KYPSC CASE NO. 2017-00321
STAFF SECOND REHEARING DATA REQUESTS
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VERIFICATION

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

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.

S E L

Sarah E. Lawler Affiant

Subscribed and sworn to before me by Sarah E. Lawler on this 26TH day of JULY, 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)
) **SS:**
COUNTY OF HAMILTON)

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.

Don Wathen

William Don Wathen Jr., Affiant

Subscribed and sworn to before me by William Don Wathen Jr., on this 26TH day of JULY, 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

STAFF-REHEARING-DR-02-001

REQUEST:

Refer to Duke Kentucky's response to Commission Staff's First Rehearing Request for Information (Staff's First Rehearing Request), Item 2, Attachment.

a. Confirm that the provided calculation incorrectly applies the gross revenue conversion factor (GRCF) to the entire weighted average cost of capital (WACC).
b. Confirm that applying the GRCF to only the return on equity (ROE) portion of the WACC results in an adjustment of $163,148.
c. Provide the calculation of the $6,569,820 "Capitalization change due to updated B-6 Schedules."
d. Refer also to Duke Kentucky's response to Staff's First Rehearing request, Item 7.a., in which Duke Kentucky states that it did not propose an adjustment to capitalization to reflect the amortization of excess accumulated deferred income taxes (ADIT). Confirm that "Capitalization change due to updated B-6 Schedules" indicates that Duke Kentucky did include such an adjustment. If this cannot be confirmed, provide a detailed explanation.

RESPONSE:

a. Confirmed.
b. Confirmed.

c. In order to determine capitalization for the Company's electric business only, the Company applies a rate base ratio to total capitalization. When the Company prepared a new Schedule B-6 to incorporate the changes in the Tax Cuts and Jobs Act (Tax Act), the rate base used in calculating the rate base ratio changed. Additionally, updates were made to non-jurisdictional accumulated deferred income taxes (ADITs) that are excluded from total capitalization before applying the rate base ratio percentage. See STAFF-REHEARING-DR-02-001 Attachment A for the originally filed Rate Base Ratio Calculation (WPA-1d of the Company's original application.) See STAFF-REHEARING-DR-02-001 Attachment B for the originally filed Calculation of Jurisdictional Capitalization (WPA-1c of the Company's original application). See STAFF-REHEARING-DR-02-001 Attachment C for the updated Rate Base Ratio Calculation that resulted from the updated Schedule B-6. See STAFF-REHEARING-DR-02-001 Attachment D for the updated Calculation of Jurisdictional Capitalization. As shown on Attachment D, capitalization changed by $6,569,820, but this change is only the result of the rate base ratio change and the changes to non-jurisdictional rate base used in the rate base ratio calculation.

d. The Company's response to Staff's First Rehearing request, Item 7.a. is accurate. The capitalization change due to the updated B-6 Schedules is only from reflecting changes in the rate base ratio calculation as discussed above. As noted on the supporting schedules, no changes were made to the starting point total capitalization to account for the changes in ADITs and excess ADITs that caused rate base to increase. As noted in the table below, rate base grew by $39.7 million.

However, no increase was made to total capitalization to account for this increase in rate base that was made in the Company's rebuttal filing. Further, the amortization of excess ADITs over a ten-year period caused the excess ADITs to decrease thus causing further increases to rate base that were not reflected in the total capitalization.

	ADITs	Excess ADITs	Total offset to Rate Base
As originally filed*	$241,411,552	-	$241,411,552
As adjusted**	135,880,165	65,877,674	201,757,839
Change	$105,531,387	$(65,877,674)	$39,653,713

*STAFF-REHEARING-DR-002-001 Attachment A
**STAFF-REHEARING-DR-002-001 Attachment C

Said another way, to completely reflect the changes in ADITs and excess ADITs, total capitalization of $1,069,192,372 on STAFF-DR-02-001 Attachment D should have increased for these changes; however, the Company did not make this change.

