COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|---|
| ELECTRONIC APPLICATION OF DUKE ENERGY | ) | |
| KENTUCKY, INC. FOR AUTHORITY TO 1) ADJUST | ) | |
| NATURAL GAS RATES 2) APPROVAL OF A | ) | CASE NO. |
| DECOUPLING MECHANISM 3) APPROVAL OF NEW | ) | 2018-00261 |
| TARIFFS 4) AND FOR ALL OTHER REQUIRED | ) | |
| APPROVALS, WAIVERS, AND RELIEF | ) | |

## ATTORNEY GENERAL'S INITIAL DATA REQUESTS

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), and submits these Initial Data Requests to Duke Energy Kentucky, Inc. ("DEK" or the "Company") to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Identify the witness who will be prepared to answer questions concerning each request.

(3) Repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel with an electronic version of these questions, upon request.

(4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If you believe any request appears confusing, request clarification directly from Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, identify each variable contained in the printout which would not be self-evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, notify the Office of the Attorney General as soon as possible.

(10) As used herein, the words ''document'' or ''documents'' are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports; memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings

and caution/hazard notices or labels; mechanical and electronic recordings and all information so stored, or transcripts of such recordings; calendars, appointment books, schedules, agendas and diary entries; notes or memoranda of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information regardless of the media or format in which they are stored, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the control of the company, state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

(14) "And" and "or" should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise.

(15) "Each" and "any" should be considered to be both singular and plural, unless specifically stated otherwise.

Respectfully submitted,

ANDY BESHEAR
ATTORNEY GENERAL

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*Certificate of Service and Filing*

Counsel certifies that: (a) the foregoing is a true and accurate copy of the same document being filed in paper medium; (b) pursuant to 807 KAR 5:001 § 8(7), there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and (c) the original in paper medium is being filed with the Commission no later than the second day after this electronic filing. I further certify that the foregoing is being contemporaneously provided via electronic mail to:

Hon. L. Allyson Honaker
Allyson@gosssamfordlaw.com

Hon. David S. Samford
David@gosssamfordlaw.com

Rocco O. D'Ascenzo
Rocco.D'Ascenzo@duke-energy.com

This 10th day of October 2018

______________________
Assistant Attorney General

## General

1. Provide a trial balance of all income statement and balance sheet accounts and subaccounts for each month January 2016 through the most recent month for which actual data is available. Provide a detailed description of the costs included in each account not specifically listed in the FERC Uniform System of Accounts ("USOA"), including all subaccounts whether listed in the USOA or not.

2. Provide an electronic copy, with all formulas intact, of all workpapers utilized by the witnesses in the filing of the instant case, which have not already been provided. This includes, but is not limited to, all schedules and supporting workpapers used in the depreciation study presented by Mr. Spanos in Attachment JJS-1 including Table 1 and pages VI-4, VI-5, VIII-2, and VIII-3.

3. Provide a schedule of the earnings on common stock and the dividends paid by DEK to Duke Energy, its parent company, by month from December 2015 through March 2020.

4. Confirm that dividends are paid in arrears from earnings in the prior quarter. For example, dividends paid in April are paid from earnings in January through March. If this is not correct, then provide a correct statement.

5. Refer to the summation of revenues and expenses provided on cell rows 182 through 208 on the Base Period tab in the Company's Excel workbook provided in response to Staff 1-71. Refer also to the Forecasted Period tab in the same workbook. Provide the same summations on the Forecasted Period tab as provided on the Base Period tab in electronic format with all formulas intact.

6. Refer to lines 25 and 26 Future Debentures on the Sch-J3 – Forecast tab in the Excel workbook provided in response to Staff 1-71. Provide a revised schedule that includes the actual debt issuances in September 2018 in lieu of the projected.

7. Reference the testimony of William Don Wathen Jr., page 6. Did DEK earn in excess of its approved 10.375% return on equity in any year since its 2009 rate case?

8. Provide copies of the Annual Reports of the American Gas Association ("AGA") and of every other organization which require the Company to pay dues [hereinafter collectively referred to as the "Dues Requiring Organizations"] for calendar year 2017. If not available, provide the most recent annual report that is available.

