following:

(a) Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program;

(b) Any program to install, upgrade, or replace information technology systems;

(c) Any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction.

R.C. 4929.111(C) requires the Commission to approve the application, if the Commission finds that the CEP is consistent with the natural gas company's obligation under R.C. 4905.22 to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable.

(20) Upon review of Duke's application, Staff's comments, Duke's reply comments, Staff's surreply comments, and the joint surreply comments filed by Duke and Staff, the Commission finds that Duke has demonstrated that the CEP is consistent with its obligation under R.C 4905.22 to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable. Further, the Commission finds that Duke's application will not result in an increase in any rate or charge. Accordingly, the application should be considered as an application not for an increase in rates under R.C. 4909.18.

(21) With the recommendations proposed by Duke and Staff in their joint surreply comments, as well as the requirements set forth below, the Commission finds Duke's proposed CEP to be both reasonable and consistent with R.C. 4929.111. Accordingly, Duke is authorized, pursuant to R.C. 4909.18 and 4929.111, to implement the CEP and modify its accounting procedures as necessary to carry out the implementation of the CEP, consistent with this Finding and Order and the parties' joint surreply comments, in 2013 and succeeding years, up until the point where the accrued deferrals, if included in Duke's residential service rates, would cause the rates charged to residential customers to increase by more than $1.50 per month.

(22) While the Commission approves Duke's application for 2013 and succeeding years, as modified by the joint surreply comments filed by Duke and Staff, we find that a process should be adopted, as proposed by Duke and Staff and clarified herein, to allow interested persons and Staff to comment on the information provided by the Company in its annual informational filings due on April 30 of each year. Therefore, the Commission directs that any comments and reply comments should be filed within 30 days and 40 days, respectively, of the date of Duke's annual informational filing. After receipt of each annual informational filing and review of any comments submitted, the Commission will determine whether there should be further review of Duke's approved deferral authority at that time. If the Commission finds such further review to be necessary, within 60 days after the filing of each annual informational filing, an appropriate procedure for the review will be established. If such a review is initiated, Duke may continue to accrue appropriate deferrals, unless and until the Commission orders otherwise. The Commission notes that Duke's annual informational filings, as well as any comments and reply comments, should be filed in the above captioned cases.

With these requirements in place, we find that Duke's application, as modified by the joint surreply comments filed by Duke and Staff, should be approved, subject to our review of the Company's annual informational filings and any comments or reply comments filed in response. Our approval of Duke's application, as modified by the joint surreply comments filed by Duke and Staff, is contingent on the Company's adherence to the formulas for calculating the total monthly deferral, PISCC, depreciation expense, and property tax expense, as proposed by Staff and adopted by the Commission in Columbia, Dominion, and Vectren.

(23) Additionally, the Commission emphasizes that, consistent with Duke's application, we approve the Company's request for deferral authority, but do not authorize recovery of the deferred amounts at this time. The question of recovery of the deferred amounts, including, but not limited to, issues such as prudence, proper computation, proper recording, and reasonableness, will be considered when Duke files an application to recover the deferred amounts. The Commission has not granted cost recovery for any CEP-related items, and the prudence and reasonableness of the magnitude of Duke's CEP-related regulatory assets and associated capital spending will be considered by the Commission in any future proceedings seeking cost recovery, at which time the Company will be expected to provide detailed information regarding the expenditures for review.

It is, therefore,

ORDERED, That Duke's application, as modified by the parties' joint surreply comments, be approved, subject to the Commission's review of the Company's annual informational filings and any comments or reply comments received in response. It is, further,

ORDERED, That Duke be granted the necessary and appropriate accounting authority to implement the CEP, as modified by the parties' joint surreply comments, and consistent with this Finding and Order.

Case No. 19-0791-GA-ALT

On May 3, 2019, Duke Energy Ohio applied for a new alternative rate plan to establish a capital expenditure program rider (Rider CEP). On April 21, 2021, the Commission's Opinion and Order was issued that modified and approved the stipulation and recommendation filed on November 16, 2020, that resolves all issues related to Duke Energy Ohio's CEP. Key points in the Opinion and Order are summarized below.

Pages 9–16

D. Summary of the Larkin Report and the Staff Report

1. LARKIN REPORT

{¶ 26} As stated previously, on May 11, 2020, Larkin filed its audit report. As part of the audit, the Commission directed Larkin to conduct a two-phase evaluation of Duke's CEP. The first phase included a review of the accounting accuracy and used and useful nature of Duke's non-accelerated main replacement rider (Rider AMRP) and non-advanced utility rider (Rider AU) capital expenditures and related assets from its most recent base case on March 31, 2012, through December 31, 2018. The second phase of the audit consisted of assessing and determining the necessity, reasonableness, and prudence of Duke's non-Rider AMRP and non-Rider AU capital expenditures and related assets, with an emphasis on the CEP expenditures and assets from January 1, 2013, through December 31, 2018. As part of its investigation, Larkin issued data requests, conducted interviews and field inspections by video, and performed analyses, including variance analysis and detailed transactional testing.

{¶ 27} As a result of the audit, Larkin proposed a number of adjustments for the Commission's consideration. First, Larkin recommended that the cumulative amounts of incentive and stock-based compensation totaling $775,173 (after factoring in the related depreciation, accumulated depreciation, and accumulated deferred income tax (ADIT)) for the period 2013 through 2018 be removed from the CEP Rider. In addition, Larkin advised that Duke's calculation reflecting the impact of removing the earnings-based incentive and stock-based compensation on the PISCC deferral in the amount of $142,980 be adopted. (Staff Ex. 2A at 2-15.)

{¶ 28} Second, Larkin recommended that, after reflecting the correction of errors in Duke's calculations for the property tax deferral, Larkin's recalculated deferred property tax regulatory asset totaling $13,182,085 should be adopted, which would increase the deferred property tax regulatory asset by $135,332. Further, after reflecting the correction of the errors related to annualized property tax expense, Larkin proposed a recalculated annualized property tax expense totaling $5,738,579, which would increase the annualized property tax expense by $33,053. (Staff Ex. 2A at 2-15 to 2-16.)

{¶ 29} Third, Larkin recommended that the construction costs and equipment costs associated with the employee fitness center at the Eastern Gas Operations Center be removed from the CEP Rider (Staff Ex. 2A at 2-16).

{¶ 30} Fourth, Larkin advised that several projects during the period 2013 through 2015 that were erroneously included or excluded from the CEP plant in service balances should be removed or added. Larkin noted that Duke conceded that, due to incorrect data filtering methods in its system, the following adjustments should be made to the CEP plant in service balances: tor 2013, the CEP plant in service balances should be decreased by $40,622; for 2014, the CEP plant in service balances should be increased by $14,661; and, for 2015, the CEP plant in service balances should be decreased by $531,609. Larkin stated that the related deferred depreciation expense, ADIT, and PISCC should also be adjusted. (Staff Ex. 2A at 2-16.)

{¶ 31} Fifth, Larkin reported that it disagrees with Duke's use of a 2.54 percent composite depreciation rate for calculating the amortization of regulatory assets, as it includes the impact of negative net salvage and, therefore, is not a reasonable methodology for determining an estimate of the useful life of the CEP assets, or by which to calculate the amortization of regulatory assets. Larkin, in consultation with Staff, recommended the use of a 2.25 percent rate, which, when applied to the adjusted regulatory asset balance, results in an adjusted amortization of regulatory assets amount of $1,007,416, which is $135,122 less than Duke's proposed amount. (Staff Ex. 2A at 2-10 and 2-16 to 2-17.)

{¶ 32} Sixth, Larkin proposed that the Duke Energy Enable Project costs allocated to the Company's gas operations be adjusted by applying the gas utility annual allocation factors. Larkin noted that, in Duke's CEP filing, the Duke Energy Enable Project costs for all applicable years were allocated to the gas utility based on a 5.43 percent allocation factor from the Company's 2014 Cost Allocation Manual (CAM). Larkin asserted that the recoverable Duke Energy Enable Project costs that are included in the CEP Rider should instead be based on the CAM percentage allocation applicable to the gas utility in each year from 2013 through 2018, which would decrease CEP plant in service by $133,123, deferred depreciation expense by $18,467, annualized depreciation expense by $13,852, and PISCC by $9,443. (Staff Ex. 2A at 2-11 and 2-17.)

{¶ 33} Finally, Larkin recommended that $1,802 in costs associated with certain advanced metering infrastructure (AMI) meter module replacements from 2013, 2014, and 2015 be removed. According to Larkin, Duke stated that these projects should have been included in Rider AU, but were not labeled properly and were captured instead in the CEP. Larkin stated that, due to the small plant adjustment amount, it did not attempt to reflect the impacts to deferred or annualized depreciation expense, or the PISCC, which would be even smaller. (Staff Ex. 2A at 2-17.)

{¶ 34} Additionally, Larkin offered the following audit conclusions based on its analysis:

(1) Based upon its review of Duke's historical plant records for the period March 31, 2012, through December 31, 2018, coupled with the Company's explanation and documentation provided with respect to a specific retirement entry, Larkin is satisfied as to the accuracy of the Company's historical plant records (Staff Ex. 2A at 2-5).

(2) Larkin found that the Commission-approved depreciation rates from Case No. 12-1685-GA-AIR, et al., were used in Duke's calculations and, therefore, had no recommended adjustments to the methodology used by the Company to calculate its depreciation reserve, deferred depreciation, or annualized depreciation expense (Staff Ex. 2A at 2-6 and 2-8).

(3) Larkin found that Duke was able to provide detailed historical plant records and continuing property records to support its plant in service balances. Larkin advised that Duke should continue to address the unitization backlog. (Staff Ex. 2A at 2-6.)

(4) Through its review of Duke's records and transactional detail testing of sampled work orders and plant records, Larkin found that the costs included in the sampled projects are capital in nature and that the scope of work and cost detail tied to the applicable Federal Energy Regulatory Commission (FERC) 300 accounts to which the work applied, in accordance with the FERC Uniform System of Accounts (Staff Ex. 2A at 2-7).

(5) Larkin concluded that Duke's methodology for estimating a depreciation offset in the amount of $225,989,904 is reasonable (Staff Ex. 2A at 2-10 to 2-11).

(6) Larkin concluded that the reviewed assets are used and useful and provide a benefit to Duke's ratepayers and that the assets do not appear to have been overbuilt (Staff Ex. 2A at 2-11).

(7) Other than its recommended adjustments, Larkin did not find anything to indicate that the remaining CEP-related capital expenditures and assets for the period January 1, 2013, through December 31, 2018, were unnecessary, unreasonable, or imprudent (Staff Ex. 2A at 2-12).

(8) Larkin concluded that Duke has implemented effective cost-containment strategies regarding the use of outside contractors and internal labor for non Rider AMRP and non-Rider AU capital expenditures and for CEP-includable projects and assets during the period 2013 through 2018 (Staff Ex. 2A at 2-15).

2. STAFF REPORT

{¶ 35} As noted above, the Staff Report was filed on May 22, 2020. Staff adopts the audit report filed by Larkin and, based on the audit, recommends that Duke take the following steps:

(1) Revise base rate plant balances as of December 31, 2018, to reflect Larkin's adjustments: $2,322,668,740 (plant in service balance) and $694,164,736 (accumulated depreciation balance);

(2) Apply corrections, including allocations affecting IT investments (known as the Enable Project), property tax modifications, and removal of various AMI meter module replacements that should not have been included in the CEP;

(3) Apply the composite depreciation rate of 2.25 percent that excludes negative net salvage;

(4) Remove costs associated with the fitness center at the Eastern Operations Center;

(5) Remove the earnings-based portion of incentive compensation and stock-based compensation as outlined in the Larkin Report;

(6) Address the lagging unitization backlog to properly reflect completed projects that are in service as unitized; and

(7) Revise CEP balances to add or remove various projects erroneously included and excluded from CEP plant in service balances. (Staff Ex. 1 at 7.)

{¶ 36} Although Staff does not believe that Duke had excessive earnings during the review period, Staff advises that it would be prudent to monitor measures of profitability of regulated companies that have been granted deferrals to determine whether immediate regulatory recovery is necessary (Staff Ex. 1 at 7).

{¶ 37} Next, with regard to capital spending, Staff recommends that Duke work with Staff to identify reasonable and meaningful annual caps in order to keep costs under control and to ensure ratepayers are not burdened with excessive and unnecessary plant investments (Staff Ex. 1 at 7-8).

{¶ 38} Staff finds Duke's methodology for calculating the annualized depreciation expense and rate base depreciation offset to be reasonable, and, for recovery of deferrals, Staff supports Larkin's recommendation to adjust the composite depreciation rate to 2.25 percent (Staff Ex. 1 at 8).

{¶ 39} Staff indicates that it has reviewed the rates and tariffs proposed by Duke and makes the following recommendations:

(1) The initial CEP Rider rate should be a fixed rate, modified to include Larkin's adjustments, as estimated in the chart below:

Rate Schedule	Rate
RS, RFT, RSLI, RFTLI	$3.68/month
GS-S/FT-S	$7.18/month
GS-L/FT-L	$44.70/month
IT, GGIT	$1,276.93/month

(Staff Ex. 1 at 8).

(2) Duke should file an annual CEP Rider update to adjust the rider rate, which should include the same schedules in similar format as the currently filed annual reports (Staff Ex. 1 at 8).

(3) The annual CEP Rider filings should be set with fixed caps starting the first year the rider is adjusted until the filing of the next rate case (Staff Ex. 1 at 8).

(4) The caps should be set to increase by a fixed cap rate for each future year until the Company files its next rate case, with the cap being no greater than $1.00 per year for residential customers (Staff Ex. 1 at 9).

(5) The annual CEP Rider should include a reconciliation and true-up mechanism for actual costs from the prior year (Staff Ex. 1 at 9).

(6) If a Commission order is issued prior to 2021, the first-year filing in 2021 will cover an audit of assets for 2019 and 2020. Thereafter, the Company will file an annual review. If a Commission order is issued later, the Company should confer with Staff to establish the best time for the first filing. (Staff Ex. 1 at 9.)

(7) Staff recommends that Duke should file its annual CEP Rider filings on April 30 and with rates going into effect on November 1 (Staff Ex. 1 at 9).

(8) Deferral of the PISCC, property tax, and depreciation expenses should cease once Duke begins to recover CEP assets in rates (Staff Ex. 1 at 9).

(9) The CEP Rider rate caps will also cap Duke's capital expense deferral authority, granted in the CEP Deferral Case, in calendar year 2019 until the Company files its next alternative rate plan application (Staff Ex. 1 at 9).

(10) The CEP Rider should cease on December 31, 2024, unless Duke files a new alternative rate plan application, pursuant to R.C. 4929.05, requesting reauthorization for the rider. Duke should cease accruing CEP-related deferrals until such time that Duke files such application. (Staff Ex. 1 at 9.)

(11) Any such application filed by Duke for an alternative rate plan should include specific annual rate caps and annual audits (Staff Ex. 1 at 9).

