

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

The Electronic Application of Duke )  
Energy Kentucky, Inc., for: 1) An )  
Adjustment of the Electric Rates; 2) ) Case No. 2017-000321  
Approval of an Environmental )  
Compliance Plan and Surcharge )  
Mechanism; 3) Approval of New Tariffs; )  
4) Approval of Accounting Practices to )  
Establish Regulatory Assets and )  
Liabilities; and 5) All Other Required )  
Approvals and Relief. )

**DUKE ENERGY KENTUCKY, INC.'S APPLICATION FOR AUTHORITY TO  
ADJUST ELECTRIC RATES, APPROVAL OF AN ENVIRONMENTAL  
COMPLIANCE PLAN AND SURCHARGE MECHANISM, APPROVAL OF NEW  
TARIFFS, APPROVAL OF ACCOUNTING PRACTICES TO ESTABLISH  
REGULATORY ASSETS AND LIABILITIES AND FOR ALL OTHER  
REQUIRED APPROVALS AND RELIEF**

Applicant, Duke Energy Kentucky, Inc., (Duke Energy Kentucky or the Company), pursuant to KRS 278.180, KRS 278.190, KRS 278.192, 807 KAR 5:001 Section 14 and Section 16, and other applicable law, hereby applies to the Kentucky Public Service Commission (Commission) for authority to adjust its electric rates, approval of new tariffs, including, but not limited to, establishment of an environmental surcharge mechanism (ESM) under KRS 278.183, approval of certain accounting practices to establish regulatory assets and liabilities, and for all other required approvals and relief (collectively this Application). As set forth in the Company's Notice of Intent filed on August 2, 2017, in accordance with KRS 278.180(1), KRS 278.183(2), and 807 KAR 5:001, Section 16(2), this Application is supported by a fully forecasted test period consisting of the twelve months ending March 31, 2019. The Notice of Intent was served

upon the Attorney General of the Commonwealth of Kentucky, Office of Rate Intervention. A copy of the Notice of Intent is attached hereto at Vol. 1, Tab 1 of the filing requirements.

In support of this Application, Duke Energy Kentucky respectfully states as follows:

### **Introduction**

1. Duke Energy Kentucky is a “utility” as defined in KRS 278.010(3) and is subject to the Commission’s jurisdiction pursuant to KRS 278.040. In accordance with 807 KAR 5:001, Section 14(1), Duke Energy Kentucky is a Kentucky corporation with its principal office and principal place of business at 139 East Fourth Street Cincinnati, Ohio 45202. The Company’s local office in Kentucky is Duke Energy Envision Center, 4580 Olympic Boulevard, Erlanger, Kentucky 41018. The Company further states that its electronic mail address for purposes of this matter is [KYfilings@duke-energy.com](mailto:KYfilings@duke-energy.com).

2. Duke Energy Kentucky is a utility engaged in the gas and electric business. Duke Energy Kentucky purchases, sells, stores and transports natural gas in Boone, Bracken, Campbell, Gallatin, Grant, Kenton and Pendleton Counties, Kentucky. Duke Energy Kentucky also generates electricity, which it distributes and sells in Boone, Campbell, Grant, Kenton and Pendleton Counties.

3. Pursuant to 807 KAR 5:001, Section 14(2), Duke Energy Kentucky states that it was originally incorporated in the Commonwealth of Kentucky on March 20, 1901, and attests that it is currently in good standing in said Commonwealth. Pursuant to 807 KAR 5:001, Section 14(2), a certified copy of Duke Energy Kentucky’s certificate of good standing from the Kentucky Secretary of State is attached at Volume 1, Tab 6, of

this filing, and is incorporated by reference. Duke Energy Kentucky has on file with the Office of the Secretary of State a certificate for the following assumed name: “Duke Energy.” The required certificate of assumed name is attached at Volume 1, Tab 10 of this filing, and is incorporated by reference.

4. This Application constitutes notice to the Commission pursuant to KRS 278.180(1) of the changes proposed to be made to Duke Energy Kentucky’s electric rates. Duke Energy Kentucky’s Statutory Notice is attached to this Application. Duke Energy Kentucky is filing its Certificate of Notice to the public of the changes in its tariffs that result in increased rates, which Certificate is attached hereto at Volume 1, Tab 13 of this Application.