PERSON RESPONSIBLE: Sarah E. Lawler

STAFF-REHEARING-DR-02-001 ATTACHMENT A IS BEING PROVIDED ELECTRONICALLY AND ON CD

STAFF-REHEARING-DR-02-001 ATTACHMENT B IS BEING PROVIDED ELECTRONICALLY AND ON CD

STAFF-REHEARING-DR-02-001 ATTACHMENT C IS BEING PROVIDED ELECTRONICALLY AND ON CD

STAFF-REHEARING-DR-02-001 ATTACHMENT D IS BEING PROVIDED ELECTRONICALLY AND ON CD

Duke Energy Kentucky
Case No. 2017-00321
Staff Second Rehearing Set Data Requests
Date Received: July 23, 2018

STAFF-REHEARING-DR-02-002

REQUEST:

Refer to Duke Kentucky's response to Staff's First Rehearing Request, Item 4, regarding the regulatory asset for the deferral of East Bend operations and maintenance expense (East Bend O&M Regulatory Asset).

a. Provide a schedule illustrating how Duke Kentucky proposes to address the impact of the East Bend O&M Regulatory Asset on its capitalization.

b. State whether this Commission has authorized capitalization adjustments for regulatory assets, which accrued carrying charges at less than the utility's full WACC, in past proceedings. If so, cite by date and docket number, the Commission Order(s) that approved such adjustments.

RESPONSE:

a. As described in the Rebuttal Testimony of William Don Wathen Jr., beginning on page 20, the Company recommends that the revenue requirement be credited for the carrying costs being earned on the East Bend 2 O&M regulatory asset. Insofar as this proposal appropriately credits revenue requirement with the actual return being earned by the Company, no adjustment to capitalization is required.

To illustrate why it is inappropriate to reduce overall capitalization for a regulatory asset earning only a debt rate of return, consider the following:

In its adjustments to test year expenses, Schedule D-2.31, Duke Energy Kentucky proposed to amortize four different regulatory assets that had been approved by the Commission in prior orders.

Regulatory Assets Included in Revenue Requirement (Sch. D-2.31)		
Description	Amount	Case No.
Hurricane Ike	$4,912,800	2008-0476
Carbon Mgt Research Group	$2,000,000	2008-0308
East Bend O&M Deferral	$36,540,465	2014-0201
AMI Opt Out	$263,029	2016-0152

Of these regulatory assets, the East Bend O&M deferral was the only one for which the Commission allowed the Company to earn a specific return. No provision for carrying costs was approved for the deferrals associated with Hurricane Ike, Carbon Mgt Research Group, and AMI Opt Out. Because no specific return was authorized for these regulatory assets, there was no recommendation from any party to remove the value of these regulatory assets from capitalization. The amortization expense for each of these regulatory assets is simply the value of the balance divided by the number of years approved for recovery (five years for the Hurricane Ike and AMI Opt Out deferrals and ten years for the Carbon Mgt Research Group deferral).

Because the Commission allowed the Company to accrue carrying costs on the East Bend O&M deferral, the amortization expense included in the test year revenue requirement included a return component. So, instead of simply dividing by the ten-year amortization period, the amortization expense was calculated as an annuity that, over the ten-year period, had a present value (discounted at the carrying cost being earned) equal to the beginning balance.

If the Company was not allowed to earn a return on the unamortized balance of the regulatory asset, then there would be no recommendation to remove the amount from capitalization. The amortization expense would have been $36,540,465 divided by ten years, or $3,654,046 per year (excluding any gross ups). As approved by the Commission, the Company's revenue requirement includes $4,490,269 in amortization expense for this regulatory asset. The difference, $836,223, reflects the inclusion of the levelized return component included in the amortization expense, at the long-term debt rate.

Amortization Expense	**Amount**
In Test Year (Annuity @ LTD rate over 10 yrs)	$4,490,269
Straight-Line Amortization (amount divided by 10)	$3,654,046
Amount in Test Year for Return on Reg Asset	$836,223

Had the Commission simply ordered a straight-line amortization of this deferral, the Company's revenue requirement would have been reduced by this amount (not counting gross ups). In addition, because there would have been no adjustment to capitalization, the Commission's adjustment in Appendix B to the Order would not have been required and, consequently, the Commission's proposed revenue requirement would have increased by $3,231,110 (the amount of the capitalization adjustment related to this regulatory asset calculated in Appendix B of the Order).

