

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)	2025-00229
APPROVAL)	

ORDER

On July 3, 2025, Duke Energy Kentucky, Inc. (Duke Kentucky) filed an application to adjust its Rider Pipeline Modernization Mechanism (PMM) annual projections, charges, and tariff for Phase Four of its AM07 project and establish a regulatory asset for the costs above the cap. Duke Kentucky calculated the rates based on an expected effective date of August 3, 2025,¹ but acknowledged that implementation of the rate was contingent on receiving a Certificate of Public Convenience and Necessity (CPCN) for the Phase Four AM07 pipeline replacement project for which Duke Kentucky was seeking to recover costs in this matter. On March 13, 2025, Duke Kentucky filed its application for a CPCN for approval of Phase Four of its AM07 pipeline replacement in Case No. 2025-00057,² and an Order approving the CPCN was issued on August 13, 2025.³ On August 1, 2025, the Commission suspended Duke Kentucky's proposed PMM charges on or after August 4,

¹ Application, Exhibit 2.

² Case No. 2025-00057, *Electronic Application of Duke Kentucky, Inc. For A Certificate of Public Convenience and Necessity Authorizing the Phase four AM07 Pipeline Replacement*.

³ Case No. 2025-00057, Aug. 13, 2025 final Order.

2025, pending the final Order in this matter.⁴ No requests for intervention were filed in this matter. Duke Kentucky responded to one request for information. Commission Staff scheduled an Informal Conference on November 21, 2025, to discuss Duke Kentucky's true-up provision and a memo was filed with additional information.⁵ The case now stands submitted for a decision based on the written 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 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.⁶

⁴ Order (Ky. PSC Aug. 1, 2025).

⁵ Notice of Informal Conference (Ky. PSC Nov. 19, 2025); https://psc.ky.gov/pscscf/2025%20cases/2025-00229//20251202_PSC%20Letter%20Filing%20IC%20Memo%20and%20Sign%20In%20Sheet%20into%20the%20Record.pdf

⁶ KRS 278.190(3).

Under KRS 278.220, the Commission may establish a uniform system of accounts (USoA) for utilities. The system of accounts should conform as nearly as practicable to the system adopted or approved by the Federal Energy Regulatory Commission (FERC). The FERC USoA provides for regulatory assets, or the capitalization of costs that would otherwise be expensed but for the actions of a rate regulator. It must be probable that the utility will recover approximately equal revenue through the inclusion of these costs for ratemaking purposes, with the intent to recover the previously incurred cost not a similar future cost.

In prior matters the Commission has identified parameters for expenses that may qualify for regulatory asset treatment and has approved regulatory assets when a utility has incurred (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from an statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.⁷ Additionally, the Commission has established a requirement that utilities seek Commission approval before recording regulatory assets,⁸ and requirements regarding the timing for applications seeking such approval.⁹ In addition, outside of the prescribed categories of expenses that qualify for regulatory asset

⁷ Case No. 2008-00436, *Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), Order at 3-4.

⁸ Case No. 2016-00180, *Application of Kentucky Power Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to the Extraordinary Expenses Incurred by Kentucky Power Company in Connection with the Two 2015 Major Storm Events* (Ky. PSC Nov. 3, 2016), Order at 9.

⁹ Case No. 2016-00180, Order (Ky. PSC Dec. 12, 2016) at 5.

treatment, utilities have established regulatory assets for certain timing and accounting differences, such as over- or under-recoveries for riders.

BACKGROUND

In Case No. 2021-00190,¹⁰ 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 was intended to provide incremental cost recovery for pipeline replacement projects necessitated by the Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations for pipeline integrity. The AM07 pipeline replacement project consists of replacing approximately 14 miles of AM07 in sections over five phases at a current estimated total cost of \$227.6 million.¹¹

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.¹² 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 five percent per

¹⁰ 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.

¹¹ Duke Kentucky's Response to the Commission Staff's First Request for Information (Staff's First Request), Item 5(a) Attachment. In Case No. 2023-00209, Duke Kentucky reported the estimated total project costs to be \$201.6 million; and in Case No. 2022-00229 the estimated total project costs were estimated at \$181.3 million.