5. Pursuant to 807 KAR 5:001 Section 8, on August 2, 2017, Duke Energy Kentucky filed with the Commission, its notice of intent to use electronic filing procedures in this proceeding. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

William Don Wathen, Jr.  
Director Rates and Regulatory Strategy  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
Cincinnati, OH 45202  
513-287-2327  
Don.wathen@duke-energy.com

Amy B. Spiller  
Deputy General Counsel  
Rocco O. D’Ascenzo  
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Duke Energy Kentucky, Inc.,  
139 East Fourth Street  
Cincinnati, OH 45202  
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### **Adjustment of Electric Rates**

6. Duke Energy Kentucky's present electric rates and charges, which are based on costs incurred during the twelve months ended December 31, 2006, were authorized by this Commission by Order dated December 21, 2006, in Case No. 2006-00172.<sup>1</sup>

7. In accordance with the provisions of KRS 278.180, KRS 278.183, KRS 278.190, and KRS 278.192, Duke Energy Kentucky requests Commission approval of a change in existing rates, including but not limited to a change in its depreciation rates, establishment of new rates, and changes in terms, conditions and tariffs for electric service. Duke Energy Kentucky proposes to implement and change its existing rates and tariffs to those rates and charges set forth in the proposed tariff(s) attached hereto at Schedule L contained in Volume 13, of this Application. A comparison of the present and proposed rates and charges is attached hereto in the notice contained in Volume 1, Tab 13 and in Volume 13, Schedule L of this Application.

8. Duke Energy Kentucky has several special contracts on file with this Commission consisting primarily of interconnection agreements and Back-Up Delivery Point/Reserve Capacity service agreements pursuant to the Company's Commission-

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<sup>1</sup> *In the Matter of the Application of the Union Light, Heat and Power Company D/B/A Duke Energy Kentucky for an Adjustment of Electric Rates*, Case No. 2006-00172, Ky P.S.C. December 21, 2006.

approved Back-Up Delivery Point Rider (Rider BDP). In addition, Duke Energy Kentucky has one special contract for the purchase and sale of renewable energy credits to a specific customer. With this Application, Duke Energy Kentucky is not seeking to change any of those special contracts, except to the extent such contracts incorporate base rates charges or other standard tariff provisions that are impacted by the Company's Application.

9. Duke Energy Kentucky seeks to adjust its electric base rates to a new total of \$357.5 million, which reflects an increase from its current rates of approximately \$48.6 million. The increase in base rates takes into account the offsetting impact of cost-effective energy efficiency in terms of adjustments to the Company's load forecast as used in its application. The monthly residential electric bill increase (total bill) due to the proposed electric base rates will be 17.1 percent or approximately \$15.17 for a customer using 1,000 kWh of electricity (the typical monthly consumption of a Duke Energy Kentucky residential customer). The amounts of the proposed new total rates are at Volume 12, Schedule A, of this filing, and are incorporated by reference. The proposed new charges and the impact of the proposed adjustment on each customer class are provided at Volume 13, Schedule N of this Application, and are incorporated by reference. Duke Energy Kentucky states that it will implement this adjustment effective October 1, 2017.

10. In its application, Duke Energy Kentucky is proposing clarifying language changes to several tariffs and service regulations, as well as, to establish and implement three new discrete surcharge mechanisms to recover costs of 1) incremental distribution capital investments for Commission-approved multi-year initiatives intended to maintain,

enhance, and improve system integrity and reliability for customers; 2) recover and reconcile costs and credits, incremental to what is in base rates, for certain FERC-jurisdictional transmission expenses that the Company has no control over and that are instrumental to serving Kentucky customers; and 3) recover environmental compliance costs for the Company's East Bend coal-fired generating station.

### **Support for Change in Existing Rates and Tariffs**

11. In accordance with 807 KAR 5:001 Section 16(1)(b)(1), Duke Energy Kentucky states that the primary reason for this requested change in rates, terms, conditions and tariffs is that Duke Energy Kentucky's earned rate of return on capitalization obtained from its current electric operations is 2.850 percent, which is inadequate to enable the Company to continue providing safe, reasonable and reliable service to its customers and is insufficient to afford Duke Energy Kentucky a reasonable opportunity to earn a fair return on its investment property that is used to provide such service while attracting necessary capital at reasonable rates. In addition, the Company is seeking to recover, through amortization, certain regulatory assets, including but not limited to: 1) storm restoration expenses resulting from Hurricane Ike; 2) research and development investments; 3) incremental operational and maintenance (O&M) related to the acquisition of the entirety of the East Bend Generating Station (East Bend); and 4) O&M expenses related to the creation of a residential Advanced Metering Infrastructure (AMI) opt-out tariff, all of which, were previously authorized by the Commission since the time of the Company's last electric rate case.

12. In accordance with 807 KAR 5:001 Section 16(1)(b)(1), a more detailed statement of the reasons for the adjustment is provided in the direct testimony of

Company witnesses Mr. James P. Henning, Mr. William Don Wathen, Jr., and Ms. Sarah E. Lawler, as well as others, filed contemporaneously with this Application, and incorporated by reference.

13. Duke Energy Kentucky certifies that its annual reports, including the annual report for year ending 2016, are on file with this Commission as required by 807 KAR 5:006, Section 4(1).

