

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|-----------------------------|---|------------|
| KENTUCKY INDUSTRIAL UTILITY |) | |
| CUSTOMERS, INC. |) | |
| |) | |
| COMPLAINANT |) | |
| |) | CASE NO. |
| V. |) | 2018-00036 |
| |) | |
| DUKE ENERGY KENTUCKY, INC. |) | |
| |) | |
| DEFENDANT |) | |

COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION TO DUKE ENERGY KENTUCKY, INC.

Duke Energy Kentucky, Inc. ("Duke Kentucky Gas"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before April 19, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Duke Kentucky Gas shall make timely amendment to any prior response if it obtains information that indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Duke Kentucky Gas fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, Duke Kentucky Gas shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Provide Duke Kentucky Gas's income statement, balance sheet, and statement of retained earnings for the calendar year ending December 31, 2017.

2. Provide Duke Kentucky Gas's Net Investment Rate Base and Capital Structure for the calendar year ending December 31, 2017.

3. Using the financial information provided in the responses to Items 1 and 2, calculate:

a. Duke Kentucky Gas's actual Return on Equity (income available to common shareholders divided by common equity) for the calendar year ending December 31, 2017.

b. Duke Kentucky Gas's average cost of long-term debt for the calendar year ending December 31, 2017.

c. Duke Kentucky Gas's average cost of short-term debt for the calendar year ending December 31, 2017.

4. Using the Capital Structure provided in the response to Item 1 and the return/interest rates calculated in the response to Item 3, fill out the table below:

| Component of Capitalization | Per Books 12/31/17 | Ratios | Actual Rates | Average Weighted Cost |
|-----------------------------|--------------------|--------|--------------|-----------------------|
| Short-Term Debt | | | | |
| Long-Term Debt | | | | |
| Preferred Stock | | | | |
| Common Equity | | | | |
| Total Capitalization | \$ - | 0.000% | | 0.0000% |

5. Using the table below, provide the calculation of the gross revenue conversion factor ("GRCF") including a 35 percent Federal Income Tax ("FIT") rate.

| Line # | Description | Rates | State | Federal |
|--------|--|-------|-------------|-------------|
| 1 | Operating Revenue | | 100.000000% | 100.000000% |
| 2 | Less: Uncollectible Expense | | | |
| 3 | Less: PSC Assessment | | | |
| 4 | Less: Production Activities Deduction State | | | |
| 5 | | | | |
| 6 | Income before State Income Tax | | 100.000000% | 100.000000% |
| 7 | State Income Tax | | 0.000000% | 0.000000% |
| 8 | | | | |
| 9 | Income before Federal Income Tax | | | 100.000000% |
| 10 | Federal Income Tax | | | 0.000000% |
| 11 | | | | |
| 12 | Operating Income Percentage (Line 9 - Line 10) | | | 100.000000% |
| 13 | | | | |
| 14 | Gross Revenue Conversion FACTOR (Line 1 / Line 12) | | | 1.000000 |
| 15 | | | | |
| 16 | Composite Income Tax Rate (Line 7 + Line 10) | | | 0.000000% |
| 17 | | | | |
| 18 | Common Equity Gross-up (Line 16 / (1 - Line 16)) | | | 0.000000% |

6. Using the table in Item 5., provide the calculation of the GRCF including a 21 percent FIT rate.

7. Using the table below, calculate the weighted average cost of capital (“WACC”) with a 35 percent FIT rate and WACC with a 21 percent FIT rate.

| Component of Capitalization | Average Weighted Cost | Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate | | Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate | |
|-----------------------------|-----------------------|--|----------------|--|----------------|
| | | Equity Gross-up | Adj. Cost | Equity Gross-up | Adj. Cost |
| Short-Term Debt | | | 0.00% | | 0.00% |
| Long-Term Debt | | | 0.00% | | 0.00% |
| Preferred Stock | | | 0.00% | | 0.00% |
| Common Equity | | | 0.00% | | 0.00% |
| Total Capitalization | <u>0.0000%</u> | <u>0.0000%</u> | <u>0.0000%</u> | <u>0.0000%</u> | <u>0.0000%</u> |

8. Refer to the Direct Testimony of William D. Wathen Jr. (“Wathen Testimony”), page 10, where Mr. Wathen explains that the amortization rates for the protected excess accumulated deferred income taxes (“ADIT”) under the “average assumption method” (“ARAM”) are 1.8 percent in 2018 and 2.8 percent in 2019. Provide documentation to support the estimated ARAM rates for 2018 and 2019.