¹² Case No. 2021-00190, Dec. 28, 2021 Order at 5–7.

year, as measured against the revenues approved in Case No. 2021-00190.¹³ 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.¹⁴ Furthermore, the Joint Stipulation established that the Rider PMM shall be subject to an annual revenue requirement cap of no more than a five percent increase in natural gas revenues per year.¹⁵ The Stipulation further provided that any additional capital investment that results in an increase over the five percent cap shall be eligible for the creation of a regulatory asset.¹⁶

In Case No. 2022-00084, Duke Kentucky received Commission approval for a CPCN for Phase One of the AM07 pipeline replacement.¹⁷ A few months later in Case No. 2022-00229, Duke Kentucky received Commission approval for specific Rider PMM rates.¹⁸ Additionally, the Commission found that Duke Kentucky's Rider PMM rate for 2023 should be trued-up based on the timing of plant additions, retirements in 2023 and revenue collected in 2023, and the true-up should be fully explained and reflected as an under or over recovery when Duke Kentucky calculated its revenue requirement in Duke Kentucky's 2025 Rider PMM filing.¹⁹ In that same case, the Commission also found that

¹³ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7; Application at 3.

¹⁴ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7.

¹⁵ Case No. 2021-00190, Dec. 28, 2021, Order at 7.

¹⁶ Case No. 2021-00190, Dec. 28, 2021, Order at 7.

¹⁷ Case No. 2022-00084, *Electronic Application of Duke 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.

¹⁸ Case No. 2022-00229, *Electronic Application of Duke Kentucky, Inc. for an Adjustment to Rider PMM Rates and for Tariff Approval* (Ky. PSC May 26, 2023), Order, ordering paragraph 2 and Appendix.

¹⁹ Case No. 2022-00229, May 26, 2023 Order at 9.

a volumetric-based rate design for Residential and General Service customers should be utilized to more accurately reflect costs.²⁰

In Case No. 2023-00210, Duke Kentucky received Commission approval for a CPCN for Phase Two of the AM07 pipeline replacement.²¹ In Case No. 2023-00209, Duke Kentucky received Commission approval for specific Rider PMM rates that were set out in that proceeding.²² The Commission found, however, that 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 for implementation to occur.²³ The Commission noted that Duke Kentucky's proposed Rider PMM rate could not become effective until the Commission entered an order approving the rate.²⁴ The Commission further determined that the prior year projections should not be updated until the true-up filing in 2025.²⁵ In that case, the Commission also determined 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, finding that the true-up was deemed necessary in Case No. 2022-00229 to ensure that the rate is reasonable due to the potential timing issues

²⁰ Case No. 2022-00229, May 26, 2023 Order at 8.

²¹ Case No. 2023-00210, *Electronic Application of Duke Kentucky, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Phase Two Replacement of the AM07 Pipeline* (Ky. PSC Apr. 2, 2024).

²² Case No. 2023-00209, *Electronic Application of Duke Kentucky, Inc. for an Adjustment to Rider PMM Rates and for Tariff Approval* (Ky. PSC Apr. 15, 2024).

²³ Case No. 2023-00209, Apr. 15, 2024 Order at 6.

²⁴ Case No. 2023-00209, Apr. 15, 2024 Order at 6.

²⁵ Case No. 2023-00209, Apr. 15, 2024 Order at 6.

with when the plant will be placed in service and the effective date of the rate.²⁶ In January of 2025, in Case No. 2024-00189, Duke Kentucky received Commission approval for a CPCN for Phase Three of the AM07 pipeline replacement project.²⁷

In this application, Duke Kentucky is proposing to recover the incremental costs associated with plant additions related to Phase Four of the AM07 pipeline replacement in 2025. Duke Kentucky proposed the following Rider PMM rates:²⁸

Residential:	\$ 0.24 Per CCF
General Service:	\$ 0.06 Per CCF
Firm Transportation:	\$ 0.00190 Per CCF
Interruptible Transportation:	\$ 0.00224 Per CCF

Duke Kentucky calculated the PMM rates based on a forecasted period ending December 31, 2026, with an expected effective date of January 1, 2026.²⁹ Duke Kentucky filed a tariff with its application that listed an effective date of August 3, 2025.³⁰ However, Duke Kentucky acknowledged that the proposed Rider PMM rates were contingent upon it receiving a CPCN for Phase Four of the AM07 project.³¹

Duke Kentucky included a true-up for 2024 actual costs which added \$1,500,921 to the total revenue requirement and a volumetric-based rate design pursuant to the

²⁶ Case No. 2023-00209, Apr. 15, 2024 Order at 7.

²⁷ Case No. 2024-00189, *Electronic Application of Duke Kentucky, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Phase Three Replacement of the AM07 Pipeline* (Ky. PSC Jan. 17, 2025).

