

KYPSC CASE NO. 2018-00036
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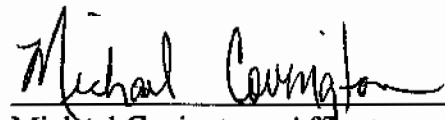
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VERIFICATION

STATE OF NORTH CAROLINA)
)
COUNTY OF MECKLENBURG) **SS:**

The undersigned, Michael Covington, Director of Gas Utilities & Infrastructure Accounting, 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.



Michael Covington., Affiant

Subscribed and sworn to before me by Michael Covington on this 12th day of April, 2018.

**JANET P CURETON
NOTARY PUBLIC
Mecklenburg County
State of North Carolina**



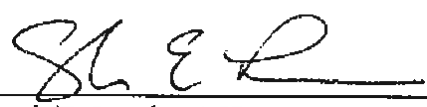
NOTARY PUBLIC

My Commission Expires: March 1, 2020

VERIFICATION

STATE OF OHIO)
)
COUNTY OF HAMILTON) SS:

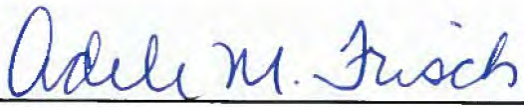
The undersigned, Sarah E. Lawler, Director of Rates & Regulatory Planning, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the supplemental data request and that it is true and correct to the best of her knowledge, information and belief.



Sarah E. Lawler Affiant

Subscribed and sworn to before me by Sarah E. Lawler on this 13th day of April, 2018.

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



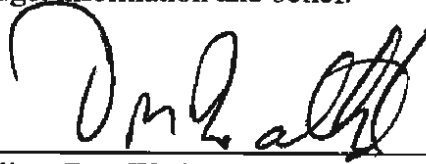
NOTARY PUBLIC

My Commission Expires: 1/5/2019

VERIFICATION

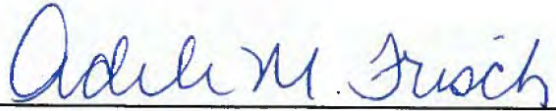
STATE OF OHIO)
)
COUNTY OF HAMILTON) SS:

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 13TH day of April, 2018.



NOTARY PUBLIC

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

My Commission Expires: 1/5/2019

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-001

REQUEST:

Provide Duke Kentucky Gas's income statement, balance sheet, and statement of retained earnings for the calendar year ending December 31, 2107.

RESPONSE:

Please see Staff-DR-01-001 Attachment for Duke Kentucky's financial statements as of December 31, 2017. These documents have previously been provided as part of Duke Energy Kentucky's stipulation as per Case No. 2011-00124.

PERSON RESPONSIBLE: Michael Covington

Monthly Supplemental Financial Statements
 Balance Sheet - Page 1
 As of December 31, 2017
 (Unaudited)

	Electric Jurisdictional	Gas Jurisdictional	Non- Jurisdictional	Total Company
Assets				
Utility Plant in Service	1,677,235,210	513,508,250	-	2,190,743,460
Construction Work in Progress	83,880,577	25,509,760	-	109,390,337
Less: Accumulated Depreciation	(857,314,792)	(162,904,403)	(11,808,972)	(1,032,028,167)
Net Utility Plant	903,800,995	376,113,607	(11,808,972)	1,268,105,630
Nonutility Property	-	-	264,016	264,016
Other Investments	-	-	1,500	1,500
Other Special Funds	-	-	1,184,266	1,184,266
Long Term Portion of Derivative Instrument Assets	-	-	318,333	318,333
Total Other Property & Investments	-	-	1,768,115	1,768,115
Cash	1,283,132	518,595	(94,581)	1,687,146
Working Funds	-	-	-	-
Temporary Cash Investments	-	-	-	-
Customer Accounts Receivable	2,277,738	640,607	-	2,918,345
Other Accounts Receivable	614,175	252,157	(45,988)	820,344
Less: Provision for Uncollectibles	(182,277)	(51,265)	-	(233,542)
Notes Receivable from Assoc. Co.	25,760,177	10,576,165	(1,828,882)	34,407,460
Accounts Receivable from Assoc. Co.	2,853,773	1,171,852	(213,686)	3,811,739
Fuel Stock	18,664,613	1,255,419	2,331,493	22,251,525
Gas Stored Underground Inventory	-	2,958,860	-	2,958,860
Plant Materials & Operating Supplies	17,302,323	312,488	-	17,614,789
Other Materials & Supplies	-	-	-	-
Stores Expense Undistributed	950,200	17,160	-	967,360
Prepayments	333,785	158,016	-	491,801
Emission Allowances	31,208	-	-	31,208
Derivative Instrument Assets	1,125,387	-	-	1,125,387
Interest & Dividends Receivable	-	-	-	-
Misc Current and Accrued Assets	2,507,390	-	-	2,507,390
Rents Receivable	2,500	-	-	2,500
Total Current & Accrued Assets	73,504,124	17,809,852	48,358	91,362,332
Unamortized Debt Expense	1,556,188	638,904	(116,523)	2,078,549
Other Regulatory Assets	114,141,394	13,468,800	-	127,608,194
Preliminary Survey & Investigation	217,197	88,173	(16,283)	290,107
Clearing Accounts	(86)	(20)	-	(86)
Temporary Facilities	-	-	-	-
Miscellaneous Deferred Debits	1,787,561	738,011	(134,599)	2,400,973
Unamortized Loss on Reacquired Debt	889,755	385,300	(68,623)	1,188,432
Accumulated Deferred Income Taxes	42,448,188	15,813,279	-	58,361,447
Unrecovered Purchased Gas Costs	-	(219,763)	-	(219,763)
Total Deferred Debits	161,050,177	30,991,684	(334,008)	191,707,853
TOTAL ASSETS AND OTHER DEBITS	1,138,355,266	424,915,143	(10,326,509)	1,552,943,930

Duke Energy Kentucky, Inc.

Monthly Supplemental Financial Statements
 Balance Sheet - Page 2
 As of December 31, 2017
 (Unaudited)

	Electric Jurisdictional	Gas Jurisdictional	Non- Jurisdictional	Total Company
Proprietary Capital				
Common Stock Issued	6,573,407	2,698,795	(492,207)	8,779,995
Premium on Capital Stock	14,104,342	5,790,715	(1,056,111)	18,838,946
Other Paid-in Capital Stock	122,525,367	50,304,332	(9,174,510)	163,655,189
Retained Earnings	278,367,223	72,562,832	(30,788,756)	320,140,299
Accumulated Other Comprehensive Income	-	-	-	-
Total Proprietary Capital	<u>421,570,339</u>	<u>131,356,674</u>	<u>(41,512,584)</u>	<u>511,414,429</u>
Liabilities				
Bonds	319,476,730	131,165,193	(23,921,923)	426,720,000
Advances from Associated Companies	18,717,000	7,684,500	(1,401,500)	25,000,000
Less: Unamortized Discount on Long-Term Debt	(215,903)	(88,641)	16,166	(288,378)
Total Long-Term Debt	<u>337,977,827</u>	<u>138,761,052</u>	<u>(25,307,257)</u>	<u>451,431,622</u>
Obligations Under Capital Leases - Noncurrent	411,348	168,882	-	580,230
Asset Retirement Obligation	47,193,682	7,387,826	-	54,581,508
Long-Term Portion of Derivative Instrument Liabilities	3,585,452	1,062,287	-	4,647,739
Accum. Misc. Operating Provisions	13,383,747	3,965,297	-	17,349,044
Total Other Noncurrent Liabilities	<u>64,574,229</u>	<u>12,584,292</u>	<u>-</u>	<u>77,158,521</u>
Accounts Payable	36,420,155	14,952,753	(2,727,085)	48,645,823
Notes Payable to Assoc. Co.	-	-	-	-
Accounts Payable to Assoc. Co.	11,805,410	4,846,860	(883,971)	15,768,299
Customer Deposits	5,895,275	3,964,693	-	9,859,968
Taxes Accrued	7,775,505	1,685,359	6,592,655	16,053,519
Interest Accrued	4,030,654	1,654,836	(301,809)	5,383,681
Tax Collections Payable	1,291,822	395,115	5,182	1,691,919
Misc. Current & Accrued Liabilities	6,437,050	1,907,151	-	8,344,201
Obligations Under Capital Leases - Current	627,854	257,689	-	885,543
Derivative Instrument Liabilities	4,140,691	1,226,792	-	5,367,483
Less: Long-Term Portion of Derivative Instrument Liabilities	(3,585,452)	(1,062,287)	-	(4,647,739)
Total Current & Accrued Liabilities	<u>74,838,584</u>	<u>29,828,961</u>	<u>2,684,972</u>	<u>107,352,497</u>
Customer Advances for Construction	-	1,562,943	-	1,562,943
Accum. Deferred Investment Tax Credits	426,728	570,830	2,839,403	3,836,961
Other Deferred Credits	12,130,402	3,860,110	-	15,990,512
Other Regulatory Liabilities	95,268,414	44,119,536	-	139,387,950
Accumulated Deferred Income Taxes	131,568,793	62,270,745	50,968,957	244,808,495
Total Deferred Credits	<u>239,394,337</u>	<u>112,384,164</u>	<u>53,808,360</u>	<u>405,586,861</u>
TOTAL PROPRIETARY CAPITAL, LIABILITIES, AND OTHER DEFERRED CREDITS	<u>1,138,355,296</u>	<u>424,915,143</u>	<u>(10,326,509)</u>	<u>1,552,943,930</u>

Duke Energy Kentucky, Inc.

