

## BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

In the Matter of  
Third-Party Independent Audits of ) JOINT STATEMENT BY DUKE  
Affiliate Transactions Pursuant to ) ENERGY CAROLINAS, DUKE  
Regulatory Condition No. 5.8 ) ENERGY PROGRESS AND  
 ) THE PUBLIC STAFF

NOW COME Duke Energy Carolinas, LLC (“DEC”), Duke Energy Progress, LLC (“DEP”), Piedmont Natural Gas Company, Inc. (“Piedmont”) (collectively, the “Duke Utilities”) and the Public Staff – North Carolina Utilities Commission (“Public Staff”) and, pursuant to the Commission’s Order on Procedural Schedule issued August 27, 2020, Order Granting Extensions of Time issued on November 4, 2020, hereby respectfully submit this Joint Statement regarding the Final Report on the Affiliate Audit of DEC, DEP, and Piedmont by Schumaker & Company, filed by the Public Staff on July 28, 2020 (Audit Report).

As part of its approval of the merger of DEC, DEP, and Piedmont, On January 15, 2020, pursuant to subsection (b) of Regulatory Condition No. 5.8, as approved in the Commission’s *Order Approving Merger Subject to Regulatory Conditions and Code of Conduct* (Merger Order), dated September 29, 2016, in Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682, the Public Staff proposed that Schumaker & Company (“Schumaker”) be chosen as the third-party, independent auditor for the audit of certain affiliate matters involving DEC, DEP and Piedmont.

Regulatory Condition No. 5.8, as imposed in the Commission's Merger Order, provides in pertinent part:

No less often than every two years, a third-party independent audit shall be conducted related to the affiliate transactions undertaken pursuant to Affiliate agreements filed in accordance with Regulatory Condition 5.4 and of DEC's, DEP's, and Piedmont's compliance with all conditions approved by the Commission concerning Affiliate transactions, including the propriety of the transfer pricing of goods and services between or among DEC, DEP, Piedmont, other Affiliates, and all of the Nonpublic Utility Operations.

- (i) The first audit shall begin two years from the date of the close of the Merger. It shall include whether DEC's, DEP's, and Piedmont's transactions, services, and other Affiliate dealings pursuant to the regulated utility-to-regulated utility service agreement and any other utility to utility agreements are consistent with all of the conditions related to affiliate dealings and the Code of Conduct and whether DEC, DEP, and Piedmont have operated in accordance with those conditions and Code of Conduct.

The Audit Report provides the results of the first independent, third party audit.

## **II. AFFILIATE RELATIONSHIPS**

### **1. RECOMMENDATION II-1 - Easily keep track of all governing regulations, orders and decisions from the Commission regarding affiliate transactions in future. (Refer to 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 Companies 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 Companies agree to keep track of all governing regulations, orders and decisions from the Commission regarding affiliate matters through Open Pages, the Compliance team, and the Companies' North Carolina regulatory attorneys.

**Public Staff Comment:** The Public Staff concurs with the Duke utilities' agreement with the auditors' recommendation.

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

**Duke Utilities Response:** DEC, DEP, and Piedmont agree to address all Schumaker & Company 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 auditors' recommendation.

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

**Duke Utilities 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; an example is attached “25517 Ethics & Corporate Compliance”. 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 (“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”).



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**Public Staff Comment:** The Public Staff concurs 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. In the interest of clearing up any possible misunderstanding regarding the efficacy of the organization charts currently employed by the Duke Utilities, the Company plans to follow up with the auditor and allow further examination of the organization chart. Thus, this recommendation remains under discussion by the Duke Utilities and the Public Staff.

**4. RECOMMENDATION II-4 - Have the Compliance Group access to related internal audits that address what they're reviewing. (Refer to Finding II-8.)**

**Duke Utilities Response:** DEC, DEP, and Piedmont agree with the recommendation.

**Public Staff Comment:** The Public Staff concurs with the Duke utilities' agreement with the auditors' recommendation.

**5. RECOMMENDATION II-5 - Make sure that 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 Finding II-9.)**

**Duke Utilities Response:** The Companies agree to comply with the recommendation that the CAM documentation is updated annually and provided to the Commission in an appropriate 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 auditors' recommendation.

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

**Duke Utilities Response:** We review for service agreement updates typically 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 have different service agreement requirements related to Commission review, approval, and filing of the agreements and associated changes. Any changes must be agreed to by the impacted jurisdictions. Our review practice does not require a 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 is visible to auditors and other viewers of the agreement.

**7. RECOMMENDATION II-7 - Provide detailed information regarding affiliate relationships, plus direct charges and cost allocations, to BOD members, at least annually. (Refer to Finding II-13 and Finding 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 Compliance, as well as the 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 we 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 our directors to review. Any significant issue, deficiency, or

material weakness in the controls would be reported to the Audit Committee of the Board.

**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 any significant issues, deficiencies, or material weaknesses discovered), be provided at least annually to the Audit Committee of the Board, if not to the Board of Directors itself. The Public Staff concurs with this understanding of the auditor's recommendation.

### **III. COST ACCUMULATION AND ASSIGNMENT AND COST ALLOCATION METHODOLOGIES**

#### **8. RECOMMENDATION III-1 - Review FERC Form 1 reporting to determine how common typos are in the process of creating the FERC Form 1. (Refer to 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 this instance 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, Duke Energy Carolinas 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. Duke agrees 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 a 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.

**9. RECOMMENDATION III-2 - Review and update policies and procedures to clearly show they are current documents. (Refer to 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 to complete task: 90, 60, 30, 10, 5, and 1 day. This practice provides the document Reader with the confidence that although a document has an “old” revision date (e.g., 2015), the document Owner has had the responsibility to review content annually. The Program does not require the document Owner to revise for the sole purpose of revising a Revision Date current.

**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 is visible to auditors and other viewers of the policy/procedure.

## CONCLUSION

The Duke Utilities and the Public Staff respectfully request that the Commission take the foregoing into consideration in any determination it makes in this docket.

Respectfully submitted, this the 13th day of November, 2020.

/s/ Robert W. Kaylor  
Law Office of Robert W. Kaylor, P.A.  
353 E. Six Forks Road, Suite 260  
Raleigh, North Carolina 27609-7882  
Telephone: 919.828.5250  
[bkaylor@rwkaylorlaw.com](mailto:bkaylor@rwkaylorlaw.com)

ATTORNEY FOR DUKE ENERGY  
CAROLINAS, LLC, DUKE ENERGY  
PROGRESS, LLC, AND  
PIEDMONT NATURAL GAS COMPANY, INC.

/s/ Gina C. Holt  
Staff Attorney  
4326 Mail Service Center  
Raleigh, North Carolina 27699-4300  
Telephone: 919-733-6110  
[gina.holt@psncuc.nc.gov](mailto:gina.holt@psncuc.nc.gov)

ATTORNEY FOR THE PUBLIC STAFF-  
NORTH CAROLINA UTILITIES COMMISSION