COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR AN ORDER APPROVING THE ESTABLISHMENT OF A REGULATORY ASSET OR LIABILITY ASSOCIATED WITH PENSION SETTLEMENT ACCOUNTING	)	CASE NO. 2019-00352

COMMISSION STAFF'S FIRST 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 an electronic version of its responses to the following information. The information requested herein is due on November 15, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

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

Duke Kentucky shall make timely amendment to any prior response if Duke Kentucky 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, Duke Kentucky shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, Duke Kentucky 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, paragraph 5.

a. For the years 2014 through 2018, the forecasted test period in Case No. 2017-00321,[1] and the base period and forecasted test period in Case No. 2019-00271,[2] provide the following for Duke Kentucky's electric operations:

(1) Service cost;

(2) Interest cost;

(3) Expected return on plan assets;

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[1] 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 Apr. 13, 2018).

[2] Case No. 2019-00271, *Electronic Application of Duke Energy Kentucky, Inc. for 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief* (Application filed Sept. 3, 2019).

(4) Expected rate of return on plan assets;

(5) Gain or loss amortization; and

(6) Prior service cost or credit amortization.

b. For the years 2014 through 2018 and the forecasted test period in Case No. 2018-00261,[3] provide the following for Duke Kentucky's gas operations:

(1) Service cost;

(2) Interest cost;

(3) Expected return on plan assets;

(4) Expected rate of return on plan assets;

(5) Gain or loss amortization; and

(6) Prior service cost or credit amortization.

c. Explain how the service cost was determined for the actual and projected months of the base period and for the forecasted test period in Case No. 2019-00271.

d. Explain how interest cost is determined. Identify and describe any changes made between the calendar years 2014 through 2018, the forecasted test period in Case No. 2018-00261, and the base period and forecasted test period in Case No. 2019-00271. Identify and describe any differences in the method for gas and electric operations.

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[3] Case No. 2018-00261, *Electronic Application of Duke Energy Kentucky, Inc. for Authority to 1) Adjust Natural Gas Rates 2) Approval of a Decoupling Mechanism 3) Approval of New Tariffs 4) and for All Other Required Approvals, Waivers, and Relief* (Ky. PSC Mar. 27, 2019).

e. Provide a comparison of the expected and actual return on plan assets from 2014 through 2018. Identify and describe any differences for gas and electric operations.

2. Refer to the application, paragraph 6.

a. For Duke Kentucky's electric operations, provide the amount of pension actuarial gain or loss for the calendar years 2014 through 2018, the forecasted test period in Case No. 2017-00321, and the base period and forecasted test period in Case No. 2019-00271.

b. For Duke Kentucky's gas operations, provide the amount of pension actuarial gain or loss for the calendar years 2014 through 2018 and the forecasted test period in Case No. 2018-00261.

c. Provide the pension actuarial gain or loss amortization expense currently included in Duke Kentucky's base rates, separately for electric and gas operations.

3. Refer to the application, paragraph 7.

a. Separately for gas and electric operations, provide a comparison of the amount of pension cost recovered in rates and the actual pension costs incurred for calendar years 2007 through 2018.

b. Provide the amount of pension costs projected to be recovered in rates for the base period and forecasted test period in Case No. 2019-00271.

4. Refer to the application, paragraph 8.

a. Explain how Duke Kentucky amended its pension plans to allow for lump-sum payments.

b. Explain how Duke Kentucky calculates the lump-sum payment.

c. Provide the number of employees separated from their employment as part of workforce reductions in 2019 for Duke Kentucky and Duke Energy Business Services, LLC, respectively.

d. Identify the percentage of the employees that have been separated in 2019 as part of the workforce reductions referred to in paragraph 8 of the application that was eligible to receive lump-sum pension payments and the percentage of employees eligible to receive lump-sum pension payments who took the lump-sum payments.

e. Describe the groups or classes of employees eligible to take lump-sum pension payments by job title, date of hire, and other relevant classifications.

f. Provide the actual settlement charges for the second quarter of 2019 and the third quarter of 2019 that Duke Kentucky proposes to include in the regulatory asset/liability requested herein, including the net total and an itemized explanation of any costs or savings included in the regulatory asset/liability.

g. Provide updates to the estimated settlement charges in 2019 as they become available.

h. Explain whether Duke Kentucky administers its pension plans on a standalone basis or through Duke Energy Corporation. If both entities administer Duke Kentucky's pension plans, provide the relative proportion of each.

i. Explain whether Duke Kentucky's allocated and direct costs would exceed the threshold on a standalone basis.

5. Refer to the application, paragraph 8, and ASC 715-30-35-92 through 715-30-35-96. Explain whether Duke Energy Corporation or Duke Kentucky's workforce reductions or amendments to lock and freeze its defined benefit plans constitute a plan curtailment.

6. Refer to the application, paragraph 9.

a. Identify the pension plans that have been closed to new employees and when they were closed.

b. Identify and explain the pension plan(s) that are available to new employees and when they became available.

c. Provide an estimate of the total expected settlement charges that Duke Kentucky expects to include in the regulatory asset/liability requested herein for the years 2020 through 2024, and explain in detail how Duke Kentucky made those estimates.

7. Refer to the application, paragraph 9, and ASC 715-30-35-82. State the accounting policy Duke Kentucky is adopting for gains or losses from settlements when the cost of all settlements is less than or equal to the sum of the service and interest cost components of net periodic pension cost for the plan for the year.

