

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY)	
KENTUCKY, INC. FOR AN ADJUSTMENT TO)	CASE NO.
RIDER PMM RATES AND FOR TARIFF)	2023-00209
APPROVAL)	

ORDER

On July 3, 2023, Duke Energy Kentucky, Inc. (Duke Kentucky) filed an application for approval for its Rider Pipeline Modernization Mechanism (PMM) annual projections, charges, and tariff. Duke Kentucky calculated the rates based on an expected effective date of January 1, 2024, but acknowledged that implementation of the rate was contingent on receiving a Certificate of Public Convenience and Necessity (CPCN) for the AM07 pipeline replacement project for which Duke Kentucky was seeking to recover costs in this matter.¹ The CPCN was requested in a separate proceeding.² No requests for intervention were filed in this matter. Duke Kentucky responded to one set of requests for information from Commission Staff. The case now stands submitted for a decision based on the evidentiary record.

LEGAL STANDARD

KRS 278.160(1) requires each utility to “file with the commission, within such time and in such form as the commission designates, schedules showing all rates and

¹ Application at 4.

² Case No. 2023-00210, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Phase Two Replacement of the AM07 Pipeline* (filed June 30, 2023).

conditions for service established by it.” KRS 278.160(2) prohibits a utility from charging “greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules.” KRS 278.180 prohibits a utility from increasing a rate in its filed schedules without 30 days’ notice to the Commission, or 20 days’ notice upon a showing of good cause.

KRS 278.030(1) states that “[e]very utility may demand, collect and receive fair, just and reasonable rates” for utility service. Pursuant to KRS 278.509, the Commission may allow a utility to recover costs for investment in natural gas pipeline replacement programs that are not recovered in existing rates through a rider if the costs are fair, just and reasonable. The burden of proof to show that an increased rate or charge is just and reasonable shall be upon the utility.³

BACKGROUND

In Duke Kentucky’s last gas base rate case, Case No. 2021-00190,⁴ the Commission approved, as modified in the final Order, a Joint Stipulation between Duke Kentucky and the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) that included the Rider PMM. The Rider PMM is intended to provide incremental cost recovery for pipeline replacement projects necessitated by the Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations for pipeline integrity.

³ KRS 278.190(3).

⁴ Case No. 2021-00190, *Electronic Application of Duke Kentucky Energy, Inc. for: 1) An Adjustment of the Natural Gas Rates; 2) Approval of New Tariffs, and 3) All Other Required Approvals, Waivers, and Relief* (Ky. PSC Dec. 28, 2021), Order.

The Joint Stipulation stated that the Rider PMM would use a forecasted 13-month average plant in-service balance, and a return on equity of 9.3 percent to calculate the annual revenue requirement.⁵ The Joint Stipulation further indicated that the Rider PMM will be adjusted annually for pipeline replacement projects necessitated by PHMSA, but that the Rider PMM may not increase natural gas revenues by more than 5 percent per year as measured against the revenues approved in Case No. 2021-00190.⁶ The Joint Stipulation detailed that the Rider PMM would be calculated as a per-bill monthly charge for residential and general service rates and a per Ccf charge for transportation rates.⁷

In Case No. 2022-00084, Duke Kentucky received Commission approval for a CPCN for Phase One of the AM07 pipeline replacement.⁸ Additionally, in Case No. 2022-00229, Duke Kentucky's received Commission approval for specific Rider PMM rates that were set out in that proceeding.⁹ In that case, the Commission also found that Duke Kentucky's Rider PMM rate for 2023 should be trued-up based on the timing of plant additions and retirements in 2023 and revenue collected in 2023, and that the true-up should be fully explained and reflected as an under or over recovery when Duke Kentucky calculates its revenue requirement in Duke Kentucky's 2025 Rider PMM filing.¹⁰

⁵ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7.

⁶ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7; Application at 3.

⁷ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7.

⁸ Case No. 2022-00084, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Phase One Replacement of the AM07 Pipeline* (Ky. PSC Feb. 24, 2023), Order.

⁹ Case No. 2022-00229, *Electronic Application of Duke Energy Kentucky, Inc. for an Adjustment to Rider PMM Rates and for Tariff Approval* (Ky. PSC May 26, 2023), ordering paragraph 2 and Appendix.

¹⁰ Case No. 2022-00229, May 26, 2023 Order at 9.

Additionally, the Commission found that a volumetric-based rate design for Residential and General Service customers should be utilized to more accurately reflect costs.¹¹

PROPOSED RIDER PMM

The AM07 pipeline replacement project consists of replacing approximately 14 miles of AM07 in sections over the next seven years at a total cost of \$201.6 million.¹² This is approximately a \$20.3 million increase from what Duke Kentucky had estimated in its previous Rider PMM case.¹³

Currently, Duke Kentucky is proposing to recover the incremental costs associated with plant additions related to Phase Two of the AM07 pipeline replacement in 2024. Duke Kentucky proposed the following Rider PMM Rates:¹⁴

Residential:	\$0.08 Per CCF
General Service:	\$0.02 Per CCF
Firm Transportation:	\$0.00072 Per CCF
Interruptible Transportation:	\$0.00079 Per CCF

Duke Kentucky calculated rates based on a forecasted period ending December 31, 2024, with an expected effective date of January 1, 2024.¹⁵ However, Duke Kentucky's tariff filed with its application did not include a proposed effective date, and Duke Kentucky acknowledged that the proposed Rider PMM rates were contingent upon

¹¹ Case No. 2022-00229, May 26, 2023 Order at 8.