²⁸ Application, Exhibit 3 at 2.

²⁹ Application at 8.

³⁰ Application, Exhibit 2, at 1.

³¹ Application at 5.

Commission's final Order in Case No. 2022-00229.³² Duke Kentucky only updated prior projections for 2024, which were included in the true-up pursuant to the Commission's final Order in Case No. 2023-00209.³³ The application for the Phase Four CPCN was filed on March 13, 2025, in Case No. 2025-00057, and the Commission issued the final Order granting Duke Kentucky's request for the proposed project on August 13, 2025.³⁴

Duke Kentucky also requested authorization to create a regulatory asset for the incremental amounts of the Rider PMM investment that exceeded the five percent limitation established as part of the 2021 Natural Gas Rate Case Settlement.³⁵ Duke Kentucky provided that beginning with the Rider PMM rate proposed in this proceeding to be effective January 1, 2026, it is projecting to be over the cap by \$707,718. Duke Kentucky argued that the regulatory deferrals represent an expense resulting from a statutory or administrative directive.³⁶ Furthermore, Duke Kentucky stated that the request is reasonable, appropriate, and consistent with the Commission's order in 2021-00190.³⁷

DISCUSSION

Duke Kentucky's Rider PMM rates are based on a Rider PMM revenue requirement for 2026 in the amount of \$15,254,454.³⁸ The revenue requirement is based

³² Application, Exhibit 3 at 2.

³³ Application at 6.

³⁴ Case No. 2025-00057, August. 13, 2025 Order.

³⁵ Case No. 2021-00190, Dec. 28, 2021 Order at 5–7.

³⁶ Application at 8.

³⁷ Application at 8.

³⁸ Duke Kentucky's Response to Staff's First Request, Item 1, Attachment at 3.

on a 13-month average rate base of \$150,891,398³⁹ including a projected \$42,291,943 in plant additions in 2026 related to Phase Four of the AM07 pipeline replacement project.⁴⁰ In Case No. 2024-00191, the end-of-year 2025 capital additions were forecasted to be approximately \$44.87 million.⁴¹ In this proceeding, Duke Kentucky provided an end-of-year 2025 actual capital additions of approximately \$63.013 million.⁴²

Having reviewed the record, the Commission finds Duke Kentucky's proposed Rider PMM revenue and rates to be reasonable because the rate accurately reflects Duke Kentucky's investment and was calculated in accordance with the Orders discussed above. Duke Kentucky's cost estimations for the AM07 pipeline project have shown significant variances from initial forecasts, prompting caution from the Commission. In Case No. 2023-00209, the Commission cautioned Duke Kentucky against underestimating its projections and forecasting costs, noting the potential for a negative rate impact on customers.⁴³ The total estimated cost for the 2025 AM07 project (phase three) increased by approximately \$20 million from the previous forecast in Case No. 2024-00191. Duke Kentucky's projected additions at the end of the year 2025 are forecasted to be approximately \$124.5 million.⁴⁴ In this case, Duke Kentucky forecasted that the estimated cost of the addition starting in 2026 will be approximately \$142.5

³⁹ Duke Kentucky's Response to Staff's First Request, Item 1, Attachment at 7.

⁴⁰ Duke Kentucky's Response to Staff's First Request, Item 1, Attachment at 7.

⁴¹ Case No. 2024-00191, Application, Exhibit_3.xlsx, Tab Sch 2.0.

⁴² Application, Exhibit_3.xlsx, Tab Sch 2.0.

⁴³ Case No. 2023-00209, Apr. 15, 2024, Order at 6.

⁴⁴ Case No. 2024-00191, Application, Exhibit_3.xlsx, Tab Sch 2.0.

million⁴⁵, and the total cost to be roughly \$146.1 million, representing an over sixteen percent increase in one year.

The final Order in Case No. 2023-00209 determined that Duke Kentucky's calculation of its 2026 Rider PMM rates should be trued-up based on the timing of plant additions and retirements in 2024 and revenue collected in 2024 and include full explanations as to the under or over recoveries accounts.⁴⁶ The Commission found that Duke Kentucky's two-year lag true-up provision should account for any under- or over-collections results from the lag in the effective period.⁴⁷

Based on the application in this case, Duke Kentucky under collected \$1,500,921⁴⁸ in 2024 PMM rider. The two-year lag true up mechanism is critical to reconcile the difference between the projected revenue requirement for a given period and the actual revenue requirement and collections two years later. This reconciliation corrects for any variances, which typically arise due to differences in the forecasted in-service dates of plant additions and the actual volumes of natural gas delivered. The Commission finds that the requested true-up amount should be approved as it is reasonable and actual expenses.

