



Public Utilities Commission

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August 29, 2023

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Application of Duke Energy Ohio, Inc., for an Adjustment to the Capital Expenditure Program Rider Rate, Case No. 23-618-GA-RDR.*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendation in regard to Duke Energy Ohio, Inc., application in Case No. 23-618-GA-RDR for Approval of its Capital Expenditure Program rider rate adjustment.

Sincerely,

A handwritten signature in black ink that reads "Marianne Townsend". The signature is fluid and cursive.

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

Enclosure
Cc: Parties of Record

**Duke Energy Ohio, Inc.
Capital Expenditure Program Rider
Case No. 23-618-GA-RDR**

INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (PUCO or Commission) Opinion and Order in Case No. 19-0791-GA-ALT (Alt Reg Order),¹ on March 31, 2023, Duke Energy Ohio, Inc., (Duke or the Company) filed an application to adjust its Capital Expenditure Program (CEP) rider rate in Case No. 23-618-GA-RDR.

On March 22, 2023, the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge or Auditor) as the auditor to assist the Staff of the PUCO (Staff) in performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Duke's CEP Rider. On August 15, 2023, Blue Ridge submitted its audit report for the 2023 annual adjustment to the CEP rider rate for Duke Energy Ohio (Blue Ridge Report).²

On May 31, 2022, the Company filed an application to increase base rates³. On September 8, 2022, the Company filed an application addendum for approval of an alternative rate plan (2022 Alt Reg Case).⁴ On April 28, 2023, a stipulation was filed in the 2022 Alt Reg Case (2022 Alt Reg Stipulation).⁵ The Stipulation made several modifications to the Company's CEP rider program. Parties agreed that if the Commission approved the new 2022 Alt Reg Stipulation prior to the approval of the conclusion of this current CEP rider review, changes would apply immediately.

This review provides Staff's conclusion and recommendations to the Commission regarding Duke's application to adjust its CEP rider as filed in Case No. 23-618-GA-RDR and outlines changes that may be impacted by the timing of approval of the 2022 Alt Reg Case.

BACKGROUND

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

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

² *Audit of the Plant In-Service and Capital Expenditure Program of Duke Energy Ohio, Inc. (Natural Gas)*, (Blue Ridge Report), Case No. 23-618-GA-RDR (August 15, 2023).

³ *In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Natural Gas Rates*. Case No. 22-507-GA-AIR, et al, Application (May 31, 2022).

⁴ *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Form of Regulation*, Case No. 22-508-GA-ALT et al, Application. Addendum (September 8, 2022) (2022 Alt Reg).

⁵ *In re the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Form of Regulation*, Case No. 22-508-GA-ALT et al, Stipulation and Recommendation (April 28, 2023).

In 2013, the Company filed an application to implement a CEP and modify its accounting procedures in Case Nos. 13-2417-GA-UNC and 13-2418-GA-AAM. The Commission authorized the Company to accrue CEP Deferral expenses until the rates to recover the deferrals for the residential customers (Rate RS) reached \$1.50 per month.⁶ The Commission stated in its determination that it would consider the prudence, reasonableness, and magnitude of the CEP deferral and capital expenditures when the Company applies for recovery.

In 2021, in Case No. 19-0791-GA-ALT, the Commission authorized the Company to implement a new alternative rate plan and create a CEP rider to recover historic and ongoing CEP costs and CEP deferrals (CEP Investment). The rates for incorporating historic CEP Investments through December 31, 2018, were set for residential customers at \$3.69 per meter per month.⁷ The rates for recovery of CEP investments through December 31, 2021, were capped at a maximum rate of \$11.31 effective November of 2022, plus reconciliation for over and under recovery from prior years.

As of the filing of this Staff letter, the Commission has not yet issued an opinion and order in the 2022 Alt Reg Case. However, the 2022 Alt Reg Stipulation implements several changes to the CEP Rider program.⁸ If the Commission issues an order in the 2022 Alt Reg Case adopting the 2022 Alt Reg Stipulation prior to a Commission order in the CEP Rider, the following changes would apply⁹:

- All plant as of date certain will be rolled into base rates
- Reset CEP Rider cap structure.¹⁰ Annual residential rate increases would be as follows:

2022	2023	2024	2025	2026	2027	6 Year Total
\$2.25	\$2.25	\$1.53	\$1.00	\$1.00	\$1.59	\$9.53

- Modify cost of debt, rate of return, and depreciation rates
- New end date of 2027
- Discontinue depreciation offset
- Modify rate design for Rate IT
- Implement an automatic approval process subject to true-up and reconciliation for over/under recovery of CEP Rider revenue requirement

DUKE'S APPLICATION FOR CEP RIDER

Duke filed its application to adjust the CEP rider rate for residential customers (Rate RS) to \$11.82 per month effective November 2023 for CEP investment through December 31, 2022¹¹ as ordered by the Commission. The application included a total CEP Rider revenue requirement of \$79,695,566 to recover CEP investments through Dec. 31, 2022, which includes CEP plant additions of \$750,386,610, and retirements of \$80,853,608. The application includes total plant in service for the period of \$669,533,002; accumulated depreciation of (\$357,587,880); and total deferred expenses and total

⁶ *In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Implement a Capital Expenditure Program, Case No. 13-2417-GA-UNC, et al.*, Finding and Order at 23 (Oct. 1, 2014).

⁷ *Alt. Reg. Order* at 47.

