

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY)	
KENTUCKY, INC. FOR AUTHORITY TO 1) ADJUST)	CASE NO.
NATURAL GAS RATES 2) APPROVAL OF A)	2018-00261
DECOUPLING MECHANISM 3) APPROVAL OF)	
NEW TARIFFS 4) AND FOR ALL OTHER)	
REQUIRED APPROVALS, WAIVERS, AND RELIEF)	

ORDER

Duke Energy Kentucky, Inc. (Duke Kentucky), is a combination natural gas and electric utility operating in northern Kentucky. Duke Kentucky engages in purchasing, selling, storing, and transporting natural gas to approximately 99,500 customers in Boone, Bracken, Campbell, Gallatin, Grant, Kenton, and Pendleton counties in northern Kentucky.¹ Duke Kentucky also generates, transmits, distributes, and sells electricity to approximately 140,600 consumers in Boone, Campbell, Grant, Kenton, and Pendleton counties.² Its most recent general rate increase for its natural gas operations was granted in Case No. 2009-00202.³

¹ Application at 2; Direct Testimony of Amy B. Spiller (Spiller Testimony) at 4.

² Application at 2; Case No. 2017-00321, *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* (Ky. PSC April 13, 2018) at 1.

³ Spiller Testimony at 3; Case No. 2009-00202, *Application of Duke Energy Kentucky, Inc. for an Adjustment of Rates* (Ky. PSC Dec. 29, 2009).

BACKGROUND

On August 31, 2018, Duke Kentucky filed an application requesting to increase its natural gas base rate revenue to a new total of \$105.9 million, which reflects an increase from its current revenue of approximately \$10.5 million.⁴ The monthly residential natural gas bill increase due to the proposed natural gas base rates would be 10.2 percent, or approximately \$5.78, for an average customer using 5,300 cubic feet of natural gas.⁵ Duke Kentucky subsequently revised its proposed revenue increase to approximately \$9.59 million.⁶ Duke Kentucky submitted a depreciation study in support of its application and requests that its proposed depreciation rates be approved.⁷

Duke Kentucky states that the primary reason for the requested rate increase is that its earned rate of return on rate base obtained from its current natural gas operations is 4.66 percent, which is inadequate to enable Duke Kentucky to continue providing safe and reliable service to its customers.⁸ Duke Kentucky further asserts that this rate of return is insufficient to afford Duke Kentucky a reasonable opportunity to earn a fair return on its investment property that is used to provide such service while attracting necessary capital at reasonable rates.⁹

⁴ Application at 4.

⁵ *Id.* at 45.

⁶ Rebuttal Testimony of Sarah E. Lawler at 11.

⁷ Application at 4.

⁸ *Id.* at 6.

⁹ *Id.*

In addition to the base rate increase, Duke Kentucky is requesting a waiver pursuant to KRS 278.210 and 807 KAR 5:022 Section 3(4)(a),¹⁰ to amend its natural gas meter testing schedule from a ten-year testing parameter to a fifteen-year schedule for positive-displacement meters rated capacity up to and including 500 cubic feet per hour. Duke Kentucky asserts that this request would align the testing timeline with the useful/depreciable life of the natural gas advanced/automated meter reading (AMR) modules as approved in Case No. 2016-00152.¹¹

Duke Kentucky also proposes to clarify language in several tariffs and service regulations, as well as to establish and implement a new decoupling mechanism.¹² Duke Kentucky is proposing to implement a weather normalization adjustment (WNA) mechanism that will be applicable to customers served under Rate Schedules Residential Service (RS) and General Service (GS).¹³ Duke Kentucky contends that the proposal is similar to other WNA mechanisms that have been approved by this Commission for other natural gas utilities.¹⁴ Duke Kentucky asserts that the WNA is designed to adjust residential and commercial natural gas sales to reflect normal temperatures on a real-

¹⁰ Duke Kentucky initially requested a waiver of 807 KAR 5:022 Section 8(5) in both its Application and in the Direct Testimony of Tyler Barbare's (Barbare Testimony). However, in Commission Staff's Second Request for Information (Staff's Second Request), Item 20, Duke Kentucky was asked to provide the correct regulation that it was seeking a waiver from because 807 KAR 5:022, Section 8(5) no longer existed. Duke Kentucky confirmed that it was seeking a waiver of 807 KAR 5:022, Section 3(4)(a).

¹¹ Application at 14; See: Barbare Testimony at 3; See also: Case No. 2016-00152, *Application of Duke Energy Kentucky, Inc. for (1) A Certificate of Public Convenience and Necessity Authorizing the Construction of an Advanced Metering Infrastructure; (2) Request for Accounting Treatment; and (3) All Other Necessary Waivers, Approvals, and Relief* (Ky. PSC May 25, 2017).

¹² Application at 5.

¹³ *Id.* at 12.

¹⁴ *Id.* at 12–13.

time basis.¹⁵ The WNA thus acts to mitigate the volatility of that portion of the customers' natural gas bill arising from Duke Kentucky's natural gas distribution charges, which are affected by variation in temperatures.¹⁶ Duke Kentucky states that the WNA, therefore, can serve to dampen the impact of temperature variations on customers' bills by adjusting the Duke Kentucky distribution portion of the bill based on normal temperatures from November through April of the applicable winter heating season.¹⁷ Moreover, Duke Kentucky asserts that the WNA will serve to mitigate fluctuations in its earnings that would otherwise be affected by temperature variations.¹⁸ Duke Kentucky proposes to file a report on the operation of the WNA during the preceding winter heating season by June 30 of each year.¹⁹ The annual report will be similar to WNA reports filed by other jurisdictional natural gas utilities regarding their WNA clauses.²⁰

Lastly, Duke Kentucky is requesting approval to cancel and withdraw the Accelerated Service Replacement Program Rider (Rider ASRP), due to the revenue recovery associated with this rider being rolled over into base rates.²¹

By letter dated September 10, 2018, the Commission notified Duke Kentucky that its application met the minimum filing requirements and had been deemed filed as of

¹⁵ *Id.* at 13.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.*

²¹ Direct Testimony of Gary J. Hebbeler at 3.

August 31, 2018. Pursuant to KRS 278.190(2), the Commission issued an Order on September 17, 2018, suspending the effective date of Duke Kentucky's proposed rates for six months, up to and including, March 31, 2019. Further, the September 17, 2018 Order established a procedural schedule for the processing of this matter, providing for a deadline for filing of intervention requests; two rounds of discovery upon Duke Kentucky's application; a deadline for the filing of intervenor testimony; one round of discovery upon any intervenor testimony; and an opportunity for Duke Kentucky to file rebuttal testimony. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (Attorney General) is the only intervenor in the pending case.

