

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE)	
PUBLIC SERVICE COMMISSION OF THE)	
ENVIRONMENTAL SURCHARGE)	CASE NO.
MECHANISM OF DUKE ENERGY KENTUCKY,)	2020-00142
INC. FOR THE SIX-MONTH BILLING PERIOD)	
ENDING NOVEMBER 30, 2019)	

ORDER

On May 18, 2020, pursuant to KRS 278.183, the Commission initiated a six-month review of Duke Energy Kentucky, Inc.'s (Duke Kentucky) environmental surcharge mechanism (ESM) for the six-month billing period of June 1, 2019, to November 30, 2019. Duke Kentucky filed prepared testimony pursuant to the May 18, 2020 Order and responded to two requests for information from Commission Staff. There were no intervention requests in this proceeding.

On July 30, 2020, Duke Kentucky requested that this case be submitted for decision by the Commission based on the existing record without an evidentiary hearing. Further, while Duke Kentucky responded to supplemental request for information on September 14, 2020, it did not amend its request that this matter be decided based on the written record. Thus, finding good cause, the Commission will grant Duke Kentucky's request and decide this case based on the evidence of record, including Duke Kentucky's responses to the supplemental request for information, without an evidentiary hearing.

BACKGROUND

Duke Kentucky's ESM was approved in Case No. 2017-00321¹ and amended in Case No. 2018-00156.² As noted above, this review covers the billing months of June 2019, through November 2019, but those billing months included costs incurred from April 2019, through September 2019. This two-month lag is consistent with Duke Kentucky's tariff, which states that the environmental surcharge is to be imposed on customer bills in the second month following the month in which the applicable environmental costs are incurred.

Duke Kentucky reported that its ESM rate base at the end of April 2019 was \$40,448,174 and that its ESM rate base at the end of September 2019 was \$51,650,762.³ It calculated its ESM return on rate base during the period to be \$1,889,667.⁴ Duke Kentucky also incurred \$15,522,510 in environmental operating expenses, including depreciation expense and the amortization of regulatory assets, during the review period.⁵

Duke Kentucky's surcharge has a monthly true-up mechanism for differences in revenues used to calculate and bill the monthly factor. Duke Kentucky initially stated that

¹ See 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).

² See Case No. 2018-00156, *Electronic Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity to Construct Phase Two of its West Landfill and Approval to Amend its Environmental Compliance Plan for Recovery by Environmental Surcharge Mechanism* (Ky. PSC Dec. 10, 2018).

³ Duke Kentucky's Response to Commission Staff's First Request for Information (Staff's First Request), Item 1.

⁴ *Id.* Notably, Duke Kentucky used the rate of return (ROR) from Case No. 2017-00321 to calculate that return, since the months at issue preceded the Order in Case No. 2019-00271. Duke Kentucky has been using the ROR from Case No. 2019-00271 since the final Order in that case.

⁵ See Duke Kentucky's Response to Staff's First Request, Item 1.

it did not experience any additional over- or under-recoveries,⁶ but following questions from Commission Staff, Duke Kentucky acknowledged that it improperly included Allowance for Funds Used During Construction (AFUDC) in its ESM rate base for the expense months of November 2018 through July 2020.⁷ Duke Kentucky includes Construction Work in Progress (CWIP) in its ESM rate base, and therefore, should not include AFUDC.⁸

Duke Kentucky calculated its over-recovery for each month in which AFUDC was improperly included in rate base—from November 2018 to July 2020—and determined that its total over-recovery during those periods arising from the inclusion of AFUDC was \$380,992 from native customers and \$8,924 from nonnative customers.⁹ Duke Kentucky indicated that AFUDC would be removed from its ESM rate base going forward and that it would refund native customers \$380,992 through the ESM surcharge in the expense month of August 2020. Duke Kentucky similarly proposed refunding nonnative customers in the amount of \$8,924 in its Rider PSM filing.¹⁰

DISCUSSION

Based on the information provided by Duke Kentucky in this matter, the amounts billed by Duke Kentucky for the six-month period of June 1, 2019, to November 30, 2019,

⁶ Duke Kentucky's Response to Commission Staff's First Request for Information (Staff's First Request), Item 2.

⁷ Duke Kentucky's Response to Commission Staff's Second Request for Information (Staff's Second Request), Item 1.

⁸ See Case No. 2018-00281, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates*, (KY PSC May 7, 2019), Order 25–27 (“The Commission agrees with the Attorney General that Atmos is entitled to only include either AFUDC or CWIP in rate base.”).

⁹ Duke Kentucky's Response to Staff's Second Request, Item 1

¹⁰ *Id.*

generally appear to be reasonable. The only error identified in this review period was the inclusion of AFUDC in ESM rate base as discussed above. The Commission finds that Duke Kentucky's calculation and plan to refund the over-recovery arising from its inclusion of AFUDC in ESM rate base is reasonable. Thus, the Commission finds that the amounts billed by Duke Kentucky through its environmental surcharge for the period June 1, 2019, to November 30, 2019, should be approved on the condition that Duke Kentucky refund any over-recovery arising from its inclusion of AFUDC as proposed.¹¹

Additionally, it appears that the issue with the ESM rate base arose, in part, from the forms used by Duke Kentucky. Specifically, Duke Kentucky's ES Form 2.00 includes a line containing "Eligible Environmental Compliance Plant (Gross Plant)" and a line containing "Eligible Environmental Compliance CWIP Excluding AFUDC."¹² Similarly, its ES Form 2.10 includes a column containing the ESM "Gross Plant In-Service" and a column with the "CWIP Excluding AFUDC."¹³ While there is no dispute that AFUDC should not have been included, the explicit statements that CWIP excludes AFUDC without a corresponding statement in the forms that gross plant excludes AFUDC creates confusion regarding whether gross plant includes AFUDC in the forms. Thus, the Commission finds that Duke Kentucky must modify its monthly ES Form 2.00 and ES Form 2.10 to indicate explicitly that AFUDC is excluded from Gross Plant In-Service, as it does with CWIP.

¹¹ Records in subsequent ESM filings indicate that Duke Kentucky has refunded the amounts to native customers as proposed. However, the Commission will review the refunds to both native and nonnative customers when it reviews the relevant expense months and mechanisms.

¹² See Duke Kentucky's Response to Staff's First Request, Item 1, Attachment 1.

¹³ See *Id.*

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's request to submit this case for a decision on the evidence of record without an evidentiary hearing is granted.
2. The amounts billed by Duke Kentucky through its environmental surcharge for the period June 1, 2019, to November 30, 2019, are approved.
3. Duke Kentucky shall refund the over-recovery arising from its inclusion of AFUDC in ESM rate base, in the amount of \$380,992 for native customers and in the amount of \$8,924 for nonnative customers, as it proposed.
4. Duke Kentucky shall modify its ES Form 2.00 and ES Form 2.10 going forward to indicate explicitly that the gross plant excludes AFUDC.
5. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:



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