(12) In the event Duke does not file the aforementioned alternative rate plan by December 31, 2024, Duke should file revised tariff sheets by January 1, 2025, that revise the CEP Rider rate to $0, and Duke should not exercise its deferral authority granted in the CEP Deferral Case for assets placed in service beginning January 1, 2025, and beyond until Duke files an alternative rate plan application. Duke's deferral authority granted in the CEP Deferral Case should remain unchanged for assets placed in service beginning January 1, 2025, and beyond, so long as Duke meets the recommended 2024 alternative rate plan reauthorization filing deadline. (Staff Ex. 1 at 9.)

{¶ 40} Staff finds that Duke's alternative rate plan meets the requirements set forth in R.C. 4929.05 and recommends that the Commission approve the Company's application, subject to Staff's recommendations (Staff Ex. 1 at 9-10).

Pages 16–20

E. Summary of the Stipulation

{¶ 41} The Stipulation, executed by Duke and Staff (Signatory Parties), was filed on November 16, 2020. The Signatory Parties state that the Stipulation is supported by adequate data and information; represents an integrated and complete document, as well as a just and reasonable resolution of the legal and policy issues raised in the proceeding; meets the Commission's criteria for assessing the reasonableness of a stipulation; and should be accepted and approved by the Commission. The Signatory Parties stipulate and recommend as follows:

(1) Duke's application filed in this proceeding on May 3, 2019, shall be approved as filed, subject to the findings and recommendations of the Staff Report filed in this proceeding on May 22, 2020, except as otherwise specifically provided for in the Stipulation. If any proposed rates, charges, terms, conditions, or other items set forth in Duke's application are not addressed in the Staff Report or the Stipulation, the proposed rate, charge, term, condition, or other item shall be treated in accordance with the application. (Joint Ex. 1 at 2-3.)

(2) The CEP Rider monthly rate will be set for the revenue requirement associated with the CEP assets placed in service and the related CEP regulatory asset for the period January 1, 2013, through December 31, 2018, as shown in the table below. The rates below represent those calculated in the Larkin Report, excluding adjustments to earnings-related incentives, which will continue to be capitalized and included in the CEP Rider, as further described below. (Joint Ex. 1 at 3.)

Rate Schedule	Rate
RS, RFT, RSLI, RFTLI	$3.69/month
GS-S/FT-S	$7.20/month
GS-L/FT-L	$44.85/month
IT, GGIT	$1,281.32/month

(3) No later than March 31 of each year, Duke will make a CEP Rider filing, which includes a reconciliation and true-up mechanism for over/under recovery of the CEP Rider revenue requirement approved for the prior year. Duke will update customer rates on November 1 of each year, as approved by the Commission in these annual proceedings. The first CEP Rider update is to be filed in 2021 and include the revenue requirement associated with the CEP assets placed in service and related CEP regulatory assets as of December 31, 2020. Beginning in 2022 and to continue annually thereafter, each CEP Rider update shall include the revenue requirement associated with CEP assets placed in service and related CEP regulatory assets as of December 31 of the prior year. Staff or its designee shall perform the audit of Duke's annual application to update CEP Rider rates to determine lawfulness, used and usefulness, prudence, and reasonableness of the CEP assets placed in service and the related calculation of the CEP regulatory asset included in the proposed updated CEP Rider revenue requirement. If the Commission retains external auditors to perform the audit, Duke shall be responsible for the cost of the external audit. (Joint Ex. 1 at 3-4.)

(4) For investment years 2019 and 2020 included in the annual update filing to be made no later than March 31, 2021, Duke agrees to cap residential customer rates at $9.31, or an increase of no more than $5.62 ($2.92 related to 2019 investments and $2.70 related to 2020 investments) from the previous year's residential CEP Rider rate of $3.69. The residential rate cap will also cap Duke's CEP deferral authority. (Joint Ex. 1 at 4.)

(5) For CEP Rider annual update filings to recover the revenue requirement associated with investments and associated CEP regulatory assets beginning January 1, 2021, and forward, the monthly residential CEP Rider rate will be allowed to increase no more than $1.00 per year over the prior year's residential CEP Rider rate. The residential rate cap will also cap Duke's CEP deferral authority. Deferral of the PISCC, property tax, and depreciation expense into a regulatory asset will cease for any CEP assets excluded from the annual CEP Rider revenue requirement due to the application of the residential rate caps. Any adjustments to CEP regulatory assets relating to such excluded assets will result in a reversal of the regulatory asset and be expensed on Duke's accounting books and records. Any assets excluded from recovery in the CEP Rider due to the application of the residential rate caps shall be deemed to be base rate assets and included in rate base for recovery in Duke's next natural gas base rate case proceeding. The annual residential rate caps agreed to in the Stipulation shall apply until the effective date of Duke's next natural gas base rate case. (Joint Ex. 1 at 4-5.)

(6) Duke agrees to file an application for a natural gas base rate case by June 30, 2022, provided that Duke's Central Corridor Pipeline goes into service by March 31, 2022. If the

pipeline does not go into service by this date, Duke agrees to file a natural gas base rate case within six months after the pipeline is placed in service but no later than June 30, 2023. The date certain for the rate case will be no later than the date the rate case is filed. The revenue requirement associated with all investment and CEP regulatory assets recorded as of the date certain in the rate case will be recovered in base rates and, once approved, the CEP Rider will be set to zero. Such base rates shall incorporate the CEP Rider revenue requirement to recover the unamortized CEP regulatory assets and a return on and of the assets underlying the CEP regulatory assets that are used and useful on the date certain of the rate case. At the time it files the rate case, Duke shall also file another alternative rate plan pursuant to R.C. 4909.18, 4929.05, 4929.11, and 4929.111 to continue the CEP Rider after the new base rates are put into effect. The CEP Rider will be reset to track investments placed into service and related CEP regulatory assets recorded after the rate case's date certain. If Duke fails to timely file the rate case or fails to comply with this paragraph, Duke shall cease recording CEP regulatory assets for deferred PISCC, property tax, and depreciation expense and shall promptly file revised tariff sheets revising the CEP Rider rates to $0.00, until Duke files a compliant rate case application. Provided Duke makes a timely and compliant rate case filing, Duke's authority under the CEP Deferral Case to accrue CEP regulatory assets, to file annual updates to the CEP Rider, and to implement approved CEP Rider rates subject to the agreed upon residential cap will continue until such rates from the rate case become effective. (Joint Ex. 1 at 5-6.)

(7) The incremental revenue offset shall be calculated in accordance with the formulas adopted in the CEP Deferral Case and shall use a baseline of current annual bills issued as of the date certain in this case, December 31, 2018 (Joint Ex. 1 at 6).

(8) The CEP Rider will be calculated using the most recent available annual bills issued (Joint Ex. at 6).

(9) Incentive pay will continue to be capitalized in accordance with Duke's existing accounting policies and procedures that follow generally accepted accounting principles (GAAP) (Joint Ex. at 7).

(10) The deferral of PISCC, property tax, and depreciation expense, associated with investment placed in service as of December 31, 2018, will cease once CEP Rider rates are put into effect (Joint Ex. at 7).

(11) For purposes of settlement only, Duke agrees to remove costs associated with the Company's fitness room from rate base in the CEP Rider revenue requirement calculation (Joint Ex. at 7).

(12) Except as otherwise delineated in the Stipulation, Duke agrees to all other terms of the May 11, 2020 Larkin Report and the May 22, 2020 Staff Report (Joint Ex. 1 at 7).

(13) The Signatory Parties agree and recommend that the Commission approve a final tariff in the form of Joint Ex. 3, which includes Original Sheet No. 84. The tariff will go into effect on a bills-rendered basis, commencing with the first billing cycle following Commission approval of the Stipulation. (Joint Ex. 1 at 7.)

(14) Duke withdraws its objections to the Staff Report, which were filed on June 22, 2020. Such objections may be reinstituted if the Commission rejects the Stipulation in whole or in part. (Joint Ex. 1 at 8.)

(15) The Signatory Parties stipulate, agree, and recommend that the Commission issue a final Opinion and Order in this proceeding, ordering the adoption of the Stipulation, including the terms and conditions agreed to in the Stipulation by the Signatory Parties (Joint Ex. 1 at 10).

Page 47

{¶ 83} Accordingly, we find it necessary to modify the Stipulation, in order to satisfy the third part of the three-part test, as well as to ensure that Duke's alternative rate plan is just and reasonable under R.C. 4929.05. Initially, we agree that Duke's CEP investments for 2019 and 2020 should be audited together, as contemplated under the Stipulation, and that the Stipulation's residential rate caps of $2.92 for 2019 investments and $2.70 for 2020 investments should be adopted. However, rather than implement adjusted CEP Rider charges in November 2021 that reflect both 2019 and 2020 investments, we direct that the rate adjustment for 2019 investments should take effect in November 2021, with a subsequent rate adjustment for 2020 investments becoming effective in May 2022. This modification to the Stipulation should mitigate the rate impact for customers, particularly during the upcoming winter heating season, while ensuring that Duke continues to have an opportunity to recover its prudently incurred costs.

Page 49

{¶ 97} It is, therefore,

{¶ 98} ORDERED, That the Stipulation be adopted and approved, consistent with this Opinion and Order.

On May 21, 2021, Duke Energy Ohio filed an application for rehearing regarding the Commission's modifications to the Stipulation related that the rate adjustment to allow the Company to commence recovery of its 2020 investments be delayed from November 2021 to May 2022. On June 16, 2021, the Commission denied Duke's motion for rehearing but clarified the order as follows.

{¶ 26} Upon consideration of Duke's application for rehearing and OCC's memorandum contra, we note that the Opinion and Order clearly indicates that the purpose of our directive is to alleviate the rate impact for customers, while also ensuring that the Company is able to recover its reasonable and prudent costs. Opinion and Order at ¶ 83. The Commission's modification of the Stipulation pertains only to the timing of Duke's recovery of its CEP investments for 2020. As requested by Duke, we clarify that any projected shortfall attributable to the delay in the recovery of the authorized revenue requirement for 2020 deferrals and investments may be collected through the CEP Rider's reconciliation and true-up mechanism; that any such shortfall is not subject to the rate caps set forth in the Stipulation; and that any such shortfall should be reflected in the Company's application to be filed no later than March 31, 2022. We reiterate that Duke's CEP investments remain subject to audit and must be deemed prudent, used and useful, lawful, and reasonable before recovery will be authorized. With this clarification, we find that it is unnecessary to address the arguments in Duke's application for rehearing and that the application should, therefore, be denied.

{¶ 27} It is, therefore,

{¶ 28} ORDERED, That, with the clarification set forth in this Entry on Rehearing, Duke's application for rehearing be denied.

Case No. 21-0618-GA-RDR

On April 23, 2021, Duke Energy Ohio filed an application for authority to adjust its CEP charges for CEP plant placed in service between January 1, 2019 through December 31, 2020. On June 2, 2021, the Commission selected Blue Ridge Consulting Services, Inc. as the auditor that will assist Staff in performing a two part audit to (1) review and attest to the accounting accuracy and used and useful nature of capital expenditures and corresponding depreciation reserve for the period January 1, 2019 through December 31, 2020; and (2) to simultaneously assess and form an opinion on the necessity, reasonableness, and prudence of the capital expenditures and related assets, with an emphasis on the CEP expenditures and assets from January 1, 2019, through December 31, 2020.

On July 27, 2022, the Commission's Opinion and Order was issued. Key points in the Opinion and Order are summarized below.

{¶1} The Commission approves Duke Energy Ohio Inc.'s application to adjust its capital expenditure program rider, consistent with the findings within this Opinion and Order.

D. Contested Adjustments and Recommendations from the Audit Report

{¶34} In its initial brief, Duke states that it concurs with Adjustments 1, 2, 4, 5, and 10 found within the Audit Report and agrees with Blue Ridge's decision in its supplement to the Audit Report to withdraw Adjustment 7. Further Duke states that it concurs with Recommendations 1 through 4, Recommendation 7, and conditionally concurs with Recommendation 6 of the Audit Report. Duke contests Adjustments 3, 6, 8, 9, 11, as well as contests Recommendation 5 (Duke Initial Br. at 5–8).

1. ADJUSTMENT 3: DEPRECIATION OFFSET

{¶ 35} The Audit Report provided the following summary for Adjustment 3:

> "The Company modified the beginning balance of the depreciation offset. Blue Ridge recommends that the computation be restored to the one approved in Case No. 19-791-GA-ALT. While the Company's rationale would prevail in a traditional base rate case model, it does not apply under alternative ratemaking paradigms, such as in this situation. The depreciation offset is a theoretical construct that the signatory parties negotiated to balance the interests of the Company and customers. Without Staff's consent and the Commission's approval, Blue Ridge views the modified computation to be non-compliant with the Stipulation and Recommendation. Restoring the approved computation increases the depreciation offset and decreases rate base by $24.19 million, $28.35 million, and $31.90 million in 2018, 2019, and 2020, respectively." (Staff Ex. 1 at 34.)

{¶ 44} We find Duke's arguments persuasive and find that Adjustment 3 should be rejected. In the CEP Case, we generally noted that the depreciation offset is a theoretical construct that "* * * reflects the portion of depreciation expense collected from customers through base rates, but not yet recognized as an offset to rate base." CEP Case, Opinion and Order at ¶ 61. The audit report and staff report[138] in the CEP Case, when finding Duke's methodology for calculating the depreciation offset

[138] Although the *CEP Case* staff report specifically mentions only the subtraction of depreciation expense related to Rider AMRP and Rider AU from total depreciation expense, Staff also states that it fully adopts the

reasonable, indicate that the offset, as filed in Duke's application, was determined by subtracting (1) Rider AMRP depreciation expense, (2) Rider AU depreciation expense, and (3) production depreciation expense from the total depreciation expense listed on Duke's annual FERC Form 2 filing (Staff Ex. 1 at 31). CEP Case, Audit Report (May 11, 2020) at 2-10, 2-11; Staff Report (May 22, 2020) at 8. Now, Duke argues it never agreed to a static depreciation offset formula, it never would have agreed to explicit language regarding a static formula, and it intends to add a fourth category to the formula, which subtracts common assets-related depreciation expense. According to Duke, it realized during the audit of the CEP Case that it inadvertently neglected to back out common asset-related depreciation expense, and, consequently, did subtract that depreciation expense from the depreciation offset for 2019 prior to the conclusion of the CEP Case and in the current case. (Co. Ex. 3 at 11, Schedule 11.) Similar to the reason for removing production-related depreciation expense from the depreciation offset formula—if production-related plant expense is not included in Rider CEP rate base then it should not be included in the depreciation offset—we generally agree with Duke that the same reasoning should apply in a situation with common assets-related depreciation expense where common assets are not included in Rider CEP rate base; however, this reasoning alone would not overcome a Commission-approved stipulated agreement requiring an already set depreciation offset formula. For the reasons articulated below, we believe Duke sufficiently demonstrated that it reasonably believed the Stipulation did not require the depreciation offset formula to remain static and that removal of common assets-related depreciation expense from the depreciation offset is lawful and reasonable.

