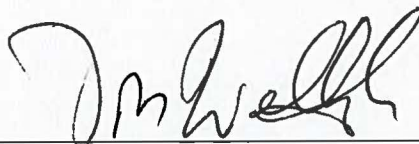


VERIFICATION

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

The undersigned, William Don Wathen Jr., Director Rates & Regulatory Strategy-Ohio/Kentucky, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing supplemental direct testimony, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.



William Don Wathen Jr., Affiant
Director Rates & Regulatory Strategy-Ohio/Kentucky

Subscribed and sworn to before me by William Don Wathen Jr. on this 21st day of December 2015.



NOTARY PUBLIC

My Commission Expires:



ROCCO O. D'ASCENZO
ATTORNEY AT LAW
Notary Public, State of Ohio
My Commission Has No Expiration
Section 147.03 R.C.

**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) Case No. 2015-00210
Service Line Replacement Program,)
Approval of Ownership of Service Lines,)
and a Gas Pipeline Replacement Surcharge)

SUPPLEMENTAL DIRECT TESTIMONY OF

WILLIAM DON WATHEN JR.,

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

December 21, 2015

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I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is William Don Wathen, Jr. My business address is 139 East Fourth
3 Street, Cincinnati, Ohio 45202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Duke Energy Business Services, LLC, as Director of Rates &
6 Regulatory Strategy – Ohio and Kentucky.

7 **Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes. My Direct Testimony is attached as Exhibit 11 to the Application filed in
10 this matter on or about August 24, 2015.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**
12 **TESTIMONY?**

13 A. The purpose of my supplemental testimony is twofold. First, I will generally
14 describe this proceeding and explain and support the Stipulation and
15 Recommendation (Stipulation), along with updated attachments thereto, that was
16 entered into on or about December 17, 2015, by and among Duke Energy
17 Kentucky, Inc. (Duke Energy Kentucky or Company), and the Office of the
18 Attorney General of the Commonwealth of Kentucky, by and through the Office
19 of Rate Intervention (the AG) (Duke Energy Kentucky and the AG may be
20 referred to collectively herein as the Parties). Second, I will explain why the
21 Stipulation represents a fair, just and reasonable resolution of all the issues in this

1 proceeding. The Stipulation was filed on December 18, 2015. I have personally
2 reviewed the Stipulation and affirm that it accurately reflects the agreement that
3 the Company and the AG have reached.

II. OVERVIEW OF THE PROCEEDING

4 **Q. PLEASE GENERALLY DESCRIBE THE RELIEF SOUGHT BY DUKE**
5 **ENERGY KENTUCKY IN THIS PROCEEDING.**

6 A. Duke Energy Kentucky's Application in this proceeding requests the Kentucky
7 Public Service Commission (Commission) issue a Certificate of Public
8 Convenience and Necessity (CPCN) for approval to implement an accelerated
9 service line replacement program (ASRP), relocate interior natural gas meters to
10 an exterior location, take ownership of service lines, and create a gas service line
11 replacement surcharge mechanism (Rider ASRP).

12 **Q. HAS THE AG INTERVENED IN THIS PROCEEDING?**

13 A. Yes. On July 7, 2015, the AG moved the Commission to grant him full intervenor
14 status in this action pursuant to KRS 367.150(8) and 807 KAR 5:001 Section
15 4(11). The Commission granted the AG's motion and made him a full party to
16 this proceeding by Order entered July 10, 2015.

17 **Q. HAS THE AG AND COMMISSION STAFF PROPOUNDED ANY**
18 **REQUESTS FOR INFORMATION UPON DUKE ENERGY KENTUCKY**
19 **IN THIS PROCEEDING?**

20 A. Yes. Both the AG and Staff of the Commission have engaged in substantial
21 investigation of the Company's Application in this proceeding. The AG has
22 propounded upon Duke Energy Kentucky one set of data requests in this

1 proceeding, dated September 3, 2015. Additionally, Commission Staff
2 propounded upon the Company three sets of data requests in this proceeding,
3 dated September 3, 2015, September 30, 2015, and October 30, 2015,
4 respectively.