14. The aggregate total revenue from Duke Energy Kentucky's non-regulated incidental activities exceeds the lesser of 2 percent of Duke Energy Kentucky's total revenue or \$1 million, annually; therefore, Duke Energy Kentucky is required under KRS 278.2203 and KRS 278.2205 to submit a cost allocation manual (CAM) with this filing. The Company periodically submits its CAM to the Commission when material changes are made. The Company last provided the Commission with a copy of its CAM by overnight delivery on March 31, 2017. Due to the voluminous nature of the CAM, and the transactional reporting therein, a copy of the CAM is attached to this filing on CD and is incorporated by reference.<sup>2</sup>

15. Pursuant to 807 KAR 5:001, Section 16(1)(b)(8), Duke Energy Kentucky states that its proposed tariffs and proposed tariff changes are provided at Volume 13, Schedule L of this filing, and is incorporated by reference. The effective date of the proposed tariffs and proposed tariff changes is October 1, 2017.

16. Pursuant to 807 KAR 5:001, Section 16(1)(b)(5), Duke Energy Kentucky states that it has complied with 807 KAR 5:011, Section 16(2) and 807 KAR 5:001, Sections 17(3) and (4) by delivering to the newspapers of general circulation in its service

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<sup>2</sup> Due to the voluminous nature of the CAM, a Motion for Deviation requesting to file the CAM on a CD instead of filing a paper copy was filed with the Commission on August 28, 2017.

territory area a copy of a Legal Notice for publishing once a week for three consecutive weeks in a prominent manner, the first of said publications to be made no later than the date this application is filed with the Commission. A copy of the Legal Notice is attached at Volume 1, Tab 13, of this Application, Notice and Statement, and is incorporated by reference. Duke Energy Kentucky states that it will implement this adjustment effective October 1, 2017.

17. Pursuant to 807 KAR 5:001, Section 17, Duke Energy Kentucky states that it has filed with the Executive Director of this Commission a written notice of its intention to file this application, and mailed a copy to the Utility Intervention and Rate Division of the Attorney General's office. A copy of the written notice is attached at Volume 1, Tab 1, of this filing, and is incorporated by reference.

18. Pursuant to 807 KAR 5:001, Section 17, Duke Energy Kentucky states that it will post a copy of this filing at its place of business on the date on which this application is filed and it will remain posted until this Commission has finally determined Duke Energy Kentucky's electric rates and will also be posted, within five business days of the date of filing this application with the Commission, on Duke Energy Kentucky's website [www.duke-energy.com](http://www.duke-energy.com) which will contain a hyperlink to the Commission's website where this application can be viewed.

19. Pursuant to 807 KAR 5:001, Section 12, Duke Energy Kentucky states that its financial exhibit is provided at Volume 1, Tabs 3 and 4, of this filing, and is incorporated by reference.

20. Duke Energy Kentucky supports its request for a change in existing rates and tariffs for electric service with the verified testimony and exhibits of the following:



- a. James P. Henning, President, Duke Energy Kentucky;
- b. Lisa M. Bellucci, Director, Tax Operations;
- c. David L. Doss, Jr., Director, Electric Utilities and Infrastructure;
- d. Tammy Jett, Principle Environmental Specialist;
- e. Jeffrey T. Kopp, Manager, Business Consulting Department, Burns & McDonnell Engineering Company, Inc.;
- f. Sarah E. Lawler, Utility Strategy Director;
- g. Cynthia S. Lee, Director, Asset Accounting;
- h. Joseph A. Miller, Jr., Vice President, Central Services and Compliance;
- i. Roger A. Morin, PhD, Principal, Utility Research International;
- j. Benjamin Walter Bohdan Passty Ph.D., Lead Load Forecasting Analyst;
- k. Anthony J. Platz, Director, Power Quality, Reliability and Integrity (PQR&I) Engineering;
- l. Robert (“Beau”) H. Pratt, Director, Regional Financial Forecasting;
- m. Bruce L. Sailors, Rates and Regulatory Strategy Manager, Pricing and Rates Options;
- n. Jeffrey R. Setser, Director of Allocations and Reporting;
- o. Thomas Silinski, Vice President Total Rewards, and Human Resource Operations;

- p. John J. Spanos, Gannet Fleming Valuation and Rate Consultants, LLC;
- q. John L. Sullivan, III, Director, Corporate Finance and Assistant Treasurer;
- r. John D. Swez, Director, Generator Dispatch and Operations;
- s. John A. Verderame, Managing Director Power Trading and Dispatch;
- t. William Don Wathen Jr., Director, Rates and Regulatory Strategy, Ohio and Kentucky;
- u. Alexander “Sasha” J. Weintraub, PhD, Senior Vice-President, Customer Solutions; and
- v. James E. Ziolkowski, Director, Rates and Regulatory Planning.