⁸ 2022 Alt Reg, Stipulation at 8 (If an order is received after November 2023, the Company will implement Rider CEP rates consistent with the order in Case No. 19-791-GA-ALT until an order in this instant case is received and new base rates are put into effect.)

⁹ *Id.* At 8-9.

¹⁰ *Id.* at 8 (The residential rate caps in the above table will not go into effect until an order is issued in this proceeding approving such caps. For avoidance of doubt, the \$2.25 residential rate cap for 2022 calendar year investments will apply to the rate that goes into effect in November 2023.)

¹¹ *In the Matter of the Application of Duke Energy Ohio, Inc., for an Adjustment to the Capital Expenditure Program Rider Rate*, Case No. 23-618-GA-RDR, Application, Attachment 1 (March 31, 2023) (CEP Audit Case).

deferred taxes on expenses (depreciation, PISCC, and property tax) of \$215,461,743 net of cumulative offset for incremental revenue of (\$33,012,906). Annualized operating expenses include depreciation, property tax expense, and regulatory assets amortization. The application also includes a revenue reconciliation adjustment of \$1,039,133.

THE CEP RIDER INVESTIGATION

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

Staff reviewed the Company's application and supporting testimony, analyzed documentation associated with expenses and deferrals for depreciation, property tax, and PISCC. Staff also reviewed proposed tariffs, bill impacts, and revenue requirement calculations. As part of its review, Staff issued data requests, contacted Company representatives to obtain clarifying and follow-up data, and performed independent analysis when necessary. Finally, Staff reviewed the Order, stipulation, and auditor report from Case Nos. 19-791-GA-ALT, 21-618-GA-RDR, and 22-618-GA-RDR to ensure the Company was in compliance with all recommendations and requirements.

Blue Ridge conducted an audit of Duke's CEP capital expenditures. The Auditor reviewed the accounting accuracy and used and useful nature of Duke's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals from January 1, 2022 through December 31, 2022. The Auditor also assessed necessity, prudence, lawfulness, and reasonableness of the CEP expenditures. The Auditor reviewed the information required by the Request for Proposal; reviewed responses to data requests; conducted interviews; performed virtual field inspections and desk top reviews; reviewed the Company's processes and procedures; and performed various analyses as detailed in the Blue Ridge Report.

STAFF'S RESPONSE AND RECOMMENDATIONS

Staff has completed its investigation of Duke's proposed CEP Rider application. Staff fully adopts the Blue Ridge Report. Based on the Auditor's adjustments and recommendations, the new rate is approximately \$11.82 for residential customers which includes an under recovery reconciliation.

Blue Ridge recommends an adjustment to the plant in-service balance to remove expense related items from four work orders that should have been capitalized. These adjustments have no effect on this CEP's revenue requirement, but if not removed they will be reflected in plant in-service used in future CEP filings:¹²

The Blue Ridge general audit recommendations include the following:

1. The auditor of next year's audit review the Company's new process to auto-unitize blanket distribution work orders to determine whether the Company has reduced the backlog.¹³
2. The Company seek Commission approval for its change to the method to account for the amortization of intangible plant, the next time the Company files a depreciation study.¹⁴

¹² *Blue Ridge Report* at 31.

¹³ *Id.*

¹⁴ *Id.* at 31-32.

3. The Company consider formula modification,¹⁵ when establishing future CEP rate caps, related to: the impact of deferred income taxes on the deferred depreciation regulatory asset; the impact of deferred income taxes on the 2012 Rate Case Depreciation Offset; and for continuity and equity purposes, align the rate cap formulas among the other natural gas utilities.¹⁶

Financial Earnings Review

In its Opinion and Order,¹⁷ the Commission directed Staff to monitor measures of profitability as part of Duke's annual filings. Below is a chart showing three measures of profitability for some of Ohio's natural gas local distribution companies (LDC) as well as a median of LDC returns nationwide.¹⁸

	Return on Equity	Return on Capital	Return on Assets
	3-Yr Average	3-Yr Average	3-Yr Average
Median LDC Returns (National)	8.02%	4.69%	2.85%
Ohio LDC Returns			
Columbia Gas of Ohio, Inc.- OH	8.06%	4.08%	2.66%
Duke Energy Ohio, Inc.- OH	5.76%	3.70%	2.68%
Eastern Natural Gas Company- OH	-14.03%	-14.03%	-4.42%
Northeast Ohio Natural Gas Corp.- OH	3.17%	2.04%	1.31%
Ohio Gas Company- OH	9.32%	9.32%	6.95%
Pike Natural Gas Co- OH	-168.97%	-168.97%	-2.47%
Suburban Natural Gas Co.- OH	3.06%	1.93%	1.15%
The East Ohio Gas Company- OH	10.57%	6.39%	4.29%
Vectren Energy Delivery of Ohio, Inc.- OH	9.75%	5.21%	3.60%

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

Conclusion

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

¹⁵ Staff notes that parties have signed a stipulation in the 2022 Alt Reg Case, and any modifications from this recommendation should be revisited in a future alternative regulation filing.

¹⁶ *Id.* at 32.

¹⁷ *Alt. Reg. Order* at 39.

¹⁸ Data provided by S&P Global Marketplace Intelligence for years 2020, 2021, and 2022 as of 07/25/2023.

**This foregoing document was electronically filed with the Public Utilities
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Case No(s). 23-0618-GA-RDR

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