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 Natural Gas Rates; 2) Approval of a Decoupling Mechanism; 3) Approval of New Tariffs; and 4) All Other Required Approvals, Waivers, and Relief.	)))))))	Case No. 2018-00261

SUPPLEMENTAL TESTIMONY OF

WILLIAM DON WATHEN JR. IN SUPPORT OF SETTLEMENT

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

January 30, 2019

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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Don Wathen Jr. My business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services LLC (DEBS), as Director of Rates and Regulatory Strategy for Kentucky and Ohio.

Q. ARE YOU THE SAME WILLIAM DON WATHEN JR. WHO PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN THIS PROCEEDING?

A. My supplemental testimony is filed in support of the Joint Stipulation and Recommendation (Stipulation) filed with the Kentucky Public Service Commission (Commission) on January 30, 2019, in this proceeding. My supplemental testimony will describe how the Stipulation results in a fair, just and reasonable settlement of the issues in this case. I also sponsor Attachment WDW-SUPP-1, which is a summary of the adjustments to the overall revenue requirement.

II. OVERVIEW OF THE STIPULATION

Q. ARE YOU FAMILIAR WITH THE STIPULATION FILED IN THIS PROCEEDING?

A. Yes. As, Director of Rates and Regulatory Strategy for Kentucky and Ohio, my responsibilities include the establishment and implementation of rates for Duke Energy Kentucky. I participated in negotiating the Stipulation.

Q. WHO ARE THE PARTIES TO THE STIPULATION?

A. The Stipulation is between the Attorney General of the Commonwealth of Kentucky (Attorney General), the only other party to the proceeding, and Duke Energy Kentucky (collectively, the Parties).

Q. WHEN WAS THE STIPULATION EXECUTED?

A. The Stipulation was executed by the Parties to the Stipulation on January 29, 2019, and was filed with the Commission on January 30, 2019.

Q. PLEASE EXPLAIN WHY THE PARTIES WERE WILLING TO COMPROMISE.

A. Each Party recognizes that, if fully litigated, the final outcome may be less desirable to either Party than what is provided for in the Stipulation. Full litigation is time consuming and expensive for all parties involved and the litigation can produce unexpected and undesirable results for the Parties. Settlement provides an opportunity for each Party to reach an outcome that achieves an outcome the Parties believe is reasonable and preferable to the outcome that could result from a full litigation of each individual issue in an evidentiary hearing. Settlement also avoids any need for costly and time-consuming appeals that may follow a Commission decision in a fully litigated case.

Q. PLEASE SUMMARIZE THE KEY TERMS OF THE STIPULATION.

A. The Stipulation expressly reflects the Parties' agreement on the following matters:

- Duke Energy Kentucky's total gas base revenue requirement is $66,336,212. Including miscellaneous revenue and projected gas cost revenue, the overall revenue requirement after the increase is $103,393,785. The total revenue requirement represents an increase of approximately $7.4 million over total revenue projected for the forecasted test year at current rates. The Stipulation provides that new rates to be effective on a service rendered basis following the Commission's Order in this proceeding.[1] Attachment WDW-SUPP-1 provides a summary of the Company's revenue requirement as filed in its Application and the adjustments agreed to in the Stipulation to arrive at the final overall revenue requirement for natural gas service. The agreed upon revenue increase is contingent upon Commission approval of certain other settlement components that impact the actual revenue requirement, as I explain further below;
- The Company's natural gas revenue requirement will be calculated using the rate base approach as proposed in the Company's filing;
- The Company's proposal to implement a weather normalization adjustment (WNA) mechanism and Rider WNA is approved as filed;
- The residential customer charge will be increased by $0.50, to $16.50 per month. The customer charges for other rate classes will be adjusted as proposed in the Company's Application. The remainder of the increase

[1] Per the Commission's October 31, 2018, Order in Case No. 2018-00036, (page 15) the TCJA Surcredit will be adjusted but will continue if new base rates are not implemented by March 31, 2018.

allocable to each rate class will be allocated to the volumetric charge. The rate design and accompanying tariff changes are included in Attachments B and C to the Stipulation;