The Commission held an information session and public meeting for the purpose of taking public comments on January 24, 2019, at Dixie Heights High School in Edgewood, Kentucky. On January 30, 2019, Duke Kentucky filed a Motion for Approval of Joint Stipulation and Recommendation, stating that Duke Kentucky and the Attorney General had successfully negotiated an agreement by which all the issues presented in the application were fully resolved. Duke Kentucky contemporaneously filed the Joint Stipulation and Recommendation (Joint Stipulation), as well as Supplemental Testimony of William Don Wathen, Jr., in support of the Joint Stipulation. Duke Kentucky asserts that the Joint Stipulation produces fair, just, and reasonable rates. A formal hearing was held at the Commission's offices on February 5, 2019, for the purposes of cross-examination of witnesses regarding the Joint Stipulation. Duke Kentucky provided responses to Commission Staff's Post-Hearing Requests for Information on February 22 and March 8, 2019. The matter now stands submitted for a decision.

JOINT STIPULATION

The Joint Stipulation reflects the proposed agreement of Duke Kentucky and the Attorney General (also referred to as the parties) to resolve all issues associated with the pending application. A summary of the provisions contained in the Joint Stipulation is as follows:

- Duke Kentucky's total natural gas base revenue will increase by \$7,364,074.
- Duke Kentucky's natural gas revenue requirement will be calculated using the rate base approach as proposed in the application.
- Duke Kentucky's proposal to implement a WNA mechanism and Rider WNA is approved as filed.
- Duke Kentucky's residential customer charge will be increased by \$0.50, to \$16.50 per month. The customer charges for Duke Kentucky's other rate classes will be adjusted as proposed in the application. The remainder of the increase allocable to each rate class will be allocated to the volumetric charge.
- The settled upon revenue requirement is based on a Return on Equity (ROE) of 9.70 percent.
- Duke Kentucky's average long-term debt rate for the forecasted test period is 4.36 percent and is reflective of an update for the actual cost of an issuance that had been projected in the application.
- Duke Kentucky's rate base calculation includes cash working capital based upon the 1/8th Operations and Maintenance (O&M) method and will reflect the changes in O&M agreed to in the Joint Stipulation.
- Duke Kentucky's proposed capital structure will be approved as filed.
- Duke Kentucky's proposed tariff language changes, as amended and agreed upon through Duke Kentucky's responses to discovery submitted by Commission Staff, will be approved.
- Duke Kentucky's proposal to extend its meter testing cycle from a ten-year testing cycle to a fifteen-year testing cycle is approved. The agreed-upon revenue requirement calculation includes an adjustment of approximately \$340,000 to reflect the O&M savings expected from moving to the fifteen-

year testing cycle. If this meter testing cycle extension is not approved by the Commission, then the parties agree that Duke Kentucky's test year revenue requirement should be increased by \$340,000 before gross-up.

- Duke Kentucky will recover its actual costs for deferred integrity management pressure testing as was authorized in Case No. 2016-00152. Duke Kentucky and the Attorney General agree to an extended amortization period for these deferred expenses of ten years, contingent upon the Commission allowing Duke Kentucky to accrue carrying costs at its long-term debt rate of 4.36 percent.
- The parties agree that Duke Kentucky's proposed test year revenue requirement should reflect the benefit of revenue from "No Notice" Transportation service that was inadvertently excluded from the application. Incorporating the revenue from this source reduces the requested increase in base rates by \$603,445 before gross-up.
- Duke Kentucky agreed to reduce certain test year expenses related to payroll, payroll taxes, and employee benefits including but not limited to: the exclusion of expenses for 401(k) matching for union employees also in the defined pension plan, expenses related to employee compensation paid in the form of restricted stock units, and contributions to certain benefits programs above a certain threshold.
- Duke Kentucky will amortize the liability associated with the 2018 ASRP Federal Income Tax (FIT) deferral over a period of five years, without carrying costs.
- Duke Kentucky's rate case expense associated with this proceeding will be amortized over a period of five years, without carrying costs, beginning with the effective date of the revised tariffs.
- Duke Kentucky and the Attorney General agree to a reduction in Duke Kentucky's pro forma adjustment for costs related to projected ongoing incremental integrity management programs that were not identified until after the preparation of the budget. In order for Duke Kentucky to continue to perform these necessary safety improvements, they agree to an adjustment of \$532,744 to O&M instead of the approximately \$1.065 million proposed in the application.
- Duke Kentucky and the Attorney General agree to change Duke Kentucky's fee for reconnection service to \$75. The increase in miscellaneous revenue from this change is projected to reduce Duke Kentucky's base revenue requirement by approximately \$44,136. If the Commission does not approve of this fee increase, or modifies the proposed increase, then the revenue requirement to be collected in base rates would need to be

adjusted (increased) to reflect the reduction in assumed miscellaneous revenue.

- Duke Kentucky's depreciation rates will be approved as filed in the application utilizing the Average Life Group (ALG) methodology.
- Duke Kentucky's proposal to end and "roll into rate base" its Accelerated Service Line Replacement Program (ASRP) and to eliminate the Rider ASRP mechanism is approved. The agreed-upon base revenue requirement assumes the rolling into base rates of previously approved ASRP expenses currently being collected separately in Rider ASRP.
- Duke Kentucky and the Attorney General agree to the allocation of the base revenue requirement as shown in the Joint Stipulation, Attachment D, such that there is a band of no more than 15 percent higher or lower than the system average cost to any rate class.
- All other items not specifically mentioned are approved as filed in Duke Kentucky's application.

ANALYSIS AND FINDINGS

The Commission's statutory obligation when reviewing a rate application is to determine whether the proposed rates are "fair, just, and reasonable."²² Even though Duke Kentucky and the Attorney General have filed a Joint Stipulation that purports to resolve all of the issues in the pending application, the Commission cannot defer to the parties as to what constitutes fair, just, and reasonable rates. The Commission must review the record in its entirety, including the Joint Stipulation, and apply its expertise to make an independent decision as to the level of rates, including terms and conditions of service, that should be approved. To satisfy its statutory obligation, in this case, the Commission has performed its traditional ratemaking analysis, which consists of reviewing the reasonableness of each revenue and expense adjustment proposed or justified by the record, along with a determination of a fair ROE.

²² KRS 278.030(1).

Based upon its review of the Joint Stipulation, the attachments thereto, and the case record including intervenor testimony, the Commission finds that, with the modifications discussed below, the Joint Stipulation is reasonable and in the public interest. The Commission finds that the Joint Stipulation was the product of arm's-length negotiations among knowledgeable, capable parties and should be approved, with the modifications delineated below. Such approval is based solely on the reasonableness of the modified Joint Stipulation as a whole and does not constitute a precedent on any individual issue.

Revenue and Expenses

For the forecasted test period, Duke Kentucky reported actual net operating income from its natural gas operations of \$13,154,573.²³ Duke Kentucky proposed 13 adjustments to revenues and expenses to reflect more current and anticipated operating conditions, resulting in an adjusted net operating income of \$14,626,290.²⁴ In addition to the originally proposed 13 adjustments, Duke Kentucky has agreed, through the Joint Stipulation, to make 10 additional operating income and expense adjustments to arrive at a reduced requested base rate increase of \$7,364,073.²⁵ The Commission finds that the 10 adjustments, as proposed in the Joint Stipulation, are reasonable for ratemaking purposes and should be accepted, but notes the following comments and modifications.

Employee Retirement Plans

²³ Application, Schedule C-2.

²⁴ *Id.*

²⁵ Joint Stipulation, Attachment A.