9. For each Dues Requiring Organization, provide the amount of dues the Company is asking to be recovered from customers, and the amount recovered from shareholders.

10. Provide a copy of the formula(s) used to compute, and the actual calculation of the dues the Company paid to each Dues Requiring Organization since the end of calendar year 2017.

    a. Provide the same information for the forecasted test period.

11. Provide a complete copy of invoices received from each Dues Requiring Organization for calendar year 2017 and to date in 2018.

12. Provide any documents in the Company's possession that depict how each Dues Requiring Organization spends the dues it collects, including the percentage that goes to the following categories : legislative advocacy; legislative policy research; regulatory advocacy; regulatory policy research; advertising; marketing; utility operations and engineering; finance; legal; planning and customer service; and public relations and/or public affairs.

13. Provide a detailed description of the services each Dues Requiring Organization provided to the Company since the end of 2017, and a description of the services that will be provided during the forecasted test year. Of these services or benefits, identify what benefits accrue to ratepayers, and how.

14. Provide copies of all work product which each Dues Requiring Organization provided to the Company during the years in question, including (but not limited to): presentations; webinar recordings; briefing books; meeting minutes; policy memos; white papers; etc. If DEK asserts a privilege as to any such document, provide a privilege log that states the privilege, the grounds for asserting the privilege, and a description of the item.

15. Has DEK included in operating expenses any amount for media communications attributed to: (i) the AGA, or (ii) any similar division of any other Dues Requiring Organization?

    a. If so, state the amount, indicate in which account this has been recorded, and provide a citation to any and all Commission Orders or other authority upon which DEK relies for the inclusion of such expense in the test period.
    b. If not, provide an estimate of how much of the Company's dues are being spent on media or public relations work.

16. State whether DEK is aware whether any portion of the dues it pays to any Dues Requiring Organization are utilized to pay for any efforts to influence federal or Kentucky state legislation.

17. Do the Company's dues paid to any Dues Requiring Organization contribute to the salary, benefits and expenses of any Dues Requiring Organization officer or employee

working in the areas of Public Policy and/or External Affairs? If so, provide a breakdown of how much of DEK' dues contributed to these salaries, benefits and expenses.

18. List all travel and entertainment expenses included in the test period by Company employees in relation to Dues Requiring Organization activities. Show accounts, amounts, descriptions, person, job title and reason for the expense. Provide a copy of applicable employee time and expense reports and invoices documenting such expenses.

19. Is DEK relying upon any NARUC reports or other studies for the exclusion from or inclusion in rates of a portion of its dues payable to AGA, or to any other Dues Requiring Organization? If so, provide a copy of such report and indicate how the report's recommendations have been included in DEK's filing.

20. Do any of the Company's personnel actively participate on Committees and/or do any other work for any Dues Requiring Organization or any other industry organization to which the Company belongs, including but not limited to AGA?

    a. If so, state specifically which employees participate, how they are compensated for their time (amount and source of compensation), and the purpose and accomplishments of any such association-related work.
    b. List any and all reimbursements received from industry associations, for work performed for such organizations by Company employees.

21. State whether any portion of the Company's dues paid to the AGA or to any other Dues Paying Organization are used by that organization for any of the following:

    a. public affairs and/or lobbying;
    b. media communications and national advertising;
    c. institutional advertising to enhance the image of the gas industry;
    d. general promotional advertising to promote the use of natural gas over other resources;
    e. gas-fired equipment promotions, including residential equipment such as furnaces, ranges, water heaters, and commercial and industrial gas equipment;
    f. promotions of power generation gas equipment.

22. Reference the Spiller testimony p. 15, lines 19-21. Provide examples of how "Duke Energy Kentucky now benefits from a larger pool of natural gas expertise, which enhances our ability to provide safe, reliable, adequate, reasonable, and affordable natural gas service."

