COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR APPROVAL TO AMEND ITS GAS MAIN EXTENSION TARIFF PURSUANT TO 807 KAR 5:022, SECTION 9(16)(D)	)))))	CASE NO. 2016-00298

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

Duke Energy Kentucky, Inc. ("Duke Kentucky"), pursuant to 807 KAR 5:001, is to file with the Commission the original and six copies in paper medium and an electronic version of the following information. The information requested herein is due within 20 days of this request. 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 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 shall make timely amendments to any prior response if it obtains information which 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 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 should 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 applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a document containing personal information, Duke Kentucky shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Application, page 3, paragraph 6, which explains Duke Kentucky's gas main extension policy pursuant to the current Rider X, Main Extension Policy ("Rider X") tariff. Explain in detail the components of the main extension costs in excess of 100 feet as they are currently calculated and priced to the applicant for main extension. The explanation should include, at a minimum, whether the costs are the actual current costs of labor, materials, etc., or if they are based on the embedded cost of Duke Kentucky's distribution system.

2. Refer to the Application, pages 3–6, paragraphs 7–9, which explain the proposed amended gas main extension policy, and Exhibit 1, the proposed Rider X tariff revisions.

a. Compare and contrast the current components included in the calculation of the excess gas main extension, as described in the response to Item 1 of this request, with the cost components that would be included in the proposed Net Present Value ("NPV") analysis tool. The explanation should include whether the NPV cost components will be based on the most current, expected, or embedded costs of Duke Kentucky's distribution system.

b. Explain how the NPV tool provides a "standard and transparent process" for a potential customer wishing to connect, as described in paragraph 7, considering that the proposed Rider X tariff revision states that Duke Kentucky "at its sole discretion *may*" perform a NPV analysis, not that it *will* perform a NPV analysis. The explanation should include all the factors that Duke Kentucky will consider in making a decision to perform a NPV analysis for an applicant for gas main extensions in excess of 100 feet, and a description of known circumstances that would make an applicant ineligible for the NPV analysis.

c. Compare and contrast how refunds will be calculated under the provisions of Exhibit 1, page 1, Rider X, Extension Plan, 2.(ii) and (iii).

d. Explain why the proposed additional language in Exhibit 1, page 1, Rider X, Extension Plan, 2.(iii), provides that the NPV analysis will be "based upon the *total* construction costs for the entire length of the extension, and *not* just the costs of the extension in excess of 100 feet," and state why the analysis is not proposed to include only the cost of extensions over 100 feet.

e. State whether the proposed NPV analysis would include Accelerated Service Line Replacement Program and Demand Side Management charge revenues in its calculation of base distribution revenues and fixed monthly charge revenues.

f. Explain why the proposed additional language in Exhibit 1, page 2, Rider X, Extension Plan, 2.(iii), states that the NPV analysis will assume a term of no less than ten consecutive years, instead of specifying the period of time on which the analysis will be based.

g. Provide the main extension contract referenced in Exhibit 1, page 2, Rider X, Extension Plan, 2.(iii).

h. Explain in detail the process Duke Kentucky proposes to use in its NPV analysis to estimate revenues from current and future customers. The explanation should include, but not be limited to, whether or to what extent it will use a standard formula, or if it will review the particular circumstances of individual applicants including (1) the specific number of potential connections between the applicant and the existing main, (2) the existing energy sources of those potential connections and how that will be determined, (3) whether the estimated energy use of potential connections will be based on similarly sized Duke Kentucky customers or if class averages will be used, and (4) how estimated customer conversion rates for main extensions will be determined.

i. State whether the estimated revenues from the NPV analysis will include revenue from potential customers beyond the point of connection with the applicant as well as revenue from potential customers between the applicant and the existing main.

j. If the projected future service connections along a gas main extension in excess of 100 feet do not occur as anticipated in the NPV analysis, explain whether a customer who was charged a reduced contribution, or no contribution, can later be charged a portion of the cost for an uneconomic gas main extension.

3. Refer to the Application, page 6, paragraph 11. Explain how the minimum customer usage commitment period of six years was determined.

4. Refer to the Application, page 6, paragraph 12 and footnote 2.

a. Provide the Duke Energy Ohio ("Duke Ohio") gas main extension tariff as approved by the Public Utility Commission of Ohio ("PUCO"), and the portion of the final order in the proceeding referenced in footnote 2 of the Application which discusses and approves the Duke Ohio NPV tool and gas main extension policy.

b. Footnote 2 of the Application indicates that Duke Ohio received PUCO approval of its NPV analysis tool nearly three years ago. Identify and describe all factors contributing to Duke Kentucky's not making the instant filing in 2014 or 2015.

c. For the period since Duke Ohio implemented the NPV analysis tool:

(1) Provide the number of main extension requests reviewed under its NPV tool and the number reviewed without using its NPV tool.

(2) Provide (to the extent the information is available to Duke Kentucky) how many customers of each customer class have been approved annually for gas main extensions as a result of the NPV tool; the annual average required contribution per customer class; the annual average cost of gas main extensions per customer class; and the average amount of refund, if any, per customer class.

5. Refer to the Application, page 8, paragraph 21, which states, "The formula to be used as part of the NPV tool calculation is contained in the tariff."

a. Explain to which part of the tariff this sentence refers.

b. With the information provided in Exhibit 1, explain how a customer would be able to calculate the net present value.

6. Refer to the Direct Testimony of John A. Hill, Jr., page 9. For the years 2010–2015 and 2016 to date, provide the number of inquiries from customers wishing to connect to gas service, by customer class, that did not result in a gas main extension due to cost.

7. Refer to the Direct Testimony of James E. Ziolkowski, pages 4 and 5, which indicates that the 7.377 percent discount rate to be used in Duke Kentucky's NPV analysis is the weighted average cost of capital from its most recent gas base rate case, Case No. 2009-00202.[1] Pursuant to the settlement in that case, Duke Kentucky's authorized Return on Equity ("ROE") was 10.375 percent. Since the final Order in that proceeding, ROE awards for gas distribution utilities in Kentucky have trended downward.[2]

a. Explain whether Duke Kentucky considered using a discount rate based on an ROE that was lower than what was authorized in Case No. 2009-00202.

b. Describe, generally, the impact that a lower ROE in the discount rate would have on the results obtained using the proposed NPV analysis.

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

[2] See Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014) in which the authorized ROE was 9.8 percent.

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DATED OCT 04 2016

cc: Parties of Record

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