Duke Kentucky included \$493,813 in retirement plan expense related to its employees, or its affiliates' employees, who were covered by both a defined dollar benefit (DDB) plan and a defined contribution (DC) plan.²⁶

The Attorney General, through the testimony of expert witness Lane Kollen, recommended reducing Duke Kentucky's retirement plan expense by \$296,111 before a gross-up factor. Mr. Kollen based his recommendation upon recent Commission decisions in which the Commission denied recovery of retirement expenses when a utility made contributions to both a DDB pension plan and a DC plan for certain employees.²⁷ In the Joint Stipulation, Duke Kentucky agreed to reduce its pro forma employee retirement plan expenses by \$296,111, as originally proposed by the Attorney General.

The Commission will accept the adjustment to employee retirement plan expenses made in the Joint Stipulation. While the Commission appreciates that Duke Kentucky is willing to reduce these costs in the Joint Stipulation, it finds that Duke Kentucky should further address the issue of employee retirement plan expenses in future contract negotiations with its union members. The Commission further finds that it will evaluate the appropriateness of duplicative pension contributions for both union and non-union employees as part of Duke Kentucky's next base rate case.

Other Employee Benefits

Duke Kentucky included, as part of the forecasted test period, \$2,381,447 in expenses related to employee benefits.²⁸ The Attorney General proposed to reduce this

²⁶ Duke Kentucky's response to Staff's Second Request, Item 5(e).

²⁷ Direct Testimony of Lane Kollen (Kollen Testimony) beginning at 26.

²⁸ Application, Schedule G-1.

amount by \$187,675 based upon his understanding of recent Commission decisions in which recovery of medical insurance premiums were adjusted to reflect an employee contribution rate of 21 percent for single coverage, 33 percent of the total cost for other types of coverage, and an employee contribution rate of 60 percent for dental premiums.²⁹ The Joint Stipulation includes the Attorney General's proposed reduction of costs,³⁰ and the Commission approves the same.

The Commission appreciates Duke Kentucky's willingness to reduce its employee benefit packages to the national average in the Joint Stipulation, but through responses to discovery, Duke Kentucky demonstrated that it had already implemented a cost-sharing mechanism to its employee benefits.³¹ The Commission would note that when a utility has properly demonstrated that its employee compensation package is at, or moving towards, the national average of cost sharing, and 100 percent of the insurance premiums are not being borne by the utility, no adjustment has been made.

Deferred Integrity Management Expenses from Case No. 2016-00159

Duke Kentucky was authorized to defer certain integrity management expenses associated with gas main pressure testing in Case No. 2016-00159, and amortize and recover these expenses through rates determined in Duke Kentucky's next natural gas rate case.³² Duke Kentucky incurred expenses that were greater than was estimated in

²⁹ Kollen Testimony at 29–30.

³⁰ Joint Stipulation at 6.

³¹ Staff's Second Request, Item 5(a) and 5(b).

³² Case No. 2016-00159 *Application of Duke Energy Kentucky, Inc. for Approval to Establish a Regulatory Asset* (Ky. PSC Jul. 22, 2016).

Case No. 2016-00159, and in its application seeks to recover all costs, including cost overruns, over five years. Duke Kentucky contends that these higher expenses were primarily due to more-than-anticipated usage of compressed natural gas (CNG) to maintain service to a large commercial customer, as well as the expense associated with additional security associated with CNG equipment and installation.³³

The Attorney General recommends denying recovery of the cost overruns and increasing the amortization period to ten years due to the magnitude and nonrecurring nature of the expense.³⁴ The Joint Stipulation agrees to allow Duke Kentucky to recover the full costs of the integrity management deferral, including the cost overruns,³⁵ but extends the amortization period to ten years and includes a carrying charge based on the long-term debt rate of 4.36 percent.³⁶ The Commission accepts this portion of the Joint Stipulation as it demonstrates a compromise between the parties, but if not for the settlement agreement, the Commission would have reviewed the reasonableness of the cost overruns more in-depth.

WNA Rider

In its application, Duke Kentucky proposes a WNA mechanism and Rider WNA, which adjusts the volumetric component of base delivery charges on customer bills to reflect normal weather conditions, thus removing some of the fluctuations that occur when

³³ Duke Kentucky's response to the Attorney General's First Request for Information, Item 48.

³⁴ Kollen Testimony at 34.

³⁵ Duke Kentucky's response to Commission Staff's First Post-Hearing Request for Information (Staff's First Post-Hearing Request), Item 28.

³⁶ Joint Stipulation at 5.

the weather varies.³⁷ With a WNA, if temperatures are colder than normal and a customer's usage is more than average, a customer's bill will include a credit. Conversely, if temperatures are warmer than normal and a customer's usage is lower than average, a customer's bill will include a surcharge. The WNA also removes fluctuation in a utility company's revenues and allows for a better match between current and forecasted revenues.

Duke Kentucky's proposed adjustment is based on the difference between actual and normal degree-days (DD) associated with a customer's billing period.³⁸ Two class level parameters called the Base Load (BL) and Heat Sensitivity Factor (HSF) are calculated utilizing a linear model based on 41 monthly observations from January 2015 through May 2018.³⁹ The BL factor is the estimated intercept, which is the base sales with negligible weather impacts, while the HSF represents the degree to which a change in a heating DD predicts a change in the volume of sales.⁴⁰ For the residential rate class, or Rate RS, Duke Kentucky proposed initial values of 1.10633 Mcf and 0.015283 Mcf/DD for the BL and HSF, respectively.⁴¹ The proposed estimates for the General Service Rate Class, or Rate GS, are 9.745755 Mcf for the BL and 0.090515 Mcf/DD for the HSF.⁴²

³⁷ Application at 5.

³⁸ Normal DD are based on 30 years of past weather data. See: Direct Testimony of Bruce L. Sailors (Sailors Testimony) at 14.

³⁹ Direct Testimony of Benjamin Passty Ph.D. (Passty Testimony) at 13.

⁴⁰ *Id.* 14.

⁴¹ Sailors Testimony at 14–15.

⁴² *Id.*

Given the timing of the instant case and the seasonal nature of the WNA, Duke Kentucky recommends that the proposed WNA Rider be effective with the first billing cycle of November 2019.⁴³ The WNA will apply to all Rate RS and Rate GS bills during the November through April billing periods each year. Duke Kentucky proposed annual reports of the Rider WAN impacts and annual updates to the Rider WNA class parameters but was open to the Commission's direction if it preferred that these parameters be updated only during natural gas base rate case filings.⁴⁴ The tariff filed with the proposed Joint Stipulation states that the rate class sensitivity factors will be determined by rate class and adopted from the most recent Commission Order. The Joint Stipulation also recommends that the proposed WNA and Rider WNA be approved as filed.⁴⁵ The Commission accepts the proposed Joint Stipulation regarding the implementation of the WNA and Rider WNA, including Duke Kentucky providing updates to the sensitivity factors during base rate cases. Additionally, Duke Kentucky will file a report summarizing the impacts of the WNA with its next base rate case.