23. Regarding Duke Energy's acquisition of Piedmont Gas:

   a. Were any costs associated with the Piedmont acquisition pushed down to DEK? Provide a complete explanation.
   b. Will Duke Energy and/or any of its affiliates perform any audits over the next several years to determine whether any Piedmont acquisition costs were pushed down to DEK? If not, why not? If so, will the results of the audits be filed in the publicly-accessible post-case files once this docket is closed?
   c. Were any economies of scale and/or synergies passed on to DEK? If not, why not? Were any economies of scale/scope and/or synergies identified for DEK which did not materialize? If so, provide a complete discussion.
   d. Discuss whether DEK ratepayers have benefited from the Piedmont acquisition, and if so, exactly how. Have any Piedmont personnel been transferred into DEK gas operations?
   e. Have there been any synergies in gas storage / procurement that have been shared with DEK? If so, explain in detail. If not, why not?
   f. As a result of the Piedmont acquisition, was DEK exposed to any increased costs for shared corporate services that it otherwise would not have had to face but for the acquisition?
   g. Did the Piedmont acquisition result in any changes in accounting principles for DEK? If so, please summarize the change(s), and identify the impact on DEK ratepayers, whether direct or indirect, if any.
   h. Did DEK experience any substantive changes in any existing contracts with vendors (e.g., engineering, information technology, maintenance, etc.)? If so, please summarize the changes.
   i. As a result of the Piedmont acquisition, was DEK required to guarantee the debt of any other subsidiary, affiliate, or holding company in the Duke Energy family of companies? If "yes," please provide complete details.
   j. As a result of the Piedmont acquisition, was DEK required to grant liens or other encumbrances against its own assets in favor of any lender(s) providing financing or any portion of financing necessary for the merger to occur? If "yes," please provide complete details.
   k. Did the Piedmont acquisition result in any write-ups, write-offs, or a restatement of financial results of DEK, its parent entity, or that of its affiliates? If so, discuss in complete detail.

24. Reference the Spiller testimony p. 16, regarding the completed Big Bone pipeline project. Has the company obtained any new reliability metrics since the completion of the project? If so, provide copies of any and all such data.

25. Confirm that Duke Energy Ohio ("DEO") and Duke Piedmont routinely enter into long-term natural gas supply commodity and capacity agreements, and engage in joint gas supply planning, procurement, and other operations. State whether DEK also participates.

26. State whether DEO and DEK own and operate any joint gas transmission and/or storage facilities. If not, state whether any studies have been performed regarding this subject, and provide copies of same.

27. Provide copies of any and all studies DEK, and/or any of its affiliates may have conducted regarding potential synergies and cost savings that could be achieved from joint operation of gas facilities.

**Rate Base vs Capitalization Methodology**

28. Refer to the Direct Testimony of Ms. Lawler at p. 5 wherein she describes the switch to using rate base in the determination of the revenue requirement instead of capitalization as was used in the prior rate case.

    a. Other than the reconciliation of the two methodologies provided in Attachment WDW-2 and in 807 KAR 5:001, Section 16(6)(f), provide copies of all analyses, notes, letters, memoranda, or other comparing or discussing the two methodologies and documenting the reasons for the methodology change.
    b. Confirm that DEK used capitalization in its most recent adjustment of electric base rates, Case No. 2017-00321.

**Rate Base**

29. Refer to SCH B-2.3 tab in the Company's Excel workbook provided in response to Staff 1-71. Provide the beginning plant balance, additions, retirements, and ending plant balance for each plant account for each month from December 2017 through March 2020, including the transition months between the Base Period and Forecasted Period.

30. Refer to line 88 Retirement Work in Progress on SCH B-3.2 - Proposed Rate tab in the Company's Excel workbook provided in response to Staff 1-71. Describe the Company's retirement work in progress accounting, including illustrative accounting entries and the approximate timing of those entries if they are not all simultaneous.

31. Confirm that all accounting entries for deferred tax expense reflect an offsetting and equal entry to accumulated deferred income taxes.

32. Confirm that the tax depreciation deduction pursuant to MACRS is calculated using a mid-year convention unless special timing rules apply that trigger quarterly or monthly calculations. If this is not correct then provide a correct statement.

33. Confirm that all accounting entries for depreciation expense reflect an offsetting and equal entry to accumulated depreciation.

34. Confirm that depreciation expense is first calculated on plant additions in the month following the addition. If this is not correct, then provide a correct statement.