9. At page 10 of his testimony, Mr. Wathen states, “the company proposes to use the same fifteen-year amortization period that was used in the settlement agreed to in Case No. 2018-00034.”

a. Provide a detailed explanation, as to why Duke Kentucky Gas believes that a 15-year amortization period is appropriate for its unprotected excess ADIT.

b. Provide schedules reflecting a 5-year and 10-year amortization period for Duke Kentucky Gas’s unprotected excess ADIT and the impact each amortization period would have on Duke Kentucky Gas’s revenue requirement.

10. Explain whether any of Duke Kentucky Gas’s affiliates have resolved or are in the process of resolving the impact of the TCJA on rates in other states. If so, provide the amortization period(s) established for the unprotected excess ADIT.

11. Using Duke Kentucky Gas's responses to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent. If estimates and assumptions were used to calculate any amount identified in this response, identify and describe the estimate or assumption.

| Line No. | Description | 35% Federal Income Tax Rate | 21% Federal Income Tax Rate | Revenue Impact |
|----------|---|-----------------------------|-----------------------------|----------------|
| 1 | Net Investment Rate Base | | | |
| 2 | Returns Adjusted For Income Taxes | | | |
| 3 | | | | |
| 4 | Required Annual Operating Income Before Taxes (Line 1 x Line 2) | \$ - | \$ - | \$ - |
| 5 | | | | |
| 6 | Amortization Of Excess ADIT (Protected) - Using Aram | | | |
| 7 | Amortization Of Excess ADIT (Unprotected) | | | |
| 8 | | | | |
| 9 | Total Amortization Of Excess ADIT (Line 6 + Line 7) | | - | |
| 10 | Gross-Up Factor Using 21% Federal Tax Rate | | | |
| 11 | | | | |
| 11 | Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10) | | | - |
| 12 | | | | |
| 13 | Total Reduction In Revenue Requirements (Line 4 + Line 11) | | | \$ - |

12. Using Duke Kentucky Gas's responses to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent. If estimates and assumptions were used to calculate any amount identified in this response, identify and describe the estimate or assumption.

| Line No. | Description | 35% Federal Income Tax Rate | 21% Federal Income Tax Rate | Revenue Impact |
|----------|---|-----------------------------|-----------------------------|----------------|
| 1 | Capitalization | | | |
| 2 | Returns Adjusted For Income Taxes | | | |
| 3 | | | | |
| 4 | Required Annual Operating Income Before Taxes (Line 1 x Line 2) | \$ - | \$ - | \$ - |
| 5 | | | | |
| 6 | Amortization Of Excess ADIT (Protected) - Using Aram | | | |
| 7 | Amortization Of Excess ADIT (Unprotected) | | | |
| 8 | | | | |
| 9 | Total Amortization Of Excess ADIT (Line 6 + Line 7) | | - | |
| 10 | Gross-Up Factor Using 21% Federal Tax Rate | | | |
| 11 | | | | |
| 11 | Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10) | | | - |
| 12 | | | | |
| 13 | Total Reduction In Revenue Requirements (Line 4 + Line 11) | | | \$ - |

13. At page 10 of his testimony, Mr. Wathen explains that the proposed Tax Refund Rider is allocated between the residential and nonresidential customers based on their relative shares of income from Case No. 2009-00202.¹ However, according to Attachment WDW-2, page 1, the revenue allocation is based on 2017 revenues. Provide a detailed explanation for the discrepancy between the explanation in the testimony and the heading on the schedule.

14. Provide the information requested in the table below.

| | Case No. 2009-00202 | | Calendar Year Ended 12/31/17 | |
|--|---------------------|------------|------------------------------|------------|
| | Total | % of Total | Total | % of Total |
| Total Gas Revenues (Base & All Riders) | | | | |
| Residential Revenue | | | | |
| Non-Residential Revenue | | | | |
| Total Gas Revenue | | | | |
| Annual Gas Sales (CCF): | | | | |
| Residential Gas Sales | | | | |
| Non-Residential Gas Sales | | | | |
| Total Gas Sales | | | | |

15. Explain whether any of the expenses charged to Duke Kentucky Gas by its affiliates in the test year contain any FIT implications. If so, state whether Duke Kentucky Gas addressed the impacts on its revenue requirements. If not, provide the impact of the FIT implications on Duke Kentucky Gas's test-year expense and revenue requirement.