21. Duke Energy Kentucky further supports its request for a change in its existing rates and tariffs for electric service with the following exhibits complying with the requirements of 807 KAR 5:001, Sections 14, 16, and 17:

<b>Tab</b>	<b>Filing Requirement</b>	<b>Description</b>
5	807 KAR 5:001 Section 14(1)	Name, Address, Facts
6	807 KAR 5:001 Section 14(2)	Corporation in good standing
7	807 KAR 5:001 Section 14(3)	LLC- in good standing
8	807 KAR 5:001 Section 14(4)	LP- Agreement
9	807 KAR 5:001 Section 16(1)(b)(1)	Reason for Rate Adjustment
10	807 KAR 5:001 Section 16(1)(b)(2)	Certificate of Assumed Name
11/ Schedule L, Vol. 13	807 KAR 5:001 Section 16(1)(b)(3)	New/revised Tariff w/ effective date
12/ Schedule L, Vol. 13	807 KAR 5:001 Section 16(1)(b)(4)	Proposed Tariff Changes
13	807 KAR 5:001 Section 16(1)(b)(5)	Statement about Customer Notice
14	807 KAR 5:001 Section 16(2)	Notice of Intent

15	807 KAR 5:001 Section 16(3)	Compliance with 807 KAR 5:051, Section 2
16	807 KAR 5:001 Section 16(6)(a)	Financial Data
17	807 KAR 5:001 Section 16(6)(b)	Forecasted Adjustments
18	807 KAR 5:001 Section 16(6)(c)	Capitalization and Rate Base
19	807 KAR 5:001 Section 16(6)(d)	No Revisions to Forecast
20	807 KAR 5:001 Section 16(6)(e)	Alternative Forecast
21	807 KAR 5:001 Section 16(6)(f)	Reconciliation of Rate Base and Capital
22/ Testimony Vol. 15-20	807 KAR 5:001 Section 16(7)(a)	Testimony
23	807 KAR 5:001 Section 16(7)(b)	Capital Construction Budget
24	807 KAR 5:001 Section 16(7)(c)	Description of Factors Supporting Forecast
25	807 KAR 5:001 Section 16(7)(d)	Annual and Monthly Budgets
26	807 KAR 5:001 Section 16(7)(e)	Attestation
27	807 KAR 5:001 Section 16(7)(f)	Major Construction Projects
28	807 KAR 5:001 Section 16(7)(g)	Other Construction Projects
29	807 KAR 5:001 Section 16(7)(h)	Financial Forecasts
29	807 KAR 5:001 Section 16(7)(h)(1)	Operating Income Statement
29	807 KAR 5:001 Section 16(7)(h)(2)	Balance Sheet
29	807 KAR 5:001 Section 16(7)(h)(3)	Statement of Cash Flows
29	807 KAR 5:001 Section 16(7)(h)(4)	Revenue Requirements
29	807 KAR 5:001 Section 16(7)(h)(5)	Load Forecast
29	807 KAR 5:001 Section 16(7)(h)(6)	Access Line Forecast (telephone)
29	807 KAR 5:001 Section 16(7)(h)(7)	Mix of Generation
29	807 KAR 5:001 Section 16(7)(h)(8)	Mix of Gas Supply
29	807 KAR 5:001 Section 16(7)(h)(9)	Employee Level
29	807 KAR 5:001 Section 16(7)(h)(10)	Labor Cost Changes
29	807 KAR 5:001 Section 16(7)(h)(11)	Capital Structure Requirement
29	807 KAR 5:001 Section 16(7)(h)(12)	Rate Base
29	807 KAR 5:001 Section 16(7)(h)(13)	Gallons of Water to be sold
29	807 KAR 5:001 Section 16(7)(h)(14)	Customer Forecast (gas/water)
29	807 KAR 5:001 Section 16(7)(h)(15)	Sales Volume Forecast (gas)
29	807 KAR 5:001 Section 16(7)(h)(16)	Toll and Access Forecast (telephone)
29	807 KAR 5:001 Section 16(7)(h)(17)	A Detailed Explanation of Other Info.
30	807 KAR 5:001 Section 16(7)(i)	FERC Audit Reports
31	807 KAR 5:001 Section 16(7)(j)	Stock or Bond Prospectus
32	807 KAR 5:001 Section 16(7)(k)	FERC Form 1
33	807 KAR 5:001 Section 16(7)(l)	Annual Reports to Stockholders (2 yrs.)

