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January 25, 2021

VIA ELECTRONIC FILING

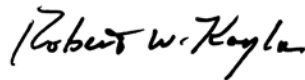
Ms. Kimberley A. Campbell
Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, NC 27699-4300

**RE: Duke Energy Progress, LLC, Duke Energy Carolinas, LLC, Piedmont
Natural Gas Company, Inc. and the Public Staff's Joint Proposed
Order on Audit Recommendations
Docket Nos. E-2, Sub 1095D, E-7, Sub 1100D and G-9, Sub 682D**

Dear Ms. Campbell:

Enclosed is the Joint Proposed Order on Audit Recommendations on behalf of
Duke Energy Progress, LLC, Duke Energy Carolinas, LLC, Piedmont Natural Gas
Company, Inc. and the Public Staff in the above-referenced dockets.

Sincerely,



Robert W. Kaylor, P.A.

Enclosure

cc: Parties of Record

OFFICIAL COPY

Jan 25 2021

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)	JOINT PROPOSED ORDER OF
Third-Party Independent Audits of)	DUKE ENERGY CAROLINAS, LLC,
Affiliate Transactions Pursuant to)	DUKE ENERGY PROGRESS, LLC,
Regulatory Condition No. 5.8)	PIEDMONT NATURAL GAS
)	COMPANY, INC. AND THE PUBLIC
)	STAFF ON AUDIT
		RECOMMENDATIONS

BY THE COMMISSION: As part of the merger of Duke Energy Corporation (Duke Energy) and Piedmont Natural Gas Company, Inc. (Piedmont), in 2016 (Merger), the Commission required independent third-party audits of the affiliate transactions of Duke Energy Carolinas, LLC (DEC), Duke Energy Progress, LLC (DEP), and Piedmont Natural Gas Company, Inc. (collectively, the Duke Utilities) no less often than every two years. Regulatory Condition No. 5.8¹, as approved in the Commission's Order Approving Merger Subject to Regulatory Conditions and Code of Conduct, dated September 29, 2016, in Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682 (Merger Order), provides in pertinent part:

- (a) 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.

¹ The Regulatory Conditions approved in the Merger Order were subsequently amended by the Commission's Order Granting Motion to Amend Regulatory Conditions issued August 24, 2018, in Docket Nos. E-2, Sub 1095A; E-7, Sub 1100A; and G-9, Sub 682A; however, Regulatory Condition No. 5.8 was not revised.

- (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 Merger closed on October 3, 2016.

On January 15, 2020, pursuant to Regulatory Condition No 5.8(a)(i), the Public Staff proposed Schumaker & Company (Schumaker) as the third-party independent auditor. The Duke Utilities agreed with the auditor selection.

On February 24, 2020, the Commission issued an order approving Schumaker as the third-party independent auditor and requested that the Public Staff and the Duke Utilities (collectively, the Parties) file a proposed schedule for the audit, including the date for the filing of the auditor's final report.

On March 17, 2020, the Parties filed a proposed schedule for the audit, which the Commission approved on March 26, 2020, setting a deadline of July 23, 2020 for the auditor's final report.

On July 21, 2020, the Parties filed a motion for extension of time to file the audit report, which was granted by the Commission on July 22, 2020.

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 (the Audit Report).

On August 25, 2020, based on past procedure with respect to audits pursuant to Regulatory Condition No. 5.8 and its predecessors related to prior Duke Energy mergers, the Parties filed a proposed procedural schedule that provided an opportunity (1) for the Duke Utilities, the Public Staff, and Schumaker to discuss the recommendations in the Audit Report and file a statement, or separate statements, detailing their points of agreement and disagreement, (2) for interested parties to file comments on the audit report recommendations and the statements filed by the Duke Utilities and the Public Staff; and (3) for all parties to file proposed orders. The procedural schedule was approved by the Commission on August 27, 2020.

On November 13, 2020, the 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 Parties filed an Additional Joint Statement with the Commission.

On January 25, 2021, the Parties filed a joint proposed order.

SCHUMAKER AUDIT RECOMMENDATIONS

The Audit Report provided the results of an independent, third-party audit conducted pursuant to Regulatory Condition No. 5.8(a)(i) and containing 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.

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 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.

Commission Conclusion: Based on the foregoing and the Public Staff's concurrence with the Duke Utilities' response to the audit recommendation, the Commission concludes that this issue is resolved.

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 auditor's recommendation.

Commission Conclusion: Based on the foregoing, the Commission concludes that the Duke Utilities are addressing the concerns articulated in Audit Report RECOMMENDATION NO. II-2.

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 Finding II-3 and Finding 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; 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 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, 2020 meeting, Schumaker indicated that it believes that the two findings and the associated recommendation above are still applicable, and they would not change the findings or recommendation in the audit report. However, Schumaker believes that Duke Energy should be able to satisfy **Recommendation II-3** based on what was discussed at the meeting; it is Schumaker's understanding that Duke Energy believes so as well. Schumaker stated that it believes that Duke Energy should start to use the organization charts provided in the meeting now, thus preparing Duke Energy 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.

Commission Conclusion: Based on the foregoing and the additional follow-up meetings with the auditor and representatives of the Duke Utilities, the Commission concludes that RECOMMENDATION II-3 has been resolved.

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 auditor's recommendation.

Commission Conclusion: Based on the Duke Utilities' agreement to comply with RECOMMENDATION NO. II-4, the Commission concludes that these concerns have been resolved.

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 Duke Utilities 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 auditor's recommendation.

Commission Conclusions: Based on the agreement by the Duke Utilities to comply with RECOMMENDATION NO. II-5, the Commission concludes that this issue has been resolved.

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: The Duke Utilities 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 has 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. 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.

Commission Conclusion: Based on the foregoing and the agreement by the Duke Utilities to review each affiliated agreement at least every two years and clearly document such review, the Commission concludes that the concerns articulated in Audit Report RECOMMENDATION NO. II-6 have been resolved.

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 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 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. Duke Energy and the Duke Utilities prefer that this information be provided to the Audit Committee, not to the entire Board. The Public Staff finds this preference of Duke Energy and the Duke Utilities to be reasonable for purposes of this proceeding.

Commission Conclusion: Based on the foregoing the Commission concludes that the concerns articulated in Audit Report RECOMMENDATION NO. II-7 have been resolved.

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 the Federal Energy Regulatory Commission (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, 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 percent. 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 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.

Commission 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 resolves the concerns articulated in Audit Report RECOMMENDATION NO. III-1.

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 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.

Commission Conclusion: Based on the foregoing, the Commission concludes that the Duke Utilities will regularly review the policies, and clearly document such review.

IT IS, THEREFORE, ORDERED that the Duke Utilities shall perform the actions they have agreed to undertake and otherwise comply with this Order as set forth and discussed herein.

ISSUED BY ORDER OF THE COMMISSION.

This the _____ day of _____, 2021.

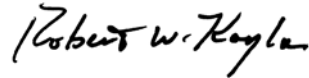
NORTH CAROLINA UTILITIES COMMISSION

Kimberley A. Campbell, Chief Clerk

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, Piedmont Natural Gas Company, Inc. and the Public Staff's Joint Proposed Order, in Docket Nos. E-2, Sub 1095D, E-7, Sub 1100D and G-9, Sub 682D, has been served by electronic mail, hand delivery, or by depositing a copy in the United States Mail, 1st Class Postage Prepaid, properly addressed to parties of record.

This the 25th day of January, 2021.



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