{¶ 47} Although this issue could have been avoided or at least fully addressed in the CEP Case if Duke had provided the correct schedules from the start, as mentioned earlier, we do find that, taking all of the arguments together, it is reasonable for Duke to have revised the depreciation offset formula in the manner provided in this case. Although the Stipulation is silent as to the depreciation offset, Duke effectively showed how the residential rate caps were tied to revised Schedules 1 and 11, which were provided to the parties in that case, at least implying that using the non-static depreciation offset was acceptable in following years. Duke also sufficiently showed how failing to use the revised formula would result in an overstatement of Accumulated Provision for Depreciation on Duke's annual FERC Form 2 filings. Notably, although Blue Ridge determined that the depreciation offset formula used by Duke was not in compliance with the Stipulation, Blue Ridge did mention that Duke's rationale for the revised depreciation offset formula would prevail in a traditional base rate case model (Staff Ex. 1 at 31). Here, considering all of the above, we also believe Duke's reasoning as to the revised depreciation offset formula should prevail in this annual audit proceeding.

2. ADJUSTMENT 6: NON-CEP PLANT: V9197—EAST WORKS PROPANE SEWER MAIN

{¶ 48} The Audit Report provided the following summary for Adjustment 6:

> "The project was for a collapsed sewer main at East Works Propane Gas Plant. Blue Ridge found, and the Company concurs, that it should not have been included in the Rider CEP. The adjustment reduces gross plant by $572,944 and reverses Cost of Removal of $46,567." (Staff Ex. 1 at 35.)

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audit report in that matter. *CEP Case*, Staff Report (May 22, 2020) at 7-8. There appears to be no indication in the *CEP Case* or the current one indicating that Staff believes subtracting production depreciation expense is unreasonable.

{¶ 52} We find that Adjustment 6 should be rejected. Staff appears not to contest the rejection of this adjustment if Duke can prove that the COR amount for this work order was not within Rider CEP. Duke's response, that the schedules provided by it in the initial filing show that the only costs included are plant additions and retirements and that no schedule including COR exists within the filings in either the CEP Case or the subject case, is persuasive and substantially conforms with Staff's request regarding this adjustment. Accordingly, we reject Blue Ridge's Adjustment 6 regarding COR for the work order in question.

3. ADJUSTMENT 8: LAND PURCHASED ABOVE FAIR MARKET VALUE (FMV)—AW1379 BLUE ROCK STATION (LAND)

{¶ 53} The Audit Report provided the following summary for Adjustment 8:

> "The Company purchased land for $255,000 that was above the fair market value of $160,000. Blue Ridge recommends a reduction to plant of $95,000 to remove the amount above FMV." (Staff Ex. 1 at 35.)

{¶ 58} We find Staff's and OCC's arguments persuasive and find that Adjustment 8 should be adopted. While Duke may at times need to pay above FMV to acquire land it needs to complete a project, considering customers may ultimately pay for the above FMV via an increase in rates, we believe it is important, as OCC argues, to incentivize Duke as much as possible to negotiate lower land acquisition prices to mitigate the potential downstream effect on ratepayers. This belief remains true even if Duke must undertake a condemnation proceeding for a particular property, an action possibly not necessary for some if any property acquisitions.

4. ADJUSTMENT 9: ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION—P7988 STA 436 SCADA INSTALL ODORIZER HEAT

{¶ 59} The Audit Report provided the following summary for Adjustment 9:

> "The Company had significant gaps in work and continued to accrue AFUDC. Blue Ridge recommends a reduction to plant of $57,000 to remove the 10 months that AFUDC was accruing while little to no work was being performed." (Staff Ex. 1 at 35.)

{¶ 63} The Commission adopts Adjustment 9, which reduces plant expenses by $57,000 to remove 10 months of AFUDC that was accruing while little to no labor was being performed installing an odorizer heater in accordance with this specific work order. As stated by Blue Ridge, AFUDC should not be charged when no work is being performed. (Staff Ex. 1 at 35, 78.) While Duke states that monthly charges continued to be charged to the project over the course of the delays, which, it contends, indicates that work was being done, and states that their capitalization guidelines allow for AFUDC to be accrued when charges continue to appear for a project in this manner, we find Staff's argument persuasive that the cost detail provided by Duke for the 10-month period shows that 80 percent of the charges were for AFUDC. The other charges, $13,000, were for materials and inventories, with no labor charged during that period (Staff Ex. 1 at 145, Appendix C: Work Papers; Staff Initial Br. at 7-8.) Consequently, we find that Adjustment 9 should be adopted and AFUDC in this instance disallowed.

5. ADJUSTMENT 11: CEP ASSETS REMOVED TO STAY BELOW RESIDENTIAL RATE CAP

{¶ 64} The Audit Report provided the following summary for Adjustment 11:

> "After reflecting the impact of Adjustments #1-10, the Company is comfortably below the residential rate cap of $6.61 and $9.31 for 2019 and 2020, respectively. Accordingly, Blue Ridge recommends the full restoration of the qualified CEP investments the Company removed as shown in Table 12 above." (Staff Ex. 1 at 35.)

{¶ 68} As noted by Duke and Staff above, the decision regarding Adjustment 11 depends on how the other adjustments are handled. As we have demonstrated above and will do so below, we have agreed with most adjustments and rejected only Adjustments 3 and 6. Consequently, our decision on this adjustment is conditional. We will adopt Adjustment 11 only to the extent that the stipulated caps would allow full recovery of the qualified CEP investments for 2019 and 2020. However, if our decision on Adjustment 3 and the other adjustments and recommendations in this Order results in full recovery in line with the stipulated caps, then Adjustment 11 is not necessary and should be rejected. We direct Duke to implement this directive in the appropriate manner described above after reconciling the adjustments and recommendations from this Order.

6. RECOMMENDATION 5: ESTIMATED IN-SERVICE DATES

{¶ 69} The Audit Report provided the following summary for Recommendation 5:

> "Blue Ridge recommends that the Company establish a procedure that requires major non-blanket project changes in estimated in-service dates to be documented. Each change should be explained, and that information should be provided to Senior Management. This process should also become part of the actual to budget project variance analysis and explanations." (Staff Ex. 1 at 36.)

{¶ 73} The Commission notes that, generally, Duke does not object to Blue Ridge's Recommendation 5, requiring a procedure to be established to document major changes to non-blanket project in-service dates with such documentation being provided to senior management. Considering the above arguments, the only issue to be resolved regarding this adjustment appears to be the project cost threshold at which Duke must begin to engage in the analysis detailed by Blue Ridge in its recommendation. The Commission views the $10 million first proffered by Duke and then the $5 million threshold offered by Duke on reply as too high for the reasons Staff articulated. As Blue Ridge noted in the Audit Report, without more specific documentation as to why in-service dates for non-blanket projects change, an auditor is unable to determine if Duke was efficient in completing the projects (Staff Ex. 1 at 70). Being able to sufficiently track and review changes to in-service dates on capital projects on a more general scale, including providing such documentation to those at a senior management level who can determine the effectiveness of Duke's project management, appears to be needed to determine Duke's efficiency in completing these projects. At the same time, however, we agree with Duke that the $500,000 threshold suggested by Staff is too low, considering, as Duke represents, such a threshold would encompass nearly every capital expenditure project and would most likely require a significant increase in documentation and reporting. To balance the amount of additional documentation and reporting required of Duke to comply with the recommendation with the goal of tracking enough projects such that a future auditor can provide a meaningful determination as to Duke's efficiency in completing projects, we believe the non-blanket project threshold should be $2 million. We also direct Staff, in the next CEP RFP, to instruct the auditor to review the implementation of that threshold and report on the efficacy of the $2 million threshold in achieving its purpose.

7. RECOMMENDATION 6: STOCK-BASED AND EARNINGS-RELATED INCENTIVE COMPENSATION

{¶ 74} The Audit Report provided the following summary for Recommendation 6:

> "In the Stipulation in Case No. 19-791-GA-ALT, the parties agreed, and the Commission approved, that incentive pay will continue to be capitalized in accordance with Duke's existing accounting policies and procedures that follow generally accepted accounting principles. The amount of stock-based and earnings-related incentive compensation that is capitalized and included in the CEP appears to be increasing. Blue Ridge recommends that the capitalization and recovery of stock-based and earnings-related incentive compensation should be monitored to ensure the amount recovered does not significantly increase." (Staff Ex. 1 at 36.)

{¶ 84} We adopt Blue Ridge's Recommendation 6 regarding stock-based and earnings-related incentive compensation, as clarified by Duke and Staff that the capitalization and recovery of stock-based and earnings-related incentive compensation should be monitored as part of the annual audit scope to ensure the amount recovered does not significantly increase. In part, OCC and IGS take issue with including such financial performance incentives in Rider CEP since the Commission has found in prior proceedings that such incentives should not be included in capital expenditure programs. Further, OCC and IGS point to the audit report and Staff's recommendation from the CEP Case, both of which recommended removal of these financial performance incentive costs, as support for removing such costs from the rider in this case. However, these arguments overlook the fact that the Stipulation in the CEP Case, which was entered into by Duke and Staff and adopted by the Commission, expressly states that "earnings-related incentives, * * * will continue to be capitalized, and included in Rider CEP[.]" CEP Case, Stipulation at ¶ 2. Further, the Stipulation states that "[t]he Stipulating Parties agree that incentive pay will continue to be capitalized in accordance with the Company's existing accounting policies and procedures that follow generally accepted accounting principles * * * ." CEP Case, Stipulation at ¶ 9. In that case, the Commission found that the inclusion of earnings- and stock-based incentives is not unreasonable since it is consistent with GAAP, as well as the treatment of such incentives in Duke's natural gas base rates. CEP Case, Opinion and Order at ¶ 69. Explicit in the Commission's order is the understanding that these financial performance incentives would continue to be capitalized in Rider CEP. Further, in this case, Blue Ridge noted in the Audit Report that it limited its review regarding financial performance incentives due to the agreement in the Stipulation, and Staff agreed with this tact (Staff Ex. 1 at 35, 75-76; Staff Ex. 2 at 3; Staff Reply Br. at 5). IGS argues that the Stipulation does not contain language stating that financial performance incentives were intended to be included in the CEP on an ongoing basis and that the incentive provisions only applied to the 2013 through 2018 audit period; however, as demonstrated above, the language of the Stipulation clearly states that these incentives will continue to be capitalized in Rider CEP after the CEP Case audit period. Further, we find that OCC and IGS have not provided any convincing argument regarding why the Stipulation should not be binding on this proceeding. To IGS's argument that the Stipulation cannot be binding on it because it was not part of the CEP Case, we disagree. The Stipulation in the CEP Case, which consisted of provisions that carry forward into further annual CEP audits, as well as the approval of that Stipulation, resulted from litigation between several knowledgeable parties. IGS had the opportunity to intervene in that matter, and it chose not to; therefore, IGS's argument rings hollow.

8. RECOMMENDATION 7: UNITIZATION BACKLOG

{¶ 85} The Audit Report provided the following summary for Recommendation 7:

> "Blue Ridge recommends that while the emphasis should be to unitize the over-12-month work orders[,] [t]he Company should consider what it would take to auto unitize blanket work orders to reduce the backlog." (Staff Ex. 1 at 36.)

{¶ 88} We adopt Recommendation 7 and direct Duke to either develop a plan to implement auto-unitization of blanket work orders to reduce the backlog or provide a detailed explanation as to why auto-unitization of blanket work orders is not viable. Duke should work with Staff in developing such a plan, if viable, or provide Staff with its detailed explanation as to why auto-unitization of blanket work orders is not viable. If need be, the parties can revisit this issue, as well as assess the Company's progress in reducing the backlog of work orders exceeding 12 months, during Duke's next natural gas base rate case.

E. OCC's Other Recommendations/Arguments

1. PRE-TAX RATE OF RETURN (ROR)

{¶ 90} According to OCC, Duke is proposing to overcharge consumers for profits and for its cost of debt based on an outdated case from nine years ago. OCC notes that Duke proposed, and neither Staff nor Blue Ridge opposed, a 9.16 percent pre-tax rate of return to be charged to customers under Rider CEP. OCC asserts that the ROR is based on the same rate decided in Duke's rate case nine years ago. In re the Application of Duke Energy Ohio, Inc., Case No. 12-1685-GA-AIR, et al., Opinion and Order (Nov. 13, 2013). OCC argues that this ROR will hurt consumers by increasing Rider CEP's revenue requirement to consumers by approximately $2.5 million in this proceeding, while providing no offsetting benefits (OCC Ex. 1 at 7). This windfall coupled with the fact that the ROR was decided in vastly different financial market conditions demonstrates that the ROR is unjust and unreasonable. In response to Duke arguing that this ROR should not be revised, OCC states that the CEP Case did not set the ROR to be used in this proceeding, it only approved the CEP program and the first-year Rider CEP charge, and Blue Ridge, in the subject case, did not endorse or support a specific ROR, but rather just noted that the approved ROR was set in Case No. 12-1685-GA-AIR (Co. Ex. 3 at 18-19; OCC Ex. 1 at 6; Staff Ex. 1 at 33). As a result, the Commission can and should revise this rate for CEP investments based on consideration of public interest and sound regulatory principles (OCC Ex. 1 at 6). (OCC Initial Br. at 4-6.) {¶ 91} OCC asserts that Duke's current cost of debt, 5.32 percent, is outdated and far exceeds Duke's current cost of debt, which OCC calculated as 4.03 percent. Also, OCC argues that Duke's return on equity, 9.84 percent, exceeds currently allowed profits of gas distribution companies in Ohio and nationwide, as well as a reasonable return on equity of 9.36 percent calculated by OCC. (Co. Ex. 1 at Attachment No. 1; OCC Ex. 1 at 11-16.) OCC calculated a ROR of 8.29 percent that it believes is reasonable and should be used (OCC Ex. 1 at 7, 12). By using Duke's ROR versus OCC's calculated rate, OCC asserts that Duke customers will have to pay approximately $2.5 million more for the 12-month period covering this proceeding (OCC Ex. 1 at 7, 13-14). Further, OCC warns that the Energy Information Administration has indicated that natural gas and other energy costs have rapidly risen in recent months and potentially will continue to increase over an extended period of time, so the Commission should exercise its statutory authority to set reasonable profits and debt costs for Duke's CEP program to protect customers from paying unreasonable rates. (OCC Initial Br. at 7-8.) To this point, OCC points out that Staff's financial earnings review contained within the Staff Report, which determined that Duke had not significantly over-earned or under-earned, did not limit its review to earnings contributed to the CEP like OCC believes it should have. Instead, it focused on the overall profitability of Duke and other LDCs. (Staff Ex. 2 at 4-5; OCC Ex. 1 at 15-15.) Even if Duke did not significantly over- or under-earn over the last three years, according to OCC, this does not mean that the ROR is just and reasonable, especially considering the three-year average median return on equity of 7.94 percent nationwide and the return on equity earned by Ohio LDCs shown in the Staff Report, which demonstrate that the 9.84 percent return on equity proposed by Duke is unjust and unreasonable (OCC Initial Br. at 9). OCC largely reiterated the above arguments in its reply brief (OCC Reply Br. at 3-4.)

