

KYPSC CASE NO. 2017-00321
STAFF REHEARING DATA REQUESTS
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**STAFF-REHEARING-
DR-01-013**

Sarah E. Lawler13

VERIFICATION

STATE OF OHIO)
) **SS:**
COUNTY OF HAMILTON)

The undersigned, Ryan Champness, Supervisor of RS Business Operations, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.



Ryan Champness, Affiant

Subscribed and sworn to before me by Ryan Champness on this 28th day of June, 2018.



NOTARY PUBLIC

My Commission Expires: July 8, 2022



E. MINNA ROLFES-ADKINS
Notary Public, State of Ohio
My Commission Expires
July 8, 2022

VERIFICATION


STATE OF OHIO)
)
COUNTY OF HAMILTON) SS:

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



William Don Wathen Jr., Affiant

Subscribed and sworn to before me by William Don Wathen Jr., on this 26th day of JUNE, 2018.



NOTARY PUBLIC

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

My Commission Expires: 1/5/2019

VERIFICATION

STATE OF OHIO)
)
COUNTY OF HAMILTON) SS:

The undersigned, Bruce L. Sailers, Pricing and Regulatory Solutions Manager, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Bruce L. Sailers
Bruce L. Sailers, Affiant

Subscribed and sworn to before me by Bruce L. Sailers, on this 25TH day of JUNE, 2018.

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

VERIFICATION

STATE OF OHIO)
)
COUNTY OF HAMILTON) SS:


The undersigned, Sarah E. Lawler, Director of Rates & Regulatory Planning, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of her knowledge, information and belief.



Sarah E. Lawler Affiant

Subscribed and sworn to before me by Sarah E. Lawler on this 25TH day of JUNE, 2018.

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



NOTARY PUBLIC

My Commission Expires: 1/5/2019

Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018

STAFF-REHEARING-DR-01-001

REQUEST:

Refer to Duke Kentucky's Application, Volume 1, Tab 21, line 8. Provide a detailed breakdown of "Other regulatory assets."

RESPONSE:

The "Other Regulatory Assets" on Volume 1, Tab 21, line 8, was calculated by multiplying the 13 month average forecasted period Other Regulatory Assets shown on Schedule B-8 (\$65,841,184) times the electric rate base ratio of 72.045%. The Company does not prepare a balance sheet forecast by account and is therefore unable to provide a detailed breakdown. Other regulatory assets includes all items charged to FERC Account 182.

PERSON RESPONSIBLE: Sarah E. Lawler

Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018

STAFF-REHEARING-DR-01-002

REQUEST:

Refer to the Rebuttal Testimony of Sarah E. Lawler at 3-4. Provide workpapers and other supporting documents used to determine the \$209,019 revenue requirement increase identified as “Increase Income Tax Expense to Reflect Changes in Deferred Income Taxes” and described as an adjustment to account for the effect of revised projections in Accumulated Deferred Income Taxes (“ADIT”) on capitalization. Provide all exhibits and schedules of the response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns fully accessible.

RESPONSE:

Please see STAFF-REHEARING-DR-01-002 Attachment.

PERSON RESPONSIBLE: Sarah E. Lawler

**STAFF-REHEARING-DR-
01-002**

**ATTACHMENT IS
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**Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018**

STAFF-REHEARING-DR-01-003

REQUEST:

Refer to Duke Kentucky's Petition for Rehearing ("Petition"), page 3, regarding vegetation management expenses. The last sentence in the paragraph states that the "revenue requirement" should be increased by \$250,009 due to the proposed change. Confirm that this statement should have stated that the "vegetation management expense" should be increased by \$250,009.

RESPONSE:

Confirmed. The last sentence in the paragraph should have stated the "vegetation management expense" should be increased by \$250,009.

PERSON RESPONSIBLE: Sarah E. Lawler

Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018

STAFF-REHEARING-DR-01-004

REQUEST:

Refer to Duke Kentucky's Petition, page 3, regarding the capitalization adjustment for East Bend deferral.

- a. Confirm that Duke Kentucky's capitalization includes that \$36,540,465 regulatory asset related to the deferral of the East Bend operations and maintenance ("O&M") expense.
- b. Confirm that Duke Kentucky's position on this matter would allow it to earn a return on the East Bend regulatory asset at both the cost of debt and the weighted average cost of capital.

RESPONSE:

Refer to Duke Kentucky's Petition, page 3, regarding the capitalization adjustment for East Bend Deferral.