35. Provide the accounts payable for each month from December 2016 through March 2020 in total and separated into construction/plant and expense.

36. Reference FR(7)(h) Attachment, page 11 of 13. Confirm that Cash Working Capital ("CWC") was calculated using a 1/8 O&M expense methodology.

    a. Explain, in complete detail, why a company with the sophistication and resources of DEK would rely on an outdated formula to produce a generic cash working capital amount when it could perform a lead/lag study that properly accounts for the actual cash working capital levels and timing DEK has historically experienced?

37. Provide a copy of each of Duke Energy's most recent CWC studies from each of its jurisdictions that use the lead/lag study approach.

38. Provide a CWC study for the Company using the lead/lag study approach or explain why the Company cannot do so for this proceeding. Provide all workpapers and calculations, including electronic spreadsheets in live format with all formulas intact.

39. Provide the month end balances for the following working capital subaccounts for each month during 2016, 2017, and 2018 to date:

    151126
    151700
    154100 Gas
    154102
    154410
    164100
    163110 Gas
    165075 Gas

40. Reference FR 16(7)(b) Attachment, Page 1 of 1.
    a. Provide a breakout of "NORMAL RECURRING CONSTRUCTION" for years 2017, 2018, 2019 and 2020.
    b. Explain whether DEK requested and received a CPCN for the project on Line No. 3, "G7UL02PH1/UL02 Bypass Loop Phase 1. If not, why not?
    c. Confirm that DEK recovers its ASRP capital expenditures through a separate rider.
        i. Does DEK's ASRP reflect the reduction in O&M expense realized from the capital expenditures and improvements as an offset to the charge?
        ii. If not, why not?
        iii. Confirm that a benefit from the ASRP is a reduction in recurring O&M expense.

**Revenues**

41. Refer to cell row 75 account 489000 Transp Gas of Others on the Base Period tab and cell row 76 account 489000 Transp Gas of Others on the Forecasted Period tab in the Company's Excel workbook provided in response to Staff 1-71.

    a. Provide a 3-year monthly history of the actual revenues in this account from December 2014 through November 2017.
    b. Provide a schedule showing the derivation of these transportation revenues in the base year and forecast year and the months in between the base year and forecast year, including the volumes transported and the transportation tariff rates.
    c. Provide the Company's forecast of transportation volumes for the budget months in the base year and the forecast year, and the months in between the base year and forecast year, including all models, inputs, data, assumptions, and reports and/or analyses of the results.
    d. Provide a detailed explanation for the reduction in these revenues in the test year compared to the base year.

42. Refer to cell row 62 account 480000 Residential Sales – Gas through cell row 69 account 482090 Gas OPA Unbilled on the Base Period tab and cell row 63 account 480000 Residential Sales – Gas through cell row 70 account 482090 Gas OPA Unbilled on the Forecasted Period tab in the Company's Excel workbook provided in response to Staff 1-71.

    a. Provide a schedule that disaggregates the revenues in each of these accounts for each month from December 2017 through March 2020 into separate tariffs, including, but not limited to, base, GCA, ASRP, etc.
    b. Provide the sales volumes for each month from December 2017 through March 2020, including the net change in unbilled revenues each month.

43. Refer to cell row 76 account 489010 IC Gas Transp Rev Req on the Base Period tab and cell row 77 account 489010 IC Gas Transp Rev Req on the Forecasted Period tab in the Company's Excel workbook provided in response to Staff 1-71.

    a. Describe the revenues that are recorded in this account.
    b. Explain why there are actual revenues from December 2017 through May 2018 included in the Base Period, but no budget revenues thereafter in the remaining months of the Base Period and no budget revenues in the Forecasted Period.

44. Refer to cell rows 182 through 208 on the Base Period tab that summarize the base period revenues and expenses in the Company's Excel workbook provided in response to Staff 1-71. Provide a similar summary for the Forecasted Period tab for each month April 2019 through March 2020 and for the transition period December 2018 through March 2019.