34	807 KAR 5:001 Section 16(7)(m)	Chart of Accounts
35	807 KAR 5:001 Section 16(7)(n)	12 months Managerial Reports
36	807 KAR 5:001 Section 16(7)(o)	Monthly Budget Variance Reports
37	807 KAR 5:001 Section 16(7)(p)	Utility 10-Ks, 8-Ks, 10-Qs
38	807 KAR 5:001 Section 16(7)(q)	Independent Auditor Opinion Report
39	807 KAR 5:001 Section 16(7)(r)	Quarterly Reports to Stockholders (5 qtrs.)
40/ Attachment JJS-1	807 KAR 5:001 Section 16(7)(s)	Depreciation Study Summary
41	807 KAR 5:001 Section 16(7)(t)	List of Computer Software, Hardware, etc.
42	807 KAR 5:001 Section 16(7)(u)	Affiliate Allocations/Charges
43	807 KAR 5:001 Section 16(7)(v)	Cost of Service Study
44	807 KAR 5:001 Section 16(7)(w)	Incumbent Local Exchange Carriers
45	807 KAR 5:001 Section 16(8)(a)	Financial Summaries
46	807 KAR 5:001 Section 16(8)(b)	Rate Base Summary
47	807 KAR 5:001 Section 16(8)(c)	Operating Income Statements
48	807 KAR 5:001 Section 16(8)(d)	Summary of Adjustments to Operating Income
49	807 KAR 5:001 Section 16(8)(e)	Federal and State Income Tax Summary
50	807 KAR 5:001 Section 16(8)(f)	Summary of Membership Dues
51	807 KAR 5:001 Section 16(8)(g)	Payroll Costs
52	807 KAR 5:001 Section 16(8)(h)	Gross Revenue Conversion Factor
53	807 KAR 5:001 Section 16(8)(i)	Comparative Income Statements
54	807 KAR 5:001 Section 16(8)(j)	Cost of Capital Summary
55	807 KAR 5:001 Section 16(8)(k)	Financial Data and Earnings Measures
56/ Schedule L, Vol. 13	807 KAR 5:001 Section 16(8)(l)	Narrative Description of Tariff Changes
57/ Schedule M, Vol. 13	807 KAR 5:001 Section 16(8)(m)	Revenue Summaries
58/ Schedule N, Vol. 13	807 KAR 5:001 Section 16(8)(n)	Typical Bill Comparison
60	807 KAR 5:001 Section 17(1)	Sample Notices Posted

62	807 KAR 5:001 Section 17(2)	Customer Notice Method
63	807 KAR 5:001 Section 17(3)	Proof of Notice
64	807 KAR 5:001 Section 17(4)	Customer Notice Content
Vol. 20 Provided on CD	KRS 278.2203 and 278.2205	Cost Allocation Manual

22. Pursuant to KRS 278.192(1) and 807 KAR 5:001 Section 16(1)(a)(2), Duke Energy Kentucky has utilized a forward-looking test period for the twelve months ending March 31, 2019. This test period corresponds to the first twelve calendar month period the proposed rates will be in effect following the six-month suspension of the proposed rates.

23. The testimony and exhibits to this Application demonstrate that the rates, terms, conditions and tariffs proposed are fair, just, and reasonable under KRS 278.030.

**New Tariffs/Services/Mechanisms**

24. Pursuant to the Commission’s statutory rate-making authority to allow recovery of costs through fair, just, and reasonable rates embodied in KRS 278.180, KRS 278.183, KRS 278.192, and as confirmed by the Supreme Court of the Commonwealth of Kentucky in *Kentucky Public Service Comm’n v. Commonwealth ex rel. Conway*, 324 S.W.3d 373 (Ky. 2010), Duke Energy Kentucky is seeking to establish three new incremental cost recovery mechanisms as part of this case.

**Distribution Capital Investment (Rider DCI)**

25. Duke Energy Kentucky is proposing to implement a distribution system reliability and integrity improvement plan that will be comprised of specific new and Commission-approved initiatives designed to enhance the safety and reliability of the Company’s electric delivery system. The costs for this program will be recovered through

a separate recovery mechanism, Rider DCI, that will be adjusted and subject to annual true-up following Commission review and approval. Rider DCI will include incremental capital investment, depreciation, taxes, and a reasonable return that is incremental to base rates. As part of this annual application, the Company may propose new reliability or integrity programs for Commission consideration and approval for implementation as part of the Company's distribution integrity and reliability plan.

26. As part of this proceeding, the Company is proposing a single program (Targeted Underground) to be included in the initial rider filing. This program will improve the customer's electricity experience by relocating "at risk" overhead circuits to underground service in a concentrated effort to improve that circuit's integrity and overall reliability. The Targeted Underground program will identify specific areas of its distribution system that experience higher than acceptable frequency of outages and replace overhead wires with underground cables in an effort to harden the system, thereby increasing overall reliability. Within this program, Duke Energy Kentucky is also proposing to take over the ownership of underground service lines that are replaced either as part of the Targeted Underground Program or existing customer-owned underground service lines that experience a failure and are replaced by Duke Energy Kentucky.

