

**COMMONWEALTH OF KENTUCKY  
BEFORE THE  
KENTUCKY PUBLIC SERVICE COMMISSION**

In the Matter of:

The Application of Duke Energy Kentucky, )  
Inc., for a Certificate of Public )  
Convenience And Necessity Authorizing )  
the Implementation of an Accelerated )  
Service Line Replacement Program, ) Case No. 2015-00210  
Approval of Ownership of Service Lines, )  
and a Gas Pipeline Replacement Surcharge )

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**STIPULATION AND RECOMMENDATION**

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On or about July 6, 2015, Duke Energy Kentucky, Inc., (Duke Energy Kentucky or the Company) filed its application with the Kentucky Public Service Commission (Commission), pursuant to KRS 278.020, and 278.509, and 807 KAR 5:001, Sections 14 and 15, for Certificate of Public Convenience and Necessity (CPCN) authorizing the implementation of an Accelerated Service Line Replacement Program (ASRP), Approval of Ownership of Service Lines, and a Gas Pipeline Replacement Surcharge (Rider ASRP)(Application). On or about July 7, 2015, the Attorney General of the Commonwealth of Kentucky (Attorney General) filed its motion to intervene, which was subsequently granted by the Commission.

The Attorney General and the Commission Staff have engaged in substantial investigation of the Company's Application by issuing numerous information requests to which the Company has responded.

Duke Energy Kentucky and the Attorney General (the Parties), representing diverse interests and viewpoints, have reached a complete settlement of all the issues

raised in this proceeding and have executed this Stipulation and Recommendation (Stipulation) for purposes of submitting their agreement to the Commission for consideration and approval. It is the intent and purpose of the Parties to express their agreement to 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 278.020, and 278.509, and 807 KAR 5:001, Sections 14 and 15, including granting of the Company's Application 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 agreements set forth herein, the Parties agree as follows:

1. **Approval of Application.** Duke Energy Kentucky's Application shall be approved as filed and described in Company's Application and Supporting Testimony, except as modified below:

- a. Duke Energy Kentucky will implement an annual \$1.00 cap on Rider ASRP rate increases for the monthly charge to residential customers. (For example, in year one the monthly ASRP charge to residential customers will not exceed \$1.00. In year two, the monthly Rider ASRP charge will not exceed \$2.00, etc.)
- b. Duke Energy Kentucky agrees not to relocate interior natural gas meters as part of its ASRP except for those meters the current location of which violates applicable federal or state code (*e.g.*, piping located under cement patios). The cost to relocate any interior natural gas meter due to a discovered code violation is recoverable under Rider ASRP.
- c. The Parties agree that the Return on Equity (ROE) for purposes of calculating the Rider ASRP revenue requirement shall be established at 9.7 percent. The 9.7 percent ROE shall be only used for purposes of calculating the Rider ASRP revenue requirement and the Company shall continue to use the ROE established in its last base natural gas rate case for all other purposes (*e.g.* allowance of funds used during construction). The 9.7 percent ROE for Rider ASRP shall remain in effect until the Company files its next natural gas base rate proceeding. The 9.7 percent ROE established and agreed upon by this Stipulation is not to be used as precedent by either Party for future Company filings and each Party reserves the right to advocate and support a different ROE as part of the Company's next base natural gas rate and or any future rate proceeding.

2. **Approval of Rider ASRP.** The Parties agree Rider ASRP shall be approved as reflected in the revised Attachment PAL-2, Rider ASRP and supporting schedules contained in revised Attachment PAL-1 attached hereto. These Attachments have been updated to reflect updated program cost data since the time of the Company's filing and so to incorporate the terms set forth in this stipulation and recommendation.
3. **Natural Gas Base Rate Case Stay Out.** Subject to the exclusions set forth below, Duke Energy Kentucky agrees not to file an application for approval of a base rate increase for its natural gas business within one year of the date on which the Commission enters its final order approving this Stipulation. Duke Energy Kentucky may file its notice of intent to file a base rate application within one year of the date of the Commission's final order.
4. **Exceptions/exclusions.** Notwithstanding the natural gas base rate case stay out commitment described above, Duke Energy Kentucky shall retain the right, at any time, to seek the approval from the Commission of:
  - a. The deferral of costs as permissible under the Commission's standard for deferrals:
    1. An extraordinary, nonrecurring expense that could not have reasonably been anticipated in the utility's planning;
    2. An expense resulting from a statutory or administrative directive;
    3. An expense in relation to an approved industry initiative; or

4. An extraordinary or nonrecurring expense that over time will result in a savings that fully offsets the cost.
    - b. Emergency rate relief under KRS 278.190(2) to avoid a material impairment or damage to credit or operations;
    - c. Adjustments to the operation of any of Duke Energy Kentucky's cost recovery surcharge mechanisms (*e.g.*, Gas Cost Adjustment, ASRP); and
    - d. During the effective stay-out period, Duke Energy Kentucky reserves the right to seek necessary rate relief and/or accounting treatment for costs or programs required due to changes in federal law or regulation that may occur during the stay-out period.
5. **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, Application, direct 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.