III. OVERVIEW OF THE STIPULATION

5 **Q. PLEASE BRIEFLY DESCRIBE HOW THE STIPULATION CAME**
6 **ABOUT.**

7 A. The Stipulation is the product of much negotiation and compromise by the
8 Company and the AG. The filed Stipulation resolves all issues in this proceeding
9 regarding the Company's Application to implement its ASRP initiative. Duke
10 Energy Kentucky is appreciative of the AG's willingness to view this case on its
11 own facts and to fashion an agreement accordingly.

12 **Q. PLEASE DESCRIBE THE STIPULATION.**

13 A. The Parties agree that the Company's Application should be approved as filed and
14 supported in its Application and testimony but subject to the following
15 modifications:

16 1) Duke Energy Kentucky will implement an annual \$1.00 rate cap on its
17 Rider ASRP rate increases for the monthly charge to residential
18 customers.

19 2) Duke Energy Kentucky agrees not to relocate interior natural gas meters to
20 an exterior location on the premises as part of the ASRP except in those
21 instances where the meter and associated service are discovered to be a
22 violation of either a state or federal code. Any meter relocations required

1 due to the code violation will be eligible for recovery under the Rider
2 ASRP.

3 3) The Parties agree that the Return on Equity (ROE) used for establishing
4 the Rider ASRP calculation will be 9.7 percent. This 9.7 percent ROE was
5 agreed to only as part of this settlement and will be used only for the Rider
6 ASRP. The Company will continue to use the ROE approved as part of its
7 last base natural gas rate case for all other purposes. The 9.7 percent ROE
8 to be used for calculating the revenue requirement for Rider ASRP will
9 remain in effect until new base rates are established using an updated ROE
10 approved by the Commission when the Company files its next base natural
11 gas rate case. Both the Company and the AG reserve the right to
12 recommend and support a different ROE as part of that future base rate
13 case or as part of any other rate proceeding.

14 The Stipulation also includes a commitment for a one year natural gas base rate
15 case stay-out and updates to the Company's Rider ASRP rate through a new
16 attachment PAL-2 and includes its supporting calculations (PAL-1) so to reflect
17 changes to the program costs from what was initially filed in the Company's
18 Application. These revisions are necessary and based upon updated data and
19 information (*e.g.*, bonus depreciation, reconnaissance) and to reflect the terms of
20 the Stipulation (*e.g.*, reduced ROE, meter relocation).

21 **Q. PLEASE EXPLAIN HOW THE \$1.00 CAP ON RATE INCREASES TO**
22 **THE RESIDENTIAL CUSTOMER CHARGE WORKS.**

1 A. In short, this cap acts to limit, on an annual basis, the amount of an increase a
2 residential customer will experience in its monthly ASRP charge through the
3 duration of the five-year ASRP initiative. In year one, for example, the maximum
4 monthly charge a residential customer can expect is \$1.00. In year two, the
5 Company will be permitted to increase the charge to residential customers, as
6 necessary, so long as the total monthly charge will not exceed \$2.00. In year
7 three, again, as part of the annual adjustment to the Rider ASRP, the Company
8 can increase the monthly residential customer charge so long as the total charge
9 does not exceed \$3.00, and so on. Importantly, this \$1.00 cap on annual increases
10 to the Residential Customer Charge serves ensures that any increases a residential
11 customer experiences under this program will be gradual so to mitigate rate shock
12 that may otherwise occur absent such a cap.

13 **Q. PLEASE EXPLAIN THE METER RELOCATION PROVISION OF THE**
14 **STIPULATION.**

15 A. As part of the Company's Application, Duke Energy Kentucky requested
16 authority to relocate any interior meter with an attached service (eligible for
17 replacement under the program) to an exterior location of the customer's
18 premises. The primary purpose of the relocation is to eliminate ongoing
19 inspections that must be performed on interior customer piping and to avoid the
20 often times logistic difficulty in obtaining monthly meter readings of interior
21 meters as a convenience to the customer. To resolve this case, Duke Energy
22 Kentucky is agreeing, as part of the ASRP, to only relocate interior meters if a
23 code violation is discovered on a service that is part of the ASRP. Relocations of