For the 2026 forecast period, Duke Kentucky has demonstrated that the total estimated annual revenue requirement, prior to applying the cap and true-up, is

⁴⁵ Duke Kentucky's Response to Staff's First Request, Item 1, revised attachment Excel spreadsheet, Schedule 2.0 (filed October 24, 2025).

⁴⁶ Case No. 2023-00209, Apr. 15, 2024 Order at 7.

⁴⁷ Case No. 2022-00229, May 26, 2023 Order at 9.

⁴⁸ True-Up amount = 2024 Revenue Requirement – 2024 Billed Revenue
= \$5,051,084 - \$3,550,163 = \$1,500,921

\$15,962,172. The application of the five percent cap limits the recoverable amount through the Rider PMM rate to \$15,254,454⁴⁹ and the total revenue requirement, plus the true-up and annual cap adjustments, will be \$16,755,375.⁵⁰ Accordingly, the Commission hereby authorizes Duke Kentucky to establish a regulatory asset for the projected revenue requirement in excess of the cap for the 2026 PMM period, and it shall be eligible for amortization in Duke Kentucky's next natural gas base rate proceeding.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky's proposed Rider PMM rates are approved.
2. Duke Kentucky's proposed true-up for the 2024 expenses is approved.
3. The Rider PMM rates in the Appendix to this Order are approved for service rendered on and after the date of service of this Order.
4. Duke Kentucky's request to create a regulatory asset for the expenses related to this project that exceed the five percent cap is approved.
5. 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.

⁴⁹ Duke Kentucky's Response to Staff's First Request, Item 1, revised attachment Excel spreadsheet, Schedule 1.1 (filed October 24, 2025).

$$\text{2026 Revenue Requirement} = 5\% * \text{2021-00190 Revenue Requirement} + \text{2025 PMM Revenue Requirement} = 5\% * \$121,059,033 + \$9,338,357 = \$15,391,309$$

⁵⁰ Duke Kentucky's Response to Staff's First Request, Item 1, revised attachment Excel spreadsheet, Schedule 1.0 (filed Oct. 24, 2025).

$$\text{Total Revenue Requirement} = \$15,254,454 + \$1,500,921 = \$16,755,375$$

6. In all future CPCN and Rider PMM cases related to the AM07 project, Duke Kentucky shall be required to provide estimates and actuals with the corresponding case numbers and phase numbers on all charts. Furthermore, a specific breakdown of actual costs incurred shall be included in the Rider PMM cases.

7. Duke Kentucky shall provide a detailed explanation as to the reasons for the excess costs if the actual costs exceed ten percent of the estimated cost, regardless of the section of the project.


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

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PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:


Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00229 DATED DEC 16 2025

The following rates and charges are prescribed for the calculation of the revenue requirement for the 2026 PMM Program.

Line No.	(A)	PMM Investment <u>December 31, 2026</u> (B)
	Return on Investment	
	<u>Rate Base</u>	
1	Net PMM Investment - Property, Plant and Equipment	\$ 151,257,430
2	Cost of Removal	2,831,227
3	Accumulated Reserve for Depreciation	(3,197,319)
4	Net PP&E	150,891,338
5	Accumulated Deferred Taxes on Liberalized Depreciation	(5,201,245)
6	Net Rate Base	145,690,093
7	Authorized Rate of Return, Adjusted for Income Taxes	8.087%
8	Required Return on PMM Related Investment	\$ 11,781,958
	<u>Operating Expenses</u>	
9	Depreciation	\$ 2,176,922
10	Property Tax	1,978,487
11	PSC Assessment	24,805
12	Total Operating Expenses	4,180,214
13	Total Estimated Annual Revenue Requirement	\$ 15,962,172
14	Cap Adjustment	(707,718)
15	<u>Total Annual Revenue Requirement</u>	<u>\$ 15,254,454</u>
16	Total (Over)/Under Collections	1,500,921
17	<u>Total Annual Revenue Requirement with True-Up</u>	<u>\$ 16,755,375</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00229 DATED DEC 16 2025

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)	\$ 0.24 Per CCF
General Service (Rate GS)	\$ 0.06 Per CCF
Firm Transportation – Large (Rate FT-L)	\$ 0.00190 Per CCF
Interruptible Transportation (Rate IT)	\$ 0.00224 Per CCF

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