The implication is that the Commission reduced the Company's revenue requirement by $3,231,110 because the Company is earning $836,223 on a regulatory asset. As an alternative, the Commission may consider revising its order so that the Company's revenue requirement reflects NO carrying costs are earned on the unamortized balance of the East Bend O&M deferral, eliminating approximately $836,223 from the Company's revenue requirement. That would eliminate the need for the related adjustment calculated in Appendix B of the Order in the amount of $3,231,110. The net result would be to increase the amount of the revenue requirement approved in the Commission's order by $2,394,888.

b. The Company has not performed an exhaustive review of all Commission orders involving general rate cases but is unaware of a prior case where the Commission "authorized capitalization adjustments" for regulatory assets that earned a separate return, whether it earned a return at the weighted-average cost of capital, a debt rate, or at any other rate.

PERSON RESPONSIBLE: William Don Wathen Jr

Duke Energy Kentucky
Case No. 2017-00321
Staff Second Rehearing Set Data Requests
Date Received: July 23, 2018

STAFF-REHEARING-DR-02-003

REQUEST:

Refer to Duke Kentucky's response to Staff's First Rehearing Request, Item 5, Staff-Rehearing-DR-01-005 Attachment, page 2.

a. State whether Duke Kentucky proposes to utilize a debt-only GRCF of 1.0027536 for the debt portion of its WACC.

b. If the response to part (a) is yes, explain why Duke Kentucky did not provide the calculation of the debt-only GRCF in Schedule H of its application.

c. If the response to part (a) is yes, confirm that all of Duke Kentucky's proposed capitalization adjustments include a debt-only GRCF in the debt portion of the WACC. If this cannot be confirmed, explain.

RESPONSE:

a. Yes. 1.0027536 is the gross revenue conversion factor for the debt portion of the WACC. It is also a component of the GRCF for equity.

b. The 1.0027536 is included in Schedule H, as filed. Excluding the income tax components shown in Schedule H produces the GRCF for the non-equity components of the weighted-average cost of capital.

c. In responding to STAFF-REHEARING-DR-01-005, the Company did not propose any capitalization adjustments. Instead, the information used by the

Company to respond STAFF-REHEARING-DR-01-005 was taking the adjustments included in the Commission's Order, Attachment B.

PERSON RESPONSIBLE: William Don Wathen Jr

STAFF-REHEARING-DR-02-004

REQUEST:

Refer to Duke Kentucky's response to Staff's First Rehearing Request, Item 4.a. Confirm that it is Duke Kentucky's position that its capitalization includes $27,323,970 for the East Bend O&M Regulatory Asset.

RESPONSE:

Although there is no direct correlation between the regulatory assets and capitalization, the Company's overall capitalization does support the investment required to finance the East Bend 2 O&M deferral. The Company's investment, net of deferred taxes, is estimated to be $27,323,970.

PERSON RESPONSIBLE: William Don Wathen Jr

Duke Energy Kentucky
Case No. 2017-00321
Staff Second Rehearing Set Data Requests
Date Received: July 23, 2018

STAFF-REHEARING-DR-02-005

REQUEST:

Refer to Duke Kentucky's response to Staff's First Rehearing Request, Item 4.b. and 6. Confirm that the East Bend O&M Regulatory Asset is included in Duke Kentucky's capitalization at the full WACC. If this cannot be confirmed, explain and provide supporting documentation.

RESPONSE:

Any regulatory asset represents an investment by shareholders in that the Company incurred expenses in one period that it expects to recover in a future period. Investors expect to earn a return on this investment. While traditionally, such investments are allowed to earn a return at the overall weighted-average cost of capital, with respect to this particular issue, the Company was permitted by this Commission to include carrying charges at the long-term debt rate. An adjustment should be made so to allow the Company to earn such return, no more, no less.