- a. Duke Energy Kentucky's capitalization represents the entirety of stakeholder investment in Duke Energy Kentucky's electric and gas operations. Any regulatory asset that represents a cash expenditure by the Company that will be recovered in future rates is necessarily financed by the Company's capitalization. The capitalization required to finance the unrecovered O&M expense is offset partially by the fact that the Company can deduct the expense for calculating income tax in the year the expense was incurred; thus, reducing the Company's

cash outlay. This deferred tax is also reflected as a reduction in the Company's capitalization. So, first the actual investment reflected in capitalization to finance the East Bend O&M deferral is \$36,540,465 is that investment multiplied by (1 minus the Composite Income Tax rate) or \$27,323,970 (or $\$36,540,465 * (1 - 0.2522)$).

- b. Duke Energy Kentucky denies that its position would allow it to earn a return at the debt rate AND at the weighted-average cost of capital.

Under Commission rules, the Company is allowed to earn a return on its thirteen-month average forecasted capitalization. To the extent the Company is earning a return on cash outlays that were financed by that capitalization, it is appropriate to create an offset to the Company's revenue requirement to assure that customers are not paying a return on the overall capitalization and a return (at whatever rate) on a regulatory asset. The credit, however, should only be equal to the specific return being earned, if any, on that regulatory asset.

By way of comparison, in this case, the Company's forecasted test year included regulatory assets that (1) earned no carrying costs, *e.g.*, the Carbon Management Research deferral and the Hurricane Ike deferral; (2) earned carrying costs at the weighted-average cost of capital, *e.g.*, the Ash ARO deferral; and (3) earned carrying costs at the long-term debt rate, *e.g.*, East Bend O&M deferral.

In order to avoid the possibility of overcollecting on the return allowed in capitalization, there are two ways to credit the revenue requirement. The simplest way would be to make no adjustment to capitalization and credit the revenue requirement with the actual return being earned by the regulatory asset. For the

Carbon Management Research deferral and the Hurricane Ike deferral, there would be no adjustment as these regulatory assets have not accrued carrying costs.

For the Ash ARO, the option to credit the revenue requirement with the benefit of the carrying costs versus reducing capitalization proportionately to reflect the amount of Ash ARO earning the return produces the same result.

For the East Bend O&M deferral, Company witness Wathen offered two options, each separately a valid way to make the appropriate adjustment. The first option is to simply credit the revenue requirement with the return actually being earned by the regulatory asset (*i.e.*, the long-term debt rate times the balance of the regulatory asset), without adjusting capitalization. The second option is to apply the Attorney General's methodology of reducing capitalization, but doing so in a way that reflects the actual benefit being accrued by the regulatory asset *i.e.*, the long-term debt rate. Reducing only the long-term debt portion of the Company's capitalization achieves the same result of crediting customers with the value the Company is realizing via the return being earned by the regulatory asset.

As an example hypothetical, consider how the East Bend O&M deferral would be addressed under the three different deferral scenarios described above, namely: (1) the regulatory asset earned no separate carrying costs, like the Carbon Management Research deferral and the Hurricane Ike deferral; (2) the regulatory asset earned a carrying cost at the overall weighted average cost of capital, like the Ash ARO deferral; and (3) the regulatory asset earned carrying costs at the long-term debt rate, as is the case at issue and determined in the Commission's Order.

In each scenario, the Company should be allowed to earn a return on its overall capitalization with a credit (reduction) for whatever it is earning separately as carrying costs on the regulatory asset. As the table below illustrates, the Attorney General's method of adjusting total capitalization unfairly penalizes the Company.

	Scenario 1 0% Return	Scenario 2 WACC Return	Scenario 3 Debt Return	
1 Total Approved Capitalization	\$647,809,050	\$647,809,050	\$647,809,050	Order, page 30.
2 EB2 O&M Deferral	\$36,540,465	\$36,540,465	\$36,540,465	Order, page 10
Allowed Return on Deferral:				
3 Percent (Pre-tax)	0.000%	8.843%	4.243%	Order Appendix B
4 Amount	\$0	\$3,231,273	\$1,550,412	Line 2 * Line 3
5 Adjustment to Rate Base	\$0	(\$36,540,465)	(\$36,540,465)	Order Appendix B
6 Pre-Tax Return on Rate Base	8.843%	8.843%	8.843%	Order Appendix B
7 Rev Req Impact	\$0	(\$3,231,273)	(\$3,231,273)	Line 5 * Line 6
8 Net Loss to Shareholders	\$0	\$0	(\$1,680,861)	Line 4 + Line 7

As is clearly shown under scenario 3, the East Bend regulatory asset balance only included carrying costs at the Company's cost of debt (4.243%), but the Commission's adjustment reduces the Company's capitalization in a manner that assumes it is earning a carrying cost at the higher WACC.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018

STAFF-REHEARING-DR-01-005

REQUEST:

Refer to Duke Kentucky's Petition, page 4, and Duke Kentucky's Motion to File a Correction to the Rebuttal Testimony of William Don Wathen, Jr. and Sarah E. Lawler Corrected Testimony, Paragraph 6.e.