{¶ 96} We note that OCC offered similar arguments regarding the ROR in the CEP Case, which we rejected, and again do so in this proceeding. CEP Case, Opinion and Order at ¶¶ 66-68, 79. It has been the Commission's longstanding practice to utilize the approved rate of return from a utility's last rate case in subsequent alternative regulation and rider proceedings. Dominion CEP Case, Opinion and Order (Dec. 30, 2020) at ¶ 68; In re Columbia Gas of Ohio, Inc., Case No. 16-2422-GA-ALT, Opinion and Order (Jan. 31, 2018) (reauthorizing infrastructure replacement program); In re Vectren Energy Delivery of Ohio, Inc., Case No. 13-1571-GA-ALT, Opinion and Order (Feb. 19, 2014) (reauthorizing distribution replacement rider); In re The East Ohio Gas Co. d/b/a Dominion Energy Ohio, Case No. 19-1945-GA-RDR, Finding and Order (Apr. 8, 2020) (approving automated meter reading recovery charge); In re The East Ohio Gas Co. d/b/a Dominion Energy Ohio, Case No. 19-1944-GA-RDR, Finding and Order (Apr. 8, 2020) (approving pipeline infrastructure replacement charge). In the CEP Case, we found that the Stipulation's adherence to this existing practice is reasonable, particularly given Staff had concluded that Duke did not have excessive earnings during the 2013-2018 audit period. CEP Case at ¶ 66. OCC argues that the Stipulation does not specifically list the ROR and that the Commission's decision in the CEP Case only approved the ROR for that audit period, meaning the Commission can adjust it in this case. We find OCC's argument unavailing. The terms of the Stipulation affected more than just the 2013-2018 audit period, evidenced by setting residential rate caps for Rider CEP's ensuing years, caps which would have accounted for the subject ROR, cost of debt, and return on equity. CEP Case, Stipulation at ¶¶ 4-5. Moreover, we find Staff's financial earnings review reasonable, which found that Duke did not have excessive earnings during the 2019 and 2020 period under review. We also note that Duke has already filed its new natural gas base rate case in 22-507-GA-AIR, et al., during which these rates will be reexamined, and that Duke's return on equity of 9.84 percent was reaffirmed by the Commission in its last electric rate base case. In the Application of Duke Energy Ohio, Inc., Case No. 17-32-EL-AIR, et al., Opinion and Order (Dec. 19, 2018) at ¶ 257. Considering all of the above, we find no reason to alter the ROR relied upon by Duke in this proceeding. However, the Commission directs Duke to file an application updating the ROR for this rider, within 30 days of an Opinion and Order resolving Duke's pending gas base rate case in 22-507-EL-AIR, et al., effective the date of the Opinion and Order.

{¶ 97} Further, we acknowledge that Duke's cost of long-term debt has likely decreased since the last natural gas base rate case in 2012 (Co. Ex. 1 at Attachment 1; OCC Ex. 1 at 11-16). However, we approved the Stipulation, on which Duke relied for implementing Rider CEP for 2019 and 2020, due to the benefits it provided as a package. We specifically noted that the adoption of OCC's lower cost of capital in that case might lead to the loss of other significant ratepayer benefits in the Stipulation. CEP Case, Opinion and Order at ¶ 67. Moreover, just as the cost of capital has recently decreased, it may certainly increase at some point, which would result in an adverse impact to customer bills if we were to adopt OCC's recommended approach. And, as acknowledged in the CEP Case, the cost of capital is intricately tied to the utility company's capital structure and risk assessment at the time of evaluation, and it may be determined by various methods, each method with its own benefits and shortcomings. Modification of the cost of long-term debt, which is just one of several cost of capital components, would constitute "cherry picking," while ignoring any cost increases that have occurred since the prior base rate case. In addition, the continual reevaluation of the financial market to determine the appropriate rate of return components to use in each alternative rate plan or rider case would result in inefficiency and volatility. The Commission's current practice of utilizing the rate of return authorized in the prior rate case facilitates an effective and efficient use of Commission and utility resources, given that a traditional return on equity analysis, in particular, often proves quite complex and, in fact, was not undertaken by Dr. Duann in this case. We emphasize that Duke has filed its new base rate case in Case No. 22-507-GA-AIR, during which the cost of long-term debt will be revisited.

2. IMPROPER AND UNAUTHORIZED ACCELERATION OF CAPITAL REPLACEMENTS AND EXPENDITURES

{¶ 98} According to OCC, Duke's 2019 and 2020 CEP spending represents an improper and unauthorized acceleration of capital replacements and expenditures that should be capped to avoid consumers paying unjust and unreasonable rates for the CEP investments. OCC argues that alternative rate plans can only be approved under R.C. 4929.05(A)(3) if the plan is just and reasonable, and that, R.C. 4929.111(C), provides that capital expenditure programs should only be approved if the program is just and reasonable. OCC notes that it has expressed concern that the existence of the CEP has distorted Duke's decision-making, and the lack of regulatory lag associated with traditional rate cases has led Duke to significantly increase its CEP capital expenditures (OCC Ex. 2 at 4, 8-11). CEP Case, OCC Initial Post Hearing Br. (Feb. 24, 2021) at 25-29. According to OCC, Duke's capital expenditures have increased from the programs first year in 2013 to 2018 by 335 percent, by 547 percent from 2013 to 2019, and by 665 percent from 2013 to 2020. (OCC Ex. 2 at 9; Co. Ex. 1, Application Schedule No. 4, Line 9 + Line 12 for 2019 and 2020). OCC states that Duke was authorized to accelerate its capital spending under its Accelerated Mains Replacement Program in Case No. 01-1228-GA-AIR to address specific safety concerns surrounding corrosion and leak-prone metallic pipes; however, such safety concerns are not present here (OCC Ex. 2 at 10-11). Further, OCC asserts that the Commission has not approved accelerated infrastructure replacement under the CEP and believes the $1.00 cap on increases that goes into effect in 2021 should be applied here since 2019 and 2020 CEP investments were excessive and consisted of unapproved acceleration of investments (OCC Ex. 1 at 11). OCC also highlights that in Duke's initial CEP case, the Commission stated that ''[t]he Commission has not granted cost recovery for any CEP-related items, and the prudence and reasonableness of the magnitude of Duke's CEP-related regulatory assets and associated capital spending will be considered by the Commission in any future proceedings seeking cost recovery [.]" In re the Application of Duke Energy Ohio, Inc., Case No. 13-2417-GA-UNC, Finding and Order (Oct 1, 2014) at ¶ 23. Considering the above, OCC asserts that any investments and associated deferrals that will increase the CEP Rider residential charge by more than $1.00 per month should not be recoverable through Rider CEP. (OCC Initial Br. at 11-13.)

{¶ 100} We find OCC's argument unpersuasive. OCC argues that since the magnitude of Duke's capital investments has accelerated at an inappropriate pace since the start of the CEP, we should revise the already approved Stipulation such that the 2019 and 2020 residential rate caps are replaced with the smaller $1 per year cap on residential rate increases established for 2021 and beyond. While we have stated that the prudence and reasonableness of the magnitude of Duke's CEP-related regulatory assets and associated capital spending would be considered by the Commission in future proceedings seeking recovery, we have also addressed this very issue in the CEP Case and found that the Rider CEP rates offered in the Stipulation were not unjust or unreasonable. In re the Application of Duke Energy Ohio, Inc., Case No. 13-2417-GA-UNC, Finding and Order (Oct 1, 2014) at 13; CEP Case, Opinion and Order at ¶ 81. Further, here, outside of the specified adjustments, Blue Ridge did not recommend finding that any of Duke's CEP-related expenditures or assets for the period of January 1, 2019, through December 31, 2022, were unnecessary, unreasonable, or imprudent (Staff Ex. 1 at 12). We approved the stipulated residential rate caps for 2019 and 2020 upon which Duke relied for this proceeding. Consequently, we decline to implement OCC's recommendation regarding this issue.

3. OPERATION AND MAINTENANCE (O&M) SAVINGS

{¶ 101} OCC believes that the capital investments made by Duke should result in O&M expense savings that should be passed down to customers through an offset to the Rider CEP charge to customers, similar to how these types of savings reduce other utilities' infrastructure replacement riders (OCC Ex. 2 at 21-23). According to OCC, replacing and improving pipelines and related infrastructure under the CEP allows Duke to avoid monitoring, maintenance, and repair of aging infrastructure, which should generate O&M savings. Additionally, OCC asserts that the Compliance/Operations category involves capital investment to improve pipeline integrity, which should also generate O&M savings. (OCC Ex. 2 at 21.) OCC notes that Blue Ridge identified more than $107 million in system replacements and improvements and almost $43 million for service line replacements in 2019 and 2020. According to OCC, Duke's AMRP recognized that system improvements would generate O&M savings, and, thus, the CEP should too. (OCC Ex. 2 at 22.) OCC recommends that the Commission should direct Duke to form a collaborative group comprised of Duke, Staff, OCC, and other interested parties to identify specific expenses and related expense accounts that will be reduced as aging infrastructure is replaced and new capital investments are made; plus, the group would develop baseline spending levels for the identified categories based on spending levels built into the base rates set in Duke's last rate case. According to OCC, the revenue requirement in annual Rider CEP applications would be reduced when comparing expense reductions to the baselines resulting from the CEP capital investments. (OCC Ex. 2 at 23; OCC Initial Br. at 18-21.)

{¶ 103} In the CEP Case, we declined to adopt a similar recommendation from OCC regarding O&M savings and find no reason to alter that decision. CEP Case, Opinion and Order at ¶ 69. Here, OCC has not verified that operational savings have resulted from the CEP investments. OCC speculates that these savings exist; however, it has offered no evidence to support its argument that such savings have in fact accrued. Further, at this time, we also decline to adopt OCC's recommendation to direct certain parties to form a collaborative group in the manner suggested by OCC. Instead, we find it more appropriate for OCC, if it so desires, to pursue this issue in the natural gas base rate case that Duke has now filed in Case No. 22-507-GA-AIR, et al.

4. 2020 CEP RIDER RESIDENTIAL RATE CAP

{¶ 104} OCC next turns to the supplemental Audit Report wherein Blue Ridge, after receiving additional information from Duke as explained above, revised its residential monthly charge to $6.23 for 2019 and $9.31 for 2020 (Staff Ex. 3 at 2-3). OCC asserts that this recommendation reflects a higher increase for 2020 than is permitted in the CEP Case. In that case, Duke's residential charges for these expenditures were capped at increases of $2.92 for 2019 and $2.70 for 2020. CEP Case, Stipulation at 4; Opinion and Order at ¶ 83. Using these figures, OCC points out that that adding $2.70, the maximum increase allowed for the 2020 charge, to the charge recommended for 2019, $6.23, results in a maximum residential charge of $8.93, not $9.31 (OCC Ex. 2 at 6-7). Consequently, the Commission should reject Blue Ridge's recommendation of a $9.31 residential charge. (OCC Reply Br. at 21-22.)

{¶ 105} In it reply brief, Staff changes its initial position and states that it agrees with OCC for the reasons mentioned by OCC. It agrees that a maximum cap of $8.93 per month for Duke's 2020 Rider CEP should be adopted to comply with the CEP Case (Staff Reply Br. at 4).

{¶ 106} In its reply brief, OCC also argues that Adjustment 11, which included Blue Ridge recommending full restoration of the qualified CEP investments the Company removed as shown in Table 12 of the Audit Report since Duke was sitting comfortably below the 2019 and 2020 residential rate caps, should be rejected (Staff Ex. 1 at 35). OCC essentially argues that, as demonstrated above, Duke is no longer sitting comfortably below the 2020 rate cap; therefore, Adjustment 11 should be rejected since Blue Ridge did not take into account the proper maximum increase in rates from 2019 to 2020. (OCC Reply Br. at 9-10.)

{¶ 108} Considering we have rejected Adjustment 3 and have adopted some and rejected other adjustments and recommendations, we can safely conclude that the 2019 residential rate will be more than the $6.23 rate suggested by Blue Ridge and Staff; however, we cannot conclusively state the exact figure until Duke accounts for and reconciles the findings in this order. Since the 2019 residential rate will be more than $6.23, we reject OCC's argument that the maximum 2020 residential rate is $8.93 since the Stipulation allowed for an increase of no more than $2.70 from the 2019 rate to the 2020 rate (OCC Ex. 2 at 6-7; Staff Ex. 3 at 2-3). Therefore, when accounting for and reconciling the adjustments and recommendations, we direct Duke to ensure that the 2020 residential rate does not violate this stipulated maximum rate increase from 2019 to 2020. Regarding Adjustment 11, as we noted in our decision above concerning this adjustment, we conditionally approve it depending on how the Commission's decisions regarding the above adjustments and recommendations affects Duke's CEP investment recovery related to the stipulated rate caps.

F. Commission Conclusion

{¶ 109} Based on the foregoing, the Commission concludes that Duke's application should be approved, subject to the adjustments and recommendations provided in the Audit Report and findings discussed herein.

<u>Case No. 22-0618-GA-RDR</u>

On March 31, 2022, Duke Energy Ohio filed an application for authority to adjust its CEP charges for CEP plant placed in service between January 1, 2021 through December 31, 2021. As of the date of the application, the Commission has not issued an order in Case No. 21-0618-GA-RDR, regarding Rider CEP rates that were to go into effect in November 2021, for recovery of 2019 CEP deferrals, and regarding Rider CEP rates that were to go into effect in May 2022, for recovery of 2020 CEP deferrals. On March 23, 2022, the Commission selected Blue Ridge Consulting Services, Inc. to conduct the audit services necessary to assist the Commission with the review of the necessity, prudency, and reasonableness of capital expenditures and deferrals related to the Company's CEP Rider. On July 27, 2022, the Commission issued its Opinion and Order addressing the contested issues from Case No. 21-0618-GA-RDR. On August 9, 2022, the Company provided an update to reflect the Commission's order in the prior case. Blue Ridge issued its report on September 15, 2022. Staff issued its review and recommendation on September 26, 2022.

The Commission's Finding and Order was issued on December 14, 2022. Key points in the Opinion and Order are summarized below.

A. Audit Report

{¶16} On September 15, 2022, Blue Ridge filed its Audit Report. As part of the audit, the Commission directed Blue Ridge to conduct a two-phase evaluation of the Company's CEP capital expenditures. The first part of the audit included a review of the accounting accuracy and used and useful nature of Duke's capital expenditures and corresponding depreciation reserve from January 1, 2021, through December 31, 2021. The second part of the audit included an assessment of the necessity, reasonableness, and prudence of Duke's capital expenditures and related assets, with an emphasis on the CEP expenditures and assets from January 1, 2021, through December 31, 2021. (Audit Report at 7.)

{¶17} As to the first part of the audit, Blue Ridge found that, based upon the descriptions of the scope provided, the assets were used and useful and provide benefit to the ratepayers. Furthermore, Blue Ridge also found that Duke was able to provide accurate and complete property records to support its plant-in-service balances. (Audit Report at 8.) As to the second portion of the audit, Blue Ridge examined the Company's processes and controls to ensure that they were sufficient so as not to adversely affect the balances in distribution utility net plant in service. Blue Ridge also examined internal audit reports conducted on various areas of the Company's operations that could impact utility plant-in-service balances. Blue Ridge concluded that Duke's controls were adequate and not unreasonable. (Audit Report at 9.)