Monthly Supplemental Financial Statements
 Income Statement
 For the 12 Months Ended December 31, 2017
 (Unaudited)

	Electric	Gas	Non-Jurisdictional	Total Company
Revenues				
Residential Sales	121,488,425	61,825,680		183,314,105
Commercial Sales	107,308,632	21,472,263		128,780,895
Industrial Sales	50,490,483	1,584,623		52,075,106
Sales to Public Authorities	19,995,417	2,299,938		22,295,355
Public Street & Highway Lighting	1,561,771	966		1,562,737
Inter-Departmental Sales	80,798	27,474		108,272
Misc. Service Revenues	106,163	35,742	584,521	706,426
Revenues from Transportation	-	6,351,569		6,351,569
Sales for Resale	26,644,547	-		26,644,547
Rents from Property	1,097,903	-		1,097,903
Other Revenues	6,035,768	1,438		6,037,206
Total Revenues	334,809,907	93,599,693	584,521	428,974,121
Operating Expenses				
Operation Expense	202,516,007	58,765,793	267,280	261,549,080
Maintenance Expense	32,788,535	2,057,822	17,657	34,864,014
Depreciation Expense	29,477,943	12,136,515		41,614,458
Amortization and Depletion	2,401,845	1,422,574		3,824,519
Taxes Other than Income Taxes	10,857,356	3,321,331	43,557	14,222,244
Income Taxes - Federal & Other	(7,113,412)	(8,556,611)	3,662	(15,666,361)
Provision for Deferred Income Taxes - Net	23,261,562	11,088,787	1,581,075	35,911,424
Investment Tax Credit Adjustment	-	50,286	(50,286)	-
Total Operating Expenses	294,189,936	80,286,497	1,842,945	376,319,378
NET OPERATING INCOME	40,619,971	13,313,196	(1,278,424)	52,654,743
Other Income & Deductions				
Revenues from Merchandising, Jobbing and Contract Work	-	-	1,180,457	1,180,457
Less: Expense of Merchandising, Jobbing and Contract Work	-	-	(429,647)	(429,647)
Revenues from Nonutility Operations	-	-	(42,205)	(42,205)
Interest & Dividend Income	-	-	1,235,748	1,235,748
AFUDC	2,757,819	600,389		3,358,208
Gain on Disposition of Property	-	-	17,045	17,045
Loss on Disposition of Property	-	-	(115,829)	(115,829)
Misc. Income Deductions	-	-	(4,024,010)	(4,024,010)
Taxes Other than Income Taxes	-	-	(117,175)	(117,175)
Income Taxes - Federal & Other	-	-	(2,128,974)	(2,128,974)
Provision for Deferred Income Taxes - Net	-	-	23,535,145	23,535,145
Total Other Income & Deductions	2,757,819	600,389	19,110,755	22,468,963
Interest Charges				
Interest on Long Term Debt	(10,944,611)	(4,493,448)	819,516	(14,618,543)
Amortization of Debt Disc. And Expense	(225,909)	(92,749)	16,916	(301,742)
Amortization of Loss on Recquired Debt	(199,504)	(81,909)	14,939	(266,474)
Interest on Debt to Assoc. Co.	(339,657)	(139,450)	25,433	(453,674)
Other Interest Expense	(1,036,398)	(425,506)	77,604	(1,384,300)
Less: Allowance for Borrowed Fund Used During Construction - Credit	1,094,345	205,613	-	1,299,958
Net interest Charges	(11,851,734)	(5,027,449)	954,408	(15,724,775)
Extraordinary Items after Taxes	-	-	-	-
NET INCOME	31,726,056	8,886,136	18,786,739	59,398,931

Duke Energy Kentucky, Inc.

Monthly Supplemental Financial Statements
 Capital Structure
 December 31, 2017
 (Unaudited)

	Actual Nov-17	Activity	Actual Dec-17
Liabilities and Shareholders' Equity			
Non-Current Liabilities			
* Long-term debt	424,718,114	(1,015)	424,715,099
Advances from Associated Companies	25,000,000	-	25,000,000
Obligations under Capital Lease-Noncurrent	1,178,520	(598,290)	580,230
Total Long-term debt	450,894,634	(599,305)	450,295,329
Common Stock Equity			
Common Stock	8,779,995	-	8,779,995
Premium On Capital Stock Common	18,838,946	-	18,838,946
Donations Received From Stockholders	143,211,362	-	143,211,362
Donations Received From Stockholders Tax	5,600,021	-	5,600,021
Other Miscellaneous PIC	(156,194)	-	(156,194)
Miscellaneous PIC	15,000,000	-	15,000,000
Unappropriated Retained Earnings Balance	260,741,369	-	260,741,369
Unappropriated Retained Earnings - Current Year Net Income	34,142,320	25,256,810	59,398,930
Total Common Stock Equity	488,157,819	25,256,810	511,414,429
TOTAL CAPITALIZATION	937,052,453	24,657,305	961,709,758

NOTE:

* "Long-Term Debt" under Non-Current Liabilities does not include current portion of Long-Term Debt, Unamortized Discount, nor Unamortized Debt Expense.

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-002

REQUEST:

Provide Duke Kentucky Gas's Net Investment Rate Base and Capital Structure for the calendar year ending December 31, 2017.

RESPONSE:

See Staff-DR-01-002 Attachment 1 for Duke Energy Kentucky's gas net investment rate base. See response to Staff-DR-01-001 for Duke Energy Kentucky's capital structure. The capital structure represents the total company capital structure. If the Company were to use capitalization to determine revenue requirements in a gas base rate case the total capitalization would be allocated to gas operations using a rate base ratio.

PERSON RESPONSIBLE: Sarah E. Lawler – rate base
Michael Covington – capital structure

DUKE ENERGY KENTUCKY, INC.
 GAS NET INVESTMENT RATE BASE
 CALENDAR YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Amount
1	Total Utility Plant in Service (Accts 101 & 106)	513,508,250
2		
3	Accumulated Depreciation (Acct 108)	<u>(162,904,403)</u>
4		
5	Net Plant in Service (Line 1 + Line 3)	350,603,847
6		
7	Construction Work in Progress (Account 107)	25,509,760
8		
9	Working Capital:	
10		
11	Materials & Supplies -	
12	Propane Inventory (Account 151)	3,586,912
13	Other Material and Supplies (Accts. 154 & 163)	<u>312,466</u>
14	Total Materials & Supplies	3,899,378
15		
16	Gas Stored Underground (Account 164)	2,958,880
17		
18	Prepayments (Account 165)	158,016
19		
20	Cash Working Capital Allowance	2,946,877
21		
22	Total Working Capital	<u>9,963,151</u>
23		
24	Other Items:	
25		
26	Accum. Deferred Income Taxes (Accts 190, 282, & 283)	(57,055,394)
27		
28	Excess ADIT (Account 254)	(31,715,949)
29		
30	Customer Advances for Construction (Account 252)	(1,562,943)
31		
32	Investment Tax Credits	<u>(570,830)</u>
33	Total Other Items	<u>(90,905,116)</u>
34		
35	Net Original Cost Rate Base (Line 5 + Line 7 + Line 22 + Line 33)	<u>295,171,642</u>

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-003

REQUEST:

Using the financial information provided in the responses to Items 1 and 2, calculate:

- a. Duke Kentucky Gas's actual Return on Equity (income available to common shareholders divided by common equity) for the calendar year ending December 31, 2017.
- b. Duke Kentucky Gas's average cost of long-term debt for the calendar year ending December 31, 2017.
- c. Duke Kentucky Gas's average cost of short-term debt for the calendar year ending December 31, 2017.

RESPONSE:

a.

	<u>December 31, 2017</u>
Net Income	\$ 8,886,136
Common Equity	\$ 131,356,674
Return on Equity	6.76%

Please see page 11 of Direct Testimony of William Don Wathen filed in Case No. 2017-00447 consolidated into this proceeding. The Company's projected natural gas revenue for 2018, at existing rates, when netted against its projected expenses (reduced for the change in the federal income tax rate), for 2018, is expected to generate a return on equity

of approximately 6.53 percent. If the Company's rates are adjusted only for the change in the federal income tax rate, the Company's estimated return on equity falls even further to 5.29 percent for 2018. All of the ROEs calculated above are significantly below any ROE approved by the Commission for a utility in the last several years.

b. See Staff-DR-01-003b Attachment.

c. See Staff-DR-01-003c Attachment.

