

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

In the Matter of:

The Application of Duke Energy Kentucky,)
Inc., for (1) a Certificate of Public)
Convenience and Necessity Authorizing) Case No. 2016-00152
the Construction of an Advanced Metering)
Infrastructure; (2) Request for Accounting)
Treatment; and (3) All Other Necessary)
Waivers, Approvals, and Relief.)

DIRECT TESTIMONY OF

PEGGY LAUB

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

April 25, 2016

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I. INTRODUCTION AND PURPOSE

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

2 A. My name is Peggy A. Laub. My business address is 139 East Fourth Street, Cincinnati,
3 Ohio 45202.

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

5 A. I am employed by Duke Energy Business Services LLC, (DEBS) an affiliate service
6 company of Duke Energy Kentucky, Inc., (Duke Energy Kentucky or Company) as
7 Director, Rates and Regulatory Planning. DEBS provides various administrative and
8 other services to Duke Energy Kentucky, Inc., (Duke Energy Kentucky or the Company)
9 and other affiliated companies of Duke Energy Corporation (Duke Energy).

10 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
11 **PROFESSIONAL EXPERIENCE.**

12 A. I received a Bachelor of Business Administration Degree with a major in accounting
13 from the University of Cincinnati. I began my career with The Cincinnati Gas & Electric
14 Company in the Accounting Department 1981. I worked in various departments
15 including Tax, Regulated Business Unit's financial group and Fixed Assets. In May
16 2006, following the merger with Duke Energy Corporation, I transferred to the Midwest
17 US Franchised Electric & Gas accounting group. In November 2008, I transferred to the
18 Midwest wholesale accounting group as Manager of Wholesale and Bulk Power
19 Marketing accounting. In May 2010, I transferred to the Rate Department and to my
20 current position as Director, Rates & Regulatory Planning in the Ohio/Kentucky Rate
21 Department.

1 **Q. PLEASE SUMMARIZE YOUR DUTIES AS DIRECTOR OF RATES AND**
2 **REGULATORY PLANNING.**

3 A. As Director of Rates and Regulatory Planning, I am responsible for the preparation of
4 financial and accounting data used in Duke Energy Kentucky and Duke Energy Ohio,
5 Inc. retail rate filings and changes in various other rate recovery mechanisms.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY PUBLIC**
7 **SERVICE COMMISSION (COMMISSION)?**

8 A. Yes. I have previously testified in a number of cases before this and other regulatory
9 commissions.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. The purpose of my testimony is to support the Company's proposal to deploy an
12 Advanced Metering Infrastructure (AMI) for its electric and combination electric and
13 natural gas operations and to install an Automated Meter Reading (AMR) solution for the
14 Company's natural gas-only customers (Metering Upgrade). This Metering Upgrade will
15 be deployed to all Duke Energy customers with the exception of large commercial and
16 industrial customers who already have some form of an advanced meter. I discuss how
17 the Company will finance the initiatives, the likely rate impacts to customers, and the
18 accounting treatment Duke Energy Kentucky is requesting for the Metering Upgrade,
19 including the depreciation rates related to the electric meters, and gas modules along with
20 the accounting treatment of the old metering equipment and associated inventories.

II. DISCUSSION

1 **Q. PLEASE BRIEFLY SUMMARIZE THE COMPANY'S APPLICATION IN THIS**
2 **PROCEEDING.**

3 A. Duke Energy Kentucky is requesting approval through a Certificate of Public
4 Convenience and Necessity (CPCN) to implement a Metering Upgrade throughout its
5 entire service territory. The Company is also requesting specific accounting treatment
6 and necessary waivers to enable the Metering Upgrade deployment and anticipated
7 benefits.

8 **Q. WILL THE CONSTRUCTION AND IMPLEMENTATION OF THE METERING**
9 **UPGRADE MATERIALLY IMPACT DUKE ENERGY KENTUCKY'S**
10 **FINANCIAL CONDITION?**

11 A. Yes. The financial impact of the Metering Upgrade for the gas and electric businesses
12 will materially affect Duke Energy Kentucky's financial condition, especially if the
13 requested accounting treatment is not approved. Duke Energy Kentucky intends to
14 eventually recover the costs of the Metering Upgrade through future base rate
15 proceedings.

16 **Q. WHAT ARE THE ESTIMATED COSTS OF IMPLEMENTATION OF THE**
17 **METERING UPGRADE?**

18 A. Based upon information provided by Mr. Schneider, the total estimated cost of
19 construction and deployment of the Metering Upgrade for electric and gas operations is
20 approximately \$38 million for electric and \$11 million for natural gas with a combined
21 total project cost of approximately \$49 million.