**<u>ASRP Roll-In to Base Rates</u>**

45. Refer to the Direct Testimony of Mr. Hebbeler at 17-18 regarding the roll-in of ASRP costs into base rates. Provide a schedule showing all costs and revenues rolled into the calculation of the revenue requirement in the instant case. If identified in the filing, cite location(s). If not rolled-in in the instant case, so state.

46. Refer to the Direct Testimony of Mr. Hebbeler at 17-18 regarding the roll-in of ASRP costs into base rates. Provide a copy of the most recent ASRP filing used to set rates and reconcile that filing with the costs included in the calculation of the revenue requirement in the instant case.

47. Refer to the Direct Testimony of Mr. Hebbeler at 17-18 regarding the roll-in of ASRP costs into base rates. Provide a copy of the most recent forecast of ASRP expenditures through the end of the program and compare the costs forecast with the original forecast costs at the start of the program.

**<u>Integrity Management Plan</u>**

48. In Case No. 2016-00159, the Company sought authorization to defer the costs associated with gas main pressure testing in order to maintain Duke Kentucky's natural gas pipeline systems' historic MAOP in accordance with federal regulations.

    a. Confirm that in its Application in that proceeding, the Company requested $1,920,600.
    b. Confirm that the Company sought an increase in this amount to $2,185,381 in its response to Staff 1-3(a) in that proceeding.

c. Confirm that the Company actually deferred $2,887,117, the amount that it has included in its request in this proceeding (see SCH_D2.17 in Excel workbook provided in response to Staff 1-71 in this proceeding).

d. Indicate whether the Company sought an increase in its requested deferral from $2,185,381 to the $2,887,117. If so, identify the Case No. If not, indicate why it did not.

e. Provide a schedule comparing the original request of $1,920,600, the revised amount of $2,185,381, and the actual amount of $2,887,117 by cost component, including, but not limited to, contract labor, internal labor, and materials and supplies. Provide a detailed explanation for the increases in each component from the original request to the revised amount and from the revised amount to the actual amount.

f. Indicate if the internal labor was incremental to the internal labor expense included in the Company's base revenue requirement in Case No. 2009-00202. Provide all support for your response.

49. Refer to Schedule D-2.17 and the Direct Testimony of Ms. Lawler at 9 regarding the Company's proposal to recover costs associated with the Integrity Management program previously authorized by the Commission in Case No. 2016-00159 over 5 years.

a. Provide a detailed listing of all costs that were deferred by month by FERC account summing to $2,887,115.

b. Provide a justification for using a 5-year amortization period compared to a longer period of time, considering the types of costs that were incurred and deferred.

c. Provide the remaining depreciable life of the three-mile segment of the transmission pipeline, AM07, at issue in Case No. 2016-00159.

50. Refer to Schedule D-2.20, supporting WPs, and the Direct Testimony of Ms. Lawler at 10-11 regarding the $1,065,488 in costs associated with the Integrity Management program added that had not been included in the forecast test year.

a. Provide the costs associated with the Integrity Management program that had been included in the forecast test year budget. Break out the costs by the various types of costs for ratemaking purposes, including rate base, O&M expenses, and other.

b. For each of the expenses listed, provide an explanation as to why these amounts should be added to the forecast test year.

51. Refer to the Direct Testimony of Mr. Hebbeler at 27 regarding the additional DIMP and TIMP compliance work that will involve significant new O&M costs. For such programs, provide the estimate of costs required for the referenced new O&M activity

and describe the adjustments made to the estimate of O&M costs performed for purposes of this case by FERC account.

**Other O&M Expenses**

52. Provide a schedule showing per books actual O&M expenses by month and by FERC O&M/A&G expense account/subaccount from January 2016 through the most recent month for which actual expense is available and projected for each month thereafter through the end of the test year. Further, show the amounts separated into costs incurred directly by DEK, charges from DEO, charges from DEBS, charges from any other affiliate, less any charges from DEK to any other affiliate.

53. Refer to the response to the immediately preceding question.

    a. Provide a schedule for each month that further details the charges from DEBS by FERC expense account/subaccount into directly assigned and allocated. For those charges that are allocated, provide the total DEBS expense, the allocation factor utilized, and the amount charged to DEK.
    b. Provide a schedule for each month that further details the charges from DEO by FERC expense account/subaccount into directly assigned and allocated. For those charges that are allocated, provide the total DEO expense, the allocation factor utilized, and the amount charged to DEK.

