

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. E-2, SUB 1095D
DOCKET NO. E-7, SUB 1100D
DOCKET NO. G-9, SUB 682D

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Third-Party Independent Audits of Affiliate)	ORDER ACCEPTING AUDIT
Transactions Pursuant to Regulatory)	REPORT AND COMPLIANCE
Condition No. 5.8)	MEASURES

BY THE COMMISSION: On September 29, 2016, the Commission issued an Order Approving Merger Subject to Regulatory Conditions and Code of Conduct (Merger Order), in Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682, approving the merger of Duke Energy Corporation and Piedmont Natural Gas Company, Inc. (Piedmont). Included among the Regulatory Conditions (RCs) approved in the Merger Order is RC No. 5.8. This RC requires, among other things, that a third-party independent audit be conducted regarding the affiliate transactions among Duke Energy Carolinas, LLC (DEC), Duke Energy Progress, LLC (DEP), and Piedmont (collectively, Duke utilities) no less than every two years.

Subsection (b) of RC No. 5.8 requires that the Public Staff propose one or more independent auditors. The Duke utilities and other parties then have an opportunity to propose additional auditors.

PROCEDURAL HISTORY

After several extensions of time granted by the Commission at the request of the Duke utilities and Public Staff, on January 15, 2020, the Public Staff filed its auditor proposal recommending that Schumaker & Company (Schumaker), be chosen as the third-party independent auditor. The Public Staff stated that the Duke utilities agreed with the Public Staff's recommendation.

On January 24, 2020, the Commission issued an order allowing interested parties to file comments and/or the names and audit proposals of additional independent auditors on or before February 10, 2020. No comments or names of alternative auditors were filed. As a result, on February 24, 2020, the Commission issued an order approving Schumaker as the third-party independent auditor. On subsequent dates, the Commission issued orders establishing a procedural schedule for the filing of the audit report, comments on the report, and proposed orders.

On July 28, 2020, the Public Staff filed the Report for a Management Audit of Affiliate Relationships and Transactions Involving DEC, DEP, and Piedmont and Other Affiliates or Nonpublic Utility Operations of Duke Energy submitted by Schumaker (Audit Report).

On November 13, 2020, the Duke utilities and Public Staff (Joint Parties), filed a Joint Statement regarding the Audit Report (Joint Statement).

No other party intervened in this docket or filed comments on the Audit Report or Joint Statement.

On January 25, 2021, the Joint Parties filed an Additional Joint Statement and a joint proposed order.

SCHUMAKER AUDIT RECOMMENDATIONS

The Audit Report provided the results of an independent, third-party audit conducted by Schumaker pursuant to RC No. 5.8(a)(i), and contained nine recommendations. The remainder of this Order presents Schumaker's audit recommendations grouped by the headings under which they appear in the Audit Report. Each recommendation or group of recommendations is followed by a summary of the record related to such recommendation or group of recommendations, and the Commission's conclusions with respect to each recommendation or group of recommendations.

Affiliate Relationships

1. RECOMMENDATION II-1 - Easily keep track of all governing regulations, orders and decisions from the Commission regarding affiliate transactions in the future. (Refer to Audit Report Finding II-1.)

Duke Utilities Response: Governing regulations, orders, and decisions from the Commission on affiliate matters are voluminous and almost always publicly available on the Commission's website, unless they occurred prior to approximately 1995. Additionally, the Duke utilities do keep track of such items. However, producing these items in their totality could be burdensome in response to a data request. Those points notwithstanding, the Duke utilities agree to keep track of all governing regulations, orders and decisions from the Commission regarding affiliate matters through OpenPages, the Compliance team, and the Duke utilities' North Carolina regulatory attorneys.

Public Staff Comment: The Public Staff concurs with the Duke utilities' agreement with the auditor's recommendation.

CONCLUSION

Based on the foregoing and the Public Staff's concurrence with the Duke utilities' response to the audit recommendation, the Commission concludes that the Duke utilities have identified reasonable measures to comply with the auditor's recommendations on tracking all governing regulations, orders and decisions from the Commission regarding affiliate transactions, and should continue employing such measures.