1 meters outside of the ASRP for code violations or any other reasons, or
2 relocations of meters within the ASRP for any other reasons, will not be included
3 in the Rider ASRP revenue requirement. This code violation could come in any
4 number of ways, but the likely example is if the customer has installed a concrete
5 pad or patio over the service line. Today, in such an instance, if a code violation is
6 discovered, Duke Energy Kentucky will require the customer to address the issue
7 either through removing the violation or relocating the service. As part of the
8 Stipulation, Duke Energy Kentucky will relocate the meter and service for the
9 customer and such costs will be recovered in the Rider ASRP. Although Duke
10 Energy Kentucky cannot predict how many of the approximate 2,200 interior
11 services initially identified for relocation as part of the Company's Application
12 would still need to be relocated due to a code violation, the assumption in the
13 revenue requirement is 25 percent.

14 It should be noted that even though most of the interior meters initially
15 identified for relocation will remain, that does not correspond to a complete
16 reduction in total costs for the Rider ASRP. The service lines associated with
17 those meters would need to be replaced regardless of whether or not the meter
18 will be relocated. In other words, the part of the service line for those interior
19 meters located inside the house would still be comprised of the same non-
20 protected metal material that necessitates the replacement program itself. On a net
21 basis, the costs for replacing the interior service piping and risers without
22 relocating the meter is comparable to simply relocating the meter altogether. The
23 only significant difference between whether the meter is relocated to an exterior

1 location of a premises, or if it remains an interior meter and the service line is
2 replaced, that the charges would be treated as Operations and Maintenance
3 expense in the former instance and as capital costs in the latter. There would not
4 be a significant difference to dollars. Actually, it would have more to do with how
5 the charges are classified, *i.e.*, expensed versus capitalized.

6 **Q. PLEASE EXPLAIN THE UPDATED ATTACHMENTS PAL-1 AND PAL-2**
7 **TO THE STIPULATION.**

8 A. PAL-2 is simply an updated Rider ASRP Tariff. This updated tariff reflects the
9 results of the Stipulation and revised data on the costs of the ASRP that have
10 changed since the initial filing. The revised PAL-2 shows that the rate for all
11 customers in 2016 has been reduced from what was initially filed in the
12 Company's Application. Revised PAL-1 is the schedule supporting the new
13 calculations for Rider ASRP as stipulated. For example, the initial Rider ASRP
14 revenue requirement did not include the effect of bonus depreciation because, at
15 the time of the Company's filing, the federal government had not extended its
16 availability. Also, the initial Rider ASRP rate calculation also assumed an ROE of
17 10.375 percent and that all ASRP eligible interior meters would be relocated.
18 Finally, revised PAL-1 also includes costs for record reconnaissance that were not
19 included in the Company's initial calculation. These costs were described in the
20 Company's Application on page 10, paragraph 23, as costs for identifying and
21 verifying the composition of some customer service lines due to incomplete or
22 unreliable composition data. This process includes a records survey and, if
23 necessary, field visits to verify the composition of a customer's service line. In the

1 Company's initial PAL-1, the Company unintentionally excluded dollars for this
2 process in 2016. The revised PAL-1, as intended, now includes approximately
3 \$70,000 of such costs in 2016. Again, an additional customer benefit of the
4 Stipulation and adjusting all program costs to update the Rider ASRP calculation
5 is that the initial 2016 rate has been reduced from the Company's initial
6 Application.

7 **Q. AS PART OF THE STIPULATION, DOES DUKE ENERGY KENTUCKY**
8 **AGREE NOT TO SEEK TO INCREASE ITS BASE NATURAL GAS**
9 **RATES FOR A SPECIFIED PERIOD?**

10 A. Yes. As part of the Stipulation, Duke Energy Kentucky agrees to refrain from
11 filing an application for a base rate increase for its natural gas business for twelve
12 months following the Commission's approval of the Stipulation. Notwithstanding
13 the foregoing, Duke Energy Kentucky retains the right to seek approval from the
14 Commission of: (a) deferrals of costs as permissible under the Commission's
15 standard for granting such deferrals; (b) emergency rate relief under KRS
16 278.190(2) to avoid a material impairment or damage to its credit or operations;
17 (c) adjustments to the operation of any of Duke Energy Kentucky's cost recovery
18 surcharge mechanisms (e.g., Gas Cost Adjustment and Rider ASRP), including
19 any base rate roll-ins, which are part of the normal operations of such
20 mechanisms; and (d) any necessary rate relief and/or accounting treatment for
21 costs or programs due to changes in federal law or regulation that may occur
22 during the stay out period.