{¶18} Although Blue Ridge found that capital spending had increased 59 percent from 2020 to 2021, it believes the steps Duke is taking to control individual project costs is reasonable and Duke is implementing sound cost containment strategies. Blue Ridge noted that the Company explained that the increased spending was due to capacity issues on their system, which can be distribution, transmission, or station related. Blue Ridge also stated that it is not unexpected for there to be variability from one year to the next depending on where the capacity issues are located on the system, as transmission projects are generally more expensive than distribution main work. According to Blue Ridge, this condition was particularly true in 2021 because of the Central Corridor project and several station projects that were included in the numbers cost per main mile provided by the Company. Blue Ridge stated that, as part of its review of CEP schedule accuracy, it reviewed Duke's proposed CEP revenue requirement schedules that support its requested recovery for authority to adjust its Rider CEP included in its application. Other than the recommended adjustments, Blue Ridge found nothing to indicate that the non-infrastructure replacement program (non-IRP, i.e., the CEP) capital expenses and assets for the period January 1, 2021, through December 31, 2021, were unnecessary, unreasonable, or imprudent. (Audit Report at 9-10, 26-27.) Furthermore, Blue Ridge analyzed the status of the adjustments and recommendations from its audit contained in Case No. 21-618-GA-RDR and confirmed, to the extent the findings set forth in the Commission's Opinion and Order in that case impacted Blue Ridge's review in this proceeding, that the adjustments were appropriately reflected in the CEP revenue requirements calculation and/or the updated schedules provided by the Company on August 9, 2022. Blue Ridge also notes that, due to some of the same issues occurring in this audit, such as recommendations related the unitization backlog, the next CEP audit should review and report on the status of those recommendations. (Audit Report at 10-15.)

B. Staff Report

{¶19} As noted above, the Staff Report was filed on September 26, 2022. Staff adopts the Audit Report and specifically highlights the following Audit Report adjustments and recommendations:

(1) Correct the depreciation calculation (Adjustments 1-3);

(2) Correct the over amortization of intangible property (Adjustment 4);

(3) Correct the premature reclassification of land acquired for the Norwood Station (Adjustments 5),

(4) Remove workorder that was included in error to the CEP (Adjustment 6);

(5) Correct overpayment to contractor due to Company-caused delays (Adjustment 7);

(6) Adjust Allowance for Funds Used During Construction (AFUDC) charges to a project (Adjustment 8);

(7) Correct a project overstatement in the 2021 CEP (Adjustment 9);

(8) Remove items recorded as capital that should be recorded as Operation and Maintenance (O&M) expenses (Adjustment 10);

(9) Remove CEP eligible assets due to the rate cap (Adjustment 11); and,

(10) Follow all general recommendations that do not have an impact on the revenue requirement (Recommendations 1-6).

(Staff Report at 3.)

{¶20} Staff reviewed three measures of profitability for Ohio's local distribution companies (LDC) and the median LDC returns nationwide. After comparing those measures of profitability with Duke's profitability, Staff finds that the Company has not significantly over-earned or under-earned. (Staff Report at 3-4.)

{¶21} Ultimately, Staff finds that the Company has supported its filing with adequate data and information to ensure that Rider CEP's revenue requirement and resulting rider rates are just and reasonable. Based on Blue Ridge's adjustments and recommendations, Staff notes that the new CEP rate is approximately $11.82 per month for residential customers, which includes an under-recovery reconciliation.[139] Staff recommends that the Commission approve Duke's application to adjust the CEP Rider as modified by the Staff Report. (Staff Report at 3-4.)

C. Commission Conclusion

{¶22} The Commission has reviewed Duke's application, revised schedules, the Audit Report, and the Staff Report. Based on our review, the Commission finds that Duke's application, as modified by the uncontested adjustments and recommendations set forth in the Audit Report, is reasonable and should be approved. Furthermore, the Commission finds it is not necessary to hold a hearing in this matter.

IV. ORDER

{¶23} It is, therefore,

[139] The existing rate, as approved in Case No. 21-618-GA-RDR, for residential customers is $9.31 per month.

{¶24} ORDERED, That, Duke's application to adjust the CEP Rider rates, as adjusted and modified by the Audit Report, and consistent with the recommendations in the Staff Report, be approved.

Case No. 23-0618-GA-RDR

On March 31, 2023, Duke Energy Ohio filed an application for authority to adjust its CEP charges for CEP plant placed in service between January 1, 2022 through December 31, 2022. On March 22, 2023, the Commission selected Blue Ridge Consulting Services, Inc. to conduct the audit services necessary to assist the Commission with the review of the necessity, prudency, and reasonableness of capital expenditures and deferrals related to the Company's CEP Rider.

The findings and recommendations from this audit is the subject of this report.

APPENDIX B: DATA REQUESTS AND INFORMATION PROVIDED

1. **PRIORITY: CEP Rider Application dated March 31, 2023.** Please provide the electronic (Excel) files that support all schedules filed in the Company's application in Case No. 23-619-GA-RDR.
2. **PRIORITY: Work Orders**: Please provide in Microsoft Excel format a list of all work orders put in service from January 1, 2022, through December 31, 2022. For each work order, please include the following information:
   a. Recovery mechanism
   b. Project identification numbers (project type, work order, and project roll up, if applicable)
   c. Project description—single-line description will be acceptable along with location numbers
   d. Project type—Replacement & Betterment, Growth, Support Services, Information Technology, etc.
   e. Work Order Construction Completion Date (when project became used and useful and ready for service)
   f. Work Order Accounting In-Service Date (date charges were moved from FERC 107 to FERC 106 or FERC 101)
   g. Unitization Date (date charges were moved from FERC 106 to FERC 101)
   h. Dollar amount by FERC 300 account number
   i. Whether the work was an addition or replacement
   j. Whether the work order was a blanket project or specific project
3. **PRIORITY: Work Orders Reconciliation**: Please provide a reconciliation of the work order total to the total in the annual report of utility plant in service filed with the PUCO. For any differences, provide an explanation.
4. **PRIORITY: Work Order Reconciliation**: Please provide a reconciliation of the 2022 work order total to the total utility plant in service included in the Company's CEP application. For any differences, provide an explanation.
5. **PRIORITY: Major Additions or Replacements**: Please provide a list with a description and total dollar amount of any major additions and/or replacements placed in service in 2022.
6. **PRIORITY: Organization**: Please provide a current organization chart of the Operating Company and Service Company.
7. **PRIORITY: Organization**: Have there been any personnel changes for the individuals responsible for the following areas. If so, please provide the names and titles of the persons.
   a. Plant Accounting
   b. Capital budgeting
   c. Project Engineering
   d. Work Order Management
   e. Preparation and review of the CEP filings
8. **Retirements**: Please provide the population of CEP work orders that were retired for the period January 1, 2022, through December 31, 2022, by FERC account/sub account and month retired.
9. **CEP Rider Application dated March 31, 2023.** Please discuss any methodology changes the Company may have made to the underlying inputs or computations since Case No. 22-618-GA-RDR.
10. **CEP Schedules**: Please provide a narrative of the process used to develop the 2022 CEP deferrals and CEP Rider filings and schedules.
11. **Status of Case No. 22-618-GA-RDR Blue Ridge Recommendations**: On December 14, 2022, the Commission issued its Finding and Order regarding Case No. 22-618-GA-RDR. The Order approves the CEP Rider subject to Staff's recommendations. Please provide the status of Staff and Blue Ridge Recommendations approved by the Commission.
    a. **Adjustments #1–3**: Schedule 5 computes monthly deferred depreciation by CEP budget category. Blue Ridge found the CEP model has not accurately reflected evolving changes on two points. The first concern relates to the accurate calculation and reflection of non-deferred depreciation for Vintage 2013–18 assets as of the rate effective date in Case No. 19-0791-GA-ALT. Prior to May 3, 2021, this issue was not a concern because all depreciation was deferred. In the instant case, the Company included workpaper WP12.1 - CEP Depr Exp, which calculates non-deferred depreciation by applying the accrual rate to the gross plant balance (i.e., excluding retirements). The result rolls forward to the accumulated deferred income tax (ADIT) calculation developed on Schedule 12. However, when applied to the development of Accumulated Depreciation Expense (Schedule 1, Line 4) and the 2012 Rate Case Depreciation Offset (Schedule 11), it is

inaccurate. The methodology for computing non-deferred depreciation should align with the formula for the deferred complement, which is calculated by applying the accrual rate to the corresponding plant-in-service balance (i.e., assets placed into service, ***net of retirements***). Thus, adjustments #1 and #2 remove $864,372 from Non-Deferred Depreciation in 2013–18 Retirements and add that amount to the Rider CEP Depreciation Expense.

Blue Ridge also found that Annualized Depreciation under Operating Expenses (Schedule 1, Line 23) reflected only deferred depreciation expense, which understates total depreciation expense by $7.26 million, and is noted as adjustment #3.

b. **Adjustment #4**: The second concern related to the CEP model regards the continued accrual of depreciation on intangible property placed into service between December 31, 2014, and November 30, 2016. These assets have a five-year life and, as of December 31, 2021, have been more than fully amortized. Blue Ridge recommends the cessation of all future depreciation and an adjustment to remove the impact of the excess expense in 2021. The $366,950 adjustment amount to be removed constitutes deferred and non-deferred depreciation in the amounts of $31,549 and $335,401, respectively.
c. **Adjustment #5**: Land Acquired for Norwood Station: The land was reclassified from PHFU to Utility Plant prematurely while the associated project remained in construction and in CWIP. The CEP is overstated by $981,628.42.
d. **Adjustment #6**: Duke Woodsdale Interconnect: The Company indicated that this work order should not have been included in the CEP. Therefore, the CEP is overstated by $1,909,702.34. The reduction in plant will be netted against any over amortization of intangible plant (FERC 303).
e. **Adjustment #7**: AFTON DR-NESTLE PURINA-BATAVIA-8" S: Company-caused delays resulted in overpayment to contractor of $60,000.
f. **Adjustment #8**: STA 10097499 Bracken IM Bldg: Only AFUDC charged to the project from October 2017 through July 2018—$16,702.50.
g. **Adjustment #9**: STA 120 Dicks Creek Reg Sta Replace: The Company overstated the CEP in 2021 by $627,232 for this project since the retirements were not recorded within the scope period.
h. **Adjustment #10**: SG DEO AMI Meters – 581: Blue Ridge concludes that the $49,436 of Informational Advertising, Office Supplies & Expenses, and Dues—all involved in this work order charge—are O&M and should not be a capital cost of construction.
i. **Adjustment #11**: CEP Eligible Assets Removed Due to Rate Cap: Blue Ridge found that based on our other findings and proposed adjustments, a need exists for additional removal of otherwise qualified CEP investments in the instant application of $61.86 million.

In addition to the recommended adjustments discussed above, Blue Ridge has the following recommendations.

j. **Recommendation #1**: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #3), Blue Ridge recommended that since the Kellogg Training Center would be used by both Ohio and Kentucky employees, the facility usage should be tracked and non-jurisdictional companies should pay rent to be recognized as a revenue offset. In this year's audit, Duke stated that the rent schedule should be in place by the close of September 2022. Blue Ridge recommends that the next audit confirm that the recommendation was implemented.
k. **Recommendation #2**: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #4), Blue Ridge found that the Company was unable to provide the formal justification documentation for a number of projects. Thus, Blue Ridge recommended that each project should have a formal justification as to why the projects are being done and that no alternatives were available. And Blue Ridge recommended that those justifications should be readily available for future reviews, particularly related to IT projects and other projects related to integrity, station upgrades, capacity issues, pressure concerns, new customers, removal of cast iron, upgrades with plastic. The Company concurred with the recommendation. Because the issue continued in the current audit, Blue Ridge recommends that the next audit confirm that the recommendation was implemented.
l. **Recommendation #3**: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #5), Blue Ridge recommended that the Company establish a procedure that requires major non-blanket project

changes in estimated in-service dates to be documented. Each change should be explained, and that information should be provided to Senior Management. This process should also become part of the actual to budget project variance analysis and explanations. In its review, the Commission noted the only issue to be resolved regarding this adjustment appears to be the project cost threshold at which Duke must begin to engage in the analysis detailed by Blue Ridge in its recommendation. The Commission ordered that the non-blanket project threshold should be $2 million. The Commission also directed Staff, in the next CEP RFP, to instruct the auditor to review the implementation of that threshold and report on the efficacy of the $2 million threshold in achieving its purpose. Thus, consistent with the Commission order, Blue Ridge recommends that the next CEP audit should review and report on the implementation of the recommendation and report on the efficacy of the $2 million threshold in achieving its purpose.

m. **<u>Recommendation #4</u>**: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #7), Blue Ridge recommended that, while the emphasis should be to unitize the over-12-month work orders, the Company should consider what it would take to auto unitize blanket work orders to reduce the backlog. In its review of the issue, the Commission adopted Blue Ridge's recommendation and directed Duke to either develop a plan to implement auto-unitization of blanket work orders to reduce the backlog or provide a detailed explanation as to why auto-unitization of blanket work orders is not viable. Duke should work with Staff in developing such a plan, if viable, or provide Staff with its detailed explanation as to why auto-unitization of blanket work orders is not viable. If need be, the parties can revisit this issue as well as assess the Company's progress in reducing the backlog of work orders exceeding 12 months, during Duke's next natural gas base rate case. Because the same issue occurred in the current audit, Blue Ridge recommends that the next CEP audit should review and report on the status of the recommendation.

n. **<u>Recommendation #5</u>**: In reference to Adjustments #1–3, Blue Ridge found the CEP model has not accurately reflected evolving changes related to Accumulated Depreciation and Annual Depreciation Expense. Blue Ridge recommends the Company implement changes to the model to more accurately reflect non-deferred depreciation expense.

o. **<u>Recommendation #6</u>**: In the prior audit of the 2020 CEP (Case No. 21-618-GA-RDR, Recommendation #6), the Commission adopted Blue Ridge's recommendation that stock-based and earnings-related incentive compensation should be monitored as part of the annual audit scope to ensure the amount recovered does not significantly increase. In this year's audit, Blue Ridge found that earnings-based incentive compensation allocated to capital increased significantly in 2021. Blue Ridge recommends that the capitalization and recovery of stock-based and earnings-related incentive compensation continue to be monitored and future recovery be considered in the next base rate case.