- The revenue requirement is based on a Return on Equity of 9.70 percent;
- The Company's average long-term debt rate for the forecasted test period is 4.36 percent and reflects an update for the actual cost of an issuance that had been projected in the Company's Application;
- The Company's rate base calculation includes cash working capital based upon the 1/8th Operations and Maintenance (O&M) method and will reflect the changes in O&M agreed to in the Stipulation;
- The Company's proposed capital structure will be approved as filed;
- The Company's proposed tariff language changes, as amended and agreed upon through the Company's responses to discovery submitted by Staff of the Commission, will be approved;
- The Company's proposal to extend its meter testing cycle from a ten-year testing cycle to a fifteen-year testing cycle is approved. The agreed-upon revenue requirement calculation includes an adjustment of approximately $340,000 to reflect the O&M savings expected from moving to the fifteen-year testing cycle.
- The Company will recover its actual costs for deferred integrity management pressure testing as was authorized in Case No. 2016-00152. The Parties agree to an extended amortization period for these deferred expenses of ten years,

contingent upon the Commission allowing the Company to accrue carrying costs at the Company's long-term debt rate of 4.36 percent;

- The Company will amortize the liability associated with the 2018 ASRP Federal Income Tax (FIT) deferral over a period of five years, without carrying costs. Rate case expenses associated with this proceeding will be amortized over a period of five years, without carrying costs.
- The Parties agree to a reduction in the Company's pro forma adjustment for costs related to projected ongoing incremental integrity management programs that were not identified until after the preparation of the budget. In order for the Company to continue to perform these necessary safety improvements, the Parties agree to an adjustment of $532,744 to O&M instead of the approximately $1.065 million proposed in the Application;
- The Parties agree to a change in the Company's fee for reconnection service to $75. The increase in miscellaneous revenue from this change is projected to reduce the Company's base revenue requirement by approximately $44,136. If the Commission does not approve of this fee increase or modifies the proposed increase, then the revenue requirement to be collected in base rates would need to be adjusted (increased) to reflect the reduction in assumed miscellaneous revenue.
- The Company's depreciation rates will be approved as filed using the Average Life Group methodology using the rates proposed in the Company's Application;

- The Company's proposal to end and "roll into rate base" its Accelerated Service Line Replacement Program (ASRP) and to eliminate the Rider ASRP mechanism is approved. The agreed upon base revenue requirement assumes the rolling into base rates of previously approved ASRP expenses currently being collected separately in Rider ASRP;
- The Parties agree to the allocation of the base revenue requirement as shown in Stipulation Attachment D such that there is a band of no more than 15 percent higher or lower than the system average cost to any rate class; and
- All other items not specifically mentioned, are approved as filed in the Company's Application.

Q. DOES THE STIPULATION ADDRESS AND RESOLVE ALL OF THE PROPOSALS MADE IN THE COMPANY'S APPLICATION?

A. Yes. As described above, the Stipulation serves to resolve the contested issues in this proceeding. There are a few proposals made in the Company's Application that were not specifically addressed in the Stipulation but which were uncontested in testimony. Even though those proposals were not specifically addressed in the Stipulation, there is an agreement between the Parties that these proposals be approved as proposed by the Company. I will discuss these proposals later in my testimony.

Q. WHY DO YOU BELIEVE THE COMPANY'S PROPOSALS NOT ADDRESSED IN THE STIPULATION SHOULD BE APPROVED?

A. The Stipulation did not list each and every item included in the Company's Application. It only addressed issues which were in dispute. The additional and uncontested proposals, include but are not limited to, specific tariff language changes, rate calculations, clarifications, and amortization of rate case expense, among other things. Additionally, there are also administrative clarifications that became necessary after the filing of the Application. The administrative clarifications include minor clerical changes to the tariffs to account for typographical errors, an address corrections and suggestions by the Commission Staff through discovery. The Attorney General did not address these issues in his pre-filed testimony, but has indicated to the Company that there is no objection.

III. CALCULATION OF THE AGREED UPON REVENUE REQUIREMENT

Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE TO ARRIVE AT THE STIPULATED REVENUE REQUIREMENT.