27. The Company believes such relocations and replacements are permissible for existing services with Commission approval under 807 KAR 5:041 Section 10 and Section 21(4)(h). The Company further requests pursuant to 807 KAR 5:041 Section 22, any necessary deviations and waivers that the Commission believes are appropriate, including but not limited to, 807 KAR 5:041 Section 21 to enable the taking of ownership of customer electric service lines once relocated or replaced with new underground

facilities and including such costs through the proposed Rider DCI.

**Environmental Compliance Plan and Surcharge Mechanism**

28. Duke Energy Kentucky is seeking approval of an Environmental Compliance Plan and the establishment of an Environmental Surcharge Mechanism.

29. Pursuant to KRS 278.183, Duke Energy Kentucky is entitled to the current recovery of its costs of complying with the Federal Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for production of energy from coal in accordance with the utility's compliance plan.

30. Duke Energy Kentucky received Commission approval to acquire its generating assets (East Bend, Woodsdale, and Miami Fort Unit 6) in Case No 2003-00252.<sup>3</sup> The acquisition of these assets was completed effective January 25, 2006. These generating assets, including existing environmental compliance equipment, were first included in the Company's base rates as part of its last electric base rate case, Case No. 2006-00172. Prior to that date, Duke Energy Kentucky did not own any generating resources and to date, has not implemented an environmental surcharge mechanism.

31. On August 2, 2017, Duke Energy Kentucky submitted to the Commission its notice of intent to file an Environmental Compliance Plan in accordance with KRS 278.183(2). The notice was included within the Company's notice of intent for a base rate increase submitted as required under KRS 278.180(1). Because Duke Energy Kentucky is seeking to establish its environmental surcharge as a new tariff, as opposed to simply

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<sup>3</sup> *In the Matter of the Application of the Union Light, Heat and Power Company for a Certificate of Public Convenience to Acquire Certain Generation Resources and Related Property; for Approval of Certain Purchase Power Agreements; For Approval of Certain Accounting Treatment; and Approval of Deviation from Requirements of KRS 278.2207 and 278.2213(6).* Ky P.S.C. Case No 2003-00252, December 5, 2003.

amending an existing environmental surcharge tariff, the proposed environmental surcharge tariff has an effective date of October 1, 2017, unless suspended by the Commission pursuant to KRS 278.190(2).<sup>4</sup>

32. For its initial Environmental Compliance Plan, Duke Energy Kentucky is seeking to include recently capital projects that have recently been reviewed and approved by the Commission, as well as the recovery of actual O&M expense associated with emission allowances (purchases and sales) and incremental environmental reagents. The four projects pertain to the amortization of the Company's East Bend ash pond closure/retirement obligation (ARO) accounting treatment as was previously approved in Case No. 2015-00187<sup>5</sup> and its process water system and redirection and pond repurposing strategy recently approved in Case No. 2016-00398.<sup>6</sup> The Company is proposing a ten-year amortization of the costs incurred to date and that have been deferred pursuant to the Commission's Order. The Company's initial 2017 Environmental Compliance Plan projects are as follows:

- a. Project EB020290 Lined Retention Basin West;
- b. Project EB020745 Lined Retention Basin East;
- c. Project EB020298 East Bend SW/PW Reroute;
- d. ARO amortization for Pond Closure; and
- e. Consumables inventories (Reagents and emission allowances).

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<sup>4</sup> The Company believes that including its application to establish the ESM as a new tariff pursuant to KRS 278.180 within this base rate proceeding aligns the respective time periods for administration of both the rate case using a forecasted test period under KRS 278.190(2), (six months before rates become effective subject to refund) and the ESM under KRS 278.183 (six months to hold a hearing).

<sup>5</sup> *In the Matter of the Application of Duke Energy Kentucky, Inc., for an Order Approving the Establishment of a Regulatory Asset for the Liabilities Associated with Ash Pond Asset Retirement Obligations*, Case No 2015-00187 Ky P.S.C. December 15, 2015.

<sup>6</sup> *In the Matter of the Electronic Application of Duke Energy Kentucky, Inc., for a Certificate of Public Convenience and Necessity Authorizing the Company to Close the East Bend Generating Station Coal Ash Impoundment and for All Other Required Approvals and Relief*, Case No. 2016-00398 Ky P.S.C. June 6, 2017.



Projects EB020290, EB0202745, and EB020298 (collectively the Ash Pond Projects) are interrelated and are for the closure and repurposing of the ash pond at East Bend and the associated water redirection necessary in response to the Coal Combustion Residuals final rule (CCR), the electric generation Effluent Limitation Guidelines (ELG), and various Kentucky groundwater regulations. The need for these projects has already been established, as they were recently approved by the Commission in Case No. 2016-00398.<sup>7</sup> Likewise, the accounting treatment for the ARO was previously approved in Case No. 2015-00187.