- a. Provide the workpapers and other supporting documents used to determine the corrected test-year return of \$1,550,412 and proposed revenue requirement reduction of \$1,554,681 for the East Bend O&M regulatory asset.
- b. Provide all exhibits and schedules of the response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.

RESPONSE:

- a. See STAFF-REHEARING-DR-01-005 Attachment.
- b. See STAFF-REHEARING-DR-01-005 Attachment.

PERSON RESPONSIBLE: William Don Wathen Jr.

**STAFF-REHEARING-DR-
01-005**

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Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018

STAFF-REHEARING-DR-01-006

REQUEST:

Refer to Duke Kentucky's Petition, page 5. Duke Kentucky states that the revenue requirement reductions for the East Bend O&M regulatory asset capitalization adjustment should be no more than the cost of long-term debt. Provide support that the East Bend O&M regulatory asset is only included in the long-term debt of Duke Kentucky's capitalization.

RESPONSE:

No component of capitalization is specifically tied to any regulatory asset (or any other asset for that matter), whether it earns separate carrying costs or not. The Company accrued carrying charges at the cost of debt for the East Bend O&M deferral as was approved in the Commission's Order in Case No. 2014-00201. See the Company's response to STAFF-REHEARING-DR-01-004 for an explanation of how to appropriately credit customers with the carrying costs being earned by this regulatory asset.

PERSON RESPONSIBLE: William Don Wathen Jr.

REQUEST:

Refer to Duke Kentucky's Petition, pages 7-8, regarding the adjustment to capitalization for excess ADIT.

- a. Identify any adjustment to capitalization or the revenue requirement that Duke Kentucky proposed in its rebuttal testimony to account for its proposed amortization of excess ADIT.
- b. Confirm that any adjustment to capitalization should be based on a 13-month average. If this cannot be confirmed, explain.
- c. Explain why Duke Kentucky did not use a 13-month average capitalization to reflect the impact of the excess ADIT amortization on capitalization.

RESPONSE:

- a. Although the Company did propose to amortize protected excess accumulated deferred income taxes (ADITs) using the appropriate rates for normalization accounting and the unprotected excess ADITs, it neglected to include an adjustment to its thirteen-month average capitalization to reflect the increase in capitalization that this would create. The Commission's Order required a ten-year amortization of the unprotected excess ADITs.

- b. For test years that are based on forecasted test periods, the Company confirms that capitalization and any adjustment to capitalization should be based on a thirteen-month average.
- c. As noted in part (a), the fact that the Company made no adjustment at all to reflect the impact of the amortization of excess ADITs was an oversight. The Company's Rehearing Application noted that the Commission addressed the oversight as it relates to rate base but did not appear to consider the impact on capitalization as well. Insofar as the amortization of excess ADITs is ratable over the test year, if \$4,471,984 is the ending balance (March 31, 2019) of the impact, then the thirteen-month average would be half that amount, or \$2,235,992 and the resulting revenue requirement would be \$188,852 (*i.e.*, half the amount calculated in the Company's Rehearing Application).

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018

STAFF-REHEARING-DR-01-008

REQUEST:

Refer to Duke Kentucky’s Petition, page 8. Provide support for the pre-tax weighted average cost of capital of 8.446 percent.

RESPONSE:

As shown in the table below, in calculating the 8.446%, the Company started with the capital structure approved in the Commission’s Order, Appendix B, and applied a gross up factor that included state and federal income tax rates but excluded uncollectible expense and KPSC maintenance expense factors.

Line No.	Capital Structure	Ratio	Cost	Weighted Cost (A)	Gross up for Tax Rate (B)	Pre-Tax Rate of Return (A)x(B)
1	Short-term Debt	9.772%	3.083%	0.301%		0.301%
2	Long-term Debt	40.977%	4.243%	1.739%		1.739%
3	Common Equity	49.251%	9.725%	4.790%	1.3373044	6.406%
4	Total	<u>100.000%</u>		<u>6.830%</u>		<u>8.446%</u>

Please see STAFF-REHEARING-DR-01-008 Attachment for the calculation of the gross up factor.