1 I should also mention that this provision applies only to the Company's
2 natural gas business and does not prohibit the Company from seeking new base
3 electric rates for any period of time.

4 **Q. WITH RESPECT TO THE FINAL CAVEAT REGARDING CHANGES IN**
5 **LAW, IS DUKE ENERGY KENTUCKY AWARE OF ANY SUCH**
6 **CHANGES THAT MAY BE PENDING AND COULD CAUSE THE**
7 **COMPANY TO SEEK RELIEF?**

8 A. None that I am aware of. Not at this time.

9 **Q. WHY DOES DUKE ENERGY KENTUCKY BELIEVE IT IS**
10 **APPROPRIATE TO AGREE NOT TO SEEK TO INCREASE ITS BASE**
11 **NATURAL GAS RATES FOR TWELVE MONTHS?**

12 A. Duke Energy Kentucky has aggressively managed its costs since its last natural
13 gas rate case and will continue to do so, thereby allowing it to delay seeking an
14 increase in natural gas base rates for the time set forth in the Stipulation.
15 Moreover, because the terms of the Stipulation explicitly permit Duke Energy
16 Kentucky to seek rate relief in certain contexts (as discussed above), to take
17 necessary action through deferrals, and periodic adjustments to its Rider ASRP,
18 and address emergencies or changes in law, the Company believes that the
19 Stipulation is consistent with the ratemaking principals of gradualism and
20 avoiding rate shock. In sum, the Company is confident that the Stipulation is
21 particularly beneficial to the customers it serves, both in the near and extended
22 term.

1 **Q. DOES THE STIPULATION CONTAIN OTHER TERMS AND**
2 **CONDITIONS COMMON TO DOCUMENTS OF THIS KIND?**

3 A. Yes. Although I have already discussed the main, substantive portions of the
4 Stipulation, the Parties also agree in the Stipulation to various terms and
5 conditions commonly found in documents of this nature (*e.g.*, the AG waives all
6 rights of cross-examination of the Company's witnesses unless the Commission
7 disapproves the Stipulation; contingencies in the event the Stipulation is modified
8 or not approved; the Parties agree that the Stipulation shall in no way be deemed
9 to divest the Commission of jurisdiction under Chapter 278 of the Kentucky
10 Revised Statutes; the Parties agree that the Stipulation may be executed in
11 multiple counterparts).

12 **Q. DOES THE STIPULATION CONTEMPLATE ANY CHANGES TO THE**
13 **PROCEDURE FOR ANNUAL ADJUSTMENTS TO THE RIDER ASRP**
14 **RATE FROM WHAT WAS INITIALLY FILED?**

15 A. No. The Company initially proposed to file an annual application to adjust its
16 Rider ASRP rates and establish the new rate on or before October 1st annually,
17 with the anticipation that new rates would be in effect by the following January.
18 The Stipulation does not change that. However, the Company is aware that in
19 discovery it indicated that it would be agreeable to changing the timing of filing
20 its annual application to true-up and set its annual Rider ASRP rate if so desired
21 by the Commission Staff. Duke Energy Kentucky continues that position so long
22 as the ASRP remains on a calendar-year (January – December) basis with rider
23 adjustment going into effect with the first billing cycle each January.

1 Q. **WHY HAVE DUKE ENERGY KENTUCKY AND THE AG ENTERED**
2 **INTO THE STIPULATION?**

3 A. There are a number of reasons why Duke Energy Kentucky and the AG have
4 entered into the Stipulation. In general terms, the Parties, who represent diverse
5 interests and divergent viewpoints, agree that the Stipulation, viewed in its
6 entirety, is a fair, just, and reasonable resolution of all the issues in this
7 proceeding.

IV. CONCLUSION

8 Q. **WERE REVISED PAL-1 AND REVISED PAL-2 ATTACHED TO THE**
9 **STIPULATION AND RECOMMENDATION PREPARED BY YOU AND**
10 **UNDER YOUR DIRECTION AND CONTROL?**

11 A. Yes.

12 Q. **DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

13 A. Yes.