6. **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 none of the Parties shall be bound by any of the provisions herein;
- b. Each Party shall have the right, within twenty days of the Commission's order, to file an application 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 any of the signatory Parties to this Stipulation or be construed against any 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.

7. **Commission Jurisdiction.** This Stipulation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.
8. **Successors and Assigns.** This Stipulation shall inure to the benefit of and be binding upon the Parties hereto and their successors and assigns.
9. **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.
10. **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.
11. **Admissibility and Non-Precedential Effect.** Neither the Stipulation nor any of the terms 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. This Stipulation shall not have any precedential value in this or any other jurisdiction.

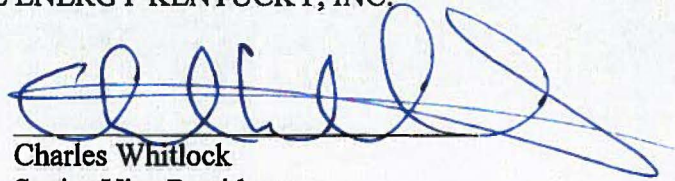
12. **No Admissions.** Making this Stipulation shall not be deemed in any respect to constitute an admission by any Party hereto that any computation, formula, allegation, assertion or contention made by any other Party in these proceedings is true or valid. Nothing in this Stipulation shall be used 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.
13. **Authorizations.** The signatory Parties hereto warrant that they have informed, advised, and consulted with the respective Parties hereto in regard to the contents of the stipulation, and based upon the foregoing, are authorized to execute this Stipulation on behalf of the Parties hereto.
14. **Commission Approval.** This Stipulation is subject to the acceptance of and approval by the Commission.
15. **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.
16. **Counterparts.** This Stipulation may be executed in multiple counterparts.
17. **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 natural gas rate case proceeding of Duke Energy Kentucky.



IN WITNESS WHEREOF, this Stipulation has been agreed to effective this 17<sup>th</sup> day of December 2015. 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:



Charles Whitlock  
Title: Senior Vice President  
Midwest Delivery and Gas  
Operations

ATTORNEY GENERAL OF THE  
COMMONWEALTH OF KENTUCKY

By:



Hon. Lawrence Cook  
Title: Assistant Attorney General,  
Office of Rate Intervention

**Duke Energy Kentucky**  
**Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")**  
**Forecasted Period Ending December 31, 2016**  
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**Duke Energy Kentucky**  
**Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")**  
**ASRP Rider by Rate Schedule**

<u>Line No.</u>	<u>Rate Schedule</u>	<b>Weighted Customers- Services Approved PSC Case No. 2009-202</b>	<b>Revenue Requirement</b>	<b>Billing Determinants # of Bills</b>	<b>Monthly ASRP Rider</b>
1	RS- Residential	92.301%	381,210	1,079,402	\$ 0.35 Per Customer
2	GS - General Service	6.969%	28,782	82,367	\$ 0.35 Per Customer
3	FT - Firm Transportation (Includes DGS)	0.454%	1,875	22,584,410	\$ 0.00008 Per CCF
4	IT - Interruptible Transportation	0.276%	1,140	13,513,000	\$ 0.00008 Per CCF
5	Total	100.000%	<u>413,008</u>	<u>37,259,179</u>	

**Duke Energy Kentucky**  
**Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")**  
**Forecasted ASRP Revenue Requirement for 2016**

<u>Line No.</u>		<u>ASRP Investment</u> <u>December 31, 2016</u>	<u>Reference</u>
<b>Return on Investment</b>			
<b><u>Rate Base</u></b>			
1	Net ASRP Investment - Property, Plant and Equipment	\$ 2,756,591	Form 2.0
2	Cost of Removal	-	Form 2.0
3	Accumulated Reserve for Depreciation	(77,185)	Form 2.0
4	Net PP&E	2,679,406	
5	Deferred Taxes on Liberalized Depreciation	(576,672)	Form 2.1
6	Net Rate Base	2,102,734	Line 4 + Line 5
7	Authorized Rate of Return, Adjusted for Income Taxes	10.12%	Form 1.2
8	Required Return on ASRP Related Investment	212,731	Line 6 * Line 7
<b><u>Operating Expenses</u></b>			
9	Depreciation	77,185	Form 2.0
10	Property Tax	33,493	Line 4 * 1.250%
11	PSC Assessment	633	(Sum Line 8 thru 10) * (.1952% / (1-.1952%))
12	O&M related to reconnaissance fees	70,000	Form 2.3
13	O&M related to relocation of meters	18,966	Form 2.4
14	Total Operating Expenses	200,276	Sum Lines 9 thru 11
15	<b><u>Total Annual Revenue Requirement</u></b>	<b>413,008</b>	Line 8 + Line 12