12. **Major Events:**
    a. Please describe any major events that occurred in 2022 that had an impact on the plant-in-service balances. Examples of major events include major sales of assets, acquisitions, mergers and system conversions, and upgrades.
    b. Please provide an explanation of each event and how the event affected plant balances.
    c. Please provide an explanation of what steps were taken to ensure that plant balances were accurate following the impact of the event.
13. **Policies and Procedures**: Please provide any changes for 2022 to the policies and procedures for the following activities.
    a. Plant Accounting:
        i) Capitalization vs. Expense
        ii) Preparation and approval of work orders
        iii) Recording of CWIP, including the systems that feed into the CWIP trial balance;
        iv) Application of AFUDC
        v) Recording and closing of additions, retirements, cost of removal and salvage to plant
        vi) Unitization process based on the retirement unit catalog
        vii) Application of depreciation
        viii) Contributions in Aid of Construction (CIAC)
        ix) Damage Claims

   b. Purchasing/Procurement
   c. Accounts Payable/Disbursements
   d. Accounting/Journal Entries
   e. Payroll (direct charged and allocated)
   f. Insurance claims recovery
   g. Allocations
   h. Work Management System
   i. Information Technology
   j. Capital Project selection and prioritization
   k. System planning and load growth
   l. Capital Spares

14. **Cost Codes**: Please provide a list of the cost codes (charge types) that identify the types of charges included in the work order detail that supports FERC accounts 101 and 106. For example, identify cost codes related to charge types for payroll, overheads, materials and supplies, contractor charges, AFUDC, transportation, and employee expenses.
15. **FERC and Other Regulatory Audits**: Please provide a copy of all FERC and/or other regulatory audit reports, if any, that were issued during 2022. Also provide the Company's response to any findings and the ultimate resolution of those findings.
16. **Internal Audits**: Please provide a list of internal audits performed or in progress in 2022. List the name of the audit, scope, objective, and when the work was performed. For in-progress audits, list the expected completion dates.
17. **SOX Compliance Audits**: For any feeder system that feeds CWIP, please provide any SOX Compliance audits performed in 2022. List the name of the audit, scope, objective, and when the work was performed. Include whether the controls passed or failed and, if failed, the severity and impact of the failure. [NOTE: Utility Plant in Service is fed from CWIP. Therefore, any system that feeds CWIP, including, but not limited to, WMS, Payroll, M&S, Overheads, AFUDC, Transportation, and direct contractor charges through purchasing, could have an impact on plant balances.]
18. **Depreciation:** Have the depreciation accrual rate changed since 2012 when the Commission's order in Case No. 12-1685-GA-AIR approved the Company's current depreciation rates on November 13, 2013? If so, please provide a copy of the approved depreciation accrual rates used in the filing.
19. **Property Taxes**: Please provide the supporting workpapers and documentation for the property tax rate used in the CEP.
20. **Overhead and Indirect Costs**: **Overhead and other allocations**: Please provide a list of all overheads and other allocations, that are applied either direct or indirect to Construction Work in progress (CWIP). Include the following:
    a. Type of allocation (examples: Supervision and Engineering, Stores clearing, Transportation),
    b. Method of allocation (Clearing account, direct allocation to CWIP or other)
    c. List of what is included in each allocation (component parts)?
    d. The basis that the allocation is applied to CWIP (examples: applied to direct payroll, applied to all CWIP charges, applied to M&S)
    e. Calculation of each overhead or other allocation.
    f. The Frequency that the allocations are reviewed (examples: monthly, quarterly, annually)
21. **AFUDC**: Please provide the AFUDC interest rates for 2022, including the calculations and supporting documentation.
22. **Approval Signatures**: Please provide the Level of Signature Authority (LOSA) document(s) that supports the approval of capital projects in 2022.
23. **Unitization Backlog**: Please provide information regarding any backlog in the unitization of distribution work orders as of December 31, 2022. Please provide the number of backlogged work orders, the dollar values of each, and the length of time for each in months (e.g., under three months, four to 12 months, and over 12 months). If possible, provide the list for both CEP work orders and non-CEP work orders.

24. **Insurance Recoveries**:
    a. Were there any significant events in 2021 that resulted in (a) an insurance claim recovery greater than $50,000 related to Distribution Plant or (b) no insurance claim because it was under the insurance deductible? If so, please provide a list of such events, identifying for each whether an insurance claim was filed, how each recovery was recorded on the Company's books, and how, if applicable, each recovery was reflected in plant balances.
    b. Were there any pending Distribution plant insurance claim recoveries as of December 31, 2022, that are not recorded or accrued that would be charged to capital? If so, please provide the type of recovery, estimated amount, and when receipt is expected.
    c. Please provide the Capital Damage Claim accounting which occurred or would have occurred in 2022 had any capital damage claims been made.
25. **Subaccounts**: Has the Company added any additional FERC 300 accounts and/or subaccounts that were not included in the most recent Commission-approved depreciation accrual rates?
26. **Budget**: Please provide the 2022 budgets supporting capital expenditures and related assets. Also, include the assumptions supporting the budget/projected data.
27. **Budget:** Please provide a document that approves the capital budget.
28. **Budget vs. Actual:** For 2022, please provide a variance analysis, cumulative by year, that shows budget by category, actual, variance, and explanations for variances over and under budget, broken down, if possible, between blanket and specific projects.
29. **Cost Containment**: What steps has the Company taken in 2022 to contain costs?
30. **Cost Containment**: Please describe how the Company obtains services and goods at the most competitive price.
31. **Labor Costs**:
    a) Please provide the approximate percentage of contractor vs. in-house labor used for capital activities for 2022.
    b) What analysis has been done to determine whether in-house labor or contractors provides the least cost alternative and/or provides the greatest benefit to the ratepayer?
32. **Labor Costs**:
    a) Please provide a list of contractors, description of work performed, and amount paid each contractor that provided services for CEP in 2022.
    b) Please provide a list of the contracts for contractors performing CEP and related asset work in 2022.
    c) How has the demand for gas contractors in Ohio and surrounding states impacted the overall cost to complete capital work?
    d) What steps has the Company taken to address the demand constraints for gas contractors?
       Please describe what process and initiatives are in place now and anticipated to manage contractor costs going forward.
33. **Cost per Main Mile Replaced**: For the CEP mains for 2022, please provide the total main miles replaced/installed and the average cost per mile with and without accounting overhead
34. **Cost per Main Mile Replaced**: Please break out the 2022 total cost per main mile replaced, service line replaced, engineering designed service line replacement, growth, and betterment.
35. **Revenue-generating CEP investments**:
    a. How does the Company identify CEP plant that will generate additional revenue?
    b. How is that plant identified?
    c. Is that plant included within the CEP? If so, how is the revenue reflected in the CEP?
36. **Recovery Mechanism**: For any recovery mechanism and/or rider (other than CEP) that allows for the recovery of plant, please provide these items:
    a. Description of the mechanism
    b. Explanation for how the recovery is different from the CEP
    c. Filings made for the mechanism in 2022
    d. A list of work order numbers and/or identifier used to tag the project to the appropriate recovery mechanism

37. **Other Riders**: Has the Company requested and received Commission approval for any rider other than CEP that allow for recovery of capital additions? If so, how does the Company ensure that the capital additions reflected in those non-CEP riders are not included in the plant balances reflected in the CEP.
38. **Other Riders**: Please provide a list and dollar amounts for all IRP, Rider AU, and Rider AMRP work orders for calendar year 2022.
39. **Incentive Comp:** For any cash or stock-based incentive compensation costs charged to the CEP, provide the amounts and description by work order number.
40. **Incentive Comp:** To complete the table below, please provide the total incentive compensation included in the 2022 CEP individually for Earnings per Share and O&M expense control.

Resource Type	2022
18400-Incentives Allocated	
18401-Incentives Allocated-Union	
1E002-Exec Short Term Incentive	
1E200-Phantom Stock / Restricted Stock Units	
1E202-Performance Award	
Total CEP Incentives	
Total CEP Additions without Cap	

41. **Work Order Sample:** Reference Company response to BRDR-2. Please refer to the following table below for a list of work orders selected from the population provided in response to the referenced data request. For each work order on the list, please provide the following information in sortable Microsoft Excel spreadsheets:
    a. Detailed description, scope, and objective of the work, including service area location and any other identifiers (e.g., budget mapping)
    b. Work order identification as either addition, replacement, non-project allocation, or other
    c. Project identification numbers (Funding Project, project type, work order, and project roll up, if applicable)
    d. Project type—Replacement & Betterment, Growth, Support Services, Information Technology, etc.
    e. Work Order Construction Completion Date (when project became used and useful and ready for service)
    f. Work Order Accounting In-Service Date (date charges were moved from FERC 107 to FERC 106 or FERC 101)
    g. Unitization Date (date charges were moved from FERC 106 to FERC 101)
    h. Work order justification and approval at the highest approval level available based on the nature of the work order in accordance with the LOSA document in effect at the time the work order was prepared
    i. Estimated in-service date and actual in-service date
    j. Budget and total cost for non-blanket work orders and blanket work orders, in which the specific blanket work orders can be specifically identified as part of the larger project or program (Provide explanation of any variances in excess of 20%. For purposes of this examination, blanket work orders are mass assets or any other project budgeted to close every 30 days.)
    k. Supporting cost detail for each addition to plant (run of charges by FERC account and units) (The detail should be by charge code (or charge code description) with amounts by year and month. Examples of charge code descriptions would include such information as payroll, contractor charges, overheads, other allocations, M&S, Transportation, and employee expenses.)
    l. Supporting detail for retirements, cost of removal, and salvage, if applicable, charged or credited to plant (Provide the description, units, amount, and date recorded.)

    Notes:

    - To avoid unnecessary work, please send a sample of the detail that will be provided to make sure it is what we need.

    In the interest of time and associated deadlines, please provide the data in batches as they are completed.'

Work Order Number	Work Order Description	Sum of Total Additions
315986A	Customer Connect - Core	$20,255,190.39

AW1256	Cavern Pump	$840,384.88
AW1628	Todhunter Mag Anode Bed Installatio	$453,739.37
AW2128	Norwood Station 868	$9,576,371.19
AW2133	Butler Cnty Phase I C210 & LP07	$13,224,422.41
AW2215	STA 910 - Norwood Station	$43,415,178.75
AW2221	C350-A000b-Glendale Milford Reg 908	$17,527,443.93
AW2771	STA 0726 Mason Rd Capacity Improv	$1,886,916.48
AW2962	STA 911 - Huntsville Station	$9,711,109.06
AW3116	REG 0008 Grandin and Edwards RS Rep	$1,504,561.75
AW3202	REG 0017 Franklin Town Border RS Re	$3,010,510.42
AW3225	REG 0254 Wasson and Paxton RS Repla	$1,900,432.07
AW3304	STA 0302 Brown County Repair	$150,943.90
AW3311	STA 0045 Anderson Ferry Repair	($5,498.45)
AW3558	REG 0418 Linwood and Delta Station	$2,423,075.39
AW4706	REG 0108 - Hamilton and Galbraith	$167,749.90
AW4877	Emergent Crescentville Rd DOT	$3,468,773.93
AW4900	STA 908 Glendale-Milford - Intake	$314,944.28
CHGREGREL	Change Regulator/Relief Kentucky	$68,054.90
GCTA3006O	INTGO_PI SCADA Data Implemntion	$400,025.93
MCNEWP10	New M-C Plastic 2 inch and Under OH	$9,350,190.79
MCRP10	Replace (non-AMRP) M-C Plastic 2 in	$11,007,261.38
MCSP10	ASRP Main to Curb 2" or less	$14,171,453.88
MX1392762	MORAINE WAY - AFTON - 2 INCH STL F	$602,137.74
MX2217745	MX2217745 - REGULATOR 408 - CLIFTON	$1,033,995.22
MX2733408	Milford Downtown Replacement Projec	$2,409,535.56
MX4217307	BUT-CR609-0.00 PID 109468 - Middlet	$844,244.73
MX6675538	STA 876 GEORGETOWN	$2,256,042.19
MX6828079	REG 419 PLAINVILLE AND MURRAY	$1,657,153.87
MX7696571	HAM 42 11.98 BRIDGE REHAB - STREET	$618,733.98
MX9751393	REG 0188 - Columbia and Maple - Reg	$827,676.46
Q3680	C350 (C314V) Central Corridor	$152,069,501.33
SG581MTRS	SG DEO AMI Meters - 581	($882,564.59)

42. Budget: Follow-up to Data Request response BR-DR-01-026 and attachment. The request asked for the 2022 budget supporting capital expenditures and related assets, including the assumptions that support the budget. The information provided in the attachment appears to be 2022 budget—closed to plant. Please provide the 2022 budget supporting the capital expenditures and related assets, including the assumptions supporting the budget/projected data.

43. Internal Audits: Follow-up to Data Request response BR-DR-01-016, CONFIDENTIAL attachment A. For the following internal audits, please provide the summary findings and recommendations, including any remediation that has taken place or is planned. If an audit is in progress or complete but the report not yet issued, please provide the information requested above when it becomes available.

a. Audit Number 121006 (2022)—Disbursements and Employee Expense Reporting
b. Audit Number 121006 (2022)—Officer and Director Expense Reporting
c. Audit Number 121001 (2022)—2021 Manual Journal Entry Fraud Review
d. Audit Number 122014 (2022)—Administrative and General Accounts
e. Audit Number 122046 (2022)—Vendor Payment Process

f. Audit Number 122015 (2022)—Enterprise Capital Optimization (ECO)
g. Audit Number 222001 (2022)—IT Asset Lifecycle Management
h. Audit Number 121018 (2022)—Enterprise Risk Management (ERM) Maturity Diagnostic Summary
i. Audit Number 122006 (2022)—Exposed Pipe Inspections
j. Audit Number 222018 (2022)—Threat and Vulnerability Management (TVM)

44. **Variance Analysis**: Reference STAFF-DR-01-001 Attachment 1.xlsm. Please provide a reconciliation for each account listed in the tabs "WP4.1—Assets by FERC" and "WP4.2—Retirements by FERC" with the Company's FERC Form 2 for 2022.
45. **Variance Analysis**: Reference STAFF-DR-01-001 Attachment A.xlsm, tab "WP4.1—Assets by FERC." For each of the following FERC accounts, please explain fully why the Additions for year 2022 are negative:
    a. 378 System Meas. & Reg. Station Equipment-Elec
    b. 387 Other Equipment - Other
    c. 303 Miscellaneous Intangible Plant – 10 year
46. **Variance Analysis**: Reference STAFF-DR-01-001 Attachment 1.xlsm, tabs "WP4.1—Assets by FERC" and "WP4.2—Retirements by FERC." For each of the following FERC accounts, please explain fully why the Additions for year 2022 are significantly greater than Retirements:
    a. 375 Structures & Improvements
    b. 376 Mains – Cast Iron & Copper
    c. 376 Mains - Steel
    d. 376 Mains—Plastic
    e. 378 System Meas. & Reg. Station Equipment
    f. 378 District Regulating Equipment
    g. 379 Meas. & Reg. – City Gate
    h. 380 Services – Cast Iron & Copper
    i. 380 Services – Steel
    j. 380 Services—Plastic
    k. 390 Structures & Improvements
    l. 394 Tools, Shop & Garage Equipment
    m. 396 Power Operated Equipment
    n. 397 Communication Equipment
    o. 303 Miscellaneous Intangible Plant
    p. 303 Miscellaneous Intangible Plant – 15 year
47. **Variance Analysis**: Reference STAFF-DR-01-001 Attachment 1.xlsm, tabs "WP4.1—Assets by FERC" and "WP4.2—Retirements by FERC." For each of the following FERC accounts, please explain fully why the Retirements for year 2022 are significantly greater than Retirements:
    a. 391 Electronic Data Processing
48. **Variance Analysis**: Reference the Company's FERC Form 2 for 2022. Please explain fully the following transfers
    a. FERC account 303—$1,313,814
    b. FERC account 374—$508,583
    c. FERC account 375—$16,808,110
    d. FERC account 378—$215,514
    e. FERC account 390—$16,837,044
49. **Variance Analysis**: Follow-up to Data Request response BRDR#48, part "a." Regarding the $1,313,814 transfer to FERC account 303 from the Duke Service Company, if the transfer was part of a benefit for more than one affiliate, please provide the detail on the allocation, including percentage allocated, or description of standard allocation process.