A. As I previously mentioned, the negotiations considered numerous issues that were of importance in arriving at the final recommended revenue requirement. The Company's Application included testimony and documents that supported a proposed overall increase of approximately $10.5 million in total non-fuel revenue. The Attorney General, following discovery and investigation, filed his expert testimony of Mr. Lane Kollen that supported a recommended increase of approximately $5.6 million. The Company (and the Commission) then had an opportunity to conduct further discovery and filed rebuttal testimony on January 22, 2019. This rebuttal testimony explained the Company's disagreement with many of the Attorney General's positions and calculations. That evidence formed the basis of the Parties' negotiations.

The Parties started with the specific items identified by the Attorney General's witness as the outline of issues to discuss regarding the overall revenue requirement calculation. These items included the following issues:

- Cash Working Capital Calculation;
- Use of Historic Average for Transportation Revenues;
- Inclusion of Intercompany No Notice Transportation Revenues;
- Reduction in Payroll Expense Net of Savings from Completion of AMI;
- Reduction in Payroll Tax Expense Net of Savings from Completion of AMI;
- Cost Savings Associated with Extension of Meter Testing Cycle from 10 to 15 Years;
- Incremental Integrity Management Not Included in Forecast, But Added in for Ratemaking;
- 401K Matching Costs for Union Employees Who Also Participate in Defined Benefit Plan;
- Pension and OPEB Expense in Test Year to Reflect Normalized 2019 Budget Expense;
- Other Employee Benefit Expense to Reflect Increased Employee Sharing of Premiums;
- Costs of Restricted Stock Units;
- Deferred Integrity Management Expense for Cost Overruns and Extend Amortization from 5 Years to 10 Years;
- Use of the Actual October 2018 Long-Term Debt Rate to Reflect Projected December 2018 Debt Issuances; and

- Return on Equity.

As was reflected in the Company's Rebuttal Testimony, filed on January 22, 2019, there were two adjustments that the Company agreed with the Attorney General. The Company opposed the remainder of the Attorney General's recommended adjustments as was described in the Company's Rebuttal Testimony. Through negotiations, the Company and the Attorney General were able to come to a reasonable compromise on each of these items, that on balance, represents a fair resolution of the issues in total. In the spirit of compromise, the Company was willing to accept a number of the Attorney General's adjustments in exchange for the Attorney General's acceptance of the Company's position on others. For some of the items, a balance and meeting of the minds was required to come to a reasonable resolution between the Parties. Attachment A to the Stipulation includes a detailed list of the agreed-upon adjustments that comprise the final proposed base revenue requirement.

Q. PLEASE EXPLAIN THE ISSUE OF CASH WORKING CAPITAL AND HOW IT WAS RESOLVED.

A. The Company's Application included a calculation for a Cash Working Capital allowance using the $1/8^{th}$ O&M methodology, as it has done for decades. The Attorney General, in his Direct Testimony, recommended a complete disallowance of $267,808 in the Company's revenue requirement reflecting the return impact of the Attorney General's witness recommending $0 Cash Working Capital because the Company did not perform a lead-lag study. As the Company explained in its Rebuttal Testimony of Sarah E. Lawler, the $1/8^{th}$ O&M method has been used by the Company and found reasonable and accepted by the Commission in prior cases. In settlement of this issue, the Parties agreed to the 1/8th O&M method and thus there is no disallowance made for Cash Working Capital.

Q. PLEASE EXPLAIN THE ISSUE OF THE USE OF HISTORIC AVERAGE OF TRANSPORTATION REVENUES AND HOW IT WAS RESOLVED.

A. Mr. Kollen recommended that the Company's revenue requirement be reduced by $165,579 based upon his disagreement with the Company's forecasted revenues for this particular rate class as compared to actual 2017 revenues. The Company explained its disagreement with Mr. Kollen's adjustment in the Rebuttal Testimony of Mr. Bruce Sailers. In summary, the Company believes this adjustment is unreasonable because it ignores the purpose of a forecasted test year, which is to predict anticipated costs and revenues for a future period and opportunistically adjusts a single item based upon historic sales that works in favor of reducing the Company's revenue requirement to the exclusion of all other similar historic data that would serve to increase the Company's revenue requirement. The point is that it is unreasonable and unfair to only focus on one such component to the exclusion of all other data. The Parties agreed, in the interest of compromise, that this adjustment for historic actual data should not be made and the forecasted data should be used.