PERSON RESPONSIBLE:

a. Sarah E. Lawler

b&c. John L. Sullivan III

DUKE ENERGY KENTUCKY, INC.
 Case No 2018-00036
 EMBEDDED COST OF LONG-TERM DEBT
 TWELVE MONTH AVERAGE BALANCE ENDING DECEMBER 31, 2017
 (CORPORATE)

RESPONSE TO 3.B
 PAGE 1 OF 1
 WITNESS RESPONSIBLE:
 J. L. SULLIVAN

LINE NO.	DEBT ISSUE TYPE, COUPON RATE	DATE ISSUED (DAY/MO/YR) (A)	MATURITY DATE (DAY/MO/YR) (B)	PRINCIPAL AMOUNT (C)	AVERAGE FACE AMOUNT OUTSTANDING (D)	AVERAGE UNAMORT. (DISCOUNT) OR PREMIUM (E)	AVERAGE UNAMORT. DEBT EXPENSE (F)	AVERAGE UNAMORT. LOSS ON REACQUIRED DEBT (G)	AVERAGE CARRYING VALUE (H=D+E-F-G)	AVERAGE ANNUAL INTEREST COST(*) (I)	
1	<u>Non-Current Capital Leases</u>										
2											
3	Capital Lease - Meters (2009 Acquisitions)	4.821%	21-Apr-09	21-Apr-18	3,429,432	524,377	-	-	524,377	25,278	
4	Capital Lease - Meters (2010 Acquisitions)	3.330%	18-Jun-10	18-Jun-19	955,081	216,804	-	-	216,804	7,220	
5	Capital Lease - Erlanger Facility	8.634%	30-Dec-06	30-Sep-20	2,100,000	507,448	-	-	507,448	43,812	
6											
7	<u>Unamortized Loss on Reacquired Debt</u>										
8											
9	10.25% due 6/1/2020							112,919	(112,919)	39,276	
10	10.25% due 11/15/2020							124,828	(124,828)	37,479	
11	9.7% due 7/1/2019							131,201	(131,201)	68,996	
12	7.65% due 7/15/2025							511,323	(511,323)	63,938	
13	5.5% due 1/1/2024							249,638	(249,638)	38,654	
14	6.5% due 1/15/2022							24,323	(24,323)	4,583	
15	Variable rate PCB, due 8/1/2027							158,336	(158,336)	15,569	
16											
17	<u>Other Long Term Debt</u>										
18	LT Commercial Paper	Variable	Series	16-Mar-22	25,000,000	25,000,000	-	-	25,000,000	327,774	
19	Debentures	3.860%	Series	26-Jul-06	26,720,000	26,720,000	-	200,021	26,519,979	245,253	
20	Debentures	Variable	Series	03-Dec-08	50,000,000	50,000,000	-	235,445	49,764,555	793,350	
21	Debentures	6.200%	Series	10-Mar-06	85,000,000	85,000,000	(228,711)	408,297	84,366,992	4,064,048	
22	Debentures	4.650%	Series	22-Sep-09	100,000,000	100,000,000	(82,387)	93,068	99,824,545	4,729,451	
23	Debentures	3.420%	Series	05-Jan-16	45,000,000	45,000,000	-	199,388	44,800,612	1,561,117	
24	Debentures	4.450%	Series	05-Jan-16	50,000,000	50,000,000	-	252,443	49,747,557	2,233,314	
25	Debentures	3.350%	Series	07-Sep-17	30,000,000	10,000,000	-	40,830	9,959,170	338,451	
26	Debentures	4.110%	Series	07-Sep-17	30,000,000	10,000,000	-	41,227	9,958,773	412,382	
27	Debentures	4.260%	Series	07-Sep-17	30,000,000	10,000,000	-	41,293	9,959,707	427,037	
28	Unamortized Debt Exp							1,988	(1,988)		
29											
30	MCF Fees			16-Mar-22	-	-	-	389,451	(389,451)	86,263	
31	LOC Fees							20,696	(20,696)	13,164	
32	Other fees (\$26.720M - remarketing, insurance, Bilateral LC)									44,311	
33											
34											
35			Totals		458,204,483	392,868,629	(311,098)	1,902,145	1,310,566	389,444,820	15,818,700
36											
37											
38			Embedded Cost of Long-Term Debt (I/H)							4.011%	

(*) Annualized interest cost plus (or minus) amortization of discount or premium plus amortization of issue costs minus (or plus) amortization of gain (or loss) on reacquired debt.

DUKE ENERGY KENTUCKY, INC.
 Case No. 2018-00038
 EMBEDDED COST OF SHORT-TERM DEBT
 TWELVE MONTH AVERAGE BALANCE ENDING DECEMBER 31, 2017
 (CORPORATE)

RESPONSE TO 3.C
 PAGE 1 OF 1
 WITNESS RESPONSIBLE:
 J. L. SULLIVAN

LINE NO.	ISSUE (A)	AVERAGE AMOUNT OUTSTANDING (B)	WTD AVERAGE INTEREST RATE (C)	CURRENT UNAMORT. (DISCOUNT) OR PREMIUM (D)	CURRENT UNAMORT. DEBT EXPENSE (E)	AVERAGE CARRYING VALUE (F = B+D-E)
		(\$)	(%)			
1	<u>Capital Leases - Current</u>					
2						
3	Capital Lease - Meters (2009 Acquisitions)	228,660	4.8207%			228,660
4	Capital Lease - Meters (2010 Acquisitions)	102,889	3.3302%			102,889
5	Capital Lease - Erlanger Facility	202,182	8.6338%			202,182
6						
7	<u>Sale of Accounts Receivable</u>					
8	Amount Sold for Cash/Classified as Receivable	29,499,500	1.9637%			29,499,500
9						
10	<u>Notes Payable to Associated Companies</u>					
11						
12	Notes Payable - Money Pool / Commercial Paper	16,068,667	1.1059%			16,068,667
13						
14						
15	Totals	<u>45,871,218</u>		<u>0</u>	<u>0</u>	<u>45,100,878</u>
16						
17	Cost of Short-Term Debt					

Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018

STAFF-DR-01-004

REQUEST:

Using the Capital Structure provided in the response to Item 1 and the return/interest rates calculated in the response to Item 3, fill out the table below:

Component of Capitalization	Per Books 12/31/17	Ratios	Actual Rates	Average Weighted Cost
Short-Term Debt				
Long-Term Debt				
Preferred Stock				
Common Equity				
Total Capitalization	\$ -	0.000%		0.0000%

RESPONSE:

See Staff-DR-01-004 Attachment.

PERSON RESPONSIBLE: Michael Covington

DUKE ENERGY KENTUCKY, INC.
 TOTAL COMPANY CAPITAL STRUCTURE
 AS OF DECEMBER 31, 2017

Component of Capitalization	Per Books 12/31/2017	Ratios	Actual Rates	Average Weighted Cost
Short-Term Debt ⁽¹⁾	\$ 33,825,174	3.38%	1.711% ⁽¹⁾	0.08%
Long-Term Debt ⁽²⁾	\$ 448,744,874	45.16%	4.011% ⁽²⁾	1.81%
Preferred Stock	\$ -	0.00%	0.000%	0.00%
Common Equity	\$ 511,414,429	51.46%	6.76% ⁽³⁾	3.48%
Total Capitalization ⁽⁴⁾	\$ 993,784,477	100.00%		5.35%

⁽¹⁾ Source: Staff-DR-01-003c

⁽²⁾ Source: Staff-DR-01-003b

⁽³⁾ Source: Staff-DR-01-003a

⁽⁴⁾ Short-Term Debt includes Duke Energy Kentucky portion of CRC financing, which is not reflected on Duke Energy Kentucky's balance sheet provided in response to Staff-DR-01-001

⁽⁵⁾ Long-Term Debt is net of unamortized loss on reacquired debt and unamortized debt expense

⁽⁶⁾ Capitalization per this schedule is prepared on a regulatory basis; Capitalization provided in response to Staff-DR-01-001 is prepared on a "per books" basis and differ for the reasons noted in footnotes 4 and 5

Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018

STAFF-DR-01-005

REQUEST:

Using the table below, provide the calculation of the gross revenue conversion factor (“GRCF”) including a 35 percent Federal Income Tax (“FIT”) rate.