54. Refer to Schedule G-1. The schedule depicts that total payroll related costs included in the base year is $11.505 million and the total payroll related costs included in the test year is $12.949 million. Explain all reasons why the test year payroll costs are expected to increase over the base year by almost 13%. If the increase relates to new program costs being included in base rates, please describe and explain.

55. Provide a schedule of payroll costs included in 2017, the base year, and the test year, broken down between expense, capitalized and other deferred.

56. Refer to Schedule C-2 at line 19, Distribution Expense. The schedule depicts that the total of these costs included in the base year is $9.972 million and the total included in the forecast test year is $11.942 million before quantified proforma adjustments. Explain all reasons why the test year distribution costs are expected to increase over the base year by almost 20%. If the increase relates to new program costs being included in base rates, please describe and explain.

57. Reference the testimony of Gary J. Hebbeler, pages 25-26, wherein he discusses reduced O&M expense due to the completion of its advanced metering infrastructure by the end of 2018. Mr. Hebbeler states meters will lead to costs savings, and thus a

"reduction in O&M expense . . . that all customers will eventually experience through Duke Energy Kentucky's rates."

a. Confirm that this matter is styled as a rate case.
b. Confirm that DEK's natural gas advanced metering infrastructure will be completed prior to the test-year in this matter.
c. Confirm that the capital employed in completing the natural gas advanced metering infrastructure has been proposed as an addition to rate base in this matter.
    i. Provide the location in this Application evidencing the inclusion in rate base of the natural gas advanced metering infrastructure.
    ii. Confirm that all one-time O&M expense employed in installing the natural gas advanced metering infrastructure has been removed from the test-year for ratemaking purposes.
d. Explain why DEK, and not its customers, should see the savings resulting from any O&M expense reduction due to advanced metering infrastructure between the proposed effective date in this case and DEK's next natural gas base rate case.
e. Explain in detail what Mr. Hebbeler meant when he says that cost savings will translate into O&M expense reductions that customers will "eventually" experience through rates. Any response should detail Mr. Hebbeler's use of the term "eventually" and the meaning of the term as used in this context.

58. Reference the testimony of Gary J. Hebbeler, page 27, wherein he discusses that in completing the O&M budget the "Gas Operations also analyzes whether there are any new O&M activities or requirements that will occur in future years that are not reflected in previous years' costs." Explain whether Gas Operations analyzes whether there are any O&M activities in previous years that will not occur in future years and thus, will not be reflected in budgets.
    a. If these previously incurred, but not ongoing, costs were identified and removed for budget purposes, identify all such costs accordingly.
    b. If no previously incurred, but not ongoing, O&M costs were removed for budget purposes, state same.
    c. Have any capital projects reduced O&M expense related to the underlying system with in the past year? If so, have these system O&M expenses been removed for budgeting purposes?

59. Reference Schedule F-1. Provide a schedule or workpaper breaking out the forecasted expenses provided in line 1-11 & 19. Any response should clearly explain the basis for each forecasted expense under the category "Various Budgeted Items."

60. Reference the testimony of Robert H. "Beau" Pratt, pages 20-21. Explain how "projected annual labor costs rate increases" are known and measurable, particularly those that are "non-union"?

61. Reference the testimony of Robert H. "Beau" Pratt, page 25, wherein he states, "The forecasted data reflects all expected productivity and efficiency gains. Provide the "productivity and efficiency gains" that the forecasted data reflects and explain, in complete detail, how Mr. Pratt is able to confidently represent to the Commission that the entirety of those gains are reflected in the data.
    a. Is Mr. Pratt's comment an indication that no additional productivity and efficiency gains could possibly be gained or identified in the forecasted test period?

62. Reference FR(7)(h) Attachment, page 1 of 13. Explain, in complete detail, why Operation and Maintenance expense, located on Line 9, decreases more than $13,000,000 between 2018 and 2019, and increases again more than $9,000,000 between 2019 and 2020.