Q. PLEASE DESCRIBE THE ISSUE OF NO NOTICE TRANSPORTATION REVENUES AND HOW IT WAS RESOLVED.

A. In his direct testimony, Mr. Kollen identified $603,445 in No Notice Transportation revenues that the Company did not include in its revenue requirement calculation and recommended a corresponding reduction in the base revenue requirement. In its rebuttal testimony, Duke Energy Kentucky agreed with this adjustment. This revenue was inadvertently omitted and should have been included. The Parties have agreed to reduce the Company's proposed increase in its base revenues by the entire $603,445 for this item as part of the settlement.

Q. PLEASE DESCRIBE THE ISSUES OF THE PAYROLL EXPENSE NET OF SAVINGS FROM COMPLETION OF AMI AND THE ASSOCIATED PAYROLL TAX EXPENSE AND HOW THEY WERE RESOLVED.

A. Mr. Kollen recommended an adjustment for payroll expense and the associated payroll tax indicating that the Company's total payroll cost and expense amounts are significantly greater in the test year compared to the actual amounts in prior calendar years, especially given the fact that the test year has been reduced to reflect the termination of meter reader positions due to the automated meter initiative. The net effect of his two adjustments were a reduction of $361,941 to the Company's revenue requirement. The Company disagreed with Mr. Kollen's adjustment for the reasons stated in the Rebuttal Testimony of Sarah Lawler. Ms. Lawler further explained that Mr. Kollen's calculation was incorrect as he adjusted the entirety of Account 902, which as Ms. Lawler explained, includes more than just payroll expense. As a result, Mr. Kollen's recommended adjustment was unreasonable. The Company provided the Attorney General with detailed information about the Account 902 information showing that it includes more than just payroll expense. A copy of that information is contained in Attachment WDW-SUPP-2.

Although the Company supports the validity of its projected payroll expense in the forecasted test year, in the spirit of compromise, the Parties agree to make the adjustment to reduce payroll expense and associated tax expense as was suggested by Mr. Kollen, but as corrected by Ms. Lawler. In total, these adjustments reduce the Company's test year O&M expense by $164,281.

Q. PLEASE EXPLAIN THE ISSUE OF METER TESTING CYCLE COST SAVINGS AND HOW THAT WAS RESOLVED.

A. The Company proposed in its application to align its natural gas meter testing cycle to the depreciable life of its AMI devices. This means moving the Company's natural gas testing cycle from the current ten-year cycle to fifteen years. There is a potential O&M cost savings of $340,000 that could occur because the Company will be performing these tests with less frequency. Mr. Kollen recommended that the Company's revenue requirement be adjusted to reflect this savings. In settlement, the Parties agreed that the meter testing cycle should be moved to fifteen years and that the corresponding reduction to the Company's revenue requirement for this anticipated savings be made. This adjustment is conditioned upon the Commission's approval of the requested waiver and testing cycle extension because this savings is only achievable with the fifteen-year testing program. Conversely, if the Commission denies the Company's request to move to a fifteen-year testing cycle, the settled revenue requirement would need to increase by $340,000 before gross-ups.

Q. PLEASE EXPLAIN THE ISSUE OF THE INCREMENTAL UNBUDGETED ONGOING INTEGRITY MANAGEMENT PROGRAM EXPENSE AND HOW THAT WAS RESOLVED.

A. Mr. Kollen recommended a disallowance of $1,065,488 in incremental integrity management program costs that the Company did not include in its initial forecasted budget. The Attorney General's position, among other things, was that these costs were not recurring. As explained in the Rebuttal Testimony of Mr. Gary J. Hebbeler, the Company opposed this adjustment and explained the need to perform these programs and that the reason these projects were not included in the Company's forecasted budget was simply due to the timing of when the forecasted budget was performed and when the analysis to determine what if any additional integrity management programs are necessary. Mr. Hebbeler further explained how these costs are ongoing and incremental to current programs and the Company identified these additional programs in discovery.[2]

In resolution of this issue, the Parties agreed that a compromise was necessary. The Parties agreed that an O&M adjustment of $532,744, half of the Company's requested $1,065,488 was reasonable. The effect of this compromise is a reduction to the Company's as-filed revenue requirement.