Line #	Description	Rates	State	Federal
1	Operating Revenue		100.000000%	100.000000%
2	Less: Uncollectible Expense			
3	Less: PSC Assessment			
4	Less: Production Activities Deduction State			
5				
6	Income before State Income Tax		100.000000%	100.000000%
7	State Income Tax		0.000000%	0.000000%
8				
9	Income before Federal Income Tax			100.000000%
10	Federal Income Tax			0.000000%
11				
12	Operating Income Percentage (Line 9 - Line 10)			100.000000%
13				
14	Gross Revenue Conversion FACTOR (Line 1 / Line 12)			1.000000
15				
16	Composite Income Tax Rate (Line 7 + Line 10)			0.000000%
17				
18	Common Equity Gross-up (Line 16 / (1 - Line 16))			0.000000%

RESPONSE:

See Staff-DR-01-005 Attachment. Consistent with the GRCF in the Duke Energy Kentucky Electric rate case (KPSC Case No. 2017-00321) the Attachment contains an added line for the State Income Tax Apportionment Factor.

PERSON RESPONSIBLE: Sarah E. Lawler

DUKE ENERGY KENTUCKY, INC.
 GROSS REVENUE CONVERSION FACTOR
 REFLECTING 35% FEDERAL INCOME TAX RATE

KyPSC Case No. 2018-00036
 Staff-DR-01-005 Attachment

Line No.	Description	Rates	State	Federal
1	Operating Revenue		100.0000%	100.0000%
2	Less: Uncollectible Expense	0.0000%	0.0000%	0.0000%
3	Less: PSC Assessment	0.1996%	0.1996%	0.1996%
4	Less: Production Activities Deduction State		0.0000%	0.0000%
5				
6	Income before State Income Tax		99.8004%	99.8004%
7	State Apportionment Factor	89.0867%		
8	State Income Tax	6.0000%	<u>5.3345%</u>	<u>5.3345%</u>
9				
10	Income before Federal Income Tax		94.4659%	94.4659%
11	Federal Income Tax	35.0000%		<u>33.0631%</u>
12				
13	Operating Income Percentage (Line 10 - Line 11)			<u>61.4028%</u>
14				
15	Gross Revenue Conversion FACTOR (Line 1 / Line 13)			<u>1.6285899</u>
16				
17	Composite Income Tax Rate (Line 8 + Line 11)			<u>38.3976%</u>
18				
19	Common Equity Gross-up (Line 1 / (1-Line17))			<u>162.3313%</u>

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-006

REQUEST:

Using the table in Item 5., provide the calculation of the GRCF including a 21 percent FIT rate.

RESPONSE:

See Staff-DR-01-006 Attachment. Consistent with the GRCF in the Duke Energy Kentucky Electric rate case (KPSC Case No. 2017-00321) the Attachment contains an added line for the State Income Tax Apportionment Factor.

PERSON RESPONSIBLE: Sarah E. Lawler

DUKE ENERGY KENTUCKY, INC.
 GROSS REVENUE CONVERSION FACTOR
 REFLECTING 21% FEDERAL INCOME TAX RATE

KyPSC Case No. 2018-00036
 Staff-DR-01-006 Attachment

Line No.	Description	Rates	State	Federal
1	Operating Revenue		100.0000%	100.0000%
2	Less: Uncollectible Expense	0.0000%	0.0000%	0.0000%
3	Less: PSC Assessment	0.1996%	0.1996%	0.1996%
4	Less: Production Activities Deduction State		0.0000%	0.0000%
5				
6	Income before State Income Tax		99.8004%	99.8004%
7	State Apportionment Factor	89.0867%		
8	State Income Tax	6.0000%	5.3345%	5.3345%
9				
10	Income before Federal Income Tax		94.4659%	94.4659%
11	Federal Income Tax	21.0000%		19.8378%
12				
13	Operating Income Percentage (Line 10 - Line 11)			74.6280%
14				
15	Gross Revenue Conversion FACTOR (Line 1 / Line 13)			1.3399789
16				
17	Composite Income Tax Rate (Line 8 + Line 11)			25.1724%
18				
19	Common Equity Gross-up (Line 1 / (1-Line17))			133.6405%

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-007

REQUEST:

Using the table below, calculate the weighted average cost of capital ("WACC") with a 35 percent FIT rate and WACC with a 21 percent FIT rate.

Component of Capitalization	Average Weighted Cost	Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate		Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate	
		Equity Gross-up	Adj. Cost	Equity Gross-up	Adj. Cost
Short-Term Debt			0.00%		0.00%
Long-Term Debt			0.00%		0.00%
Preferred Stock			0.00%		0.00%
Common Equity			0.00%		0.00%
Total Capitalization	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%

RESPONSE:

See Staff-DR-01-007 Attachment.

PERSON RESPONSIBLE: Sarah E. Lawler

DUKE ENERGY KENTUCKY, INC.
 CAPITAL STRUCTURE
 AS OF DECEMBER 31, 2017

KyPSC Case No. 2018-00036
 Staff-DR-01-007 Attachment

Component of Capitalization	Average Weighted Cost ⁽¹⁾	Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate		Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate	
		Equity Gross-up ⁽²⁾	Adj. Cost	Equity Gross-up ⁽³⁾	Adj. Cost
Short-Term Debt	0.06%	100.0000%	0.06%	100.0000%	0.06%
Long-Term Debt	1.81%	100.0000%	1.81%	100.0000%	1.81%
Preferred Stock	0.00%	100.0000%	0.00%	100.0000%	0.00%
Common Equity	3.48%	162.3313%	5.65%	133.6405%	4.65%
Total Capitalization	5.35%		7.52%		6.52%

⁽¹⁾ Source: Staff-DR-01-004

⁽²⁾ Source: Staff-DR-01-005. Does not include a gross up for uncollectible expense and PSC assessment fees

⁽³⁾ Source: Staff-DR-01-006

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-008

REQUEST:

Refer to the Direct Testimony of William D. Wathen Jr. ("Wathen Testimony"), page 10, where Mr. Wathen explains that the amortization rates for the protected excess accumulated deferred income taxes ("ADIT") under the "average assumption method" ("ARAM") are 1.8 percent in 2018 and 2.8 percent in 2019. Provide documentation to support the estimated ARAM rates for 2018 and 2019.

RESPONSE:

For the latest revised ARAM rates for 2018 and 2019, see STAFF-DR-01-008 Attachment.

PERSON RESPONSIBLE: John R. Panizza

STAFF-DR-01-008
ATTACHMENT
FILED
ELECTRONICALLY
AND PROVIDED ON CD

STAFF-DR-01-009

REQUEST:

At page 10 of his testimony, Mr. Wathen states, "the company proposes to use the same fifteen-year amortization period that was used in the settlement agreed to in Case No. 2018-00034.

- a. Provide a detailed explanation, as to why Duke Kentucky Gas believes that a 15-year amortization period is appropriate for its unprotected excess ADIT.
- b. Provide schedules reflecting a 5-year and 10-year amortization period for Duke Kentucky Gas's unprotected excess ADIT and the impact each amortization period would have on Duke Kentucky Gas's revenue requirement.

RESPONSE:

- a. Fifteen years was selected primarily with the intention of minimizing any controversy regarding this issue as the only two parties in Case No. 2018-00036 had already agreed to the same amortization period in Case No. 2018-00034. Note that, since that time, the Commission has approved the fifteen-year amortization period for unprotected excess ADITs in Case No. 2018-00034. A fifteen-year amortization period for the unprotected excess ADIT will balance the impact to Duke Energy Kentucky's cash flow and provide ratepayers the full benefit of the reduction in the federal income tax in a timely manner. The implementation of the Tax Act has the potential to adversely affect the

Company's cash flow needed to fund ongoing operations and new infrastructure investments. An unmitigated cash flow shortfall could force the Company to rely excessively on third-party capital to fund itself, to the ultimate detriment of its financial condition.

While the Company agrees that customers should receive the appropriate level of excess deferred taxes, it must be done over a reasonable period so as not to unfairly harm the Company. An appropriate balance must be struck between reversing these excess balances and returning them to customers and maintaining the Company's credit quality. Since the majority of the unprotected excess deferred taxes relate to property, plant and equipment, it is reasonable to refund those amounts over the period over which the deferred tax balances would have otherwise reversed, and consistent with the remaining book life of the underlying assets.

Moreover, as the balance of the excess ADIT liability declines, the Company's rate base and, consequently, its capitalization, will increase. The potential impact from a credit downgrade due to increased borrowings as a result of an unreasonable cash flow constraint would ultimately harm customers.

b. See table below.

	Amortize Over		
	15 Yrs ^(a)	10 Yrs	5 Yrs
Unprotected Excess ADIIT Balance at 12/31/17	(\$304,364)	(\$304,364)	(\$304,364)
	(\$20,291)	(\$30,436)	(\$60,873)
GRCF (@21% FIT)	1.3409866	1.3409866	1.3409866
Annualized Rev Req Impact ^(b)	(\$27,210)	(\$40,815)	(\$81,630)

Note: ^(a) The revenue requirement amount for the fifteen year amortization shown above differs slightly from Attachment WDW-2, page 1, line 6, because the revenue requirement impact calculated above is for an annual (12-month) period, where the figure in Attachment WDW-2, is the monthly amount from January 1, 2018, through March 31, 2019, spread over an 11-month period.