16. Refer to the spreadsheet produced by Duke Energy Kentucky, Inc. in response to Commission Staff's Post Hearing Data Request No. 22(b) in Case No. 2017-00321, which Duke Energy Kentucky, Inc. indicated was prepared using its PowerTax software. Produce a spreadsheet containing the same information for Duke Kentucky

¹ Case No. 2009-00202, *Application of Duke Energy Kentucky, Inc. for an Adjustment of Rates* (Ky. PSC Dec. 29, 2009).

Gas; provide a description of the meaning of each and every column heading as used in the spreadsheet produced in this case; explain why the "END_TAX_BALANCE" would be recorded as a negative value with respect to certain property; explain in general terms how the PowerTax software calculates the "END_TAX_BALANCE", "END_ACCUM_RESERVE", "END_NET_TAX_BALANCE" and "DEPRECIATION" for each property in future years; and state whether Duke Kentucky Gas contends that all of the assets, property, and accounts identified in the spreadsheet represent "public utility property," as used in the TCJA, and explain the bases for that contention.

17. Identify and describe any and all "public utility property," as that term is used in the TCJA, the depreciation of which generated or gave rise to ADIT by providing the description of property as used by Duke Kentucky Gas for the purpose of identifying the property in its records of regulated book depreciation; providing the description of the property as used by Duke Kentucky Gas for the purpose of identifying the property in its records of tax depreciation; identifying the ADIT (without any offsets if any) generated from the accelerated or bonus tax depreciation of each property separately as of December 31, 2017; identifying any offsets that Duke Kentucky Gas contends should be applied to the ADIT as to each property or as a whole and why; identifying the tax basis for each property as of December 31, 2017; identifying the date at which the property was placed in service; identifying the original tax basis for each property before it was depreciated in any manner for tax purposes; identifying the remaining useful life of each property as of December 31, 2017, based on the regulatory depreciation schedule currently used by Duke Kentucky Gas as established in its last rate case (if unknown, then provide the remaining useful life based on the depreciation schedule used by Duke

Kentucky Gas in its regulated books as of December 31, 2017); and identifying the value of the property as used in Duke Kentucky Gas's regulated books as of December 31, 2017, based on the regulatory depreciation schedule currently used by Duke Kentucky Gas as established in its last rate case (if unknown, then provide the remaining useful life based on the depreciation schedule used by Duke Kentucky Gas in its regulated books as of December 31, 2017).

18. State whether Duke Kentucky Gas contends that all of the assets, property, and accounts identified in the Item No. 17 represent "public utility property" as used in the TCJA and explain the basis for that contention. If Duke Kentucky Gas contends there is uncertainty regarding whether a particular asset, account or property described would meet the definition of "public utility property," as used in the TCJA, identify the assets, property, and accounts about which there is uncertainty and explain in detail why there is uncertainty, and if so how that uncertainty may be resolved, including a description of what the property is used for.

19. In calculating the rate at which protected excess ADIT may be amortized to reduce the cost of service for ratemaking purposes for the proposed settlement, did Duke Kentucky Gas have to make any estimates or assumptions as to the vintage information needed to use ARAM? If so, please identify and describe any such estimates and assumptions Duke Kentucky Gas made to use ARAM, describe the methodology it used to make such estimates and assumptions, and describe why such methodology was reasonable and is likely to lead to a reliable result.

20. In calculating the rate at which protected excess ADIT may be amortized to reduce the cost of service for ratemaking purposes for the proposed settlement, did Duke


Kentucky Gas use the depreciation method, including the remaining useful life for each property, established by the Kentucky Public Service Commission in Duke Kentucky Gas's last rate case? If not, please explain what depreciation method was used, explain why that method was used, and identify and provide any and all evidence that Duke Kentucky Gas contends supports the use of that method.

21. State whether Duke Kentucky Gas has received any letter or written opinion from the Internal Revenue Service since January 1, 2000, regarding the treatment of Duke Kentucky Gas's excess ADIT and, if so, provide a copy of the letter or written opinion.

22. Provide any letters or written opinions prepared by the Internal Revenue Service and relied on by Duke Kentucky Gas or its agents to calculate Duke Kentucky Gas's excess ADIT or to determine how the excess ADIT may be reimbursed to ratepayers under federal tax law, regardless of whether those letters or written opinions were prepared for or at the request of Duke Kentucky Gas.

23. Provide Duke Kentucky Gas's fiscal year if different from the calendar year ending December 31, 2017, and identify and describe any effect that a non-calendar fiscal year has on the calculation of excess ADIT.

24. Provide copies of all schedules provided in the responses, supporting calculations, and documentation in Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible.

for 1.3.73.7 

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DATED APR 10 2018

cc: Parties of Record

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