[2] STAFF-DR-02-030

Q. DOES THE REDUCTION IN INTEGRITY MANAGEMENT EXPENSE AGREED UPON IN SETTLEMENT MEAN THE COMPANY IS NOT GOING TO PERFORM NECESSARY INTEGRITY MANAGEMENT WORK?

A. Not at all. While the Company and the Attorney General did agree to a reduction in the Company's test year revenue requirement for these incremental integrity management program expenses as part of the compromise in the Stipulation, the need for these programs has not changed. The Company intends to implement each of these programs, albeit in a more measured approach in terms of timing of implementation to manage the costs consistent with the Stipulation. The Company is simply agreeing to a lower amount as an adjustment to base rates.

Q. PLEASE EXPLAIN THE ISSUE OF THE 401(K) MATCHING FOR UNION EMPLOYEES WHO ALSO PARTICIPATE IN A DEFINED BENEFIT PLAN AND HOW IT WAS RESOLVED.

A. Mr. Kollen recommended a reduction to the Company's test year revenue requirement to eliminate $296,111 from test year O&M related to matching expense for union employees who participate in both a 401(k) and a defined benefit plan. Duke Energy Kentucky opposed this adjustment for the reasons stated in the Rebuttal Testimony of Ms. Renee H. Metzler. As part of the settlement negotiations, Duke Energy Kentucky agreed to this adjustment, which results in a reduction to the Company's test year revenue requirement.

Q. PLEASE EXPLAIN THE ISSUE OF THE NORMALIZATION OF PENSION AND OPEB EXPENSE IN THE TEST YEAR AND HOW IT WAS RESOLVED.

A. On behalf of the Attorney General, Mr. Kollen recommended a reduction to the Company's pension and OPEB expense of $116,239 to reflect a "normalized" amount. Duke Energy Kentucky opposed this adjustment and explained the reasons why Mr. Kollen's adjustment was improper in the Rebuttal Testimony of Ms. Metzler. Specifically, the Company records its annual vacation accrual in December which causes that month to be higher than other months. Additionally, company matches for certain employee savings plans are front loaded in the beginning of the calendar year causing expense in the first three months of the calendar year to be higher. Thus, it is necessary to look at the full 12 months of data to ensure the year is properly stated. As part of the settlement negotiations, the Parties agreed not to make this adjustment and to accept the Company's forecast for OPEB expense in its Application.

Q. PLEASE EXPLAIN THE ISSUE OF EMPLOYEE SHARING OF BENEFIT EXPENSE PREMIUMS AND HOW IT WAS RESOLVED.

A. On behalf of the Attorney General, Mr. Kollen recommended a reduction to the test year O&M of $217,834 attributable to an imputed increase in employee cost sharing of benefit premiums. Duke Energy Kentucky opposed this adjustment as explained in the Rebuttal Testimony of Ms. Metzler. However, in the context of settlement and resolution of all issues in the case, the Company agreed to this adjustment but modified to exclude the adjustment amounts associated with long term disability and life insurance programs as agreed upon with the Attorney General. The modified adjustment resulted in a reduction to the test year O&M of $187,675. The effect is a reduction in the Company's revenue requirement.

Q. PLEASE EXPLAIN THE ISSUE OF RESTRICTED STOCK UNITS (RSUs) AND HOW IT WAS RESOLVED.

A. Duke Energy Kentucky included $284,472 in O&M expense for RSUs in its test year revenue requirement. As explained in the Company's direct and rebuttal testimony of Ms. Metzler, although RSUs are stock-based compensation; they are not based on the Company's financial performance, but rather, are a defined benefit amount that is solely tied to retaining high-performing employees. The award of RSUs has nothing to do with the financial performance of the Company. Mr. Kollen recommended the cost of RSUs be eliminated from the Company's revenue requirement. As part of this settlement, Duke Energy Kentucky and the Attorney General agreed upon the removal of the RSUs which results in a reduction in the Company's revenue requirement.