33. The consumable inventories will include all incremental environmental reagents (*e.g.*, lime, trona, limestone, *etc.*) and all emission allowances used and consumed at East Bend to meet environmental operational requirements and constraints. The Company is proposing to track these inventory costs through Rider ESM. This will ensure that customers only pay for the actual amount of these inventories consumed.

34. None of the capital projects identified for inclusion in the Company's initial Environmental Compliance Plan are currently included in the Company's base electric rates and have been excluded from the forecasted test period in this proceeding. Although construction of the process water system redirection and pond repurposing projects recently started, these projects are not projected to be in service during the test period proposed in this proceeding. As such, the capital, tax, depreciation and ongoing O&M expenses have not been included as part of the test period.

35. The estimated cost of the Ash Pond Projects is approximately \$93 million as

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<sup>7</sup> *In the Matter of the Electronic Application of Duke Energy Kentucky, Inc., for a Certificate of Public Convenience and Necessity Authorizing the Company to Close the East Bend Generating Station Coal Ash Impoundment and for All Other Required Approvals and Relief*, Case No. 2016-00398 Ky P.S.C. June 6, 2017.

detailed in Case No. 2016-00398.

36. A detailed summary of the facts and compliance requirements supporting the establishment of Rider ESM and the Environmental Compliance Plan are included in the direct testimonies of the following Company witnesses:

- a. Tammy Jett describes the environmental rules and regulations that drive the Company's compliance strategies;
- b. Sarah E. Lawler supports the establishment of the ESM and the accounting adjustments to ensure that such costs are not double counted in base rates and Rider ESM;
- c. Cynthia S. Lee, describes the accounting for the ARO related expenses and the Company's amortization proposal;
- d. Joseph A. Miller, Jr, provides an overview of the Company's Environmental Compliance Plan;
- e. Roger A. Morin Ph.D. supports the Company's requested Return on Equity component that will be established in this proceeding and that the Company is proposing to use for both base rates and Rider ESM;
- f. Bruce L. Sailors supports the Company's proposed Rider ESM, Environmental Surcharge Mechanism Tariff; and
- g. John J. Spanos presents testimony describing the Company's proposed depreciation rates.

**FERC Transmission Cost Reconciliation Mechanism**

37. As part of this Application, Duke Energy Kentucky is seeking approval of a new reconciliation mechanism (Rider FTR) for FERC-jurisdictional transmission expenses

that the Company incurs, incremental (above and below) to what is reflected in base rates. Duke Energy Kentucky is a transmission dependent utility, owning little actual transmission assets. The Company relies upon the bulk transmission system of its parent company, Duke Energy Ohio, Inc., and that of neighboring utilities in PJM Interconnection LLC (PJM). These transmission costs, including, but not limited to, Network Integration Service (NITS), are volatile, in that they vary month-to-month and year-to-year.

38. Because the bulk transmission systems relied upon by Duke Energy Kentucky are not owned by Duke Energy Kentucky. Transmission is thus a significant expense for the Company. Including a reconciliation mechanism for these costs as part of a tracking mechanism will insure that the Company is recovering from customers, no more and no less than the actual transmission costs necessary to serve Kentucky customers.

39. A reconciliation mechanism will ensure that the Company remains earnings neutral and customers will not be over- or under-paying as a result of any cost increases or decreases in bulk transmission expenses.

40. The Company is proposing a mechanism that will operate much like the Fuel Adjustment Clause (FAC) and the Company's Accelerated Service Replacement Program (Rider ASRP) in that its costs will be filed regularly and subject to periodic review by the Commission. The Company is proposing to establish a level of these costs to be reflected in base rates that will be incrementally tracked with periodic monthly/annual filings with actual cost information to be reconciled. The Company is proposing a comprehensive annual review by the Commission with a similar process as that of the Company's Rider ASRP, wherein the Company will make an annual application for new rates for Rider FTR to be reviewed for determination of reasonableness and accuracy.

### **New and Modified Programs, Policies, and Tariffs**

41. In connection with this application, the Company is proposing to implement, without limitation, certain new programs, policies, and tariffs, and to modify existing policies and tariffs by:

- a. Duke Energy Kentucky is seeking, to the extent necessary and required under KRS 278.180, authorization and approval to provide new, optional, and voluntary “Enhanced Customer Solutions” to the Company’s customers that are enabled by the recently approved AMI deployment, including but not limited to new optional billing alternatives, notifications, and other programs as described by Dr. Weintraub;
- b. Revising its FAC and Profit Sharing Mechanism (Rider PSM) to include, recover, and reconcile various fuel and purchased power-related expenses not currently recovered through those mechanisms;
- c. Revising the Rider PSM to simplify its calculation and make the calculations of all eligible categories consistent, expand the categories of eligible benefits and costs that are reconciled under the Rider, and to increase the sharing percentages to customers;
- d. Proposing new LED street lighting Tariff;
- e. Eliminating tariffs that have previously been withdrawn, have expired, or are no longer in use;
- f. Revising cogeneration tariffs to include capacity incentives;
- g. Amending Rate TT rate design to create a summer and winter on-peak energy charge; and

- h. Revising service regulations to describe ownership and maintenance responsibilities of underground service lines upon replacement or relocation.