PERSON RESPONSIBLE: Sarah E. Lawler

**STAFF-REHEARING-DR-
01-008**

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Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018

STAFF-REHEARING-DR-01-009

REQUEST:

Refer to Duke Kentucky's Petition, page 10. Duke Kentucky states that the Commission should recalculate the capacity rate for its cogeneration tariffs by updating the cost of debt and the capital structure used in the rate-of-return calculation. Given this request, state whether Duke Kentucky believes that the LED Outdoor Lighting Electric Service rates should also be recalculated. If yes, provide the updated rates in Excel format with the formulas intact and unprotected and all rows and columns accessible. If no, explain.

RESPONSE:

During the informal conference call on April 19, 2018 to discuss the Commission's order in this proceeding, the Company asked and Staff confirmed that the debt portion of the capital structure was not updated in the calculation of the cogeneration tariff capacity value. This confirmation led to the request for rehearing on the cogeneration tariff. For Rate LED, the Commission's April 14 order in this case provides the approved charges. Beyond the text available in the order, the Company is not aware of exactly how the Rate LED charges were calculated. The Company updated the Excel spreadsheets requested by Staff and they do not calculate the same values that appear in the order. Refer to STAFF-REHEARING-DR-01-009 Attachments 1 and 2, provided electronically. However, without confirmation related to any other adjustments made to the LED charges, the

Company cannot conclude with certainty whether the rates in the order should be changed.

PERSON RESPONSIBLE: Bruce L. Sailors

**STAFF-REHEARING-DR-
01-009 ATTACHMENT 1
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AND ON CD**

**STAFF-REHEARING-DR-
01-009 ATTACHMENT 2
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**Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018**

STAFF-REHEARING-DR-01-010

REQUEST:

Refer to Duke Kentucky's Petition, page 12. Provide the number of annual bills that are for electric only, gas only, and combined customers.

RESPONSE:

Please see STAFF-REHEARING-DR-01-010 Attachment.

PERSON RESPONSIBLE: Ryan Champness

NUMBER OF ANNUAL BILLS FOR DUKE ENERGY KENTUCKY

Service Type	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	12 Month Total	Monthly Average
Combination	108,316	79,274	88,928	77,930	86,029	78,099	79,329	85,351	79,564	82,258	82,391	85,182	1,012,651	84,388
Gas only	30,328	20,814	22,894	20,720	22,325	21,936	21,546	22,609	21,705	22,100	22,258	22,708	271,943	22,662
Electric only	67,392	60,053	69,918	61,438	65,888	61,688	60,060	68,199	60,468	64,364	64,406	68,145	1,284,594	64,335
Total	206,036	160,141	181,740	160,088	174,242	161,723	160,935	176,159	161,737	168,722	169,055	176,035	2,569,188	171,384

**Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018**

STAFF-REHEARING-DR-01-011

REQUEST:

Refer to Duke Kentucky's Petition, pages 14-15, Regulatory Asset Recovery. Confirm that Duke Kentucky's proposed total revenue requirement and revenue requirement increase presented in its application and rebuttal testimony included recovery of amortization of the listed regulatory assets. If this cannot be confirmed, explain.

RESPONSE:

Confirmed. Duke Energy Kentucky's total revenue requirement and revenue requirement increase presented in its application and rebuttal testimony does include recovery of amortization of the listed regulatory assets.

PERSON RESPONSIBLE: Sarah E. Lawler

**Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018**

STAFF-REHEARING-DR-01-012

REQUEST:

Refer to Duke Kentucky's Petition, Exhibit 1. For each adjustment, provide the expense or revenue amount, the gross-up factor applicable to each expense or revenue, and the total revenue requirement impact.

RESPONSE:

See STAFF-REHEARING-DR-01-012 Attachment.

PERSON RESPONSIBLE: Sarah E. Lawler

**STAFF-REHEARING-DR-
01-012**

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**Duke Energy Kentucky
Case No. 2017-00321
Staff First Rehearing Set Data Requests
Date Received: June 20, 2018**

STAFF-REHEARING-DR-01-013

REQUEST:

Provide the inputs that comprise the short-term debt, long-term debt, and equity components of the capitalization structure.

RESPONSE:

Please see Schedules J-1, J-2 and J-3 submitted in the Company's original application.

PERSON RESPONSIBLE: Sarah E. Lawler