2. RECOMMENDATION II-2 - Generally Duke Energy should address all Schumaker & Company audit recommendations. (Refer to Audit Report Finding II-2.)

Duke Utilities Response: DEC, DEP, and Piedmont agree to address all Schumaker audit recommendations. However, the Commission makes the ultimate determination on whether it adopts or approves audit recommendations in whole or in part for application to DEC, DEP, and Piedmont.

Public Staff Comment: The Public Staff concurs with the Duke utilities' agreement with the auditor's recommendation.

CONCLUSION

Based on the foregoing, the Commission concludes that the Duke utilities are committed to making all reasonable efforts to comply with the auditor's recommendations that are approved by the Commission.

3. RECOMMENDATION II-3 - Keep a formal organization chart showing Duke Energy companies and associated employees reporting, so outside personnel reviewing Duke Energy can easily determine how it is structured. (Refer to Audit Report Findings II-3 and II-4.)

Duke Utilities Initial Response: DEC, DEP, and Piedmont respectfully disagree with this recommendation. Duke Energy maintains formal organization charts via the Workday system. These organization charts list all workers (employees and contingent workers) and related manager (hierarchal) relationships. It is easy to produce the traditional pictorial view of the organization chart. However, this pictorial view can also be difficult and cumbersome to review. Moreover, the Workday organization chart is hierarchal by department, but not by Company. To review companies in addition to hierarchal departments, the Excel version of the organization chart (SHMKR_DR_03.2 2020 Carolina's Affiliate Audit Employee Companies with Hist Org Structure 5-15) was provided to facilitate the review of Companies as well as hierarchical departments. Unfortunately, the original file provided to Schumaker (SHMKR_DR_03.1 2020 Carolina's Affiliate Audit Employee Companies Rev3) contained an error in the query logic. This error was corrected before sending the later file (SHMKR_DR_03.2 2020 Carolina's Affiliate Audit Employee Companies with Hist Org Structure 5- 15).

Public Staff Initial Comment: The Public Staff concurred with the auditor's recommendation that the formal organization charts provide a way for auditors and other users to easily determine the structure of the Duke Energy companies and departments, as well as employees' specific roles and their management/reporting requirements. However, the Joint Statement indicated that in the interest of clearing up any possible misunderstanding regarding the efficacy of the organization charts currently employed by the Duke utilities, they planned to follow up with the auditor and allow further examination of the organization chart. Thus, this recommendation remained under discussion by the Duke utilities and the Public Staff at the date the Joint Statement was filed.

Duke Utilities and Public Staff Supplemental Comment: According to the Additional Joint Statement filed on January 25, 2021, the Schumaker audit team communicated to the Public Staff that on December 3, 2020, it took part in a follow-up Microsoft Teams meeting with representatives of Duke Energy regarding this matter. During the December 3 meeting Duke Energy showed Schumaker an organization chart example, which Duke Energy can develop from its WorkDay system. During the meeting, Duke Energy also again showed the Excel spreadsheet showing employees. Based on the December 3 meeting, Schumaker found the Excel spreadsheets still difficult to understand, as they found them to be during the audit. Based on the December 3 meeting, Schumaker indicated that it believes that the two findings and the associated recommendation above are still applicable, and Schumaker would not change the findings or recommendation in the Audit Report. However, Schumaker stated that it believes that Duke Energy should be able to satisfy this recommendation based on what was discussed at the meeting, and further, it is Schumaker's understanding that Duke Energy believes that Duke Energy should start now to use the organization charts provided in the meeting, thus preparing it to do a better job explaining and providing the charts in the next audit.

In the Additional Joint Statement, the Duke utilities and the Public Staff indicated that they concur with Schumaker's additional conclusions.

CONCLUSION

Based on the foregoing and the Additional Joint Statement, the Commission concludes that Duke Energy should start now to use the organization charts provided in the meeting with Schumaker, thus preparing Duke Energy to do a better job explaining and providing the charts in the next audit.

