



Heather Shirley Smith  
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June 13, 2016

Jocelyn G. Boyd, Esquire  
Chief Clerk/Administrator  
The Public Service Commission of South Carolina  
101 Executive Center Drive, Suite 100  
Columbia SC 29210

Re: Petition of Duke Energy Carolinas, LLC for an Accounting Order to Defer  
Certain Costs Related to Advanced Metering Infrastructure (AMI)  
**Docket No.: 2016-\_\_\_\_-E**

Dear Mrs. Boyd:

Attached for filing, please find the Petition of Duke Energy Carolinas, LLC for an Accounting Order to Defer Certain Costs Related to Advanced Metering Infrastructure (AMI).

If you have any questions about the Petition, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Heather Shirley Smith". The signature is written in a cursive, flowing style.

Heather Shirley Smith

Enclosures

cc: Ms. Nanette Edwards, Esq., Office of Regulatory Staff  
Ms. Dawn Hipp, Office of Regulatory Staff  
Mr. Jeffery M. Nelson, Esq. Office of Regulatory Staff  
Ms. Shannon Bowyer Hudson, Esq., Office of Regulatory Staff  
Mr. Michael Seaman-Huynh, Office of Regulatory Staff

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

In re:	)	
	)	<b>PETITION OF DUKE ENERGY</b>
Petition of Duke Energy Carolinas, LLC	)	<b>CAROLINAS, LLC FOR AN</b>
for an Accounting Order Defer Certain Costs	)	<b>ACCOUNTING ORDER TO DEFER</b>
Related to Advanced Metering Infrastructure	)	<b>CERTAIN COSTS RELATED TO</b>
(AMI)	)	<b>ADVANCED METERING</b>
	)	<b>INFRASTRUCTURE (AMI)</b>
	)	

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Duke Energy Carolinas, LLC (“DEC” or the “Company”) hereby petitions the Public Service Commission of South Carolina (the “Commission”) pursuant to S.C. Code Section 58-27-1540, S.C. Code Reg. 103-825, and other applicable rules and regulations of the Commission, for an accounting order for regulatory and financial accounting purposes authorizing the Company to defer in a regulatory asset certain costs incurred in connection with Advanced Metering Infrastructure (AMI) (“AMI Costs”). The Company seeks to defer the depreciation associated with the installation of AMI meters, also known as “smart meters,” as well as the carrying cost on the investment at its weighted average cost of capital, in an amount of no more than \$45 million until the Company’s next general rate case. DEC also seeks to accrue carrying costs, at its weighted average cost of capital, on the deferred costs. The Company also seeks to continue depreciating the outdated meters that will be replaced. This amount is already included in rates and will therefore not be included in the deferral.

The request for relief set forth within the Petition would not involve a change to any of the Company’s retail rates or prices at this time or require any change in any Commission rule, regulation, or policy. In addition, the issuance of the requested accounting order would not

prejudice the right of any party to address the prudence of these costs in the Company's next general rate case proceeding. In support of this Petition, the Company respectfully shows the Commission the following facts and petitions the Commission for the following relief:

**Name and Address of Company**

1. The correct name and post office address of DEC are:

Duke Energy Carolinas, LLC  
Post Office Box 1321  
Charlotte, NC 28201

**Notices and Communications**

2. The name and addresses of the Company's attorneys who are authorized to receive notices and communications with respect to this petition are:

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and

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**Description of the Company**

3. DEC is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the western portion of South Carolina and the central and western portions of North Carolina. The Company also sells electricity at wholesale to municipal, cooperative, and

investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission. DEC is a corporation organized and existing under the laws of North Carolina, is authorized to transact business in the State of South Carolina, and is a public utility under the laws of South Carolina. Accordingly its operations in South Carolina are subject to the jurisdiction of the Commission pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

#### **Advanced Metering Infrastructure (AMI) and Financial Impact**

4. AMI is the foundational investment that will enable enhanced customer solutions – giving customers greater control, convenience and choice over their energy usage, while also giving customers the opportunity to budget, save time and save money. AMI technology allows a utility to gather more granular usage data and utilize new capabilities to offer new programs, products and services to customers that are not achievable through existing meters, which are antiquated (mechanical meters, drive-by meters, and manually-read meters). The AMI technology will pave the way for programs that will allow customers to stay better informed during outages, control their due dates, avoid deposits, to be reconnected faster, and to better understand and take control of their energy usage, and ultimately, their bills. Over time, the Company also expects AMI meters to contribute to cost reductions from reduced truck rolls in the years after deployments.

5. Deployment of AMI meters will enable full deployment of projects like Pay As You Go, near instant restoration of service for customers who have been disconnected, will allow for proactive outage notification alerts, Smart Meter usage applications on smart phones, and even enable future energy efficiency options and potential time of use rate offerings. Current meters do not have these capabilities. The AMI meters will also provide an interface for

customers to see and understand their usage, allowing them to better manage their consumption and, as a result, their bills. The AMI meters use an RF mesh bi-directional radio frequency to communicate, creating a multi-service network. Currently, most DEC “drive by” meters already have this capability for meter reading, but are not capable of the advanced functions of AMI.