^(b) Revenue requirement reflects only the change due to the lower income tax expense as unprotected excess ADIT is flowed through the income statement. Rate base will grow at a faster rate as the period over which the excess ADIT balance is amortized becomes shorter.

PERSON RESPONSIBLE: William Don Wathen Jr.

STAFF-DR-01-010

REQUEST:

Explain whether any of Duke Kentucky Gas's affiliates have resolved or are in the process of resolving the impact of the TCJA on rates in other states. If so, provide the amortization period(s) established for the unprotected excess ADIT.

RESPONSE:

Ohio- The Public Utilities Commission has established an investigation into the impacts of the TCJA. The case is still pending and no decisions have been issued regarding amortization of unprotected excess ADIT.

Indiana- The Indiana Utility Regulatory Commission has initiated a proceeding to address the impacts of the TCJA. Issues related to unprotected ADIT will be addressed in Phase 2 of the Commission proceeding.

North Carolina-The North Carolina Utility Commission has opened an investigation in to the impacts of the TCJA for all jurisdictional utilities. To date, it has not issued a final order.

- Duke Energy Kentucky's North Carolina affiliates, Duke Energy Carolinas (DEC) and Duke Energy Progress (DEP), have both proposed that the impacts of the TCJA be addressed in either current or next general rate cases (or in the open generic docket), respectively.

- Both DEC and DEP have proposed to return protected federal excess ADITs in accordance with ARAM.
- Both DEC and DEP have proposed to return unprotected federal excess ADITs that are related to plant, property and equipment over 20 years.
- For DEP, the unprotected federal excess ADITs that are not related to plant, property and equipment, are a net asset, not a liability. The Company has proposed to *recover* that balance from customers over five years.
- Similarly, for DEC, the unprotected federal excess ADITs that are not related to plant, property and equipment, are a liability, and the Company has proposed to return that portion of the unprotected excess ADITs over five years.

South Carolina- The Public Service Commission of South Carolina has opened an investigation in to the impacts of the TCJA for jurisdictional utilities. To date, it has not issued a final order or yet required the utilities to provide specific information or proposals. DEC and DEP have supported such informational filings be made no earlier than May 31, 2018.

Florida-Duke Energy Florida (DEF) executed a negotiated global settlement agreement, approved in October 2017 that sets forth the treatment of the TJCA, including treatment of unprotected excess ADIT. The settlement provides that \$50 million pre-tax will be recorded as an acceleration of depreciation expense associated with Crystal River Units 4 and 5 (coal units). The settlement also provides the following: “Excess Deferred Taxes shall be deferred to a regulatory asset or liability which shall be included in FPSC adjusted capital structure and flowed back to customers over a term consistent with law. If the same Average Rate Assumption Method used in the Tax Reform Act of 1986

is prescribed, then the regulatory asset or liability will be flowed back to customers over the remaining life of the assets associated with the Excess Deferred Taxes subject to the provisions related to FPSC adjusted operating income impacts of Tax Reform noted above. If the Tax Reform law or act is silent on the flow-back period, and there are no other statutes or rules that govern the flow-back period, then there is a rebuttable presumption that the following flow-back period(s) will apply: (1) if the cumulative regulatory liability is less than \$200 million, the flow-back period will be five years; or (2) if the cumulative regulatory liability is greater than \$200 million, the flow-back period will be ten years. DEF reserves the right to demonstrate by clear and convincing evidence that such five or ten year maximum period (as applicable) is not in the best interest of DEF's customers and should be increased to no greater than 50 percent of the remaining life of the assets associated with the Excess Deferred Taxes (referred to as the "50 Percent Period"). The relevant factors to support DEF's demonstration include, but are not limited to, the impact the flow-back period would have on DEF's cash flow and credit metrics or the optimal capitalization of DEF's jurisdictional operations in Florida. If DEF can demonstrate, by clear and convincing evidence, that limiting the flow-back period to the 50 Percent Period, in conjunction with the other Tax Reform provisions related to deferred taxes within this 2017 Revised and Restated Settlement Agreement, will be the sole basis for causing a full notch credit downgrade by each of the major rating agencies (i.e. Standard & Poor's and Moody's), the Commission shall be authorized to permit a longer flow-back period." The Florida Public Service Commission opened a docket to ensure implementation of the settlement, which should be resolved by the end of the year.

Tennessee- The Tennessee Public Utility Commission (TPUC) issued an order on February 6, 2018 requiring the large natural gas, electric, and water utilities subject to its jurisdiction to apply deferred accounting treatment and report the amounts deferred along with a proposal to reduce rates or otherwise make adjustments to account for the tax benefits resulting from the Tax Act. Further, they requested a calculation of excess deferred income taxes and any other tax effects resulting from the Tax Act. Comments were filed on or before April 2, 2018. To date, an order has not been issued by the TPUC. Piedmont's comments included the following:

- Include lower tax rates in pending Integrity Management Rider proceeding
- Defer the difference in base rates and include the deferral and the base rate reduction in rates established in Piedmont's next general rate case proceeding. Indicated such general rate case would be filed within 24 months.
- Address excess ADIT in next general rate case.

PERSON RESPONSIBLE: Legal

Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018

STAFF-DR-01-011

REQUEST:

Using Duke Kentucky Gas's response to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent. If estimates and assumptions were used to calculate any amount identified in this response, identify and describe the estimate or assumption.

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Net Investment Rate Base			
2	Returns Adjusted For Income Taxes			
3				
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	\$ -	\$ -	\$ -
5				
6	Amortization Of Excess ADIT (Protected) - Using Aram			
7	Amortization Of Excess ADIT (Unprotected)			
8				
9	Total Amortization Of Excess ADIT (Line 6 + Line 7)		-	
10	Gross-Up Factor Using 21% Federal Tax Rate			
11				
11	Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10)			-
12				
13	Total Reduction In Revenue Requirements (Line 4 + Line 11)			\$ -

RESPONSE:

Per the request, the Company filled in the template. It must be recognized that Duke Energy Kentucky's existing rates were established in Case No. 2009-00202 using a test year of February 1, 2010, through January 31, 2011, and the revenue requirement in that case was based on a return on the projected thirteen-month average capitalization during that period. Duke Energy Kentucky is NOT collecting revenue based on rate base as of December 31, 2017; consequently, the "Revenue Impact" calculated in this template does NOT represent amounts being collecting in base rates.

The calculation should only be viewed as an estimate of what the revenue requirement impact would be IF current base rates were set using the December 31, 2017, rate base.

PERSON RESPONSIBLE: William Don Wathen Jr.

DUKE ENERGY KENTUCKY, INC.
 REDUCTION IN REVENUE REQUIREMENT
 NET INVESTMENT RATE BASE
 CALENDAR YEAR ENDING DECEMBER 31, 2017

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Net Investment Rate Base ⁽¹⁾	\$ 295,171,642	\$ 295,171,642	
2	Returns Adjusted for Income Taxes ⁽²⁾	7.52%	6.52%	
3				
4	Required Annual Operating Income Before Taxes (Line 1 * Line 2)	<u>\$ 22,196,907</u>	<u>\$ 18,245,191</u>	\$ (2,951,716)
5				
6	Amortization of Excess ADIT (Protected) - Using ARAM		\$ (552,834)	
7	Amortization of Excess ADIT (Unprotected) ⁽³⁾		<u>\$ (20,291)</u>	
8				
9	Total Amortization of Excess ADIT (Line 6 + Line 7)		\$ (573,125)	
10	Gross-up Factor Using 21% Federal Tax Rate ⁽⁴⁾		<u>1.3399789</u>	
11				
12	Total Reduction in Deferred Income Tax Expense (Line 9 * Line 10)			<u>\$ (767,975)</u>
13				
14	Total Reduction in Revenue Requirements (Line 4 + Line 12)			<u>\$ (3,719,691)</u>

⁽¹⁾ Staff-DR-01-002

⁽²⁾ Staff-DR-01-007

⁽³⁾ Assumes 15 year amortization of unprotected Excess ADIT

⁽⁴⁾ Staff-DR-01-008

Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018

STAFF-DR-01-012

REQUEST:

Using Duke Kentucky Gas's response to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent. If estimates and assumptions were used to calculate any amount identified in this response, identify and describe the estimate or assumption.

Line No	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Capitalization			
2	Returns Adjusted For Income Taxes			
3				
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	\$ -	\$ -	\$ -
5				
6	Amortization Of Excess ADIT (Protected)- Using Aram			
7	Amortization Of Excess ADIT (Unprotected)			
8				
9	Total Amortization Of Excess ADIT (Line 6 + Line 7)			
10	Gross-Up Factor Using 21% Federal Tax Rate			
11				
11	Total Reduction In Deferred Income Tax Expense (Line 9 x Line 10)			-
12				
13	Total Reduction In Revenue Requirements (Line 4 + Line 11)			\$ -

RESPONSE:

Per the request, the Company filled in the template. It must be recognized that Duke Energy Kentucky's existing rates were established in Case No. 2009-00202 using a test year of February 1, 2010, through January 31, 2011, and the revenue requirement in that case was based on a return on the projected thirteen-month average capitalization during that period. Duke Energy Kentucky is NOT collecting revenue based on capitalization as of December 31, 2017; consequently, the "Revenue Impact" calculated in this template does NOT represent amounts being collecting in base rates.