Subsidization of Rate GS

Duke Kentucky used the average and excess method, also known as the average and peak demand method) for the filed cost of service study (COSS) in the pending case.⁴⁶ This is the same COSS method that Duke Kentucky used in its 2009 natural gas

⁴³ *Id.* at 15.

⁴⁴ *Id.*

⁴⁵ Joint Stipulation at 4.

⁴⁶ Direct Testimony of James E. Ziolkowski (Ziolkowski Testimony) at 9.

rate case.⁴⁷ The results from the COSS illustrated that Rate GS is the only rate class being subsidized, and the other rate classes over-subsidize at various levels.⁴⁸ As a basis for the rate design, Duke Kentucky proposed to eliminate 15 percent of the subsidy/excess revenues between customer classes, based on present revenues.⁴⁹ Next, the overall revenue increase was allocated to each customer class based on each customer class' percent of rate base.⁵⁰ The sum of the 85 percent of present revenues and the allocated portion of the rate increase totals for each rate class revenue allocation.

The proposed Joint Stipulation maintained Duke Kentucky's proposed revenue allocation; however, the subsidization of Rate GS is still present.⁵¹ The Commission supports the proposed 15 percent subsidy removal but concludes that the residential class should not be subsidizing another rate class. The Commission is cognizant of the fact that if the entire existing subsidy were removed then it would result in an increase of 19.70 percent to Rate GS. Therefore, only the contributing subsidy from Rate RS will be removed and placed onto Rate GS.⁵² This results in an increase of 12.025 percent for Rate GS, and lowers the rate increase for Rate RS from 7.591 percent to 6.562 percent.⁵³

⁴⁷ Case No. 2009-00202, *Application of Duke Energy Kentucky, Inc. for an Adjustment of Rates* (Ky. PSC Dec. 29, 2009).

⁴⁸ Ziolkowski Testimony at 16–18.

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ Joint Stipulation, Attachment D.

⁵² Staff's First Post-Hearing Request, Item 4.

⁵³ See Appendix B.

The above-mentioned modifications will be reflected in the corresponding volumetric charges, and all other rate schedules will remain the same.

Miscellaneous Tariff Issues

Use of Service

Duke Kentucky has proposed to amend its service regulations governing the use of natural gas supplied to its customers. Currently, Third Revised Tariff Sheet No. 21, Section II – Supplying and Taking Service, paragraph 6, titled “Use of Service,” prohibits a gas customer or someone acting on behalf of the customer from “install[ing] meters for the purpose of reselling or otherwise disposing of service supplied Customer.” In its testimony, Duke Kentucky stated that the amendment being proposed “is to allow the installation of sub metering”⁵⁴ so a master meter customer could allocate the natural gas bill among the users in a condominium or an apartment complex.

However, the text of Duke Kentucky’s proposed amendment does not require the customer to install any sub-metering equipment to accurately determine the quantity of natural gas consumed in each condominium or apartment. Rather, the proposed tariff retains the current prohibition against installing meters to resell natural gas but would allow a customer to allocate the Duke Kentucky gas bill to others “provided the sum of such allocation does not exceed the Company’s billing.”⁵⁵ When Duke Kentucky was asked whether it intended to monitor the allocations of its gas billings to others to ensure that the allocations do not exceed the utility’s billings, Duke Kentucky stated “no.”⁵⁶

⁵⁴ Sailers Testimony at 22.

⁵⁵ Application, Schedule L1, page 10 of 69.

⁵⁶ Hearing Transcript at 11:09:40.

The Commission finds that Duke Kentucky's proposed amendment to its "Use of Service" Tariff would expressly authorize the allocation of natural gas bills by master-metered customers to others without any monitoring of the allocation process by Duke Kentucky. Absent monitoring of the allocation process by Duke Kentucky, those residing in condominiums and apartments with master meters would have no assurance that their allocated share of the gas bill is accurate and does not represent a resale of service at a profit. Based on the record, Duke Kentucky has neither adequately justified the need to revise the terms of its "Use of Service" Tariff nor demonstrated that the proposed revision to that tariff is fair, just, and reasonable.

Reconnection Fee for Combination Electric and Natural Gas Customers

Duke Kentucky proposes a language change to its natural gas reconnection fee as it relates to combination natural gas and electric customers.⁵⁷ Duke Kentucky requests to remove the reconnection fee amount for combination electric and natural gas customers from the gas tariff, and instead direct those customers to the electric service "Charge for Reconnection of Service," Electric Sheet. No. 91, for the fee.⁵⁸ Duke Kentucky contends that having the reconnection fee in both the natural gas and electric tariffs can lead to a mismatch in the reconnection charges when one service has a base rate case separate from the other service.⁵⁹ Duke Kentucky also states that having the reconnection fee amount for combination customers in the natural gas tariff can lead to

⁵⁷ Sailers Testimony at 18.

⁵⁸ *Id.*

⁵⁹ *Id.*

confusion for combination customers who have the capability to have electric service reconnected remotely; for safety purposes, natural gas service is not reconnected remotely.⁶⁰

KRS 278.160(2) provides that “[n]o utility shall charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules, and no person shall receive any service from any utility for a compensation greater or less than that prescribed in such schedules.” Furthermore, 807 KAR 5:011, Section 2(3), provides that “[a] utility furnishing more than one (1) type of service (water and electricity for example) shall file a separate tariff for each type of service.” The Commission finds that in order for Duke Kentucky to comply with both KRS 278.160(2) and 807 KAR 5:011, Section 2(3), the reconnection fee for combination electric and natural gas customers should be listed in both the natural gas and electric tariffs. Duke Kentucky’s proposal to remove the reconnection fee amount for combination electric and natural gas customers from the natural gas tariff and instead direct those customers to the electric tariff for the fee amount is denied.

Updated Tariff Sheets

In response to Commission Staff’s Second Post-Hearing Request for Information, Item 9, Duke Kentucky provided a list of tariff revisions that have been accepted by the Commission since the filing of the pending rate case. With the exception of Rider ASRP and Rider TCJA, which will be discontinued upon the issuance of this Order, when Duke Kentucky files its compliance tariff resulting from this case, it should update the tariff to

⁶⁰ *Id.*

reflect the changes accepted by the Commission that became effective between the date of the filing of the pending rate case and the date of the issuance of this Order.

Adjusted Due Date Program

The Adjusted Due Date program is available to Duke Kentucky natural gas customers and electric customers who have an analog meter and allows customers to adjust their due date five to ten days forward from the original due date.⁶¹ In response to discovery, Duke Kentucky agreed to include the provisions of its Adjusted Due Date Program in its proposed natural gas tariff.⁶² However, in response to Staff's First Post-Hearing Request, Item 21, Duke Kentucky indicated that it did not prefer to add the Adjusted Due Date Program provisions to its electric tariff because "[t]here is no need for the Adjusted Due Date when Pick Your Due Date is available for these electric customers." The Commission notes that electric customers who have an analog meter are not eligible for the Pick Your Own Due Date program. Consequently, the Commission finds that the provisions of the Adjusted Due Date program should be added to Duke Kentucky's electric tariff, and the language added to the electric tariff regarding this program may specify that it is only available to customers with analog meters.

