COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY KENTUCKY, INC., FOR: 1) AN ADJUSTMENT OF THE ELECTRIC RATES; 2) APPROVAL OF AN ENVIRONMENTAL COMPLIANCE PLAN AND SURCHARGE MECHANISM; 3) APPROVAL OF NEW TARIFFS; 4) APPROVAL OF ACCOUNTING PRACTICES TO ESTABLISH REGULATORY ASSETS AND LIABILITIES; AND 5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)))))))))	CASE NO. 2017-00321

COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION TO THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), 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 its responses to the following information, with a copy to all parties of record. The information requested herein is due on or before January 31, 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.

The AG shall make timely amendment 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 the AG 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, the AG 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 Direct Testimony of Lane Kollen ("Kollen Testimony"), pages 5 and 10, regarding off system sales ("OSS") margins. In the table on page 5, the adjustment for OSS margins is $3.826 million. On page 10 the OSS margins adjustment is $$3.836 million. State the correct amount for OSS margins.

2. Refer to the Kollen Testinony, page 6, line 9, through page 7, line 16. Refer also to Duke Energy Kentucky, Inc.'s ("Duke Kentucky") application, the Direct Testimony of John D. Swez ("Swez Testimony"), page 16, line 6, through page 19, line 18. State whether the RSG Rev - MISO Make Whole revenues discussed in the Kollen Testimony are the same revenues that are credited through the fuel adjustment clause as discussed in the Swez Testimony. If the revenue discussed in the Kollen testimony differs from the

type of revenue discussed in the Swez Testimony, explain Mr. Kollen's understanding of the difference.

3. Refer to the Kollen Testimony, page 28 and Duke Kentucky's responses to Commission Staff's Second Request for Information, Items 27 and 33, regarding the amortization of the East Bend Operations & Maintenance Regulatory Asset (O&M Regulatory Asset").

a. Does the AG consider the proposed ten-year amortization period for the O&M Regulatory Asset to be reasonable?

b. Explain the reason(s) why the O&M Regulatory Asset should or should not be amortized over the 23.5-year remaining life of East Bend.

c. Provide the impact on the amortization expense and revenue requirement if the O&M Regulatory Asset is amortized over a 23.5-year period

4. Refer to the Kollen Testimony, page 33, lines 4–17. Provide any studies which support the use of the ALG methodology over the ELG methodology.

5. Refer to the Kollen Testimony, pages 55–56 and 59–60, and Staff's Second Request, Item 33, regarding the East Bend Coal Ash Regulatory Asset ("ARO").

a. Confirm that the ARO should be removed from capitalization because Duke Kentucky proposes to recover the costs and earn a return on the unamortized balance through the Environmental Surcharge Mechanism.

b. Confirm that the ARO should be amortized over ten years and recovered through the Environmental Surcharge Mechanism.

c. Confirm that costs currently deferred to the ARO should instead be recovered through the Environmental Surcharge Mechanism in the second month after they are incurred.

d. Refer specifically to page 60, lines 14–17. Explain whether the unamortized balance of the ARO should be included in the Environmental Surcharge Mechanism rate base.

e. Explain the reason(s) why the ARO should or should not be amortized over the 23.5-year remaining life of East Bend.

f. Provide the impact on the amortization expense and revenue requirement if the ARO is amortized over 23.5 years.

5. Refer to the Direct Testimony of Glenn A. Watkins ("Watkin's Testimony"), page 13, lines 5–7. Provide studies that support Mr. Watkins' assertion that the Probability of Dispatch method is the most theoretically correct and most equitable method.

6. Provide a copy of the two cost-of-service studies prepared by Mr. Watkins in Excel format, with the formulas intact and unprotected.

7. Refer to the Watkins Testimony, page 25, line 15, through page 27, line 2 wherein Mr. Watkins takes issue with the allocation of the requested revenue increase by Duke Kentucky to four rate classes. Provide the total revenue increase allocation that Mr. Watkins believes would be appropriate to each rate class.

8. Refer to the Watkins Testimony, pages 28 through page 31, line 7. Mr. Watkins describes pricing in a competitive market, short-run and long-run costs, and efficient pricing.

a. Under the competitive market economic theory, in the long run economic profits are zero. State whether Mr. Watkins believes that prices should be set such that Duke Kentucky receives zero economic profits.

b. State whether a natural monopoly such as Duke Kentucky can remain economically viable while pricing its goods or services at a rate at which price equals marginal cost.

c. Explain when or how Duke Kentucky will reach the long run equilibrium and maximize efficiency.