6. In order to achieve the next generation of customer service and value, DEC has begun a full roll-out of AMI to all residential customers in its service territory in South Carolina. DEC has approximately 95,000 AMI meters currently installed, and the next phases of deployment will replace the Company’s remaining approximate 490,000 older technology meters with AMI meters through 2017. These meters for South Carolinians will also be manufactured by South Carolinians by Itron Inc. in Oconee County, South Carolina.

7. The Company respectfully requests Commission approval to defer the financial effects of the depreciation expense incurred once the AMI meters are installed, the carrying costs on the investment at its weighted average cost of capital, and the carrying costs on the deferred costs at its weighted average cost of capital in an amount of no more than \$45 million.<sup>1</sup> The Company also respectfully requests Commission approval of retaining the book value of non-AMI meters in the amount of \$31 million in a regulatory asset for continued depreciation under current schedules approved by the Commission—in other words, to continue the current ratemaking treatment for those assets which are being retired in favor of AMI technology. Without the accounting treatment requested by the Company, these costs will impact the Company’s financials on a meter by meter basis through 2017; accordingly, unlike capital projects of similar financial magnitude, the Company will not recover its time value of money in

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<sup>1</sup> This amount includes the depreciation expense and the carrying costs associated with the \$13.6 million investment in the first phase of deployment that ended in 2015 and the depreciation expense and the carrying costs associated with the expected \$120 million investment for the remaining phases of AMI deployment ending in 2017.

the form of allowance for funds used during construction. Instead, the Company's earnings are impacted every time a meter is installed as it creates an instant degradation to the Company's financials. This deferral will allow the Company to bridge this timing gap until the Company's next rate case while installing technology that will enable the customer benefits listed above.

8. Further, under Generally Accepted Accounting Principles ("GAAP") and in accordance with the FERC's Uniform System of Accounts (as adopted by this Commission), the cost of assets such as AMI meters are recorded on the Company's balance sheet as utility plant in service and are charged to expense over the period in which these assets provide utility service and contribute to the earnings process. This systematic and rational allocation of an asset's costs over its service life and period of benefit is referred to as depreciation and amortization. Depreciation and amortization allow for the matching of expenses associated with an asset to the revenue that the Company recognizes as a result of utilizing that asset to provide service. Under GAAP, this is referred to as the matching principle and is a fundamental concept in the accounting model. As part of electric utility rate-making, annual depreciation and amortization expenses are included within the utility's Commission approved base rates.

9. The incremental annual depreciation and amortization expense that DEC expects to incur, meter by meter, during deployment is not currently included within its existing base rates. Therefore, it is not possible for the Company to "match" this expense with revenue to be collected. With such a mismatch of expense to revenue, the costs from this unusual type of deployment is a fundamental departure from the matching principle.

10. The Company believes that this request is consistent with the case law and policy in this State.<sup>2</sup>

11. The request does not involve a change to any DEC rate or tariff. As a result, notice to the public nor a hearing are required.

### **Financial Consequences of this Request**

12. Absent the deferral, the Company will write off approximately \$31 million to retire meters which will negatively impact earnings. Furthermore, absent this deferral, the Company will face earnings degradation from the increased expenses arising from the installation of the AMI technology. These effects could impair the Company's financial stability and ability to attract capital on reasonable terms.

13. Approval of this deferral request will benefit the Company and its customers by helping to assure investors' confidence in DEC and help assure access to needed capital on reasonable terms.

### **Conclusion**

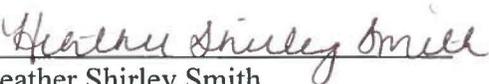
An accounting order granting the relief that the Company seeks will not preclude the Commission or parties from addressing the reasonableness of the costs deferred for AMI meters in the next general rate proceedings filed by DEC. Therefore, as described above, the Company respectfully petitions the Commission to allow DEC to defer into a regulatory asset until the Company's next general rate case: 1) the financial effects of the depreciation expense of the AMI meter deployment described above, the carrying costs on the investment at its weighted average cost of capital, and the carrying costs on the deferred costs at its weighted average cost of capital

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<sup>2</sup> See *In re: Petition of South Carolina Electric & Gas Company for an Accounting Order to Defer the Depreciation and Amortization Expenses as Well as the Incremental Operation and Maintenance Expenses That Will Be Incurred as a Result of Complying with the Cyber Security Regulations Promulgated by the United States Nuclear Regulatory Commission*, Docket No. 2015-372-E, Order No. 2015-790 (Nov. 4, 2015).

not to exceed \$45 million; and 2) to establish a regulatory asset for the book value of non-AMI meters in the amount of \$31 million through which the Company will continue to depreciate the existing meters under current schedules approved by the Commission.

Dated this 13<sup>th</sup> day of June, 2016.

  
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