Q. PLEASE EXPLAIN THE ISSUES OF THE COMPANY'S DEFERRED INTEGRITY MANAGEMENT EXPENSE AND ITS AMORTIZATION AND HOW THEY WERE RESOLVED.

A. Duke Energy Kentucky was authorized to defer its actual costs for certain integrity management initiatives in Case No. 2016-00159. The actual cost of the pipeline pressure testing was $2.887 million. In the Company's Application in this case, it proposed to amortize this amount over five years without carrying costs. The Attorney General recommended a reduction to this deferred amount and to amortize the deferral over ten years, also without carrying costs. The net impact of the Attorney General's adjustment was a reduction of $358,885 in amortization expense included in the test year revenue requirement. Duke Energy Kentucky disagreed with this adjustment as explained by the Rebuttal Testimonies of Gary Hebbeler and Sarah Lawler.

As part of the settlement negotiations, Duke Energy Kentucky and the Attorney General have agreed that the Company should recover the actual costs of its pressure testing as it was authorized to defer by the Commission's Order in Case No. 2016-00159. Furthermore, the Company and the Attorney General agreed to Mr. Kollen's recommended ten-year amortization period, provided, however, that in order to recognize the time-value of money and the fact that extending the amortization period over ten years, would mean the Company would not fully recover its costs for more than 12 years after it first started incurring the expenses in 2016, carrying charges would be accrued on the unamortized balance of this regulatory asset at the Company's long-term debt rate and included in the revenue requirement calculation. This resulted in a reduction of $220,697 in amortization expense included in the test year revenue requirement.

Q. PLEASE EXPLAIN WHY THE INCLUSION OF CARRYING COSTS AT THE COMPANY'S LONG-TERM DEBT RATE IS REASONABLE?

A. From the shareholders' perspective, cash outlays should earn a return at the Company's overall weighted-average cost of capital. In the spirit of compromise, the Company agreed to the use of the long-term debt rate as a means to provide at least a minimal level of return for cash it has not yet recovered in rates. In the context of the overall settlement, the Company believes it to be a reasonable compromise.

Q. PLEASE EXPLAIN THE ISSUE RELATED TO THE UPDATE FOR COMPANY'S LONG-TERM DEBT RATE AND HOW IT WAS RESOLVED.

A. The Company's Application was prepared based upon a financial forecast that was performed in the second quarter of 2018, using a forecasted test year. The Company's Long-Term Debt Rate was *estimated* to be 4.398 percent based on actual outstanding debt at the time and assumptions about the magnitude and cost of debt issues expected to be made by the end of the forecasted test year. Mr. Kollen's testimony was prepared later in time, and he recommended that the long-term debt rate to be used in establishing test year revenue requirements reflect the impact of an actual debt issuance made after the Application was filed. Duke Energy Kentucky disagreed with Mr. Kollen's recommendation for the reasons described in the Rebuttal Testimony of Mr. Jack Sullivan. Although the Company generally opposes making selective adjustments to test year revenue requirements after an application is filed, the Company agreed to Mr. Kollen's recommendation as part of the overall settlement. The change reduces the interest expense component of the test year revenue requirement by $49,705.

Q. PLEASE DESCRIBE THE ISSUE OF THE COMPANY'S RETURN ON EQUITY AND HOW THAT WAS RESOLVED.

A. In its Application, Duke Energy Kentucky proposed a Return on Equity (ROE) of 9.90 percent as supported by the Direct Testimony and analysis of Roger A. Morin Ph.D. The Attorney General's witness, Mr. Kollen, recommended a ROE of 9.50 percent without performing any independent analysis. As part of the negotiation of this settlement, the Company and the Attorney General have agreed to an ROE of 9.70 percent. This ROE is consistent with recently approved ROEs by the Commission, including very close to the ROE authorized by the Commission for the Company's electric operations less than a year ago, and is within Dr. Morin's range of reasonable ROEs. The net impact of this ROE is a reduction to the return on equity component of the Company's as-filed revenue requirement by $426,684.

Q. ARE THERE ANY FLOW-THROUGH IMPACTS OF THE TERMS AGREED TO IN THE STIPULATION?

A. Yes. Most of the adjustments are subject to a gross up provision to account for Commission maintenance fees. In addition, the changes in O&M expense impact the calculation of the cash working capital component of rate base. These flow through adjustments are reflected in Attachment WDW-SUPP-1.