Meter Testing Waiver

Duke Kentucky requests a waiver pursuant to KRS 278.210 and 807 KAR 5:022

⁶¹ Duke Kentucky's response to Staff's Third Request for Information, Item 6(a).

⁶² *Id.* at Item 6(b).

Section 3(4)(a),⁶³ to amend its natural gas meter testing schedule for positive-displacement meters rated capacity, up to and including 500 cubic feet per hour, from a 10-year testing parameter to a 15-year schedule in order to align the testing timeline with the useful/depreciable life of the natural gas advanced metering infrastructure (AMI)/automated meter reading modules (AMR) as approved in Case No. 2016-00152.⁶⁴ Duke Kentucky initially requested this waiver in Case No. 2016-00152, in which the Commission approved Duke Kentucky's certificate of public convenience and necessity for replacement and upgrading of its electric and gas metering infrastructure to an AMI for electric and combination customers and an AMR infrastructure for its gas-only modules.⁶⁵ The Commission assigned a 15-year depreciable life for the gas modules, but found that Duke Kentucky did not provide sufficient information in compliance with KRS 278.210(4) to demonstrate through sample testing that no statistically significant number of its residential gas meters over-register.⁶⁶ Thus, the Commission denied the requested meter testing deviation.

⁶³ Duke Kentucky initially requested a waiver of 807 KAR 5:022 Section 8(5) in both its Application and in Barbare's Testimony. However, in Staff's Second Request for Information, Item 20, Duke Kentucky was asked to provide the correct regulation that it was seeking waiver from because 807 KAR 5:022, Section 8(5) was no longer in existence. Duke Kentucky confirmed that it was seeking waiver of 807 KAR 5:022, Section 3(4)(a).

⁶⁴ Application at 14; See: Barbare Testimony at 3; See also: Case No. 2016-00152, *Application of Duke Energy Kentucky, Inc. for (1) A Certificate of Public Convenience and Necessity Authorizing the Construction of an Advanced Metering Infrastructure; (2) Request for Accounting Treatment; and (3) All Other Necessary Waivers, Approvals, and Relief* (Ky. PSC May 25, 2017).

⁶⁵ Case No. 2016-00152, *Application of Duke Energy Kentucky, Inc. for (1) A Certificate of Public Convenience and Necessity Authorizing the Construction of an Advanced Metering Infrastructure; (2) Request for Accounting Treatment; and (3) All Other Necessary Waivers, Approvals, and Relief* (Ky. PSC May 25, 2017).

⁶⁶ *Id.* at 12.

In the pending case, Duke Kentucky submits the Barbare Testimony that provides an overview of Duke Kentucky's meter testing process in order to support the requested waiver. Mr. Barbare asserts that, in accordance with Commission regulations, Duke Kentucky removes the meter from the customer and brings it to Duke Kentucky's testing facility to conduct the accuracy test in a temperature-controlled environment.⁶⁷ When Duke Kentucky removes a meter for testing, a new meter must be set in its place to continue natural gas service.⁶⁸ Thus, a typical residential customer receives a new natural gas meter approximately every ten years.⁶⁹

Once the meter is brought to the testing facility, the meter is tested in accordance with industry standards, in compliance with Commission regulations.⁷⁰ Under Kentucky's regulations, any meter that is found to have a meter error of 2 percent or less, fast or slow, is considered accurate.⁷¹ Duke Kentucky disposes of the residential meters after testing because the cost to refurbish, repair, store, and redeploy this type of meter exceeds the costs of purchasing a new meter.⁷² The estimated, fully loaded labor costs per meter for the refurbishment of a typical meter is approximately \$115.80, but this does not include any additional costs for the replacement parts, materials, or storage.⁷³ In

⁶⁷ Barbare Testimony at 5.

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *Id.* at 6.

⁷³ *Id.* at 7.

contrast, purchasing a new Itron Category 1 Meter with an AMI or AMR module installed costs approximately \$105 or \$102, respectively.⁷⁴ Mr. Barbare argues that because the AMI/AMR modules have an estimated battery life of 13 to 20 years, it is not reasonable or economical to pull the meters at ten years to test them and then dispose of those meters.⁷⁵

In support of the requested waiver, Mr. Barbare submitted a study on behalf of Duke Kentucky, in which a sample size of Category 1 natural gas meters from Ohio and Kentucky service territories that were more than ten years between accuracy tests were examined.⁷⁶ Mr. Barbare noted that Ohio does not have a meter change-out testing program as Duke Kentucky does. The study determined that 96 percent of the meters remained within the accuracy tolerances.⁷⁷ Duke Kentucky argues that the results of this study strongly support the request to extend the meter testing cycle from 10 to 15 years, and verify that it will not create an accuracy issue with customers' bills. Mr. Barbare also states that extending the meter testing cycle will not affect safety, as Duke Kentucky will continue to perform all other inspections as required by Federal and Kentucky Regulations.

The Attorney General agreed with this proposal but requested that the annual savings of \$340,000 associated with extending the meter testing from 10 to 15 years be included in the revenue requirement calculation.⁷⁸ In the Joint Stipulation, the parties

⁷⁴ *Id.*

⁷⁵ *Id.* at 8.

⁷⁶ Barbare Testimony at 9–11 and Attachment TB-1.

⁷⁷ *Id.*

⁷⁸ Kollen Testimony at 21–22.

agreed to extend the natural gas meter testing cycle from 10 to 15 years as requested in the application and agreed to include a \$340,000 O&M savings adjustment to reduce the revenue requirement. Pursuant to the Joint Stipulation, if the meter testing cycle extension is not approved by the Commission, then the parties agree to increase Duke Kentucky's test year revenue requirement by \$340,000 before gross-up.

In the final Order of Case No. 2016-00152, the Commission asserted that information from the manufacturer included in the application specifically stated that the expected battery life of the gas module is 18 to 20 years with one transmission per day, and 15 to 17 years with two transmissions per day. The Commission also stated that it "believes it is likely that the gas modules will last through two replacement/testing cycles." Based upon the above-referenced testimony and study that were submitted, the Commission grants Duke Kentucky's requested waiver pursuant to KRS 278.210 and 807 KAR 5:022 Section 3(4)(a) to amend its natural gas meter testing schedule for positive-displacement meters rated capacity up to and including 500 cubic feet per hour from a ten-year testing parameter to a fifteen-year schedule. If any unforeseen issues arise from Duke Kentucky's testing of these specific meters at fifteen-year intervals instead of ten-year intervals, the Commission reserves the right to readdress this issue in the future.

The Excusal of Witnesses at Hearing

On January 30, 2019, Duke Kentucky filed the proposed Joint Stipulation and a Motion to Relieve Certain Witnesses from the Duty to Appear for Hearing (Duke Kentucky's Motion to Relieve Witnesses) and stated that in light of the Joint Stipulation resolving all issues certain witnesses should be excused from appearing at the February

5, 2019 hearing.⁷⁹ Duke Kentucky further asserted that it intended to have Ms. Spiller, Mr. Wathen, Mr. Hebbeler, Ms. Lawler, Mr. Ziolkowski, and Mr. Sailors to be present at the hearing as these witnesses are based out of its local offices.⁸⁰ The Attorney General also filed a Motion to Excuse Witness from Attendance at Formal Hearing (Attorney General's Motion to Excuse Witnesses) on January 30, 2019.

