Rivers Electric Corporation ("BREC"), Atmos Energy Corporation ("Atmos"), and Columbia Gas of Kentucky, Inc.[1]

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Office of the Attorney General of the Commonwealth of Kentucky ("AG").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address and make recommendations on numerous rate base, revenue, expense, and rate of return issues that affect the Company's claimed revenue requirement and requested rate increase.

Q. Please summarize your testimony.

A. I recommend that the Commission increase the Company's base rates by no more than $5.596~~65~~ million compared to the Company's requested base rate increase of $10.542 million. ~~The Company's requested base rate increase includes the costs related to the accelerated service line replacement program ("ASRP"), which presently are recovered through Rider ASRP. If the Commission approves the Company's request to terminate Rider ASRP and includes the ASRP costs in the base revenue~~

[1] My qualifications and regulatory appearances are further detailed in my Exhibit___(LK-1).

~~requirement, then there will be an offsetting reduction in the Rider ASRP revenue requirement of approximately $3.4 million annually.~~[2] ~~If the Commission does not approve the Company's request to terminate Rider ASRP, then the requested base rate increase would be reduced to approximately $7.1 million, all else equal.~~[3]

In the following table, I summarize my recommendations and the effects on the Company's requested base rate increase~~, assuming that the Commission approves the Company's request to terminate Rider ASRP~~. I developed my adjustments in consultation with the AG, but I understand that the AG's final adjustments may differ based upon discovery, testimony and further evidence produced at the hearing.

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[2] ~~Response to First Supplemental AG-DR-1-013.~~

[3] ~~The effect of the roll-in of the ASRP costs and termination of Rider ASRP is approximate because the revenue requirement in the present Rider ASRP is based on a forecast test year ending December 31, 2019, while the forecast test year in this proceeding is the twelve months ending March 31, 2020.~~

Duke Energy Kentucky, Inc. Gas Division
Summary of Attorney General Recommendations
KPSC Case No. 2018-00261
Test Year Ended March 31, 2020
$ Millions

	Before Gross-Up Amount	B/D and PSC Gross-up	Adjustment Amount
Duke Energy Kentucky, Inc. - Gas Division Requested Base Rate Increase (Includes Roll-In of ASRP)			$ 10.542
Effects on Increase of AG Rate Base Recommendations			
Set Cash Working Capital to $0 in Lieu of Properly Performed Lead/Lag Study			(0.268)
Effects on Increase of AG Operating Income Recommendations			
Increase Transportation Revenues to Historic Average	(0.166)	1.002	(0.166)
Include Intercompany No Notice Transportation Revenues	(0.603)	1.002	(0.605)
Reduce Excessive Increase in Payroll Expense Net of Savings from Completion of AMI	(0.334)	1.002	(0.335)
Reduce Excessive Increase in Payroll Tax Expense Net of Savings from Completion of AMI	(0.028)	1.002	(0.028)
Reflect Cost Savings Associated with Extension of Meter Testing Cycle from 10 to 15 Years	(0.340)	1.002	(0.341)
Exclude Expenses for Integrity Management Not Included in Forecast, But Added In for Ratemaking	(1.065)	1.002	(1.068)
Reduce 401K Matching Costs for Union Employees Who Also Participate in Defined Benefit Plan	(0.296)	1.002	(0.297)
Reduce Pension and OPEB Expense in Test Year to Reflect Normalized 2019 Budget Expense	(0.116)	1.002	(0.116)
Reduce Other Employee Benefit Expense to Reflect Increased Employee Sharing of Premiums	(0.218)	1.002	(0.218)
Remove Costs of Restricted Stock Units	(0.284)	1.002	(0.285)
Reduce Def Integrity Mmt Exp for Cost Overruns and Extend Amort from 5 Years to 10 Years	(0.359)	1.002	(0.360)
Effects on Increase of AG Rate of Return Recommendations			
Reduce LTD Rate to Reflect Actual October 2018 and New Projected December 2018 Debt Issuances			(0.050)
Reflect Return on Equity of 9.50%			(0.842)
Total AG Recommendations			$ (4.977)
Base Rate Increase after AG Recommendations			$ 5.565

Duke Energy Kentucky, Inc. Gas Division
Summary of Attorney General Recommendations
KPSC Case No. 2018-00261
Test Year Ended March 31, 2020
$ Millions

	Before Gross-Up Amount	B/D and PSC Gross-up	Adjustment Amount
Duke Energy Kentucky, Inc. - Gas Division Requested Base Rate Increase (Includes Roll-In of ASRP)			$ 10.542
Effects on Increase of AG Rate Base Recommendations			
Set Cash Working Capital to $0 in Lieu of Properly Performed Lead/Lag Study			(0.268)
Effects on Increase of AG Operating Income Recommendations			
Increase Transportation Revenues to Historic Average	(0.166)	1.002	(0.166)
Include Intercompany No Notice Transportation Revenues	(0.603)	1.002	(0.605)
Reduce Excessive Increase in Payroll Expense Net of Savings from Completion of AMI	(0.334)	1.002	(0.335)
Reduce Excessive Increase in Payroll Tax Expense Net of Savings from Completion of AMI	(0.028)	1.002	(0.028)
Reflect Cost Savings Associated with Extension of Meter Testing Cycle from 10 to 15 Years	(0.340)	1.002	(0.341)
Exclude Expenses for Integrity Management Not Included in Forecast, But Added In for Ratemaking	(1.065)	1.002	(1.068)
Reduce 401K Matching Costs for Union Employees Who Also Participate in Defined Benefit Plan	(0.296)	1.002	(0.297)
Reduce Pension and OPEB Expense in Test Year to Reflect Normalized 2019 Budget Expense	(0.116)	1.002	(0.116)
Reduce Other Employee Benefit Expense to Reflect Increased Employee Sharing of Premiums	(0.188)	1.002	(0.188)
Remove Costs of Restricted Stock Units	(0.284)	1.002	(0.285)
Reduce Def Integrity Mmt Exp for Cost Overruns and Extend Amort from 5 Years to 10 Years	(0.359)	1.002	(0.360)
Effects on Increase of AG Rate of Return Recommendations			
Reduce LTD Rate to Reflect Actual October 2018 and New Projected December 2018 Debt Issuances			(0.050)
Reflect Return on Equity of 9.50%			(0.842)
Total AG Recommendations			$ (4.947)
Base Rate Increase after AG Recommendations			$ 5.596