9. Refer to the Watkins Testimony, page 30, lines 11 – 12. Mr. Watkins states that "[v}olumentric pricing promotes the fairest pricing mechanism to customers and to the utility."

a. State whether Mr. Watkins believe that volumetric sales should be the goal of a utility such as Duke Kentucky.

b. State whether Mr. Watkins believes a rate schedule should incorporate the effects of energy efficiency and conservation, gradualism, and utility principles of safe and reliable energy service.

10. Refer to the Watkins Testimony, page 31, line 9, through page 33, line 14. State whether Mr. Watkins believes Duke Kentucky's proposed residential customer charge of $11.22 would be considered a "high fixed customer charge rate structure" as discussed on these pages.

11. Refer to the Watkins Testimony, page 36, lines 33-35, which state, "[u]nlike the current budget billing plan, the flat monthly billing charge would be guaranteed for a 12-month period with no true-up" and to page 38, lines 2-3, which state, "[a]s proposed,

the Fixed Bill program would provide for a constant "flat" bill to customers regardless of how much energy they consume or when they use this electricity." Refer also to Duke Kentucky's response to Commission Staff's Third Request for Information, Item 10, Attachment, page 3 of 3, which includes the following proposed language for the Fixed Bill option: Customer's usage will be reviewed regularly and significant changes in Customer's consumption behavior may require the Fixed Bill amount to be recalculated before the 12-month period ends. State whether Mr. Watkins still believes that payment under the Fixed Bill option would be guaranteed for 12 months given the proposed language provided in response to Item 10. If not, state whether Mr. Watkins still recommends that the Fixed Bill option be rejected.

12. Refer to the Watkins Testimony, page 37, lines 5-23, and page 39, lines 11-36 wherein Mr. Watkins discusses the lack of a specific proposal by Duke Kentucky for the Fixed Bill premium calculation and an inability to determine whether the Fixed Bill would be reasonably estimated. State whether Mr. Watkins would recommend rejection of the Fixed Bill option if the formula for computing the Fixed Bill charge was included in the compliance tariff.

13. Refer to the Direct Testimony of Richard A. Baudino ("Baudino Testimony"), page 5.

a. Provide the most current public utility bond yield.

b. Provide the most current 20-year Treasury bond yield.

14. Refer to the Baudino Testimony, page 9. Explain why the current low-interest-rate environment favors lower risk regulated utilities.

15. Refer to the Baudino Testimony, page 13 and Exhibit RAB-3. Explain whether the expected return on equity ("ROE") of 9–9.5 percent is for Duke Kentucky's electric operations only or electric and gas operations combined.

16. Refer to the Baudino Testimony, page 15. Mr. Baudino states that utilities face three major risks: business risk, financial risk, and liquidity risk. Provide the level of business, financial, and liquidity risk that Mr. Baudino believes Duke Kentucky faces.

17. Refer to the Baudino Testimony, page 53.

a. A yearly cap of a 2.5 percent increase over current authorized tariff rates for Rider DCF is proposed. Explain why 2.5 percent was proposed.

b. A cumulative cap of 5 percent for all rate increases to Rider DCF is proposed. Explain why 5 percent was proposed.

18. Refer to the Baudino Testimony, page 54. It is proposed that the Ricer DCI be limited to a three-year pilot program. State whether the Attorney General would support the Rider DCI as a pilot program until Duke files its next base rate case.

19. Refer to the Baudino Testimony, Exhibit RAB-5, page 1. Eversouce is included in the proxy group, yet is in the process of acquiring Aquarion Water. State whether Mr. Baudino supports Duke Kentucky's response regarding the inclusion of Eversouce in the proxy group in their response to the Public Service Commission Secord Request for Information, Item 4d.

20. Refer to the Baudino Testimony, Exhibit RAB-6, page 2. Provide the average growth rate for earnings and book value.

21. Refer to the Baudino Testimony. Provide all exhibits in Excel spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

22. In Case No. 2016-00371, the Commission approved an ROE of 9.7 percent for Louisville Gas and Electric Co.[1] Explain whether economic conditions in Duke Kentucky's service territory support an ROE of 8.8 percent as opposed to the 9.7 percent award.

23. Explain whether the AG believes that the level of risk in Duke Kentucky's service area is so much less that an ROE 90 basis points lower is justified.

Gwen R. Pinson

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DATED JAN 17 2018

cc: Parties of Record

[1] Case No. 2016-00371, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017).

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