In an effort to reduce rate case expense, the Commission granted both Duke Kentucky's Motion to Relieve Witnesses and the Attorney General's Motion to Excuse Witnesses. However, at the February 5, 2019 hearing, a multitude of cross-examination questions from the Commission and the Commission Staff could not be answered by the Duke Kentucky witnesses that were present. As a result, a large number of post-hearing requests for information were issued. Due to the inefficiencies that arose from the hearing, the Commission would advise parties not to file settlement agreements or motions to relieve witnesses close to the hearing as it does not provide the Commission with adequate time to appropriately review the terms of the settlement agreement or determine whether specific witnesses need to attend the hearing. In future proceedings, the Commission is likely to deny motions to excuse witnesses if the parties file a settlement agreement or such motions shortly before the scheduled hearing, as was done in this case.

Gas Cost Adjustment Clause

⁷⁹ Duke Kentucky's Motion to Relieve Witnesses at 2.

⁸⁰ *Id.* at 3.

Currently, Duke Kentucky files monthly Gas Cost Adjustment (GCA) reports with at least twenty (20) days' notice, in accordance with the final Order in Case No. 2006-00144.⁸¹ Due to high volatility in natural gas markets at the time of that case, the Commission found Duke Kentucky's request for a monthly rate adjustment to be reasonable. Because the natural gas market has stabilized in the intervening years, the Commission concludes that monthly GCA filings are no longer reasonable or necessary.

The Commission finds that Duke Kentucky shall file a modified GCA Clause Tariff to include language that allows Duke Kentucky to file an updated GCA rate quarterly, filed at least thirty (30) days prior to the beginning of each billing period. The expected gas cost component calculation should be changed to reflect a quarterly average. The Commission is aware that due to the natural gas market being unregulated it is prone to periods of volatility. Therefore, Duke Kentucky should include language in its GCA Tariff that permits a GCA report for an Interim Gas Cost Adjustment should any significant change in supplier natural gas rates occur. Due to the three-month billing cycle periods pursuant to the revised tariff, the Commission finds that the monthly GCA filings should continue for the months of April and May 2019 and Duke Kentucky should begin to file its quarterly GCA reports beginning with the June, July, and August 2019 billing cycle.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Duke Kentucky are denied.
2. The Joint Stipulation, attached hereto as Appendix A (without exhibits), is approved with the modifications discussed herein.

⁸¹ Case No. 2006-00144, *The Application of Union Light, Heat and Power D/B/A Duke Energy Kentucky for Authority to Continue Making Monthly Adjustments to the Expected Gas Cost Component of its Gas Cost Adjustment Rate* (Ky. PSC May 22, 2006).

3. The rates and charges, as set forth in Appendix C to this Order, are approved as fair, just, and reasonable rates for Duke Kentucky, and these rates and charges are approved for service rendered on and after March 29, 2019.

4. Duke Kentucky shall begin to file its quarterly GCA reports beginning with the June, July, and August 2019 billing cycle.

5. Within 20 days of the date of this Order, Duke Kentucky shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.

6. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED
MAR 27 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2018-00261

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00261 DATED **MAR 27 2019**

ELEVEN PAGES TO FOLLOW

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Electronic Application of Duke)
Energy Kentucky, Inc., for: 1) An)
Adjustment of the Natural Gas Rates; 2)) Case No. 2018-00261
Approval of a Decoupling Mechanism; 3))
Approval of New Tariffs; and 4) All)
Other Required Approvals, Waivers, and)
Relief.)

JOINT STIPULATION AND RECOMMENDATION

On August 31, 2018, Duke Energy Kentucky, Inc. ("Duke Energy Kentucky" or the "Company") filed its application with the Kentucky Public Service Commission ("Commission"), pursuant to KRS 278.180, KRS 278.190, and other applicable law for an increase in retail natural gas rates and to implement new tariffs and revised charges in the above-captioned proceeding ("Application"). On September 25, 2018, the Attorney General of the Commonwealth of Kentucky ("Attorney General"), the only other party in the case, filed his motion to intervene, which was granted by the Commission.

Duke Energy Kentucky and the Attorney General (collectively as the "Parties") have filed testimony supporting their respective positions relating to Duke Energy Kentucky's Application. The Parties and the Commission Staff have engaged in substantial discovery of the Parties' respective positions by issuing numerous information requests to which the Parties have responded.

The Parties, representing diverse interests and viewpoints, have reached a complete settlement of all the issues raised in this proceeding and have executed this Joint Stipulation and Recommendation ("Stipulation") for purposes of documenting and submitting their agreement to the Commission for consideration and approval. It is the intent and purpose of the Parties to express their agreement on a mutually satisfactory resolution of all issues in the instant proceeding.

The Parties understand that this Stipulation is not binding upon the Commission, but believe it is entitled to careful consideration by the Commission. The Parties agree that this Stipulation, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

The Parties request that the Commission issue an Order approving this Stipulation in its entirety pursuant to KRS 278.190, including the rate increase, rate structure, and tariffs as described herein. The request is based upon the belief that the Parties' participation in settlement negotiations and the materials on file with the Commission adequately support this Stipulation. Adoption of this Stipulation will eliminate the need for the Commission and the Parties to expend significant resources in litigation of this proceeding and will eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final Order herein.

NOW, THEREFORE, for and in consideration of the mutual premises set forth above and the terms and conditions set forth herein, the Parties agree that the Company's Application should be approved as filed, except as modified or specified below:

1. **Revenue Increase.** The Parties agree that Duke Energy Kentucky's revenue requirement for natural gas distribution service for the forecasted test year of April 1, 2019, through March 31, 2020, is \$103,393,785. This represents an increase of \$7,364,074 over the test year revenue that would be collected at current rates. The total revenue requirement is comprised of \$66,336,212 in base revenues, \$36,334,174 in gas cost revenues and \$723,399 of miscellaneous revenues. The increase in the Company's base revenue includes recovery of costs associated with the Company's Accelerated Service Line Replacement Program (ASRP), approved by the Commission in 2017, currently being collected via a separate charge on customers' bills. This separate rider charge will terminate upon implementation of the new base rates. Stipulation Attachment A provides a summary of the adjustments to the Company's proposed overall revenue requirement agreed to in this Stipulation.

2. **Rate Base.** The Parties agree that the return component of the Company's overall revenue requirement shall be computed based upon rate base. The Parties further agree that the thirteen-month average rate base for the forecasted test period is \$313,423,577.

3. **Cash Working Capital.** The Parties agree that the Company's cash working capital balance shall be the amount calculated using the 1/8th Operation and Maintenance (O&M) method.

4. **Cost of Capital.** The Parties agree that:

- a. Duke Energy Kentucky's authorized Return on Equity (ROE) shall be 9.7 percent;

- b. Duke Energy Kentucky's long-term debt rate included in the cost of capital shall be 4.36 percent, reflecting the actual long-term debt issuances made through December 31, 2018; and
- c. The capital structure is approved as filed in the Company's Application.