8. Refer to the application, paragraph 10.

a. Explain in greater detail how, absent Commission approval of the instant application, Duke Kentucky would be treating Pension Settlement Accounting differently than all other aspects of its pension plan accounting.

b. Explain whether Duke Kentucky will separately calculate the amounts incremental to base rates for its existing pension plan accounting and Pension Settlement Accounting.

c. Clarify whether Duke Kentucky intends to defer all Pension Settlement Accounting gains or losses or only those amounts incremental to base rates.

d. State how often Duke Kentucky will calculate deferrals related to Pension Settlement Accounting.

9. Refer to the application, paragraph 11.

a. Based on its various accounting and reporting requirements, state the latest possible date that Duke Kentucky can receive a Commission decision and record the proposed regulatory asset on its books for 2019.

b. Explain why Duke Kentucky did not request an expedited decision.

c. State the date by which Duke Kentucky requests a decision.

d. Explain why an amortization period of the average remaining service period of the pension plan participants is appropriate considering that Duke Kentucky's defined benefit pension plan is closed to new hires, and the instant request was prompted by workforce reductions.

10. Refer to the application, paragraphs 11 and 18. Clarify when Duke Kentucky proposes to begin amortizing the requested regulatory asset.

11. Refer to the application, paragraph 12. Identify and explain the deferral authority Duke Kentucky has for all other aspects of its pension plan accounting.

12. Refer to the application, paragraph 17.

a. Provide the actual and estimated cost savings for Duke Kentucky, including allocated amounts, for electric operations in 2019, and the base period and forecasted test period in Case No. 2019-00271.

b. Provide the actual and estimated cost savings for Duke Kentucky, including allocated amounts, for gas operations in 2019.

c. Provide an itemized explanation of the actual and estimated cost savings identified in response to subparts (a) and (b) of this request.

d. Explain whether actual cost savings should be included in the regulatory asset.

e. Identify the trustees or administrators of Duke Kentucky's pension plan and describe the basis for any trustee or administration fees.

f. Identify the "statutory or administrative directive" that Duke Kentucky contends justifies recording the settlement charges as a regulatory asset/liability.

13. Refer to the application, paragraph 19, in which Duke Kentucky states that the "gains/losses would have been recorded to a FERC account 182.3 regulatory asset and amortized over the estimated remaining service life of the employees in the pension plan" if "Pension Settlement Accounting [had] not been triggered."

a. State whether Duke Kentucky recovers a carrying charge on pension gains/losses recorded to a FERC account 182.3 if Pension Settlement Accounting has not been triggered, and explain each basis for the response.

b. State whether pension gains/losses recorded to a FERC account 182.3 if Pension Settlement Accounting has not been triggered would be amortized even if the amortization of those gains/losses were not reflected in rates, and explain each basis for the response.

c. If the gains/losses would be amortized had Pension Settlement Accounting not been triggered even if the amortization of those gains/losses were not reflected in rates, state whether and explain why Duke Kentucky contends that additions to the regulatory asset/liability requested herein should not begin amortizing as soon as they are included in the proposed regulatory asset and liability accounts.

14. Refer to the application, page 9, item 2.

a. Describe in greater detail the request for carrying costs as part of the regulatory assets described in the application.

b. Explain why carrying costs are appropriate for the requested regulatory asset for Pension Settlement Accounting.

c. State whether Duke Kentucky includes carrying costs in its current regulatory assets for pension plan accounting.

15. a. Describe how Duke Kentucky determines the average remaining future service of active plan participants for the purposes of determining the amortization period for pension plan gains and losses, assuming that method is used to determine the amortization period.

b. Using the same method it uses (or that would be used) to determine the average remaining future service of active plan participants, provide the average remaining future service of employees whose separation resulted in a lump-sum pension payment in the second quarter of 2019 and the third quarter of 2019, as of March 31, 2019 and June 30, 2019, respectively.

c. Confirm that the "cost savings" derived from "reducing headcount" through the involuntary separation and incentivized early retirement of current employees will be weighted toward the date on which the employees become separated, because the statistical likelihood that the employees would have remained with the company if they had not been separated goes down over time, and if it cannot be confirmed, explain the basis for your response.

d. Given that Duke Kentucky justified recording the settlement charges as regulatory assets and regulatory liabilities based on "cost savings" derived from "reducing headcount," state whether and, if so, explain why Duke Kentucky contends that the cost savings that occur between rate proceedings, including the savings arising from reductions in expenses for the employees' salary and benefits, should not be recorded as a regulatory liability.

16. State whether and explain why Duke Kentucky contends that the "cost savings" derived from "reducing headcount" against which the settlement charges should be measured to determine whether the settlement charges can be treated as a regulatory asset should be measured based on the cost savings arising from the separation of employees who took the lump sum pension payments; the cost savings arising from the separation of employees who were eligible to take the lump-sum pension payments, regardless of whether they took them or not; or the cost savings arising from the separation of every employee separated during the relevant quarter or year during which the lump sum pension payments were made.

17 State whether the lump sum pension payments in 2019 from which the settlement charges at issue arose are something that employees were eligible for as a

matter of right upon their separation or whether lump-sum payments were offered as part of an effort to encourage employees to accept a voluntary separation (or early retirement) from Duke Kentucky.

a. If the lump sum pension payments made in 2019 were offered as part of an effort to encourage employees to accept a voluntary separation from Duke Kentucky (or early retirement), describe the terms of the incentive offered and Duke Kentucky's plans to offer similar incentives in the future.

b. If the lump-sum pension payments made in 2019 are something that the employees were entitled to as a matter of right under the terms of the current pension plans, describe the circumstances under which employees are entitled to the receive a lump-sum pension payment under current plans and the employees who are entitled to receive them.

Gwen R. Pinson

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cc: Parties of Record

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