The calculation should only be viewed as an estimate of what the revenue requirement impact would be IF current base rates were set using the December 31, 2017, capitalization.

PERSON RESPONSIBLE: William Don Wathen Jr.

DUKE ENERGY KENTUCKY, INC.
 REDUCTION IN REVENUE REQUIREMENT
 CAPITALIZATION
 CALENDAR YEAR ENDING DECEMBER 31, 2017

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Capitalization ⁽¹⁾	\$ 993,784,477	\$ 993,784,477	
2				
3	Jurisdictional Rate Base Ratio ⁽²⁾	30.288%	30.288%	
4				
5	Capitalization Allocated to Gas Operations	\$ 300,997,442	\$ 300,997,442	
6				
7	Returns Adjusted for Income Taxes ⁽³⁾	<u>7.52%</u>	<u>6.52%</u>	
8				
9	Required Annual Operating Income Before Taxes (Line 5 * Line 6)	<u>\$ 22,635,008</u>	<u>\$ 19,625,033</u>	\$ (3,009,975)
10				
11	Amortization of Excess ADIT (Protected) - Using ARAM		\$ (552,834)	
12	Amortization of Excess ADIT (Unprotected) ⁽⁴⁾		<u>\$ (20,291)</u>	
13				
14	Total Amortization of Excess ADIT (Line 11 + Line 12)		\$ (573,125)	
15	Gross-up Factor Using 21% Federal Tax Rate ⁽⁵⁾		<u>1.3399789</u>	
16				
17	Total Reduction in Deferred Income Tax Expense (Line 14 * Line 15)			<u>\$ (767,975)</u>
18				
19	Total Reduction in Revenue Requirements (Line 9 + Line 17)			<u>\$ (3,777,950)</u>

⁽¹⁾ Staff-DR-01-004

⁽²⁾ Source: WPA-1b from Duke Energy Kentucky Case No. 2017-00321, base period update filing.

⁽³⁾ Staff-DR-01-007

⁽⁴⁾ Assumes 15 year amortization of unprotected Excess ADIT

⁽⁵⁾ Staff-DR-01-006

Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018

STAFF-DR-01-013

REQUEST:

At page 10 of his testimony, Mr. Wathen explains that the proposed Tax Refund Rider is allocated between the residential and nonresidential customers based on their relative shares of income from Case No. 2009-00202.¹ However, according to Attachment WDW-2, page 1, the revenue allocation is based on 2017 revenues. Provide a detailed explanation for the discrepancy between the explanation in the testimony and the heading on the schedule.

RESPONSE:

There is no discussion on page 10 of Mr. Wathen's testimony in Case No. 2018-00036, regarding the allocation of the Tax Refund Rider between residential and nonresidential customers. In the same testimony, Mr. Wathen does state, on page 11, lines 10-13, that "[t]he Tax Refund Rider rate for is computed by first allocating the amount of the refund to residential and non-residential customers based on their relative shares of overall revenue from the most recent base rate case." (emphasis added)

The labeling on Attachment WDW-2, page 1, was unintentionally confusing. See the Revised Attachment WDW-2, page 1, attached to this response as STAFF-DR-01-013 Attachment. The amounts included in Line 10 through Line 12 are the actual revenues for residential and non-residential customers for calendar year 2017.

¹ Case No. 2009-00202, *Application of Duke Energy Kentucky, Inc. for an Adjustment of Rates* (Ky. PSC Dec. 29, 2009).

The amounts shown in Lines 16-17 are the volumetric sales from the most recent base rate case.

In reviewing the revised attachment, it was discovered that there was an arithmetic error on Line 12 that affects the percentages in Lines 10 and 11, and the proposed rates for the Tax Refund Rider in Lines 18-19. The affected cells in the attachment are highlighted.

No other pages of Attachment WDW-2 were affected.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Kentucky
 Case No. 2018-00036

	Case No. 2009-00202 (a)	Forecast Period 4/1/18 - 3/31/19 (b)	Difference (c)	
1 Capitalization Allocated to Gas	\$253,750,235	\$311,173,596	\$57,423,361	Schedule 1, page 2 of 4
2 Pre-Tax Return	10.78%	8.85% ^(a)	-1.93%	Schedule 1, page 3 of 4
3 Increase/(Decrease) in Annual Revenue Requirement	<u>\$27,351,443</u>	<u>\$27,538,425</u>	<u>\$186,982</u>	(a)(3) - (b)(3)
4 Amount to (Refund) or Recover			\$0	Lesser of \$0 or Line 3
5 Total Amort of Excess ADITs 1/1/18-3/31/19 (Protected)			\$772,711	Schedule 1, page 4 of 4.
6 Total Amort of Excess ADITs 1/1/18-3/31/19 (Unprotected)			<u>\$25,364</u>	Schedule 1, page 4 of 4.
7 Total Amortization of Excess ADITs through December 31, 2018			<u>\$798,074</u>	Line 5 + Line 6
8 Gross Revenue Conversion Factor			<u>1.3409866</u>	GRCF as Filed in Case No. 2017-00321 adjusted for 21% FIT
9 Total Refund: May 1, 2018, thru March 31, 2018			\$1,070,207	Line 7 * Line 8

	Total 2017	% of Total	
Total Gas Revenue (Base & All riders)			
10 Residential Revenue	\$59,228,599	57.3%	
11 Non-Residential Revenue	44,065,602	42.7%	
12 Total Gas Revenue	<u>\$103,294,201</u>	<u>100.0%</u>	
13 Annual Gas Sales (CCF) from Most Recent Rate Case			
14 Residential Usage		68,500,260	Revenue & Sales From Test Year Used in 2009-00202
15 Non-Residential Usage		63,964,420	
Pro rated Gas Sales from Prior Case (11 months/12 months)			
16 Residential Usage		62,791,905	Line 14 * 11 months/12 months
17 Non-Residential Usage		58,634,052	Line 15 * 11 months/12 months
18 Residential Tax Refund Rider Rate		\$0.0098	Residential Share of Total Revenue * Line 9 ÷ Line 16
19 Non-Residential Tax Refund Rider Rate		\$0.0073	Non-Residential Share of Total Revenue * Line 9 ÷ Line 16

Note: (a) The ROR for the Forecast Period assumes the currently approved ROE from Case No. 2009-00202 updated for the change in capital structure and current debt rates
 (b) Refund period is assumed to be 10 months; so, annual sales from 2009 rate case are pro rated.

Duke Energy Kentucky
Case No. 2018-0036

1	Current Capitalization Allocated to Gas in Base Rates	\$253,750,235	Schedule A-1, DEK Application in Case No. 2009-00202
Calculate Capitalization Allocable to Gas for Forecast Period ^(a)			
2	Total Capitalization from Pending Electric Rate Case	\$1,113,123,218	Schedule WPA-1c, Line 8, from Case No. 2017-00321
3	Electric Jurisdictional Rate Base Allocation Percent	72.05%	Schedule WPA-1c, Line 10, from Case No. 2017-00321
4	Capitalization Allocated to Electric	\$801,949,623	Line 2 * Line 3
5	Capitalization Allocated to Gas	<u>311,173,596</u>	Line 2 - Line 4
6	Total Capitalization	\$1,113,123,218	Line 4 + Line 5

Notes: ^(a) Forecast period in current rate case is April 1, 2018, through March 31, 2019.
See Attachment WDW-3

Duke Energy Kentucky
 Case No. 2018-0036

Capitalization from J-1 Forecast in Case No. 2017-00321 (w/ GRCF @ 21% FIT and 10.375% ROE)							
Line	Capital Component	13-Mo Avg. Bal.	% of Total	Cost	Weighted Cost	GRCF	Pre-Tax ROR
1	Common Equity	\$522,765,867	48.89%	10.375%	5.073%	1.3409866	6.80%
2	Long-Term Debt	434,934,967	40.68%	4.243%	1.726%	1.0000000	1.73%
3	Short-Term Debt	111,491,538	10.43%	3.083%	0.321%	1.0000000	0.32%
4	Total Capital	<u>\$1,069,192,372</u>	<u>100.00%</u>		<u>7.120%</u>		<u>8.85%</u>