5. **Weather Normalization, Tariffs and New Rate Design.** The Parties recommend that the Company's proposal to implement a Weather Normalization Adjustment (WNA) Mechanism, and Rider WNA be approved as filed. The Parties agree that the Residential Customer Charge shall be increased to \$16.50 per bill, representing a \$0.50 increase per bill. The Parties further agree that the Customer Charge for other tariffs should be approved as filed. The balance of the natural gas base revenue increase allocable to customers will be recovered through volumetric rates.

The Parties further agree that the Company's proposed ministerial changes to its Natural Gas Tariffs as were included in its Application and as modified in response to Staff Data Requests during Discovery should be approved.

The pro forma tariff sheets for all rate classes, attached hereto as Attachment B, are recommended as reflecting the new rates to be effective for service rendered on and after Commission approval. These pro forma tariff sheets further reflect rates that are designed to allow Duke Energy Kentucky to recover the increased natural gas base revenue from its various classes of customers, in the manner agreed to by the Parties to this Stipulation.

6. **Depreciation Rates.** The Company's depreciation rates shall be approved as filed using the Average Life Group methodology as proposed in the Company's Application.

7. **Previously Approved Deferrals for Integrity Management Expense.** The Parties agree that Duke Energy Kentucky shall recover the actual costs of the pressure testing integrity management deferral authorized in Case No. 2016-00159. The Parties agree that the amortization of this deferral should be extended over ten years, provided, however, that in order to recognize the time value of money associated with amortizing this expense over a much longer period of time, the Company should be permitted to include monthly carrying costs on the balance calculated at the Company's long-term debt rate of 4.36 percent. The annual net impact of the extended amortization with carrying costs is a decrease of \$220,697 before gross-up in the Company's test year amortization expense and is reflected in the revenue requirement provided in Paragraph Number 1.

8. **Revenue from No Notice Transportation Service.** The Parties agree that the Company's proposed test year revenue requirement should reflect the benefit of revenue from "No Notice" Transportation service that was inadvertently excluded from the Company's Application. Incorporating the revenue from this source reduces the magnitude of the increase in base rates by \$603,445 before gross-up. This reduction is reflected in the revenue requirement provided in Paragraph Number 1.

9. **Payroll Adjustments.** The Parties agree to the following adjustments to test year expenses related to Payroll, Payroll Taxes, and Benefits. The reduction in these expenses are reflected in the revenue requirement provided in Paragraph Number 1:

- a. Test year payroll and payroll tax expense should be reduced \$151,546 and \$12,735, respectively before gross-up.
- b. Expenses for 401(k) matching for Union employees also in the Company's Defined Pension Plan should be excluded. The reduction in test year expense is \$296,111 before gross-up.
- c. Company contributions to certain benefits programs above a certain threshold should be excluded from the test year revenue requirement. The reduction to the Company's proposed test year expense is \$187,675 before gross-up.
- d. Expenses related to employee compensation paid in the form of restricted stock units should be excluded. The reduction to the Company's proposed test year expense is \$284,472 before gross-up.

10. **Test Year Expense for Integrity Management.** The Parties agree that the Company's proposed adjustment to test year expenses for ongoing Integrity Management programs should be reduced from \$1,065,488 to \$532,744 before gross-up. The change is reflected in the overall revenue requirement indicated in Paragraph Number 1.

11. **Meter Testing Cycle.** The Parties agree that the Company's current natural gas meter testing cycle shall be extended from ten years to fifteen years as requested in the Company's Application. The agreed upon revenue requirement reflected in Paragraph 1 includes an Operations and Maintenance (O&M) savings adjustment to reduce the revenue requirement associated with the meter testing period extension. If this meter testing cycle extension is ultimately not approved by the Commission, then the

Parties agree that the Company's test year revenue requirement, reflected in Paragraph Number 1, should be increased by \$340,000 before gross-up.

12. **Rate Case Expense.** For financial accounting purposes, Duke Energy Kentucky will amortize rate case expense associated with this proceeding for recovery over a five-year period, without carrying charges, beginning with the effective date of the revised tariffs.

13. **Reconnection Revenue.** The Parties agree that the existing charge for reconnection of service should be increased to \$75. If the Commission issues an order disallowing or modifying the proposed increase, then the revenue requirement indicated in Paragraph Number 1 will increase by \$44,136 (or in an amount proportionately equivalent to any modification) before gross-up.

14. **Proof of Revenue.** Attached to this Stipulation as Attachment C are proof-of-revenue sheets, showing that the rates set forth in Attachment B, plus projected Miscellaneous Revenue, will generate the revenue needed to recover the Company's test year revenue requirement to which the Parties have agreed in Paragraph Number 1 hereof.

15. **Allocation of Rate Increase.** The Parties agree to the allocation set forth in Attachment D, which is guided by the Company's cost of service study as amended, and follows the general guidance provided by the Company in testimony. The allocation seeks to mitigate rate shock by eliminating only 15 % of the subsidy excess based on the Company's proposed cost of study, as amended.

16. **Filing of Stipulation.** Following the execution of this Stipulation, the Parties shall cause the Stipulation to be filed with the Commission with a request to the

Commission for consideration and approval of this Stipulation so that Duke Energy Kentucky may begin billing under the approved adjusted rates for service rendered on and after Approval.

17. **Commission Approval.** The Parties to this Stipulation shall act in good faith and use their best efforts to recommend to the Commission that this Stipulation be accepted and approved. Each Party hereto waives all cross-examination of the witnesses of the other Party hereto except in support of the Stipulation or unless the Commission fails to adopt this Stipulation in its entirety. Each Party further stipulates and recommends that the Notice of Intent, Notice, Application, direct testimony, rebuttal testimony, pleadings and responses to data requests filed in this proceeding be admitted into the record. The Parties further agree and intend to support the reasonableness of this Stipulation before the Commission, and to cause their counsel to do the same in this proceeding and in any appeal from the Commission's adoption and/or enforcement of this Stipulation. If the Commission issues an order adopting this Stipulation in its entirety, each of the Parties hereto agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin County Circuit Court with respect to such order.

18. **Effect of Non-Approval.** If the Commission does not accept and approve this Stipulation in its entirety or imposes any additional conditions or requirements upon the signatory Parties, then: (a) either Party may elect, in writing docketed in this proceeding, within ten days of such Commission Order, that this Stipulation shall be void and withdrawn by the Parties hereto from further consideration by the Commission and neither Party shall be bound by any of the provisions herein; and (b) each Party shall

have the right, within 20 days of the Commission's order, to file an petition for rehearing, including a notice of termination of and withdrawal from the Stipulation; and, (c) in the event of such termination and withdrawal of the Stipulation, neither the terms of this Stipulation nor any matters raised during the settlement negotiations shall be binding on either of the signatory Parties to this Stipulation or be construed against either of the signatory Parties. Should the Stipulation be voided or vacated for any reason after the Commission has approved the Stipulation and thereafter any implementation of the terms of the Stipulation has been made, then the Parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this Stipulation.