1 **Q. HOW IS THE COMPANY PROPOSING TO FINANCE THE METERING**
2 **UPGRADE CONSTRUCTION?**

3 A. The Company is proposing to finance the Metering Upgrade through continuing
4 operations and, if necessary, through debt issuances.

5 **Q. WILL THERE BE AN IMMEDIATE IMPACT TO CUSTOMER RATES WITH**
6 **THE METERING UPGRADE?**

7 A. No. While the Company will seek to include the cost of the Metering Upgrade in its rates
8 at some point, the Company is not seeking such authority in this application.

9 **Q. WHAT IS THE EXPECTED USEFUL LIFE OF THE NEW ELECTRIC METERS**
10 **AND WHAT DEPRECIATION RATE DO YOU PROPOSE FOR THESE NEW**
11 **METERS?**

12 A. The expected life is 15 years, and the Company proposes to use a depreciation rate that is
13 based on this expected useful life. Because this is a new type of meter that was not
14 included in the Company's depreciation study in Case No. 2006-072, the Company is
15 requesting the approval of a new depreciation rate of 6.67%. This rate is based on the
16 expected, 15 year life which is consistent with the life used in other jurisdictions and what
17 this Commission has approved for similar types of advanced metering deployments in
18 recent years.

19 I am aware of this Commission approving similar service lives for AMI
20 deployments for Kenergy¹.

¹ See e.g. *In the Matter of Application of Kenergy Corp. For an Approval Issuing A Certificate of Convenience and Necessity to Install an Automated Metering and Infrastructure System*, Case No. 2014-00376, (Order at 7) (February 24, 2015) approving a 15 year life; *In the Matter of the Application of Nolin Electric Cooperative Corporation for an Order pursuant to 807 KAR 5:001 and KRS 278.020 Requesting the Granting of a Certificate of Public Convenience and Necessity to Install an AMI System*, Case No. 2014-00436 (Order at 12) (February 13, 2015) approving a 12 year depreciable life.

1 **Q. WHAT IS THE EXPECTED USEFUL LIFE OF THE NEW GAS MODULES AND**
2 **WHAT DEPRECIATION RATE DO YOU PROPOSE FOR THESE NEW**
3 **MODULES?**

4 A. The Company's expected life for these gas modules is 9 years, and the Company
5 proposes to use a depreciation rate that is based on that expected useful life. Because this
6 is a new type of communication equipment that was not included in the Company's
7 depreciation study submitted as part of base natural gas rates in Case No. 2009-2022, the
8 Company is requesting the approval of a new depreciation rate of 11.11%. This rate is
9 based on the expected 9 year life. This equipment will be included in FERC Account
10 397, Communication equipment.

11 **Q. PLEASE EXPLAIN WHY THERE IS A DIFFERENCE IN THE USEFUL LIFE**
12 **PROPOSED FOR THE ELECTRIC METERS AND THE NATURAL GAS**
13 **MODULES?**

14 A. The reason for a nine year useful life proposed for the natural gas meter modules is that
15 due to the Company's natural gas meter testing protocols, the Company already replaces
16 its residential natural gas meters on a nine-to-ten year cycle in compliance with
17 Commission regulations. The Company attempts to change its meters out slightly earlier
18 than the ten year limitation contained in 807 KAR 5:022, Section 8(5) so as not to
19 inadvertently exceed the ten year cycle. Similarly, non-residential meters are tested and
20 replaced in the field every five years. The Company's natural gas meters are tested in a
21 temperature controlled environment at Duke Energy Kentucky's meter testing facility,
22 and not tested in the field. So to test a meter, the Company must pull it out of service,
23 install a new meter in its place in order to maintain a customer's service, and take the old

meter back to the Company's meter testing facility. These meters may or may not be placed back into service based upon age and the cost of refurbishing versus purchasing new meters. Gas meters purchased by the Company going forward will come with the module already attached. So detaching the modules for potential re-deployment is not necessary and could potentially damage the devices making them not fit for use.

Q. PLEASE EXPLAIN THE ACCOUNTING TREATMENT DUKE ENERGY KENTUCKY IS REQUESTING IN THIS APPLICATION.

A. Duke Energy Kentucky is requesting approval of the depreciable lives that I just described and for the creation of a regulatory asset(s) for the existing metering equipment and inventories that will be replaced. The existing metering equipment includes the electro-mechanical meters currently in use as well as the metering and related equipment that were deployed as part of the Company's 2007 advanced metering pilot deployment. Duke Energy Kentucky witness Donald L. Schneider, Jr. discusses that equipment in his direct testimony (treatment of mechanical meters being replaced and 2007 AMI pilot) and treatment for old gas modules being replaced.

