~~$16.014~~$11.901 million compared to the Company's proposed base increase of $48.646 million. In the following table, I provide a summary of the AG recommendations compared to the Company's request for a base rate increase. The AG recommendations regarding the cost of capital also will reduce the proposed Environmental Surcharge Mechanism ("ESM") rider and Distribution Capital Investment ("DCI") rider revenue requirements, if those riders are adopted, although I do not show the quantification of these reductions in the table.

Duke Energy Kentucky, Inc.	
Case No. 2017-00321	
Base Revenue Requirement	
Summary of AG Recommendations	
Revised March 6, 2018	
For the Test Year Ended March 31, 2019	
($ Millions)	
Base Rate Increase Requested by Company	
Requested Base Increase	48.646
Operating Income Issues	
Include PJM Make Whole and Other Revenues Not Incl in Company's Revenue Forecast	NA
Include Off-System Sales Margins to Reset PSM to $0	(3.826)
Reduce Replacement Power Expense	(4.069)
Reduce RTEP Charges	(0.410)
Reduce Vegetation Management Expense to Historic Levels	(2.407)
Reduce Planned Outage O&M Normalization	(1.203)
Remove Incentive Compensation Expense Tied to Financial Performance	(1.638)
Reduce Retirement Plan Expense	(1.584)
Increase AMI Levelization Adjustments	(0.858)
Reduce Carbon Management Amortization Expense to Reflect 10 Year Amortization Period	(0.201)
Reduce Amortization of East Bend Reg Asset to Reflect Lower O&M Expense Prior to Test Year	(0.406)
Reduce Depreciation Expense by Using ASL vs ELG Methodology	(6.939)
Reduce Depreciation Expense by Removing Terminal Net Salvage for Generating Units	(4.519)
Reduce Remaining Net Salvage Included in Depreciation Expense	(4.630)
Reduce Income Tax Expense to Reflect Reduction in Federal Rate	(10.255)
Reduce Income Tax Expense to Reflect Amortization of Excess Deferred Income Taxes	(6.054)
Reduce Income Tax Expense for Research Tax Credits	(0.102)
Capitalization Issues	
Reduce Capitalization for Loans to Other Duke Energy Affiliates from Sep 2018 to March 2019	(0.451)
Reduce Capitalization to Reflect Removal of East Bend O&M Reg Asset	(3.449)
Remove Deferred DSM Costs from Capitalization	(0.130)
Remove Deferred East Bend Coal Ash ARO Costs from Capitalization	(1.630)
Increase Capitalization to Reflect Reduction in Carbon Management Amortization Expense	0.018
Increase Capitalization to Reflect Reduction in Depreciation Expense-Use of ASL Methodogy	0.241
Increase Capitalization to Reflect Reduction in Depreciation Expense-Remove Terminal Net Salvage	0.157
Increase Capitalization to Reflect Reduction in Depreciation Expense-Remove Remaining Net Salvage	0.161
Cost of Capital Issues	
Reduce Return on Equity from 10.3% to 8.8%	(6.363)
Total AG Adjustments to DEK Request	**(60.547)**
Decrease After AG Adjustments	**(11.901)**

The AG does not oppose the ESM rider, but I make certain recommendations to ensure that only actual costs incurred are included in the ESM revenue requirement. The AG strongly opposes the proposed Rider FTR and the DCI rider. I respond to the proposed Rider FTR and Mr. Baudino responds to the Company's request for a DCI.

The remainder of my testimony is structured to address each of the issues on the preceding table followed by the ESM and FTR issues. The amounts that I cite throughout my testimony are electric only unless otherwise indicated as "total Company."