For a regulatory asset earning no separate return, there would be no need to include a revenue requirement adjustment.

For a regulatory asset that was allowed to earn a return at the full WACC, the amount of the credit to revenue requirement would be calculated using the WACC.

For the East Bend O&M regulatory asset, the return on the Company's overall investment should be reduced for the fact that the Company is allowed to earn a return, explicitly on this single investment, at the long-term debt rate. As the Company's example in response to item 4b, first set demonstrates, the Commission's adjustment unfairly penalizes the Company and its shareholders.

PERSON RESPONSIBLE: William Don Wathen Jr

Duke Energy Kentucky
Case No. 2017-00321
Staff Second Rehearing Set Data Requests
Date Received: July 23, 2018

STAFF-REHEARING-DR-02-006

REQUEST:

Refer to Duke Kentucky's response to Staff's First Rehearing Request, Item 8. Explain why the GRCF excludes "uncollectible expense and KPSC maintenance expense factors."

RESPONSE:

The pre-tax weighted average cost of capital of 8.446 percent included on page 8 of the Company's petition for rehearing erroneously used a GRCF that excluded the uncollectible expense and KPSC maintenance expense factors. The Company should have used a pre-tax weighted average cost of capital of 8.463 percent based on a GRCF of 1.3409866 that includes a factor for uncollectible expense and KPSC maintenance expense factors.

PERSON RESPONSIBLE: William Don Wathen Jr

STAFF-REHEARING-DR-02-007

REQUEST:

Refer to Duke Kentucky's Petition for Rehearing at 16, Duke Kentucky's Post-Hearing Brief at 40-41, the Direct Testimony of Jeffery T. Kopp at 4 and 9, and the Application.

a. Provide the location of Duke Kentucky's request for Commission approval of its Decommissioning Study.
b. Explain why the Decommissioning Study requires Commission approval.

RESPONSE:

a. Duke Energy Kentucky only specifically sought Commission approval of its Decommissioning Study after the Attorney General's witness, Mr. Lane Kollen, questioned whether the calculations set forth therein were appropriate in his pre-filed testimony. *See* Kollen Testimony, pp. 41-42. Until then, Duke Energy Kentucky had no reason to believe that the Decommissioning Study would be questioned. Duke Energy Kentucky responded to the claims asserted by Mr. Kollen in the rebuttal testimony of Mr. John Spanos. *See* Spanos Rebuttal Testimony, p. 24. To assure that the issue was fully addressed and resolved, Duke Energy Kentucky's post-hearing brief included an express request for approval of the Decommissioning Study. *See* Duke Energy Kentucky Brief, pp. 40-41. Though the necessity of the request was unanticipated at the time of the September 1, 2017 filing of the original rate application, such contingencies are clearly within the scope of paragraph ten (10) of the application which requests the granting of "all other relief to which Duke Energy Kentucky may be entitled." Indeed, the very purpose of this standard request in a prayer for relief is to account for items which are not anticipated at the time the initial pleading is filed.

b. Commission approval for the Decommissioning Study is not expressly required by Kentucky law. However, as the Company's rate request is based in part upon calculations, estimates and assumptions contained in the Decommissioning Study and because the Attorney General's witness challenged at least one of these assumptions in pre-filed testimony, the issue of whether the Decommissioning Study was reasonable and appropriate arose in the course of the case by virtue of Mr. Kollen's testimony. Since the Commission's April 13, 2018 Order approves recovery of net salvage expense and interim net salvage expense, it could be reasonably inferred that the Decommissioning Study was implicitly approved with regard to the portion of those net salvage and interim net salvage expenses attributable to the assets covered by Decommissioning Study. Duke Energy Kentucky prefers to not have such assumptions left to implication, however. A Commission Order granting specific approval of the Decommissioning Study as tendered will definitively affirm that the Company's methodology, assumptions and conclusions with regard to decommissioning costs were prudently developed and are reasonable and reliable. Such a declaration will make the current Commission's understanding on this question clear and unambiguous, rather than being left to interpretation and speculation in future proceedings.