¹² Application at 3.

¹³ In Case No. 2022-00229, (filed Sept. 16, 2022) Duke Kentucky's Response to Commission Staff's First Requests for Information, Item 1. Duke Kentucky estimated that the total cost of the AM07 Pipeline project would cost approximately \$181.3 million.

¹⁴ Application, Exhibit 3 at 2.

¹⁵ Application at 4 and Exhibit 3 at 3.

it receiving a CPCN for Phase Two of the AM07 project.¹⁶ The application for the CPCN was filed June 28, 2023. Duke Kentucky explained that the timing of plant additions for Phase Two are still accurate and that in order to maintain accurate forecasts for these additions to meet the scheduled timeline, an approved CPCN would need to be issued no later than mid-March 2024.¹⁷ However, Duke Kentucky also explained that in the event that the March timeline is not met, the latest an approved CPCN order could be received to maintain a 2024 in-service schedule is mid-April 2024.¹⁸

DISCUSSION

Duke Kentucky's Rider PMM rates are based on a Rider PMM revenue requirement for 2024 in the amount of \$5,948,929.¹⁹ That revenue requirement is based on a 13-month average rate base of \$55,177,394²⁰ associated with \$89,522,697 in plant additions in 2024 related Phase Two of the AM07 pipeline replacement project.²¹ Additionally, in Case No. 2022-00229, the end-of-year 2023 capital additions were forecasted to be around \$29.551 million.²² Duke Kentucky provided an end-of-year 2023 actual capital additions of approximately \$41.962 million in this case.²³ Duke Kentucky explained that the increase is due to inflationary costs primarily due to higher than initially

¹⁶ Application, at 4.

¹⁷ Duke Kentucky's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Feb. 6, 2023), Item 1(a).

¹⁸ Duke Kentucky's Response to Staff's First Request, Item 1(a).

¹⁹ Application, Exhibit 3 at 2.

²⁰ Application, Exhibit 3 at 3.

²¹ Application, Exhibit 3 at 5.

²² Case No. 2022-00229, May 26, 2023 Order, Application, Exhibit 2 at 5.

²³ Application, Exhibit 3 at 5.

estimated easement and right-of way acquisition costs, increases in labor and materials expenses for contractors, and supply chain constraints that were not known or included.²⁴

The Commission acknowledges the arguments raised by Duke Kentucky regarding the actual costs versus forecasted costs, considering that known costs for Phase One of the AM07 project and known costs had not incurred during that time. However, the Commission cautions Duke Kentucky in underestimating its projections and forecasting costs considering the negative rate impact it could have on Duke Kentucky's customers. Additionally, the Commission finds that the prior year projections should not be updated until the true-up filing. While Duke Kentucky stated that it uses the most up to date projections to minimize the over- or under-recovery,²⁵ that methodology is not included as part of Duke Kentucky's Rider PMM tariff. Therefore, the Commission will base the 2024 rates on the original projections for 2023 and 2024 plant additions.

Additionally, Duke Kentucky's proposed Rider PMM rates could not become effective on January 1, 2024, because the Rider PMM rate for Phase Two of the AM07 pipeline replacement project was contingent on Duke Kentucky receiving a CPCN for the project, which was not approved in time. Further, Duke Kentucky's proposed Rider PMM rate cannot become effective until the Commission enters an order approving the rate. Thus, Duke Kentucky's Rider PMM rate must become effective later than the date that Duke Kentucky used to calculate its proposed rates. Considering the timing of this Order, the Commission finds that Duke Kentucky's PMM Rider rates should be adjusted based

²⁴ Duke Kentucky's Response to Staff's First Request, Item 2(a).

²⁵ Duke Kentucky's response to Staff's First Request, Item 1(a).

on an April 1, 2024, effective date, as listed in the Appendix to this Order. Those rates were calculated based on removing the usage through the end of March.

The Commission also finds that Duke Kentucky should include a true-up provision in its tariff and specify that the true-up is based on a two-year lag. The Commission found that a true-up was necessary in Case No. 2022-00229 to ensure that the rate is reasonable due to the potential timing issues with when the plant will be placed in service and the effective date of the rate.²⁶ Therefore, when Duke Kentucky calculates its 2025 Rider PMM rates, they should be trued-up based on the timing of plant additions and retirements in 2023 and revenue collected in 2023 and include full explanations as to the under or over recoveries.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed Rider PMM rates are denied.
2. The Rider PMM rates in the Appendix to this Order are approved for service rendered on and after April 1, 2024.
3. Within 20 days of the date of service 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 in this Order, and reflecting their effective date and that they were authorized by this Order.
4. This case is closed and removed from the Commission's docket.

²⁶ Case No. 2022-00229, May 26, 2023 Order at 9.


PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ENTERED
APR 15 2024
rCS
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2023-00209 DATED APR 15 2024

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.

Rider PMM Surcharge or Credit

Residential (Rate RS)	\$0.14 Per CCF
General Service (Rate GS)	\$0.04 Per CCF
Firm Transportation – Large (Rate FT-L)	\$0.00084 Per CCF
Interruptible Transportation (Rate IT)	\$0.00082 Per CCF

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