19. **Commission Jurisdiction.** This Stipulation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

20. **Successors and Assigns.** This Stipulation shall inure to the benefit of and be binding upon the Parties hereto, their successors and assigns.

21. **Complete Agreement.** This Stipulation constitutes the complete agreement and understanding among the Parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Stipulation.

22. **Implementation of Stipulation.** For the purpose of this Stipulation only, the terms are based upon the independent analysis of the Parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and

negotiation. Notwithstanding anything contained in the Stipulation, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of Duke Energy Kentucky are unknown and this Stipulation shall be implemented as written.

23. **Admissibility and Non-Precedential Effect.** Neither the Stipulation nor any of the terms set forth herein shall be admissible in any court or Commission except insofar as such court or Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Stipulation or a Party's compliance with this Stipulation. This Stipulation shall not have any precedential value in this or any other jurisdiction.

24. **No Admissions.** Making and entering into this Stipulation shall not be deemed in any respect to constitute an admission by either Party that any computation, formula, allegation, assertion or contention made by any Party in these proceedings is true or valid. Nothing in this Stipulation shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of a Party.

25. **Authorizations.** The signatories hereto warrant that they have informed, advised, and consulted with the respective Parties hereto in regard to the contents of this Stipulation, and based upon the foregoing, are authorized to execute this Stipulation on behalf of the Parties hereto.

26. **Commission Approval.** This Stipulation is subject to the acceptance of and approval by the Commission.

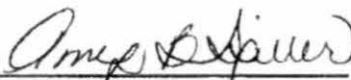
27. **Interpretation of Stipulation.** This Stipulation is a product of negotiation among all Parties hereto, and no provision of this Stipulation shall be strictly construed in favor of or against any Party.

28. **Counterparts.** This Stipulation may be executed in multiple counterparts.

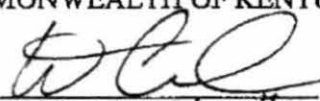
29. **Future Proceedings.** Nothing in this Stipulation shall preclude, prevent or prejudice any Party hereto from raising any argument/issue or challenging any adjustment in any future rate case proceeding of Duke Energy Kentucky.

IN WITNESS WHEREOF, this Stipulation has been agreed to effective this 29th day of January 2019. By affixing their signatures below, the undersigned Parties respectfully request the Commission to issue its Order approving and adopting this Stipulation the Parties hereto have hereunto affixed their signatures.

DUKE ENERGY KENTUCKY, INC

By: 
Amy B. Spiller
Title: President

ATTORNEY GENERAL OF THE
COMMONWEALTH OF KENTUCKY

By: 
Kent Chandler
Title: Asst. Attorney General

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00261 DATED **MAR 27 2019**

Line No.	Rate Class	Rate Base (A)	Present Revenues (B) ⁽¹⁾	Net Operating Income (C)	Present ROR (D)	Present Revenues At Average ROR (E)	Inter Class Subsidization Overcollected (Undercollected) (F)	Balance of Rate RS Subsidization (G1)	Inter Class Subsidization times 15.00% (G)	Rate Increase (allocated to class based on Rate Base) (H)	Proposed Revenues	Proposed Percent Increase (J)	ROR At Proposed Rates (K)	ROR At Proposed Rates (K)	Proposed Increase Less (Subsidy) Excess (L)
		FR-16(7)(V)-8	FR-16(7)(V)-8	WP - Pres NOI	(C) / (A)	(B) + (((D) Line 5 * (C))/(1-FIT))	(B) - (E)		(F) * 15.00%	(H) Line 5 * ((A) / (A) Line 5)	(B) - (G) + (H) - (G1)	((H) - (G) - (G1)) / (B)	((((H) - (G)) * (1 - FIT)) + (C)) / (A)	((((H) - (G)) * (1 - FIT)) + (C)) / (A)	(H) - (G) - (G1)
1	Rate RS	\$ 216,755,621	\$ 65,522,695	\$ 12,112,556	5.5881%	\$ 64,729,581	\$ 793,114	\$ 674,147	\$ 118,967	\$ 5,092,850	\$ 69,822,431	6.562%	7.155%	7.400926%	\$ 4,299,736
2	Rate GS	71,593,514	23,198,247	1,512,368	2.1124%	26,086,108	\$ (2,887,861)	\$ (674,147)	\$ (433,179)	\$ 1,682,148	\$ 25,987,721	12.025%	5.190%	4.446597%	\$ 2,789,474
3	Rate FT-L	19,240,277	5,042,683	2,302,888	11.9691%	3,418,208	\$ 1,624,475	\$	\$ 243,671	\$ 452,066	\$ 5,251,078	4.133%	12.825%	12.824750%	\$ 208,395
4	Rate IT	5,834,165	1,524,248	680,670	11.6670%	1,053,976	\$ 470,272	\$	\$ 70,541	\$ 137,078	\$ 1,590,785	4.365%	12.568%	12.567913%	\$ 66,537
5	Total	\$ 313,423,577	\$ 95,287,873	\$ 16,608,482	5.2991%	\$ 95,287,873	\$ -	\$ -	\$ -	\$ 7,364,142	\$ 102,652,015	7.728%	7.155%	7.155222%	\$ 7,364,142

⁽¹⁾ Amounts for Rate RS and Rate GS include Gas Cost Adjustment revenues.

MISCELLANEOUS REVENUES:

6	Interdepartmental	27,765									27,765				
7	Bad Check Charges	28,032									28,032				
8	Reconnection Charges	22,068									66,204				
9	Rents	14,496									14,496				
10	No Notice Transp	603,445									603,445				
11	Other Misc	1,896									1,896				
12	Revenue Transp of Gas - Intero	0									0				
13	Total Misc	697,702									741,838				
14	Total Company	95,985,575									103,393,846				

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00261 DATED **MAR 27 2019**

The following rates and charges are prescribed for the customers in the area served by Duke Energy Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

	<u>Base Rate</u>	+	<u>Gas Cost Adjustment Rate</u>	=	<u>Total Rate</u>
Rate RS Residential Service					
Monthly Customer Charge					\$16.50
All Ccf	\$ 0.46920		\$ 0.40570		\$ 0.87490
Rate GS General Service					
Monthly Customer Charge					\$50.00
All Ccf	\$ 0.29243		\$ 0.40570		\$ 0.69813
Rate FT-L Firm Transportation Service					
Monthly Administrative Charge					\$430.00
All Ccf	\$ 0.18210				\$ 0.18210
Rate IT Interruptible Transportation Service					
Monthly Administrative Charge					\$430.00
All Ccf	\$ 0.09982				\$ 0.09982
Rate IMBS Interruptible Monthly Balancing Service					
All pools (per Mcf)					\$ 0.10970
Rate MPS Meter Pulse Service					
Installation of Meter Pulse Equipment					\$860.00
Replacement of Meter Index					\$635.00
Reconnection Charges					
Reconnection (Gas Only)					\$ 75.00
Reconnection Non-Remote (Electric and Gas)				not to exceed	\$ 88.00
Reconnection at pole (Electric and Gas)					\$150.00

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