4. RECOMMENDATION II-4 - Provide the Compliance Group access to related internal audits that address what they are reviewing. (Refer to Audit Report Finding II-8.)

Duke Utilities Response: DEC, DEP, and Piedmont agree with the recommendation that the Internal Audit group should provide the Corporate Compliance group with access to audits.

Public Staff Comment: The Public Staff concurs with the Duke utilities' agreement with the auditor's recommendation.

CONCLUSION

Based on the foregoing and the Public Staff's concurrence, the Commission concludes that the Duke utilities should take steps to have the Internal Audit group provide the Corporate Compliance group with access to audits.

5. RECOMMENDATION II-5 - Make sure that cost allocation manual (CAM) documentation is updated annually and provided to the Commission in an appropriate timely manner by March 31 of the year to be used. (Refer to Audit Report Finding II-9.)

Duke Utilities Response: The Duke Utilities agree to comply with the recommendation that the CAM documentation be updated annually and provided to the Commission in a timely manner by March 31 of the year to be used.

Public Staff Comment: The Public Staff concurs with the Duke utilities' agreement with the auditor's recommendation.

CONCLUSION

Based on the foregoing and the Public Staff's concurrence, the Commission concludes that the Duke utilities should continue all reasonable efforts to ensure that the CAM documentation is updated annually and provided to the Commission in a timely manner by March 31 of the year to be used.

6. RECOMMENDATION II-6 - Review and update, if necessary, all affiliate agreements at least every two years. (Refer to Audit Report Finding II-11.)

Duke Utilities Response: The Duke utilities typically conduct reviews for service agreement updates every two years. Since the inception of the service agreements with the Cinergy merger (2006), and updates in subsequent mergers, Progress Energy (2012) and Piedmont (2016), the content of these service agreements does not materially change. These agreements apply in six jurisdictions. Each of the six jurisdictions has different service agreement requirements related to regulatory commission review, approval, and filing of the agreements and associated changes. Any changes must be agreed to by the impacted jurisdictions. The Duke utilities' review process does not require revision for the purpose of keeping the Revision Date current. Also, a change to an agreement just to show a more current Revision Date would potentially require reviews by the other impacted Duke Energy jurisdiction commissions (Ohio, Indiana, Kentucky, Tennessee, Florida and South Carolina as applicable) for a date-only change. Although the revision dates on some agreements are older than others, the review every two years provides the reader confidence that the content of the agreements is current.

Public Staff Comment: Based on discussions with the auditor, the Public Staff understands that even if a reviewed service agreement contains no revisions, and thus the Revision Date remains unchanged, the auditor believes that the date of review should be documented. The Public Staff concurs with this understanding of the auditor's

recommendation. Therefore, the Public Staff recommends that each affiliate agreement be reviewed at least every two years, and that the date of review be documented so that it is visible to auditors and other viewers of the agreement. Duke Energy and the Duke utilities agree to this recommendation.

CONCLUSION

Based on the foregoing and the agreement by the Duke utilities, the Commission concludes that the Duke utilities should review each affiliated agreement at least every two years and clearly document such review.

7. RECOMMENDATION II-7 – The Duke utilities should provide detailed information regarding affiliate relationships, plus direct charges and cost allocations, to Board of Director (BOD) members at least annually. (Refer to Audit Report Findings II-13 and II-14.)

Duke Utilities Response: DEC, DEP, and Piedmont respectfully disagree with this recommendation. Affiliate relationships and cost allocations are very important, and are monitored by the Compliance Group, as well as various regulatory attorneys. Cost allocation questions can be complex. Additionally, senior management has direct responsibility for establishing appropriate policies and controls related to cost allocations, and the Duke utilities have processes, reports (monthly, quarterly, and annually) and filings that monitor the execution of those controls. That level of detail is not necessary or productive for the Duke utilities' directors to review. Any significant issue, deficiency, or material weakness in the controls would be reported to the Audit Committee of the BOD.