63. Reference the testimony of William Don Wathen Jr., page 7. In addition to meter reading expenses (Account 902), what other expense reductions are there in the test year resulting from the installation of meters resulting from Case No. 2016-00152?

**<u>Incentive Compensation</u>**

64. Identify and provide a copy of each incentive compensation plan that will be in effect at Duke Energy Business Services, LLC ("DEBS"), DEO, and/or the Company during the test year in addition to those attached as exhibits to the Direct Testimony of Ms. Metzler. If no other incentive compensation plans exist for Duke Energy Kentucky or any of its affiliates for which charges could be assigned or allocated to Duke Energy Kentucky other than the ones provided, so state.

65. Provide the amount of incentive compensation expense pursuant to the Duke Energy Short Term Incentive ("STI") Plan included in the test year revenue requirement for each target metric used for this plan during the test year. Separately provide the expense projected to be incurred directly by the Company and the costs incurred through charges from DEBS, DEO, and/or any other affiliates. In addition, provide these amounts by FERC O&M and/or A&G expense account/subaccount.

66. Provide the amount of incentive compensation expense pursuant to the Duke Energy Long Term Incentive ("LTI") Plan, including all stock based incentives if different from the LTI plan, included in the test year revenue requirement for each target metric used for this plan during the test year. Separately provide the costs projected to be incurred directly by the Company and the costs incurred through charges from DEBS,

DEO, and/or any other affiliates. In addition, provide these amounts by FERC O&M and/or A&G expense account.

67. Refer to Schedule D-2.26. Provide the Duke Energy LTI Plan target metrics for DEBS, DEO, and the Company applicable to the test year. Describe how each metric is calculated and the source of the data used for the calculations. Provide the Company's and DEBS's projected actual performance against each of these metrics in the test year.

68. Reference the testimony of Sarah E. Lawler, page 12, Schedule D-2.26, WPD 2.26a and WPD 2.26B. Ms. Lawler states that the Company's adjustment to incentive compensation "utilizes a methodology similar to the one adopted by the Commission in Case No. 2017-00321." See also the testimony of Renee H. Metzler, page 28.
    a. Are the proposed incentive compensation adjustments the same or "similar" to that adopted by the Commission in Case No. 2017-00321? If merely similar, provide the differences between what the Commission recently adopted and the Company's proposal here.

    b. Confirm that the Company removed for ratemaking all compensation in the form of restricted stock units.

69. Reference the testimony of Renee H. Metzler, page 11. Explain the meaning of the second objective of incentive pay, that the purpose is "to ensure [the employees] business unit's and Duke Energy's overall success."

70. Reference the testimony of Renee H. Metzler, page 11, wherein she states "The goal of having a LTI component as part of certain employees' total compensation package is to attract and retain high-caliber leaders and align their interest with the long-term strategy of Duke Energy, including Duke Energy Kentucky, through equity-based compensation."
    a. Explain how the long-term strategy of Duke Energy is subject to the jurisdiction of, or of interest to, the Kentucky Public Service Commission.

71. Reference the testimony of Renee H. Metzler, page 14, and the table between lines 9-10. Explain this table, including what the 3% figure represents.

72. Reference the testimony of Renee H. Metzler, page 17, table 1. Explain if the leadership weight and non-leadership weight of EPS (50% and 30%, respectively) as compared to both categories' safety weight (+/- 5%) is indicative of Duke Energy's and DEK's operational focus.

73. Reference the testimony of Renee H. Metzler, page 18. Explain the sentence stating, "[a] growing EPS benefits customers by reducing costs of capital as the Company continues to invest in the necessary maintenance of the distribution system and transforms the customers experience by providing customers with more billing options, additional energy usage information and new tools to help manage and reduce energy costs."

74. Reference the testimony of Renee H. Metzler, page 19. Would DEK agree that minimum standards of safety and reliability are requirements under KRS Chapter 278 and 49 CFR 192?