Q. PLEASE EXPLAIN HOW THE TOTAL AMOUNT OF THE INCREASE IN REVENUES AS PROPOSED IN THE STIPUALTION IS FAIR, JUST AND REASONABLE.

A. The amount of the increase agreed upon in the Stipulation is fair, just and reasonable because it is the result of a negotiated compromise, in consideration of all terms of the Stipulation by knowledgeable and capable Parties. By vigorously pursuing their respective positions, stakeholders, including customers, the Company, and its shareholders, were represented and their priorities were recognized and protected through the Stipulation. The initial revenue proposal by the Company and the Attorney General in this proceeding represented the best possible outcome based upon the facts, as understood by each of the Parties at the commencement of this case. Since that time, substantial data was exchanged and the Parties engaged in extensive negotiations to arrive at an outcome that is fair, just and reasonable to Duke Energy Kentucky's customers and its shareholders. The compromise of the revenue increase, rate design, and recovery of certain costs has resulted from these negotiations and reflects the best judgment of the Parties, including their respective experts, as to a fair resolution of all issues. The base rates agreed upon provide sufficient revenue for Duke Energy Kentucky to operate and provide safe, reliable and affordable natural gas service to its customers while also providing a fair return to its shareholders. The Stipulation as a total package provides a fair and reasonable outcome that the Commission should approve.

Q. WHAT EVIDENCE SHOULD THE COMMISSION CONSIDER THAT EACH CONSTITUENCY WAS VIGOROUSLY REPRESENTED IN THE NEGOTIATIONS THAT LED TO THIS SETTLEMENT?

A. The Parties supported their positions in the record through pre-filed direct and rebuttal testimony and the submission of, and responses to, numerous data requests. The Stipulation reveals the sincerity of the negotiations on all sides when compared to the initial positions supported. The result is that the Parties made appropriate concessions to ensure their priorities were reflected in the final compromise. Accordingly, the settlement must be viewed in its entirety rather than evaluated on the basis of any discrete term or issue. The Stipulation was negotiated in the context of an overall result, including the impact on customers and the Company's financial operation.

Q. PLEASE DESCRIBE THE ATTACHMENTS TO THE STIPULATION.

A. Attachment A to the Stipulation includes a detailed calculation of the revenue requirement comparing the Company's Application to the recommendations made by the Attorney General, and the ultimate agreement achieved. Attachment B includes two copies of the Company's proposed tariff rate sheets, showing the new rates and any language changes as proposed in the Company's application as modified through responses to discovery and agreed to in the Stipulation. The first copy shows the rates in a "tracked changes form" and the second version is in a clean form. Attachment C to the Stipulation is the proof of revenue sheets that provide an overview of the proposed distribution rates by service type with the total increase shown. Attachment D to the Stipulation is a revised allocation of the base revenue requirement to correct an error that was discovered in the cost of service allocation. The proposed base revenue allocation achieves the desired result of mitigating a portion of the subsidy/excess among the rate classes.

Q. ARE THERE ANY OTHER NOTEWORTHY ISSUES REGARDING THE PROPOSED TARIFFS?

A. Yes. Rider ASRP, which has been used in the past to recover costs associated with the Company's accelerated service replacement program, will be closed out and removed as proposed in the Company's Application. Because the Company is expecting to complete this program in 2019, Rider ASRP is being eliminated as referenced in the Company's Application.

Q. DO YOU HAVE AN OPINION REGARDING THE REASONABLENESS OF THE STIPULATION?

A. Yes. The Stipulation is the result of extensive negotiation among knowledgeable and capable parties. The Stipulation is a reasonable compromise that produces rates that are fair and in the best interests of all concerned. Duke Energy Kentucky requests that the Commission approve the Stipulation in its entirety and approve the minor tariff changes I have discussed above that were not specifically included in the Stipulation.

III. CONCLUSION

Q. WAS ATTACHMENT WDW-SUPP-1 AND WDW-SUPP-2 PREPARED BY YOU OR UNDER YOUR DIRECTION AND CONTROL?

A. Yes.

Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL TESTIMONY?