50. **DIMP/TIMP**
    a. Please provide a copy of the Company's latest PHMSA-filed Gas Distribution Integrity Management Program (DIMP).
    b. Please provide a copy of the Company's latest PHMSA-filed Gas Transmission Integrity Management Program (TIMP).
51. **Work Order Testing:** Follow-up to Data Request response BRDR#41. Regarding the following work orders, did this software project benefit any entity other than Duke Energy Ohio. If so, how were the costs distributed among the entities?
    a. Work Order 315986A—Customer Connect-Core.
    b. Work Order GCTA3006O—INTGO_PI SCADA Data Implementation
52. **Work Order Testing:** Follow-up to Data Request response BRDR#41—Work Order Sample, part "h." The following work orders had detail that indicated the scope of the work but did not indicate why the work was being done and if any alternatives were considered. Please provide that information.
    a. AW2128—Norwood Station 868
    b. AW2133—Butler Cnty Phase I C210 & LP07
    c. AW2215—STA 910 - Norwood Station
    d. AW2221—C350-A000b-Glendale Milford Reg 908
    e. AW2771—STA 0726 Mason Rd Capacity Improv
    f. AW2962—STA 911 - Huntsville Station
    g. AW3116—REG 0008 Grandin and Edwards RS Rep
    h. AW3202—REG 0017 Franklin Town Border RS Re
    i. AW3225—REG 0254 Wasson and Paxton RS Repla
    j. AW3558—REG 0418 Linwood and Delta Station
    k. MX2217745—MX2217745 - REGULATOR 408 - CLIFTON
    l. MX6675538—STA 876 GEORGETOWN
    m. MX6828079—REG 419 PLAINVILLE AND MURRAY
    n. MX7696571—HAM 42 11.98 BRIDGE REHAB - STREET
    o. MX9751393—REG 0188 - Columbia and Maple - Reg
53. **Work Order Testing:** Follow-up to Data Request response BRDR#41. Regarding Work Order CHGREGREL—Change Regulator/Relief Kentucky. The work order description indicates that it was a Change Regulatory/Relief **Kentucky**. Is the work related to Ohio or Kentucky?
54. **Work Order Testing:** Follow-up to Data Request response BRDR#41. Regarding Work Order SG581MTRS—SG DEO AMI Meters – 581, are transmitter modules a unit of property or a minor item of property?
55. **Work Order Testing:** Follow-up to Data Request response BRDR#41. Regarding the following work orders, please confirm that this project did not yield incremental revenue.
    a. AW2771—STA 0726 Mason Rd Capacity Improv
    b. MX1392762—MORAINE WAY - AFTON - 2 INCH STL F
    c. MX2733408—Milford Downtown Replacement Projec
    d. MX4217307—BUT-CR609-0.00 PID 109468 - Middlet
    e. MX7696571—HAM 42 11.98 BRIDGE REHAB - STREET
    f. MX9751393—REG 0188 - Columbia and Maple - Reg
    g. Q3680—C350 (C314V) Central Corridor
56. **Work Order Testing:** Follow-up to 2021 audit scope Data Request response BRDR#134. The Company stated that the rent schedule should be in place by the close of September 2022. Has this taken place?

57. Work Order Testing: Follow-up to Data Request response BRDR#41. Regarding the following list of work orders, please explain the retirement credits in 2022.
   a. Work Order AW1256—Cavern Pump—$840,384.88
      i) Retirement credit of $(252,908) in 2022
   b. Work Order MX4217307—BUT-CR609-0.00 PID 109468 - Middlet—$844,244.73
      i) Retirement credit of $(1,081) in 2022
   c. Work Order Q3680—C350 (C314V) Central Corridor—$152,069,501.33
      i) Retirement credit of $(6,298) in 2022

58. Work Order Testing: Follow-up to Data Request response BRDR#2 and BRDR#14. For the following cost codes, please provide all 2022 charges by work order and FERC account. Include a brief explanation of each cost code.
   a. 15000 Severance
      i) Earnings per Share
      ii) O&M Expense
   b. 15001 Incentive Pay
      i) Earnings per Share
      ii) O&M Expense
   c. 1B310 Service/Safety Awards
   d. 31001 Advertisements
   e. 31003 Informational Advertising
   f. 33000 Office Supplies & Expenses
   g. 33001 Postage & Freight
   h. 36002 IT Software Maintenance
      i) What is meant by maintenance?
   i. 40000 Travel Expenses
   j. 40001 Air Travel Costs
   k. 40002 Meals & Entertain (Billable)
   l. 40007 PersMobileDivice Reimbursement
   m. 41000 Meal and Entertainment (50%)
   n. 49002 Dues – Deductible
   o. 49004 Entertain 100% Non-Deduct
   p. 60007 Rent
   q. 62000 Contract Retention
   r. 69010 SA50%
   s. 69020 SAPERDIEM
   t. 69030 SA100%

59. Work Order Testing: Follow-up to Data Request response BRDR#41. The approval documentation provided for Funding Project C314V cut off the amounts approved. Please provide an updated screenshot that shows the amounts approved.

60. Work Order Testing: Follow-up to Data Request response BRDR#41. Regarding the following list of work orders, please explain why the work orders had retirements prior to 2022.
   a. Work Order AW3116—REG 0008 Grandin and Edwards RS Rep—$1,504,561.75
   b. Work Order AW3202—REG 0017 Franklin Town Border RS Re—$3,010,510.42
   c. Work Order AW3225—REG 0254 Wasson and Paxton RS Repla—$1,900,432.07
   d. Work Order AW3304—STA 0302 Brown County Repair—$150,943.90
   e. Work Order MX2217745—MX2217745 - REGULATOR 408 - CLIFTON—$1,033,995.22

f. Work Order MX6675538—STA 876 GEORGETOWN—$2,256,042.19
g. Work Order MX6828079—REG 419 PLAINVILLE AND MURRAY—$1,657,153.87

61. **Work Order Testing:** Follow-up to Data Request response BRDR#41. Please explain why the approval information for the following work orders (approved over $1M) all show the Gas Director as the approver when he has an approval limit of $1M.

Work Order Number	Work Order Description	Funding Project	Approval Level - Approved	AMOUNT APPROVED	Date approved
AW3202	REG 0017 Franklin Town Border RS Re	"GREG0017"	Gas Director	$2,604,030	3/31/22
AW3225	REG 0254 Wasson and Paxton RS Repla	"GREG0254"	Gas Director	$1,768,264	1/20/22
AW3558	REG 0418 Linwood and Delta Station	"GREG0418"	Gas Director	$2,009,373	1/20/22
AW4877	Emergent Crescentville Rd DOT	"GEMCRES"	Gas Director	$4,385,396	7/7/22
MX2733408	Milford Downtown Replacement Projec	"GMILDPS"	Gas Director	$1,500,185	10/1/21

62. **Work Order Testing:** Follow-up to Data Request response BRDR#41. Regarding the following list of work orders, please explain the Resource Type charges.
    a. Work Order 315986A—Customer Connect - Core—$20,255,190.39
        i) Accounting Entry -$49,135.61
        ii) Direct Mat/Purchases Accrual $0.00 (In-serviced and Unitized)
        iii) Staff Augmentation $1,676,015.53
    b. Non-CEP Work Order AW1256—Cavern Pump—$840,384.88
        i) Accounting Entry $252,907.97
    c. Work Order AW1628—Todhunter Mag Anode Bed Installatio—$453,739.37
        i) Direct Mat/Purchases Accrual $3,599.50
    d. Work Order AW2128—Norwood Station 868—$9,576,371.19
        i) Staff Augmentation $4,295.93
        ii) Direct Mat/Purchases Accrual $0.00 (In-serviced and Unitized)
    e. Work Order AW2133—Butler Cnty Phase I C210 & LP07—$13,224,422.41
        i) Accounting Entry $18,329.84
        ii) Direct Mat/Purchases Accrual $464,145.81
        iii) Purchase of Land Rights $10,355.50
        iv) Staff Augmentation $167,034.01
    f. Work Order AW2215—STA 910 - Norwood Station—$43,415,178.75
        i) Accounting Entry $5,445.08
        ii) Direct Mat/Purchases Accrual $200,106.76
        iii) Staff Augmentation $41,001.28
    g. Work Order AW2221—C350-A000b-Glendale Milford Reg 908—$17,527,443.93
        i) Direct Mat/Purchases Accrual $291,721.96
        ii) Purchase of Land Rights $300,181.00
        iii) Staff Augmentation $5,302.28
    h. Work Order AW2771—STA 0726 Mason Rd Capacity Improv—$1,886,916.48
        i) Direct Mat/Purchases Accrual -$1,136,773.11 (negative accruals)
        ii) Staff Augmentation $9,325.30

i. Work Order AW2962—STA 911 - Huntsville Station—$9,711,109.06
   i) Direct Mat/Purchases Accrual $31.80
   ii) Staff Augmentation $96,249.25
j. Work Order AW3116—REG 0008 Grandin and Edwards RS Rep—$1,504,561.75
   i) Direct Mat/Purchases Accrual $111,981.97
k. Work Order AW3202—REG 0017 Franklin Town Border RS Re—$3,010,510.42
   i) Direct Mat/Purchases Accrual $919.80
   ii) Staff Augmentation $145.68
l. Work Order AW3558—REG 0418 Linwood and Delta Station —$2,423,075.39
   i) Accounting Entry $2,985.23
   ii) Direct Mat/Purchases Accrual $0.00 (In-serviced and Unitized)
m. Work Order AW4877—Emergent Crescentville Rd DOT—$3,468,773.93
   i) Purchase of Land Rights $24,000.00
   ii) Direct Mat/Purchases Accrual $0.00 (In-serviced and <u>NOT</u> Unitized)
   iii) Staff Augmentation $10,736.20
n. Work Order AW4900—STA 908 Glendale-Milford - Intake—$314,944.28
   i) Staff Augmentation $1,154.75
o. Work Order GCTA3006O—INTGO_PI SCADA Data Implemntion—$400,025.93
   i) Staff Augmentation $17,413.22
   ii) Direct Mat/Purchases Accrual $0.00 (In-serviced and Unitized)
p. Work Order MCNEWP10—New M-C Plastic 2 inch and Under OH—$9,350,190.79
   i) Contr. in Aid of Const. (NTax) -$194,395.00
   ii) Direct Mat/Purchases Accrual $2,051.17
   iii) Staff Augmentation $157,057.19
q. Work Order MCRP10—Replace (non-AMRP) M-C Plastic 2 in—$11,007,261.38
   i) Contr. in Aid of Const. (NTax) -$21,294.60
   ii) Direct Mat/Purchases Accrual $178,382.11
   iii) Staff Augmentation $189,156.83
r. Work Order MCSP10—ASRP Main to Curb 2" or less—$14,171,453.88
   i) Staff Augmentation $181,123.40
s. Work Order MX1392762—MORAINE WAY - AFTON - 2 INCH STL F—$602,137.74
   i) Purchase of Land Rights $2,700.00
   ii) Direct Mat/Purchases Accrual $0.00 (In-serviced and Unitized)
t. Work Order MX2217745—MX2217745 - REGULATOR 408 - CLIFTON—$1,033,995.22
   i) Direct Mat/Purchases Accrual $372.00
u. Work Order MX6675538—STA 876 GEORGETOWN—$2,256,042.19
   i) Direct Mat/Purchases Accrual $157,176.16
   ii) Purchase of Land Rights $9,097.03
   iii) Staff Augmentation $461.54
v. Work Order MX6828079—REG 419 PLAINVILLE AND MURRAY—$1,657,153.87
   i) Direct Mat/Purchases Accrual $23,596.05
w. Work Order MX9751393—REG 0188 - Columbia and Maple - Reg—$827,676.46
   i) Direct Mat/Purchases Accrual $46,288.74
   ii) Accounting Entry $18,329.84
   iii) Direct Mat/Purchases Accrual $464,145.81
   iv) Purchase of Land Rights $10,355.50

v) Staff Augmentation $167,034.01

x. Work Order Q3680—C350 (C314V) Central Corridor—$152,069,501.33
   i) Accounting Entry $11,925.76
   ii) Purchase of Land Rights $108,434.83
   iii) Direct Mat/Purchases Accrual $0.00 (In-serviced and Unitized)
   iv) Severance $150,000.00
   v) Staff Augmentation $843,166.50

y. Work Order SG581MTRS—SG DEO AMI Meters - 581—($882,564.59)
   i) Direct Mat/Purchases Accrual -$10,950.76
   ii) Staff Augmentation $245,112.36

63. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding Funding Project GTAMARACK—Tamarack Trail Subdivision—$2,590,985, was AFUDC accrued from 12/2021 through 5/2022? If so, please provide the cost detail by month for that period.

64. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding Funding Project GMIAMI—Miamitown Pressure Impr DPS/TFO—$2,493,919. The variance explanation noted, "The main portion was completed in 2021, but the station had material delays and was not completed until November 2022."
   a. What caused the material delays?
   b. Was AFUDC accrued from the time main portion of the project was completed in 2021 to November 2022? If so, please provide the cost detail by month for 2022.

65. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding G1TRENTON—Trenton Main Replacement—$1,293,927. What was the estimated in-service date for this project?

66. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding GMILDPS—DPS-Milford-Downtown Station Co—$2,409,536. The variance explanation noted that "Milford could not locate their municipality-owned electric facilities during project planning, and locating companies could also not find them. The Company had to use a vacuum rig to excavate around these lines for safety. This also caused additional shoring and plates to be required that had not been planned. In addition, a significant amount of main had to be moved into the road due to an unforeseen fiber duct bank that was found during installation."
   a. Due to the delays and additional cost because Milford could not locate their facilities, were they charged for the delays and incremental cost? If not, why not? ?

67. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding Funding Project GMORMR—Millville Oxford Rd Main Replacement—$825,463, the variance explanation noted that "[t]his project was placed in-service in September 2022, but was estimated to be placed in-service in September 2021 (timing)."
   a. Why was the project delayed?
   b. Please provide the cost detail by month for the period September 2021 to September 2022.

68. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding Funding Project G16003—AMI Ohio Program, why was this project considered emergent rather than budgeted?

69. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding the following Funding Projects, the Company provided the same variance explanation for each, which noted that "[t]he Measurement & Regulation category came in $27M over the 2022 estimated plan. In 2021, the Company had a multitude of projects that were delayed into 2022 primarily due to lead-time challenges and supply chain issues on materials. Many of these projects had estimated 2021 in-service dates when the budget file was submitted." Please explain in detail what the lead time challenges and

supply chain issues were. Also, explain what is being done to mitigate these types of issues in the future.

a. Funding Project GREG0017—REG 0017 Franklin Town Border RS Re—$3,022,000.98
b. Funding Project GREG0892—REG 0892 - Aberdeen - RS Replacemen—$2,637,779.76
c. Funding Project GREG0418—REG 0418 Linwood and Delta Station—$2,495,869.07
d. Funding Project GSTA875—STA 875 - Georgetown—$2,256,042.19
e. Funding Project G1STA896—STA 896 - Kibbey Rd—$2,123,615.06
f. Funding Project GREG0310—REG 0310 Tobasco Rd RS Replacement—$2,031,419.86
g. Funding Project GREG0254—REG 0254 Wasson and Paxton RS Repla—$2,015,524.32
h. Funding Project GSTA0022—STA 911 - Huntsville Station—$9,726,663.43
i. Funding Project GMREG419—REG 419 - Plainville & Murray—$1,671,547.02
j. Funding Project GSTA0020—STA 0020 Seven Mile RS Replacement—$1,704,971.46
k. Funding Project GSTA0406—STA 0406 - Trenton TET – Repair—$1,080,420.11
l. Funding Project GMREG408—REG 408 - Clifton & Warner—$1,033,995.22
m. Funding Project GREG0231—REG 0231 - Seward and Hill - Reg Up—$894,923.82
n. Funding Project GREG0024—REG 0024 McMicken & Vine RS Replace—$1,513,488.34
o. Funding Project GREG0188—REG 0188 Columbia and Maple - Reg U—$827,676.46
p. Funding Project GREG08HW—REG 0008 Highland&Walnut RS Replace—$1,349,763.28
q. Funding Project GREG0821—REG 0008 Grandin&Edwards RS Replace—$1,504,561.75
r. Funding Project GMREG415—REG 415 - Lafayette & Middleton—$797,555.41
s. Funding Project GREG0019—REG 0019 Grand&Moore RS Replacement—$1,447,826.50
t. Funding Project GREG0009—REG 0009 Oak&Crestview RS Replaceme—$1,275,020.60
u. Funding Project GREG0176—REG 0176 - Elberon and Mount Echo—$532,279.68
v. Funding Project G1STA838—STA 898 - Gretel Court—$525,678.24
w. Funding Project GSTA0218—STA 0218 Pisgah Abandonment & Main—$430,100.23
x. Funding Project GMREG409—REG 409 - Mitchell & Vine—$316,425.42
y. Funding Project GREG0149—REG 0149 - McHenry and Westwood Nor—$310,838.13
z. Funding Project GSTA0292—STA 0292 - Bridlepath - Abandonment—$279,937.81
aa. Funding Project GSTA0038—STA 0038 - Sharondale Rd - Abandon—$278,531.21
bb. Funding Project GSTA0059—STA 0059 Wayside Ave - Abandon & Ma—$260,709.61
cc. Funding Project GSTA0336—STA 0336 Kyles Station Abandon & Ma—$274,439.03
dd. Funding Project GEM15156—Emergent - REG 0156 - Sycamore & Wa—$200,804.31
ee. Funding Project GREG0282—REG 0282 - Eighth and Hermosa - Ori—$197,283.53
ff. Funding Project GEM16007—Emergent-REG 0235 EZZARD & LINN RS—$148,546.93
gg. Funding Project GSTA0302—STA 0302 Brown County Station RS Re—$150,943.90
hh. Funding Project GSTA0066—STA 0066 Western Row Abandon&Main I—$161,678.69
ii. Funding Project GSTA0283—STA 0283 Gilmore & Route & RS Repla—$679,730.19
jj. Funding Project GSTA0040—STA 0040 Canastoto Dr RS Replacemen—$701,756.44
kk. Funding Project GEM15157—Emergent - REG 0196 Catalpa & Betts—$123,546.87
ll. Funding Project GSTA0061—STA 0061 - Putnam Rd - RS Repair—$111,274.76
mm. Funding Project GREG0335—REG 0335 - Fifth and Plum - RS Upgr—$222,702.59
nn. Funding Project GREG0108—REG 0108 - Hamilton and Galbraith—$167,749.90
oo. Funding Project GEM15151—Emergent - REG 0084 - Queen City an—$81,452.97
pp. Funding Project GEM15154—Emergent - REG 0391 - Ault Park Ave—$79,310.24
qq. Funding Project GEM16004—Emergent-REG 0175 CEDAR & ARGUS RS—$70,414.82
rr. Funding Project GEM15152—Emergent - REG 0386 - Sharon and Gl—$41,007.32

ss. Funding Project GSTA0320—STA 0320 - Fabe Wright - Abandonmen—$40,952.61
tt. Funding Project GEMREG045—Emergent - REG 0453 - Fernald South—$54,201.20
uu. Funding Project GREG0117—REG 0117 Cooper Rd RS Upgrade—$122,148.03
vv. Funding Project GREG0205—REG 0205 - Stratford and Straight—$19,893.75
ww. Funding Project GREG0427—REG 0427 - Yankee Road - RS Upgrade—$40,986.73
xx. Funding Project GSTA0095—STA 0095 - Cornell and Lebanon - Ab—$3,967.76
yy. Funding Project GSTA0032—STA 0032 Wyscarver East RS Repair—$4,619.55
zz. Funding Project GREG0811—REG 0811 - South Lebanon - RS Upgra—$35,441.11
aaa. Funding Project GLGMR—LARGE M&R Pools—$(89.69)
bbb. Funding Project GREG0011—REG 0011 Eleventh and Main RS Repai—$4,003.21
ccc. Funding Project GREG1721—REG 0017 Delta and Columbia RS Repa—$(16.08)
ddd. Funding Project GREG060—REG 0060- Frances & Harris—$800.07
eee. Funding Project GREG0018—REG 0018 Edgewood and Central RS Re—$481.86
fff. Funding Project GREG0174—REG 0174 Sharon and Springfield - R—$120.64
ggg. Funding Project GREG0015—REG 0015 Werk and Harrison RS Repai—$533.52
hhh. Funding Project GREG0175—REG 0175 Cedar and Argus - Reg Upgr—$73.31
iii. Funding Project GSTA0045—STA 0045 - Anderson Ferry - RS Repa—$(5,498.45)
jjj. Funding Project GREG0200—REG 0200 - Dent - RS Upgrade—$27,543.67
kkk. Funding Project GREG0637—REG 0637 - Duck Creek - RS Upgrade—$30,029.68
lll. Funding Project GREG0022—REG 0022 McMillan and Clifton RS Re—$2,997.71
mmm. Funding Project GSTA673—STA 0673 Union Rd & St Rt 63 Repair—$(2,052.73)
nnn. Funding Project GSTA0817—STA 0817 Salem and Sutton RS Repair—$153.61
ooo. Funding Project GSTA0033—STA 0033 Arcadia Dr Abandonment and—$1,974.39
ppp. Funding Project GREG0060—REG 0060 Frances & Harrison RS Repl—$283,203.52
qqq. Funding Project GSTA0096—STA 0096 Lawrence Rd RS Replacement—$171,894.57

70. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding Funding Project GLC3383—Line C338 – valve 0003 – Automation—$152,725. The variance explanation noted that "Budget is derived internally based on estimated findings; actuals varied with field findings". Please provide a better explanation.
71. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding Funding Project GEM15666—Emergent – Deerfield Rd – Shallow M. The variance explanation noted "Emergent project; post budget". Please explain the nature of the project.
72. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding Funding Project G4269—Casing 906 – Enterprise Dr – Remed—$91693. The variance explanation noted that "Project placed in-service in September 2022 and came in above estimate. Trailing charges are expected in 2023 due to an estimated in-service date of November 2022" What does the trailing charges in 2023 have to do with the project coming in over budget in 2022?
73. **Work Order Testing:** Follow-up to Data Request response BRDR#41. Regarding the following list of work orders, please provide responses for these items:
    a. Please explain why the work order closing was delayed and also calculate any over accrual of AFUDC.
    b. If the Company determines that AFUDC was not over accrued for the project, please explain why.
    - Work Order MX6828079—REG 419 PLAINVILLE AND MURRAY—$1,657,153.87
        - Estimated In-Service Date: 6/30/22
        - Actual In-Service Date: 10/5/22
        - Delay: 97

- Work Order MX9751393—REG 0188 - Columbia and Maple - Reg— $827,676.46
  - Estimated In-Service Date: 3/1/22
  - Actual In-Service Date: 11/21/22
  - Delay: 265

74. **Budget to Actual:** Follow-up to Data Request response BRDR#28. Regarding Funding Project GCG04DIGS—Line CG04 Digs—$(56,964). The variance explanation noted "trailing charges in 2022." Why were the trailing charges a credit?
75. **Work Order Testing**: Follow-up to 2021 Data Request response BRDR#100. Is the following statement still true regarding contingencies and escalations

    Contingency is an unreserved allowance for the management of project risks and estimate uncertainty. It is typically calculated at 15% of the direct costs in the initial project estimate. Escalation is applied at 2.5% to account for potential cost increases over the life of the project.
76. **FIELD VISITS**: As a continuation of the audit process, we have selected certain work orders/projects for detailed desktop audits and/or virtual field verification from the work order sample. These will be completed via video conference. The purpose of the field verification is to determine that the assets have been installed per the work order scope and description and contain detailed information related to assets installed/retired, engineering data, and other documentation that supports that the project was necessary, reasonable, prudent, and used and useful.

    Blue Ridge, along with experienced representatives from the Ohio PUC Staff, will conduct the audit.

    To coordinate the desktop and field audits, Blue Ridge will initiate a scheduling call with Staff and Duke tentatively Friday July 14th or Monday July 17th.

    To assist in that endeavor, please provide or have available, the following items:

    a. For the day(s) of the audit:
        i. An individual(s) who can coordinate all the virtual field verification and/or technology to allow remote streaming of the site walk-through
        ii. Representatives from Duke who can describe the projects in detail
        iii. The Project Manager or a person who was responsible for the work on each project to answer questions, if necessary

    b. Prior to the day of the audit:
        i. Schematics/drawings and photos or any other visual aids that indicate what was built or installed
        ii. A list of material and/or equipment installed along with any applicable serial numbers
        iii. Project justification statement and work order completion cost data for direct cost (e.g., labor, material, equipment)
        iv. A list of major equipment removed (retired) from service and vintage year of those assets

Work Order	Work Order Description	Funding Project	2022 charge actual closing
AW3116	REG 0008 Grandin and Edwards RS Rep	GREG0821	$1,504,561.75
AW2771	STA 0726 Mason Rd Capacity Improv	GSTA0726	$1,886,916.48
AW3202	REG 0017 Franklin Town Border RS Re	GREG0017	$3,010,510.42
AW2128	Norwood Station 868	C314V	$9,576,371.19
AW2962	STA 911 - Huntsville Station	GSTA0022	$9,711,109.06
AW2221	C350-A000b-Glendale Milford Reg 908	GC350GMRS	$17,527,443.93
MX6675538	STA 876 GEORGETOWN	GSTA875	$2,256,042.19

Work Order	Work Order Description	Funding Project	2022 charge actual closing
AW3304	STA 0302 Brown County Repair	GSTA0302	$150,943.90
MX1392762	MORAINE WAY - AFTON - 2 INCH STL F	GMAINS	$602,137.74
MX4217307	BUT-CR609-0.00 PID 109468 - Middlet	GEM15169	$844,244.73
AW4706	REG 0108 - Hamilton and Galbraith	GREG0108	$167,749.90

77. **Work Order Testing:** Follow-up to Data Request response BRDR#41. Please explain and provide invoices for the following items:
    a. CEP Related Work Order 315986A—Customer Connect - Core—$20,255,190.39
        i) Advertisements—Amount totaling $104.78 for the work order in the cost detail.
        ii) Dues – Deductible—Amount totaling $91.20 for the work order in the cost detail.
        iii) Informational Advertising—Amount totaling $574.51 for the work order in the cost detail.
        iv) Office Supplies & Expense—Amount totaling to $202.27 for the work order in the cost detail.
    b. CEP Related Work Order AW2133—Butler Cnty Phase I C210 & LP07—$13,224,422.41
        i) Entertainment-Non-Deductible—Amount totaling to $205.34 in the cost detail.
    c. CEP Related Work Order Q3680—C350 (C314V) Central Corridor—$152,069,501.33
        i) Informational Advertising—Amount totaling $34,091.81 for the work order in the cost detail.
        ii) Office Supplies & Expenses—Amount totaling $2,845.23 for the work order in the cost detail.
    d. CEP Related Work Order SG581MTRS—SG DEO AMI Meters - 581—($882,564.59)
        i) Office Supplies & Expense—Amount totaling $9.64 for the work order in the cost detail.
78. **Budget to Actual:** Follow-up to Data Request Response BR-DR-01-067, b, regarding funding project GMORMR – Millville Oxford Rd. Main Replacement. Please provide the cost detail for the period October–December 2022.
79. **Budget to Actual:** Follow-up to Data Request Response BR-DR-01-073, a, for Work Order MX6828079—Plainville and Murray and Work Order MX9751393—Columbia and Maple - Reg. Please provide the cost detail by month for each work order.
80. Work Order Testing: Follow-up to Data Request Response BR-DR-01-041, Work Order AW1256—Cavern Pump—$840,384.88 (Funding Project GESCAVRN). Please provide the variance to budget explanation for Work Order AW1256 or Funding Project GESCAVRN
    a. Budget for AW1256: $212,896
    b. Over budget by 295% or ($627,489) for AW1256
81. Work Order Testing: Follow-up to Data Request Response Staff-DR-02-001, Work Order AW4877—Emergent Crescentville Rd DOT—$3,468,773.93. This Work Order appears to be a replacement.
    a. Please provide the retirement and cost of removal detail for this work order.
    b. If no retirements or cost of removal was recorded, please explain why and provide an estimate.
82. Work Order Testing: Follow-up to Data Request Response Staff-DR-01-001. The CEP Plant change for Distribution Improvement increased 17.58% (2021 $543.1 million, 2022 $638.6 million) from December 31, 2021, to December 31,2022. Please provide a detailed explanation of what caused the Distribution Improvement Plant Balance to increase 17.58%. Include in that response any specific projects that were a major contributor to the increase.
83. **WP4.1 - Assets by FERC**. Please provide the unadjusted activity by FERC account for the months of February 2022 through December 2022.

84. **WP4.2 - Retirements by FERC**. Please provide the unadjusted activity by FERC account for the months of February 2022 through December 2022.
85. **Schedule 12 - Deferred Tax on Depreciation.** Please provide the source workpaper for the tax depreciation schedule related to the plant additions totaling $102,059,517.

APPENDIX C: WORKPAPERS

Blue Ridge's workpapers were delivered to the PUCO Staff per the RFP requirements.

- Duke OH Virtual Field Audit July 26 2023 FINAL.docx
- WP - BR-DR-01-002 Attachment - Pulling Sample Final.xlsx
- WP 23-618-GA-RDR Sensitivity, Sample Size, and Interval FINAL.xlsx
- WP BR-DR-01-023 Attachment BACKLOG.xlsx
- WP BRCS Var Analysis—STAFF-DR-01-001 Attachment 1.xlsm
- WP CEP Incentice Comp Year over Year Comparison.xlsx
- WP Duke CEP Work Order Testing Matrix 230713.xlsx
- WP V&V Case No. 23-618-GA-RDR (STAFF-DR-01-001 Attachment 1).xlsm