## Notes:

(1) Property taxes estimated using an effective rate of 1.25%

(2) PSC Assessment using Fiscal Year 2015 rate of .1952%

**Duke Energy Kentucky**  
**Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")**  
**Cost of Capital**

<u>Line No.</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Pre-Tax @ Effect. Tax Rate of 38.47%</u>
1	Short term Debt	5.609%	1.009%	0.057%	0.06%
2	Long term Debt	43.595%	4.703%	2.050%	2.05%
3	Equity	50.796%	9.700%	4.927%	8.01%
4	Total	100.000%		7.034%	10.12%

Capital structure and cost of debt as approved in Case No. 2009-202  
Return on equity as approved in settlement

**Duke Energy Kentucky  
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")  
Additions and Retirements**

<u>Line No.</u>	<u>Description</u> (1)	<u>Acct Number</u> (2)	<u>2016 Additions &amp; Retirements</u> (3)	<u>Depr Rates</u> (4)	<u>Current Year Depr on Adds / (Ret.)</u> (5) = (3) * (4)
<b><u>Additions</u></b>					
1	Service Lines	380	3,038,463	2.80%	85,077
2	Meter Installations	382	-		-
3	<b>Total Additions</b>		<u>3,038,463</u>		<u>85,077</u>
<b><u>Retirements</u></b>					
4	Service Lines	380	(281,872)	2.80%	(7,892)
5	Meter Installations	382	-		-
6	<b>Total Retirements</b>		<u>(281,872)</u>		<u>(7,892)</u>
7	<b>Total Plant In Service</b>		<u>2,756,591</u>		<u>77,185</u>
<b><u>Cost of Removal</u></b>					
8	Service Lines	380			
9	<b>Total Cost of removal</b>		-		-

Notes:

(1) See Form 2.2 for detail of 2016 ASRP eligible additions.

**Duke Energy Kentucky**  
**Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")**  
**Deferred Taxes on Liberalized Depreciation**

Tax Year 2016  
**Vintage**  
**2016**

**Line No.**

1	Total ASRP Plant Additions	3,038,463
	Tax Base In-service subject to :	
2	Bonus Depreciation- 50%	3,038,463
3	MACRS	<u>1,519,232</u>
4	Tax Depreciation	
5	Bonus Depreciation- 50%	1,519,232
6	MACRS on Balance	<u>56,971</u>
7	Total Tax Depreciation	<u>1,576,203</u>
8	Book Depreciation	77,185
9	Tax Depreciation in Excess of Book Depreciation	1,499,018
10	Cost of Removal	0
11	Total Difference	1,499,018
10	Deferred Taxes @	38.47% 576,672

**Duke Energy Kentucky**  
**Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")**  
**Thirteen Month Average Additions and Retirements**

**Test Year 12/31/16 ASRP Investment Summary**

<u>Line No.</u>	<u>Month</u> (A)	<u>Number of</u> <u>Months</u> (B)	<u>ASRP Capex-2016</u> (C)	<u>13 Mo. AVG</u> (D) = (B/13)*(C)	<u>Retirements</u> (E)	<u>13 Mo. AVG</u> (F)= (B/13)*(E)	<u>Cost of Removal</u>
1	Dec-15	13		-		-	
2	Jan-16	12	-	-		-	
3	Feb-16	11	-	-		-	
4	Mar-16	10	125,000	96,154	-11,596	(8,920)	
5	Apr-16	9	500,000	346,154	-46,384	(32,112)	
6	May-16	8	875,000	538,462	-81,172	(49,952)	
7	Jun-16	7	1,000,000	538,462	-92,768	(49,952)	
8	Jul-16	6	1,125,000	519,231	-104,364	(48,168)	
9	Aug-16	5	1,000,000	384,615	-92,768	(35,680)	
10	Sep-16	4	1,000,000	307,692	-92,768	(28,544)	
11	Oct-16	3	750,000	173,077	-69,576	(16,056)	
12	Nov-16	2	625,000	96,154	-57,980	(8,920)	
13	Dec-16	1	500,000	38,462	-46,384	(3,568)	
			7,500,000	3,038,463	(695,760)	(281,872)	-



Duke Energy Kentucky  
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")  
O&M - Reconnaissance

Test Year 12/31/16 Reconnaissance O&M

<u>Line No.</u>	<u>Month</u> (A)	<u>ASRP O&amp;M 2016</u> (B)
1	Jan-16	5,833
2	Feb-16	5,833
3	Mar-16	5,834
4	Apr-16	5,833
5	May-16	5,833
6	Jun-16	5,834
7	Jul-16	5,833
8	Aug-16	5,833
9	Sep-16	5,834
10	Oct-16	5,833
11	Nov-16	5,833
12	Dec-16	5,834
		<hr/> 70,000