A. Yes.

VERIFICATION

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

The undersigned, William Don Wathen Jr., Director of Rates & Regulatory Strategy, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing supplemental testimony and that it is 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 30TH day of JANUARY, 2019.

NOTARIAL SEAL STATE OF OHIO

ADELE M. FRISCH
Notary Public, State of Ohio
My Commission Expires 01-05-2024

NOTARY PUBLIC

My Commission Expires: 1/5/2024

Duke Energy Kentucky
Case No. 2018-00261
Revenue Requirement Adjustments

		AG Position	Stipulation	
1	Duke Energy Kentucky Overall Revenue Requirement As Filed	$105,924,329	$105,924,329	As Filed Schedule M-2.3 (Forecast at Proposed Rates)
2	Revenue from Gas Cost Adjustment	36,334,174	36,334,174	
3	Revenue from Miscellaneous Services	75,818	75,818	
4	Revenue Required from Base Rates	$69,514,337	$69,514,337	
5	Adjustments			
6	$0 Cash Working Capital in Lieu of Lead/Lag Study	($267,808)	$0	
7	Set Transportation Revenue to Avg Historical	(165,579)	-	
8	Add Intercompany No Notice Transportation Service	(603,445)	(603,445)	
9	Increase in Misc Revenue from Reconnection Fees	-	(44,136)	
10	Reduce Payroll Expense Net of AMI	(333,883)	(151,546)	
11	Reduce Payroll Tax Expense Net of AMI	(28,058)	(12,735)	
12	Reduce O&M for Savings from Extending Meter Testing Cycle	(340,000)	(340,000)	
13	Exclude Integrity Management Adjustment to Budget	(1,065,488)	(532,744)	
14	Reduce 401k Matching for Union Employees also in Defined Pension	(296,111)	(296,111)	
15	Reduce Pension & OPEB to Reflect Normalized 2019 Expense	(116,239)	-	
16	Reflect Higher Employee Contribution for Benefit Premiums	(217,834)	(187,675)	
17	Eliminate RSUs	(284,472)	(284,472)	
18	Limit recovery of IM to original estimate and extend amort period	(358,885)	(220,697)	
19	Reduce LTD Rate to Reflect Actual 10/18 and Projected 12/18 Debt	(49,705)	(49,705)	
20	Reduce ROE to 9.5% from AG (9.7% for Settlement)	(841,680)	(426,684)	
21	Total Adjustments to Company's Proposed TY Expense/Revenue	(4,969,187)	(3,149,950)	
22	Adjustment to Cash Working Capital as a result of above changes to O&M*		(22,818)	
23	Adjustment for PSC Gross Up	(7,635)	(5,358)	
24	Total Adjustments to Company's Proposed TY Base Revenue Requirement	($4,976,823)	(3,178,125)	
25	Total AG Recommended Base Revenue Requirement	**$64,537,514**	**$66,336,212**	Stip Sch M-2.3, Row (13), Col (f)

* The Company uses the 1/8th O&M method to calculate Cash Working Capital.
Certain agreed-to adjustments reduce O&M and, consequently, reduces Cash Working Capital.

Duke Energy Kentucky
Account 902 Details
Year ended December 31, 2017

Resource Type	Description	2017 Actuals
11002	Labor-Union	200,742
12004	Overtime-Union	49,132
15002	Labor Other	5
18005	Unproduct Labor Alloc-Union	38,564
19500	Service Company Overhead	18
18000	Labor Overhead Allocations	264
18401	Incentives Allocated-Union	8,653
	Total Labor/Labor Related	**297,379**
21000	Direct Material/Inventory Cost	670
28002	Stores Loading	50
30000	Direct Purchases	14
31000	Direct Material Purchases	328
35000	Direct Mat/Purchases Accrual	0
36002	IT SOFTWARE MAINTENANCE	6,460
41001	Overtime Meals (Non Travel)	1,581
50000	Vehicle & Equip. Chargeback	54,549
63000	Contract/Outside Services NLBR	67,463
69000	Consultant	616
69500	Other Contracts	30,097
78000	Allocated S&E (Non-Labor)	8,762
	Total Non-labor	**170,591**