Capitalization As Approved in Case No. 2009-00202							
	Capital Component	13-Mo Avg. Bal.	% of Total	Cost	Weighted Cost	GRCF	Pre-Tax ROR
5	Common Equity	\$411,218,278	50.80%	10.375%	5.270%	1.6437800	8.66%
6	Long-Term Debt	352,923,437	43.60%	4.703%	2.050%	1.0043490	2.06%
7	Short-Term Debt	45,403,690	5.61%	1.009%	0.057%	1.0043490	0.06%
8		<u>\$809,545,405</u>	<u>100.00%</u>		<u>7.377%</u>		<u>10.78%</u>

Duke Energy Kentucky
 Tracking the Regulatory Liability For Excess Deferred Income Taxes

Creating the Regulatory Liability For Amort Beg 1/1/18

Protected EDITs	Account 254.XX: Protected EDIT			Account 254.YY: Regulatory Liability			Total Gross Reg Liability	Levelized Refund to Customers		Remaining Reg Liability
	Beq Balance	Debit: Amort Exp	Ending Balance	Beq Balance	(Debit)/Credit	Ending Balance		Debit: Acct 254	Credit: Cash	
	(a)	(b)	(c)=(a)-(b)	(d)	(e)	(f)=(d)-(e)	(g)=(c)-(f)	(h)	(i)	(j)
December 31, 2017 (per books)			(\$31,411,000)				(\$31,411,000)			(\$31,411,000)
January 2018	(\$31,411,000)	\$46,069	(\$31,364,931)	\$0	\$46,069	\$46,069	(\$3,318,861)	\$0	\$0	(\$3,411,000)
February 2018	(\$3,364,931)	46,069	(\$3,318,861)	46,069	46,069	92,139	(\$1,226,722)	-	-	(\$1,411,000)
March 2018	(\$3,318,861)	46,069	(\$3,272,792)	92,139	46,069	138,208	(\$1,134,583)	-	-	(\$1,411,000)
April 2018	(\$3,272,792)	46,069	(\$3,226,722)	138,208	46,069	184,278	(\$1,042,444)	-	-	(\$1,411,000)
May 2018 (Refund Begins)	(\$3,226,722)	46,069	(\$3,180,653)	184,278	(24,177)	160,101	(\$1,020,552)	70,246	70,246	(\$1,340,754)
June 2018	(\$3,180,653)	46,069	(\$3,134,583)	160,101	(24,177)	135,924	(\$998,659)	70,246	70,246	(\$1,270,507)
July 2018	(\$3,134,583)	46,069	(\$3,088,514)	135,924	(24,177)	111,747	(\$976,767)	70,246	70,246	(\$1,200,261)
August 2018	(\$3,088,514)	46,069	(\$3,042,444)	111,747	(24,177)	87,570	(\$954,874)	70,246	70,246	(\$1,130,014)
September 2018	(\$3,042,444)	46,069	(\$2,996,375)	87,570	(24,177)	63,393	(\$932,982)	70,246	70,246	(\$1,059,768)
October 2018	(\$2,996,375)	46,069	(\$2,950,305)	63,393	(24,177)	39,216	(\$911,089)	70,246	70,246	(\$989,521)
November 2018	(\$2,950,305)	46,069	(\$2,904,236)	39,216	(24,177)	15,039	(\$889,197)	70,246	70,246	(\$919,275)
December 2018	(\$2,904,236)	46,069	(\$2,858,166)	15,039	(24,177)	(9,138)	(\$867,304)	70,246	70,246	(\$849,029)
January 2019	(\$2,858,166)	73,292	(\$2,784,874)	(9,138)	3,046	(6,092)	(\$790,966)	70,246	70,246	(\$778,782)
February 2019	(\$2,784,874)	73,292	(\$2,711,582)	(6,092)	3,046	(3,046)	(\$714,618)	70,246	70,246	(\$708,536)
March 2019	(\$2,711,582)	73,292	(\$2,638,290)	(\$3,046)	3,046	(\$0)	(\$638,299)	70,246	70,246	(\$638,299)
Total Amortized EDITs (Protected)		\$772,711			(\$0)			572,711	572,711	

2018 ARAM Rate	1.8%
2019 ARAM Rate	2.8%

Creating the Regulatory Liability For Amort Beg 1/1/18

Unprotected EDITs	Account 254.XX: UnProtected EDIT			Account 254.YY: Regulatory Liability			Total Gross Reg Liability	Levelized Refund to Customers		Remaining Reg Liability
	Beq Balance	Credit: Amort Exp	Ending Balance	Beq Balance	Debit/(Credit)	Ending Balance		(Debit): Acct 254	Credit: Cash	
	(a)	(b)	(c)=(a)-(b)	(d)	(e)	(f)=(d)-(e)	(g)=(c)-(f)	(h)	(i)	(j)
December 31, 2017 (per books);			(\$304,364)				(\$304,364)			(\$304,364)
January 2018	(\$304,364)	\$1,691	(\$302,673)	\$0	\$1,691	\$1,691	(\$300,982)	\$0	\$0	(\$304,364)
February 2018	(\$302,673)	\$1,691	(\$300,982)	1,691	1,691	3,382	(\$297,600)	-	-	(\$304,364)
March 2018	(\$300,982)	1,691	(\$299,291)	3,382	1,691	5,073	(\$294,219)	-	-	(\$304,364)
April 2018	(\$299,291)	1,691	(\$297,600)	5,073	1,691	6,764	(\$290,837)	-	-	(\$304,364)
May 2018 (Refund Begins)	(\$297,600)	1,691	(\$295,909)	6,764	(615)	6,149	(\$289,761)	2,306	2,306	(\$306,670)
June 2018	(\$295,909)	1,691	(\$294,219)	6,149	(615)	5,534	(\$288,685)	2,306	2,306	(\$304,364)
July 2018	(\$294,219)	1,691	(\$292,528)	5,534	(615)	4,919	(\$287,609)	2,306	2,306	(\$302,058)
August 2018	(\$292,528)	\$1,691	(\$290,837)	4,919	(615)	4,304	(\$286,533)	2,306	2,306	(\$299,752)
September 2018	(\$290,837)	\$1,691	(\$289,146)	4,304	(615)	3,689	(\$285,457)	2,306	2,306	(\$297,447)
October 2018	(\$289,146)	\$1,691	(\$287,455)	3,689	(615)	3,074	(\$284,381)	2,306	2,306	(\$295,141)
November 2018	(\$287,455)	\$1,691	(\$285,764)	3,074	(615)	2,460	(\$283,304)	2,306	2,306	(\$292,835)
December 2018	(\$285,764)	\$1,691	(\$284,073)	2,460	(615)	1,845	(\$282,228)	2,306	2,306	(\$290,529)
January 2019	(\$284,073)	\$1,691	(\$282,382)	1,845	(615)	1,230	(\$281,152)	2,306	2,306	(\$288,223)
February 2019	(\$282,382)	\$1,691	(\$280,691)	1,230	(615)	615	(\$280,076)	2,306	2,306	(\$285,918)
March 2019	(\$280,691)	\$1,691	(\$279,000)	615	(615)	(\$0)	(\$279,000)	2,306	2,306	(\$283,612)
Total Amortized EDITs (UnProtected)		\$25,364			(\$0)			\$25,364	\$25,364	

Amortization Period (yrs)	15
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Notes: (b) For protected EDITs, reflects the monthly amortization at the ARAM rate. For unprotected, represents the agreed upon amortization of EDITs over 15 years since no actual amortization rate has been approved
 (e) Until customers begin receiving credits for the amortization of EDITs. The amortization of the EDIT balance is accrued to another Account 254 Subaccount for Regulatory Liability
 (h) Reflects the ongoing monthly amortization
 (i) Reflects the average monthly revenue being flowed through to customers
 (j) Reflects the remaining balance of the EDITs owed to customers

Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018

STAFF-DR-01-014

REQUEST:

Provide the information requested in the table below.

	<u>Case No. 2009-00202</u>		<u>Calendar Year Ended 12/31/17</u>	
	<u>Total</u>	<u>% of Total</u>	<u>Total</u>	<u>% of Total</u>
Total Gas Revenues (Base & All Riders)				
Residential Revenue				
Non-Residential Revenue				
Total Gas Revenue				
Annual Gas Sales (CCF):				
Residential Gas Sales				
Non-Residential Gas Sales				
Total Gas Sales				

RESPONSE:

See STAFF-DR-01-014 ATTACHMENT.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Kentucky
 Case No. 2018-00036

	Case No. 2009-00202 ^(a)		Calendar Year Ended 12/31/17 ^(b)	
	Total	% of Total	Total	% of Total
Total Gas Revenues (Base & All Riders)				
Residential Revenue	\$50,935,533	63.25%	\$59,228,599	57.34%
Non-Residential Revenue	29,596,191	36.75%	44,065,602	42.66%
Total Gas Revenue	\$80,531,724	100.00%	\$103,294,201	100.00%
Annual Gas Sales (CCF)				
Residential Gas Sales	68,500,260	51.71%	51,686,110	43.02%
Non-Residential Gas Sales	63,964,420	48.29%	68,470,970	56.98%
Total Gas Sales	132,464,680	100.00%	120,157,080	100.00%

Notes: ^(a) See Schedule M-2.2 Attached to the December 29, 2009, Order in Case No. 2009-00202.