#### **Establishment of Regulatory Assets and Liabilities**

42. As part of this proceeding, Duke Energy Kentucky is seeking Commission authorization to create deferral mechanisms associated with its proposals to track actual costs for planned maintenance outages and for incremental purchased power expenses related to forced outages not otherwise recovered through the Company's Rider FAC. The deferral authority will allow the Company to debit or credit regulatory asset accounts when actual expenses for these costs in a year are under or over the amount established in base rates in this proceeding. Duke Energy Kentucky proposes to defer, with carrying charges based upon the Company's cost of debt, on an annual basis any such over recovery or under recovery and establish a regulatory liability or asset as may be required. Each year the incremental amount over or under what is established in base rates will be added or subtracted from the total balance deferred. Duke Energy Kentucky further proposes that any regulatory asset or liability created be reviewed for recovery through amortization as part of the Company's next base electric rate case.

43. The Company's forecasted test period budget for outage maintenance expense and replacement power costs for the Company's East Bend, and Woodsdale Combustion Turbines (Woodsdale) have been adjusted to reflect a normalized (*i.e.*, average) level of expense. Outage maintenance expense has been normalized based upon four years of actual maintenance expense and two years of projected maintenance expenses. Replacement power costs reflect the forecasted amounts from the GenTrader production cost model for the test period. Permitting the Company to defer for future recovery any

incremental amount over or under what is established in base rates for these two expenses will ensure that customers are not over paying and the Company is not under recovering for actual costs incurred in serving customers.

44. Financial Accounting Standards Board Accounting Standards Codification (FASB Codification or ASC) requires utility management to defer and capitalize a current cost as a regulatory asset or a current obligation as a regulatory liability when in management's judgment the cost is probable of recovery, or the obligation is probable of refund in future ratemaking proceedings. Evidence of probable recovery includes orders from the regulatory authority specifically authorizing deferral of the current cost or current obligation for later review and recovery or refund through rates. Duke Energy Kentucky is requesting authorization in this case to permit its deferral of the above described costs that are incremental to base rates, with carrying charges, with the recovery of any accumulated balances to be addressed in a future base rate proceeding.

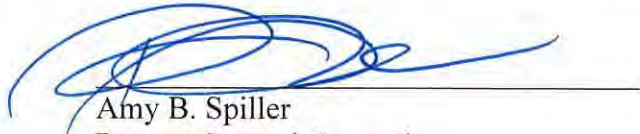
WHEREFORE, Duke Energy Kentucky respectfully requests the Kentucky Public Service Commission to enter an Order:

1. Approving the new and revised tariff sheets for electric service;
2. Authorizing Duke Energy Kentucky to establish regulatory assets and liabilities to track and defer for future recovery the actual costs of purchased power expense incurred during a forced outage and the incremental O&M expense incurred for planned outages, incremental to amounts established in the rate case test period, including carrying charges;
3. Approving the proposed amortization of the following new and existing regulatory assets:

- a. Rate case-related expense;
  - b. Hurricane Ike;
  - c. Carbon Capture Research project with University of Kentucky;
  - d. East Bend incremental O&M since purchase of remaining interest from DP&L;
  - e. East Bend depreciation associated with the acquisition from DP&L;
  - f. AMI meter change out;
  - g. AMI deployment IT costs for creating a residential opt-out tariff; and
  - h. Any and all other requested or necessary deferrals;
4. Approving Duke Energy Kentucky's proposed depreciation rates;
  5. Approving the Environmental Compliance Plan based upon four previously certificated projects at East Bend and future purchase/sales of reagents and emissions allowances;
  6. Approving establishment of an Environmental Surcharge Mechanism;
  7. Approving establishment of distribution capital investment tracking mechanism;
  8. Approving establishment of FERC-jurisdictional transmission cost and credit reconciliation mechanism;
  9. Approving proposed changes to the Company's Rider PSM; and
  10. Granting all other relief to which Duke Energy Kentucky may be entitled.

Respectfully submitted,

Duke Energy Kentucky, Inc.,



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**CERTIFICATE OF SERVICE**

This is to certify that the foregoing electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on September 1, 2017; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that a copy of the filing in paper medium is being hand delivered to the Commission on the 1st day of September, 2017 and a copy of the filing in paper medium is also being hand delivered to the following:

Hon. Rebecca W. Goodman  
The Office of Attorney General  
Utility Intervention and Rate Division  
700 Capital Ave., Ste 20  
Frankfort, Kentucky 40601

  
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