I recommend that the Commission exercise a healthy skepticism and critically review the reasonableness of the assumptions made and the methodologies employed by the Company to project rate base components, revenues, expenses, and cost of capital in the forecast test year. These assumptions and methodologies result in forecast revenues, expenses, and costs that cannot be verified against actual accounting records in the forecast test year. I recommend that the Commission make various adjustments necessary to ensure that the revenue requirement is reasonable.

The remainder of my testimony is structured to sequentially address each of the issues identified and quantified on the preceding table.

Q. What is your recommendation?

A. I recommend that the Commission assume that the normalized pension and OPEB expense included for the first eight months of the test year will continue for the last four months of the test year.

Q. What is the effect of your recommendation?

A. The effect is a reduction in pension and OPEB benefits expense of $0.116 million and a reduction in the revenue requirement of $0.116 million.

H. Reduce Other Employee Benefits Expense to Reflect Increased Employee Sharing of Premiums

Q. Did the Company adjust its other employee benefits expense to reflect increased employee sharing of premiums, consistent with the Commission's recent precedent?

A. No. The Commission precedent is to provide recovery of medical insurance premiums based on the assumption that the employee pays 21 percent of the total cost for single coverage and 33 percent of the total cost for all other types of coverage, and to provide recovery of dental insurance premiums based on the assumption that the employees pays 60 percent of the total cost of coverage~~, and to provide no recovery for long-term disability insurance premiums~~.

Q. What is the effect of reducing the employee benefits expense to reflect these adjustments, consistent with prior Commission Orders?[37]

A. The effect is a reduction in employee benefits expense of $0.188~~218~~ million and a reduction in the revenue requirement of $0.188~~218~~ million. The reduction in expense consists of a reduction of $0.167 million in medical insurance expense, and a $0.021 million reduction in dental insurance expense~~, and a $0.030 million reduction in long-term disability insurance and life insurance over $50,000~~.[38]

I. Remove Restricted Stock Units Incentive Compensation Expense

Q. Describe the restricted stock units ("RSU") incentive compensation expense included in the test year.

A. The Company included $0.284 million in RSU incentive compensation expense in the test year.[39] The RSU incentive compensation expense is included within the Duke Energy Long Term Incentive ("LTI") Plan, which is "generally reserved for members

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[37] Order, Case No. 2017-00374, *In Re Application of Big Sandy Rural Electric Cooperative Corporation for a General Adjustment of Existing Rates* (Ky. PSC Apr. 26, 2018) at 6; Order, Case No. 2017-00420, *In Re Application of South Hopkins Water District for an Alternative Rate Adjustment*, (Ky. PSC Mar. 30, 2018) adopting Commission Staff report filed Feb. 19, 2018 at 8-9; Order, Case No. 2016-00365, *In Re Application of Farmers Rural Electric Cooperative Corporation for an Increase in Retail Rates* (Ky. PSC May 12, 2017) at 5-7.

[38] Response to Staff-DR-2-005. I have attached a copy of the response to Staff 2-005 as my Exhibit___(LK-11).

[39] Response to AG-DR-1-068 confirms that the Company did not remove the RSU incentive compensation expense. Response to AG-DR-1-066 provides the amount included in the test year. I have attached a copy of the response to AG-DR-1-066 as my Exhibit___(LK-12).

Q. Describe the cost of the projected 2018 debt issuances reflected in the Company's calculation of the weighted average cost of long-term debt.

A. The Company proposes a cost of long-term debt of 4.398% in the test year. This cost of long-term debt includes a forecast $50 million issuance of ten-year long-term debt in September 2018 at an estimated cost of 4.41% and a forecast $50 million issuance of thirty-year long-term debt at an estimated cost of 4.69%.[49]

Q. Describe the actual cost of the actual and revised projected 2018 debt issuances and the effect on the calculation of the weighted average cost of long-term debt.

A. The actual and revised projected 2018 debt issuances result in a cost of long-term debt of 4.36% in the test year.[50] This cost of long-term debt includes an actual $25 million issuance of five-year long-term debt in October 2018 at an actual cost of 4.12%, an actual $40 million issuance of ten-year long-term debt in October 2018 at an actual cost of 4.24%, and a revised projected issuance of $35 million of thirty-year long-term debt in December 2018~~9~~ at an estimated cost of 4.66%.[51]

[49] Staff-DR-01-071_Attachment (1) tab SCH_J3-Forecast.
[50] Response to AG-DR-1-006. I have attached a copy of this response as my Exhibit___(LK-15).
[51] *Id.*