**Duke Energy Kentucky  
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")  
O&M Meter Relocation**

**Test Year 12/31/16 ASRP Meter Relocation O&M**

<u>Line No.</u>	<u>Month</u> (A)	<u>ASRP O&amp;M 2016</u> (B)
1	Jan-16	-
2	Feb-16	-
3	Mar-16	316
4	Apr-16	1,264
5	May-16	2,213
6	Jun-16	2,529
7	Jul-16	2,845
8	Aug-16	2,529
9	Sep-16	2,529
10	Oct-16	1,897
11	Nov-16	1,580
12	Dec-16	1,264
		<hr/>
		18,966

**Duke Energy Kentucky**  
**Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")**  
**ASRP Rider Billing Determinants by Rate Schedule**  
**for the Twelve Month Ending November 30, 2015**

<u>Line No.</u>	<u>Rate Schedule</u>	<u>Dec-14</u>	<u>Jan-15</u>	<u>Feb-15</u>	<u>Mar-15</u>	<u>Apr-15</u>	<u>May-15</u>	<u>Jun-15</u>	<u>Jul-15</u>	<u>Aug-15</u>	<u>Sep-15</u>	<u>Oct-15</u>	<u>Nov-15</u>	<u>Total</u>
1	RS- Residential (Number of Customers)	90,459	90,443	89,912	90,835	90,388	89,839	89,722	89,590	89,408	89,444	89,646	89,916	1,079,402
	GS - General Service (Number of													
2	Customers)	7,047	7,056	7,044	7,085	6,962	6,813	6,715	6,706	6,658	6,651	6,735	6,895	82,367
3	FT - Firm Transportation (CCF)	2,303,730	2,564,820	3,016,300	3,099,980	2,405,810	1,537,980	1,280,700	1,228,270	1,172,450	1,283,770	1,269,360	1,483,240	22,584,410
4	IT - Interruptible Transportation (CCF)	1,228,170	1,168,650	1,266,420	1,220,340	1,230,010	923,820	1,033,750	1,070,110	1,097,330	1,151,670	991,290	1,131,440	13,513,000

Duke Energy Kentucky, Inc.  
4580 Olympic Blvd.  
Erlanger, Kentucky 41018

Ky. P.S.C. Gas No. 5  
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**RIDER ASRP**

**ACCELERATED SERVICE REPLACEMENT PROGRAM RIDER**

**APPLICABILITY**

Applicable to all customers receiving service under the Company's sales and transportation rate schedules.

**CALCULATION OF ACCELERATED SERVICE REPLACEMENT RIDER REVENUE REQUIREMENT**

The ASRP Rider revenue requirement includes the following:

- a. ASRP-related Plant In-Service not included in base gas rates minus the associated ASRP-related accumulated depreciation and accumulated deferred income taxes;
- b. Retirement and removal of plant related to ASRP construction;
- c. The rate of return on the net rate base is the overall rate of return on capital authorized in the Company's latest base gas rate case, grossed up for federal and state income taxes;
- d. Depreciation expense on the ASRP-related Plant In-Service less retirements and removals;
- e. Property taxes related to ASRP and;
- f. Operation and Maintenance Costs for relocation of meters.

**ACCELERATED SERVICE REPLACEMENT PROGRAM FACTORS**

All customers receiving service under Rate RS and Rate GS shall be assessed a separate monthly charge that will enable the Company to complete the service replacement program. This monthly charge is in addition to the Customer Charge component of their applicable rate schedule, as well as any other applicable monthly charges. Customers receiving service under Rate DGS, Rate FT-L, Rate IT and Rate SSIT will be assessed a separate throughput charge in addition to their commodity delivery charge, for that purpose.

Rider ASRP will be updated annually, in order to reflect the impact on the Company's revenue requirements of net plant additions and by operations and maintenance expense during the most recent twelve months ended December. Such adjustments to the Rider will become effective with the first billing cycle of January, and will reflect the allocation of the required revenue increase based on the revenue distribution approved by the Commission.

The charges for the respective gas service schedules for the revenue month beginning January 2016 is:

Rate RS, Residential Service	\$0.35/month
Rate GS, General Service	\$0.35/month
Rate DGS, Distributed Generation Service	\$0.00008/CCF
Rate FT-L, Firm Transportation Service – Large	\$0.00008/CCF
Rate IT, Interruptible Transportation Service	\$0.00008/CCF
Rate SSIT, Spark Spread Interruptible Transportation Rate	\$0.00008/CCF

Issued by authority of an Order of the Kentucky Public Service Commission dated \_\_\_\_ in Case No. 2015-

Issued: \_\_\_\_\_  
Effective: February 2, 2016  
Issued by James P. Henning, President