

## *Accounting for the Effects of Cost-Based Regulation*

As described in Notes 1 and 5 to the financial statements, the Company's financial statements reflect the actions of regulators that result in the recognition of certain revenues and expenses in different time periods than enterprises that are not rate-regulated. Regulatory assets (deferred expenses) and regulatory liabilities (deferred future revenue reductions or refunds) are recorded to reflect the economic effects of regulation in the same accounting period by matching expenses with their recovery through regulated revenues and matching income with its passage to customers in cost-based regulated rates. Management reviews the probability of recovery of regulatory assets and refund of regulatory liabilities at each balance sheet date and whenever new events occur, whether influenced by issuance of regulatory commission orders, passage of new legislation, or changes in the regulatory environment. As of December 31, 2020, there were \$405.1 million of deferred costs included in regulatory assets, \$50.5 million of which were pending final regulatory approval, and \$802.2 million of regulatory liabilities awaiting potential refund or future rate reduction.

The principal considerations for our determination that performing procedures relating to the accounting for the effects of cost-based regulation is a critical audit matter are the significant judgment by management in the ongoing evaluation of the recovery of regulatory assets and refund of regulatory liabilities, and applying guidance contained in rate orders and other relevant evidence; which in turn led to significant audit effort and a high degree of auditor subjectivity in performing procedures and in evaluating audit evidence relating to management's judgments about the probability of recovery of regulatory assets and refund of regulatory liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of regulatory proceedings, including the probability of recovery of regulatory assets and refund of regulatory liabilities. These procedures also included, among others, evaluating the reasonableness of management's assessment of probability of future recovery for regulatory assets and refund of regulatory liabilities. Testing of regulatory assets and liabilities, including those subject to pending rate cases, also involved evaluating the provisions and formulas outlined in rate orders, other regulatory correspondence, and application of regulatory precedents.

/s/ PricewaterhouseCoopers LLP

Columbus, Ohio  
February 25, 2021

We have served as the Company's auditor since 2017.