II. OPERATING INCOME ISSUES

A. Include PJM Make Whole and Other Revenues In Revenue Forecast

Q. ~~Did the Company include RSG Rev - MISO Make Whole revenues in the test year other revenues?~~

~~A. No. The Company does not budget these revenues and for that reason did not include them in the test year other revenues, according to its response to AG discovery.[2] It should be noted that the account name refers to MISO, but the Company uses the account for PJM revenues.[3] The Company exited MISO in 2011 and has been a member of PJM since 2012.[4]~~

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~~Q. What is the actual history of these revenues?~~

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[2] Company's response to AG 2-11. I have attached a copy of this response as my Exhibit___(LK-2).

[3] *Id.*

[4] Direct Testimony of John D. Swez at 15.

~~A. The Company actually recorded RSG Rev - MISO Make Whole revenues in account 456025 of $1.815 million in 2012, $0.787 million in 2013, $1.589 million in 2014, $1.389 million in 2015, $1.523 million in 2016, and $0.851 million in the first ten months of 2017 ($1.021 million annualized). The actual annual average is $1.254 million over the six-year historic period.~~[5]

~~Q. Is it reasonable to reflect RSG Rev – MISO Make Whole revenues of $0 in the test year?~~

~~A. No. The Company historically has received revenues each year. It is irrelevant whether the Company budgets the revenues. They should be included in the test year revenue requirement. The actual historic revenues provide a reasonable forecast for the test year.~~

~~Q. What is your recommendation?~~

~~A. I recommend that the Commission include the actual average revenues of $1.254 million in the test year revenue requirement.~~

~~Q. Are there other revenues that the Company failed to include in the test year?~~

~~A. Yes. The Company failed to include Scheduling & Dispatch revenues recorded in~~

[5] *Id.*

~~account 457105 and PJM Reactive Revenues recorded in account 457204. The Scheduling and Dispatch revenues were recorded in account 565 prior to February 2017 and the PJM Reactive Revenues were recorded in account 555 prior to December 2016.[6] Nevertheless, the Company actually recorded Scheduling & Dispatch Revenues of $0.207 million for the months February 2017 through October 2017 ($0.276 million annualized) and actually recorded PJM Reactive Revenues of $1.720 million ($2.064 million annualized) for the months January 2017 through October 2017.[7]~~

~~**Q. What is your recommendation for the Scheduling & Dispatch Revenues and the PJM Reactive Revenues for the test year revenue requirement?**~~

~~A. I recommend that the Commission include the $0.276 million annualized Scheduling & Dispatch Revenues from 2017 and the $2.064 million annualized PJM Reactive Revenues from 2017 in the test year revenue requirement.~~

B. <u>Include Off-System Sales Margins and Reset Profit Sharing Margin Rider to $0</u>

Q. Describe the Company's proposal for the off-system sales margins in the base revenue requirement and the Profit Sharing Margin rider.

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[6] Company's response to AG 2-11.
[7] *Id.*

year benefit period?

A. The effect is an increase in the AMI levelization adjustment of $~~1.364~~$0.856 million, to ~~$3.685~~$3.177 million from the $2.321 million calculated by the Company.

I. Reduce Retirement Plan Expenses

Q. Describe the adjustments made by the Commission to reduce retirement plan expense in other recent cases.

A. The Commission reduced the retirement plan expense for both KU and LG&E in Case Nos. 2016-00370 and 2016-00371, respectively. In the KU case, the Commission stated:

> The Commission finds that, for ratemaking purposes, it is not reasonable to include both KU's Pre 2006 DDB plan contributions and KU's matching contributions to the 401(k) Plan for the following employee categories: exempt, manager, non-exempt, and officer and director personnel. Employees participating in the Pre 2006 DDB Plan enjoy generous retirement plan benefits, making the matching 401(k) Plan amounts excessive for ratemaking purposes. Accordingly, the Commission denies for recovery 401(k) Plan matching contributions in the amount of $1,720,383 before gross-up.[29]

Similarly, the Commission reduced the retirement plan expense for Cumberland Valley Electric, Inc. in Case No. 2016-00169. In that case, the Commission stated:

[29] Order dated June 22, 2017 in Case No. 2016-00370 at 14-15.