^(b) The revenue data was provided in Attachment WDW-2, page 1 of 4, lines 10-12.

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-015

REQUEST:

Explain whether any of the expenses charged to Duke Kentucky Gas by its affiliates in the test year contain any FIT implications. If so, state whether Duke Kentucky Gas addressed the impacts on its revenue requirements. If not, provide the impact of the FIT implications on Duke Kentucky Gas's test-year expense and revenue requirement.

RESPONSE:

Upon information and belief, expenses allocated to Duke Energy Kentucky by its affiliates in the test year in the company's last gas base rate case (Case No. 2009-00202) did not include a component for federal income taxes. Additionally, expenses allocated to Duke Energy Kentucky by its affiliates in the 2017 income statement did not include a component for federal income taxes.

PERSON RESPONSIBLE: Jeff Setser

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-016

REQUEST:

Refer to the spreadsheet produced by Duke Energy Kentucky, Inc. in response to Commission Staff's Post Hearing Data Request No. 22(b) in Case No. 2017-00321, which Duke Energy Kentucky, Inc. indicated was prepared using its PowerTax software. Produce a spreadsheet containing the same information for Duke Kentucky Gas; provide a description of the meaning of each and every column heading as used in the spreadsheet produced in this case; explain why the "END_TAX_BALANCE" would be recorded as a negative value with respect to certain property; explain in general terms how the PowerTax software calculates the "END_TAX_BALANCE", "END_ACCUM_RESERVE", "END_NET_TAX_BALANCE" and "DEPRECIATION" for each property in future years; and state whether Duke Kentucky Gas contends that all of the assets, property, and accounts identified in the spreadsheet represent "public utility property," as used in the TCJA, and explain the bases for that contention.

RESPONSE:

See STAFF-DR-01-016 Attachment.

PERSON RESPONSIBLE: John R. Panizza

STAFF-DR-01-016
ATTACHMENT
FILED
ELECTRONICALLY
AND PROVIDED ON CD

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-017

REQUEST:

Identify and describe any and all “public utility property,” as that term is used in the TCJA, the depreciation of which generated or gave rise to ADIT by providing the description of property as used by Duke Kentucky Gas for the purpose of identifying the property in its records of regulated book depreciation; providing the description of the property as used by Duke Kentucky Gas for the purpose of identifying the property in its records of tax depreciation; identifying the ADIT (without any offsets if any) generated from the accelerated or bonus tax depreciation of each property separately as of December 31, 2017; identifying any offsets that Duke Kentucky Gas contends should be applied to the ADIT as to each property or as a whole and why; identifying the tax basis for each property as of December 31, 2017; identifying the date at which the property was placed in service; identifying the original tax basis for each property before it was depreciated in any manner for tax purposes; identifying the remaining useful life of each property as of December 31, 2017, based on the regulatory depreciation schedule currently used by Duke Kentucky Gas as established in its last rate case (if unknown, then provide the remaining useful life based on the depreciation schedule used by Duke Kentucky Gas in its regulated books as of December 31, 2017); and identifying the value of the property as used in Duke Kentucky Gas’s regulated books as of December 31, 2017, based on the regulatory depreciation schedule currently used by Duke Kentucky

Gas as established in its last rate case (if unknown, then provide the remaining useful life based on the depreciation schedule used by Duke Kentucky Gas in its regulated books as of December 31, 2017).

RESPONSE:

Duke Kentucky Gas has not completed its 2017 Tax Return. See STAFF-DR-01-017 Attachment which contains the requested information from our PowerTax System as of 12/31/2016. Duke Kentucky Gas does not maintain separate records which isolate the deferred taxes for bonus depreciation. Also, PowerTax reduces the tax basis for bonus depreciation as opposed to showing bonus depreciation in the Tax_Reserve column. The timing difference created from bonus depreciation is merged with any timing differences created from accelerated depreciation for a given asset. Both these differences are shown as Method/Life differences in PowerTax which are treated as Protected excess deferred taxes. The remaining lives for each asset shown in the tab titled "Pivot ADIT" is unknown. The remaining useful life based on the depreciation schedule used by Duke Kentucky Gas in its regulated books as of December 31, 2017 is 29.5 years.

PERSON RESPONSIBLE: John R. Panizza

STAFF-DR-01-017
ATTACHMENT
FILED
ELECTRONICALLY
AND PROVIDED ON CD

Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018

STAFF-DR-01-018

REQUEST:

State whether Duke Kentucky Gas contends that all of the assets, property, and accounts identified in the Item No. 17 represent "public utility property" as used in the TCJA and explain the basis for that contention. If Duke Kentucky Gas contends there is uncertainty regarding whether a particular asset, account or property described would meet the definition of "public utility property," as used in the TCJA, identify the assets, property, and accounts about which there is uncertainty and explain in detail why there is uncertainty, and if so how that uncertainty may be resolved, including a description of what the property is used for.

RESPONSE:

Duke Kentucky Gas contends that all of the assets, property, and accounts identified in the Item No. 17 represent "public utility property" as used in the TCJA as they represent property described in Section 168(i)(10) of the Internal Revenue Code of 1986, as amended, that is, property used predominantly in the trade or business of the furnishing or sale of (1) electrical energy, water, or sewage disposal services, (2) gas or steam through a local distribution system, (3) telephone services, or other communication services if furnished or sold by the Communications Satellite Corporation for purposes authorized by the Communications Satellite Act of 1962 (47 U.S.C. 701), or (4) transportation of gas or steam by pipeline, the rates for such furnishing or sale, as the case

may be, have been established or approved by a State or political subdivision thereof, by any agency or instrumentality of the United States, or by a public service or public utility commission or other similar body of any State or political subdivision thereof.

PERSON RESPONSIBLE: John R. Panizza

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-019

REQUEST:

In calculating the rate at which protected excess ADIT may be amortized to reduce the cost of service for ratemaking purposed for the proposed settlement, did Duke Kentucky Gas have to make any estimates or assumptions as to the vintage information needed to use ARAM? If so, please identify and describe any such estimates and assumptions Duke Kentucky Gas made to use ARAM, describe the methodology it used to make such estimates and assumptions, and describe why such methodology was reasonable and is likely to lead to a reliable result.

RESPONSE:

Duke Kentucky Gas has records by vintage in PowerTax and therefore did not have to make any estimates or assumptions as to the vintage information needed to use ARAM.

PERSON RESPONSIBLE: John R. Panizza

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-020

REQUEST:

In calculating the rate at which protected excess ADIT may be amortized to reduce the cost of service for ratemaking purposed for the proposed settlement, did Duke Kentucky Gas use the depreciation method, including the remaining useful life for each property, established by the Kentucky Public Service Commission in Duke Kentucky Gas's last rate case? If not, please explain what depreciation method was used, explain why that method was used, and identify and provide any and all evidence that Duke Kentucky Gas contends supports the use of that method.

RESPONSE:

Duke Energy Kentucky did use the remaining lives and depreciation as established by the Kentucky Public Service Commission in Duke Kentucky Gas' last rate case to calculate the rate at which protected ADIT may be amortized.

PERSON RESPONSIBLE: John R. Panizza

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-021

REQUEST:

State whether Duke Kentucky Gas has received any letter or written opinion from the Internal Revenue Service since January 1, 2000, regarding the treatment of Duke Kentucky Gas's excess ADIT and, if so, provide a copy of the letter or written opinion.

RESPONSE:

None received.

PERSON RESPONSIBLE: Marcus Shore

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-022

REQUEST:

Provide any letters or written opinions prepared by the Internal Revenue Service and relied on by Duke Kentucky Gas or its agents to calculate Duke Kentucky Gas's excess ADIT or to determine how the excess ADIT may be reimbursed to ratepayers under federal tax law, regardless of whether those letters or written opinions were prepared for or at the request of Duke Kentucky Gas.

RESPONSE:

None received.

PERSON RESPONSIBLE: Marcus Shore

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-023

REQUEST:

Provide Duke Kentucky Gas's fiscal year if different from the calendar year ending December 31, 2017, and identify and describe any effect that a non-calendar fiscal year has on the calculation of excess ADIT.

RESPONSE:

Not applicable. Duke Energy Kentucky's fiscal year is a calendar year.

PERSON RESPONSIBLE: John R. Panizza

**Duke Energy Kentucky
Case No. 2018-00036
STAFF's First Set of Data Requests
Date Received: April 10, 2018**

STAFF-DR-01-024

REQUEST:

Provide copies of all schedules provided in the responses, supporting calculations, and documentation in Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible.

RESPONSE:

All responses that have Excel attachments will be filed electronically and provided on CD.

PERSON RESPONSIBLE: Legal