Public Staff Comment: Based on discussions with the auditor, the Public Staff understands that the auditor's objective is that the detailed information described in the recommendation, along with descriptions of related current internal audit reviews and projects (including, but not limited to, significant issues, deficiencies, or material weaknesses discovered), be provided at least annually to the Audit Committee of the BOD, if not to the BOD itself. The Public Staff concurs with this understanding of the auditor's recommendation. Duke Energy and the Duke utilities prefer that this information be provided to the Audit Committee, not to the entire BOD. The Public Staff finds this preference of Duke Energy and the Duke utilities to be reasonable for purposes of this proceeding.

CONCLUSION

Based on the foregoing the Commission concludes that the approach of the Duke utilities is reasonable and is, therefore, approved.

8. RECOMMENDATION III-1 - Review Federal Energy Regulatory Commission (FERC) Form 1 reporting to determine how common typos occur in the process of creating the FERC Form 1. (Refer to Audit Report Finding III-8.)

Duke Utilities Response: Each FERC Form 1 page is treated as its own independent data request (i.e., task). Each task is prepared in accordance with the requirements of FERC and reviewed for accuracy and adherence to the requirements. In the instance noted neither the preparer nor reviewer caught the typing error. As a direct result of this finding and at the direction of accounting management, the accounting and reporting team went back through each 2019 FERC Form 1 page to verify no other pages had typing errors. This effort did not lead to a discovery of any other typing errors on any other FERC page. As a result of this typo, DEC will implement a manual process change in the preparation and review of each FERC Form 1 page. This change will provide a comparison of the current year page compared to the prior submission. A variance tolerance will be instituted for any variance exceeding \$10 million dollars and 5%. This will ensure large variances are examined and understood prior to the submission of the form. This effort will be intended to mitigate any material misstatements on the FERC Form 1 report. The Duke utilities agree that the review process will be implemented on a permanent basis. This manual process of comparing balances is intended to be a remediation until we transition to new FERC filing software which will allow for a more permanent automated solution. The FERC has currently proposed for that transition to be required for the FY end 2020. We anticipate the filing processes to be less manual with the new filing software solution to prevent this type of error.

Public Staff Comment: The Public Staff concurs with the Duke utilities' agreement to implement a permanent variance review process of each applicable FERC Form 1 page.

CONCLUSION

Based on the foregoing, the Commission concludes the Duke utilities' agreement to implement a permanent variance review process of each applicable FERC Form 1 page is reasonable.

9. RECOMMENDATION III-2 - Review and update policies and procedures to clearly show they are current documents. (Refer to Audit Report Finding III-9.)

Duke Utilities Response: Every document within the Policy Management Program has an assigned Annual OpenPages Review Task. This Annual Review Task requires each document Owner to review the content and revise, as necessary. Reminders are sent in advance on the following schedule to complete the task: 90, 60, 30, 10, 5, and 1 day. This practice provides the document viewer with the confidence that although a document has an "old" revision date (e.g., 2015), the document Owner has had the responsibility to review the content annually. The Program does not require the document Owner to revise for the sole purpose of revising a Revision Date.

Public Staff Comment: Based on discussions with the auditor, the Public Staff understands that even if a reviewed policy or procedure contains no revisions, and thus the Revision Date remains unchanged, the auditor believes that the date of review should be documented. The Public Staff concurs with this understanding of the auditor's

recommendation. Therefore, the Public Staff recommends that each policy and procedure be regularly reviewed (and updated, if necessary), and that the date of review be documented so that it is visible to auditors and other viewers of the policy/procedure. Duke Energy and the Duke utilities agree to this recommendation.

CONCLUSION

Based on the foregoing, the Commission concludes that it is reasonable to require the Duke utilities to regularly review their policies and procedures, and to clearly document such review, including the date of the review.

IT IS, THEREFORE, ORDERED that the Audit Report is accepted, that the Duke utilities shall perform the actions they have agreed to undertake in compliance with the auditor's recommendations, and shall otherwise comply with this Order as set forth and discussed above.

ISSUED BY ORDER OF THE COMMISSION.

This the 31st day of March, 2021.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Kimberley A. Campbell". The signature is written in a cursive, flowing style.

Kimberley A. Campbell, Chief Clerk