Summarization of DEK Meter Assets subject to Regulatory Asset Request		
	Total Electric and Common Meters (as of March/16)	\$ 9,416,254
	Less: Commercial and Industrial Meters not in scope	(467,837)
	Add: Electric meters in inventory	622,429
	Add: Gas modules in inventory	52,216
	Adjusted Total Undepreciated Amount	\$9,623,062

1 **Q. WHY IS DUKE ENERGY KENTUCKY REQUESTING THIS ACCOUNTING**
2 **TREATMENT?**

3 A. Duke Energy Kentucky is requesting this treatment to allow for the opportunity to request
4 recovery of these expenses in a future rate case.

5 **Q. WHY ARE THESE COSTS APPROPRIATE FOR DEFERRAL?**

6 A. It is my understanding that there are four categories of costs that the Commission will
7 consider in granting a deferral request. These four categories include the following:

- 8 (1) An extraordinary, nonrecurring expense which could not have reasonably been
9 anticipated in the utility's planning;
- 10 (2) an expense resulting from a statutory or administrative directive;
- 11 (3) an expense in relation to an approved industry initiative; or
- 12 (4) an extraordinary or nonrecurring expense that over time will result in a saving
13 that fully offsets the cost.

14 The costs associated with the early retirement of the traditional electric meters and write-off
15 of the existing electromechanical electric meters and gas modules inventories would qualify
16 as an extraordinary or nonrecurring expense that overtime will result in a saving that fully
17 offsets the cost.

18 **Q. PLEASE EXPLAIN.**

19 A. One key driver of the savings from the Metering Upgrade is the fact that Duke Energy
20 Kentucky will be able to significantly reduce the current O&M expense with having to
21 deploy personnel to manually read each and every mechanical electric and natural gas meter
22 in the Company's service territory. Duke Energy Kentucky is a combination electric and
23 natural gas utility. Although the Company does have distinct gas and electric customers, the

1 majority of our Kentucky customers are combination, meaning that Duke Energy Kentucky
2 provides both services. For those combination customers, their electric and natural gas
3 accounts are on the same billing cycles which means their meters are read on the same day
4 and by the same meter reading technician. If Duke Energy Kentucky were to only
5 implement the AMI solution for its electric services, then it would still have to conduct a
6 “walk-up” meter read for all of its natural gas customers, thereby continuing to incur a
7 significant expense. Therefore, by implementing the automated meter reading solution for
8 natural gas customers contemporaneously with the electric solution, Duke Energy Kentucky
9 is able to better manage its overall deployment costs and reduce the monthly meter reading
10 expense. Over time, this savings will exceed the up-front costs of deploying this automated
11 solution, ultimately saving customers money. Additionally, as shown in the cost-benefit
12 analysis provided in Don Schneider’s testimony, customer savings through the customer
13 feedback (Prius Effect) and reduced non-technical line losses provide benefits that will
14 accrue to both customers and to the Company. The anticipated savings to the company and
15 customers, over time, will offset the project and ongoing costs associated with the
16 deployment. Duke Energy Kentucky therefore requests a regulatory asset for the
17 undepreciated asset value of electric meters removed from service and associated
18 inventories since much of the savings will accrue to customers, rather than to the Company
19 itself.

1 Q. WHAT JOURNAL ENTRIES WILL DUKE ENERGY KENTUCKY MAKE TO
2 EFFECT THE DEPRECIATION AND ACCOUNTING DEFERRALS?

3 A. Duke Energy Kentucky proposed the following entry to retire the meters replaced as part
4 of the proposed Metering Upgrade and to write off the inventory of the traditional meters
5 and old gas modules:

6	Debit FERC Acct. 108 Accumulated Depreciation	\$3,570,183
7	Debit FERC Act 182.2 Unrecovered Plant	\$9,623,062
8	Credit FERC Plant Acct. 101 (FERC Plant Acct. 370 Meters)	\$12,518,600
9	Credit FERC Acct. 154 Inventory	\$674,645

III. CONCLUSION

10 Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

11 A. Yes.

VERIFICATION

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

The undersigned, Peggy A. Laub, Director, Rates and Regulatory Planning, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing testimony are true and correct to the best of her knowledge, information and belief.

Peggy A Laub
Peggy A. Laub, Affiant

Subscribed and sworn to before me by Peggy A. Laub on this 25th day of April, 2016.

Adele M. Frisch
NOTARY PUBLIC

ADELE M. FRISCH
Notary Public, State of Ohio
My Commission Expires 01-05-2019

My Commission Expires: 1/5/2019