PERSON RESPONSIBLE: Legal

Duke Energy Kentucky
Case No. 2017-00321
Staff Second Rehearing Set Data Requests
Date Received: July 23, 2018

STAFF-REHEARING-DR-02-008

REQUEST:

Refer to the Rebuttal Testimony of William Don Wathen Jr, Exhibit WDW-Rebuttal-5, page 3 of 3. Confirm that the calculation of the pre-tax WACC of 9.26 percent includes a ROE of 11.00 percent, instead of the 10.375 percent identified in the exhibit. If confirmed, provide a revised Exhibit WDW-Rebuttal-5.

RESPONSE:

The title of the table incorrectly stated 10.375%.

See STAFF-REHEARING-DR-02-008 Attachment for a revised version of Exhibit WDW-Rebuttal-5 with the title of the table on page 3 of 3 corrected to reflect 11.0% rather than 10.375%.

PERSON RESPONSIBLE: William Don Wathen Jr

STAFF-REHEARING-DR-02-008 ATTACHMENT IS BEING PROVIDED ELECTRONICALLY AND ON CD

Duke Energy Kentucky
Case No. 2017-00321
Staff Second Rehearing Set Data Requests
Date Received: July 23, 2018

STAFF-REHEARING-DR-02-009

REQUEST:

Refer to the Rebuttal Testimony of Sarah E. Lawler at 3.

a. State whether Duke Kentucky included adjustments to the pro forma test-year current and deferred federal income tax expense to reflect the impact of the Tax Cuts and Jobs Act.

b. If the response to part (a) is yes, identify the location and amount of this adjustment and provide all supporting calculations and documentation in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.

c. If the response to part (a) is no, explain in detail why Duke Kentucky did not make such an adjustment.

RESPONSE:

a. The Company included adjustments to the pro forma test-year current and deferred federal income tax expenses to reflect the impact of the Tax Cuts and Jobs Act on the updated Schedule E-1 that was provided as Attachment LMB-Rebuttal-4-Revised Schedule E-1 to Lisa Bellucci's rebuttal testimony.

b. See STAFF-REHEARING-DR-02-009 Attachment for an electronic version of Attachment LMB-Rebuttal-4-Revised Schedule E-1.

c. N/A

PERSON RESPONSIBLE: Sarah E. Lawler

STAFF-REHEARING-DR-02-009 ATTACHMENT IS BEING PROVIDED ELECTRONICALLY AND ON CD

STAFF-REHEARING-DR-02-010

REQUEST:

Based on the adjustments to income, expense, and capitalization with which Duke Kentucky is in agreement since it submitted its updated rebuttal testimony, including any adjustments resulting from this information request, provide an updated overall financial summary (Schedule A), jurisdictional rate base summary (Schedule B-1), and jurisdictional operating income summary (Schedule C-1) for the forecasted test year only.

RESPONSE:

See STAFF-REHEARING-DR-02-010 Attachment A for Schedule A.

See STAFF-REHEARING-DR-02-010 Attachment B for Schedule B-1.

See STAFF-REHEARING-DR-02-010 Attachment C for Schedule C-1.

Note that these schedules reflect all adjustments to the Company's revenue requirement and capitalization outlined in the Commission's order for which the Company has not requested rehearing in its May 3, 2018, petition for rehearing. Additionally, the schedules assume the Commission's denial of the Company's rehearing request related to restricted stock units.

PERSON RESPONSIBLE: Sarah E. Lawler

STAFF-REHEARING-DR-02-010 ATTACHMENT A IS BEING PROVIDED ELECTRONICALLY AND ON CD

STAFF-REHEARING-DR-02-010 ATTACHMENT B IS BEING PROVIDED ELECTRONICALLY AND ON CD

STAFF-REHEARING-DR-02-010 ATTACHMENT C IS BEING PROVIDED ELECTRONICALLY AND ON CD