75. Reference the testimony of Renee H. Metzler, page 29, wherein she states that in Case No. 2017-00321 "[t]he Commission disallowed recovery of incentive pay expense related to corporate performance objectives based upon achieving corporate earnings per share."

   a. Confirm that in Case No. 2017-00321 the Commission denied for recovery incentive compensation expense, including the issuance of RSUs.

   b. Further confirm that in a May 23, 2018 order in Case No. 2017-00321, the Commission explicitly found "RSUs to be ultimately tied to the financial performance of Duke Kentucky, which primarily benefits shareholders and not ratepayers of Duke Kentucky."

**<u>Regulatory Assets and Regulatory Liabilities and Related Amortization</u>**

76. Provide a schedule of the amortization expense and remaining balance associated with each regulatory asset and each regulatory liability for each month for the years 2014 through 2017, for each actual month during 2018, and for each month projected for the remainder of 2018 and continuing through the end of the test year. In addition, provide the amortization period and the Case No. in which the Commission approved the recovery and the amortization period, if any. If there was no regulatory asset and/or no regulatory liability amortization in the years prior to the test year and the amortization expense in the test year relates only to the deferrals summarized by Mr. Wathen on pages 12-13 of his Direct Testimony, so state.

77. Reference the testimony of William Don Wathen Jr., page 13. Is the Company proposing a 5-year amortization period of rate case expense in this matter?

**Depreciation and Decommissioning**

78. Refer to cell row 12 account 403002 Depreciation Expense on the Base Period tab in the Company's Excel workbook provided in response to Staff 1-71.

    a. Confirm that the actual depreciation expense on this line is $1,004,652 in May 2018.

    b. Confirm that the budget depreciation expense on this line jumps to $1,102,838 in June 2018, or a 9.8% increase.

    c. Provide a detailed explanation for this apparent disconnect in the transition from actual to budget within the base period.

79. Refer to the Direct Testimony of Mr. Spanos at page 11 related to the decommissioning study of the production site performed by Arcadis, U.S., Inc. Provide a copy of that study and describe when it was performed and for what purpose.

80. Refer to the Direct Testimony of Mr. Spanos at page 11 related to the escalation of decommissioning costs and to page VIII-2 and VIII-3 of the Gannett Fleming depreciation study, Attachment JJS-1. Provide the decommissioning amount determined before escalation. In addition, provide the rate of escalation assumed in these calculations and explain why that rate is appropriate.

81. Refer to the Gannett Fleming depreciation study, Attachment JJS-1, attached to the Direct Testimony of Mr. Spanos at page III-5 listing the probable retirement date of 2024 for the Erlanger/Constance Cavern. Provide a copy of all studies and all other source documents relied on for the proposed probable retirement date reflected in the Gannett Fleming depreciation study.

82. Provide the Asset Retirement Obligations recorded for the Erlanger/Constance Cavern by FERC account/subaccount (assets and liabilities) as of September 30, 2018 for each specific legal obligation.

83. Provide a copy of the depreciation study(ies) underlying the current depreciation rates and cite all cases in which those rates were authorized. If not indicated in the depreciation study(ies), provide the terminal net salvage component of the depreciation rates and the underlying workpapers support, including any conceptual or other studies used to develop the terminal net salvage estimate and/or percentage. If not indicated in the depreciation study(ies), provide the probable retirement date and service life used for each unit in the study(ies).

84. Provide a schedule that shows current versus proposed depreciation rates and net salvage parameters in the same format as the Gannett Fleming depreciation study on pages depreciation study presented by Mr. Spanos in Attachment JJS-1 on pages VI-4, VI-5, VIII-2, and VIII-3.

85. Refer to the calculation of projected test year depreciation expense performed on Schedule B-3.2. Provide a similar schedule substituting current depreciation rates in order to depict the changes in depreciation expense in the test year due to the proposed change in depreciation rates.

**<u>Property Tax Expense</u>**

86. Refer to the Direct Testimony of Mr. Panizza at pages 10-11. Provide the calculations of estimated test year property tax expense, including copies of the sources of the property tax rates, in electronic format with all formulas intact.

87. Refer to the Direct Testimony of Mr. Panizza at pages 10-11. Provide the most current and the after increase property tax rates related to the anticipated tax rate increases and explain how each were determined.

88. Refer to the Direct Testimony of Mr. Panizza at pages 10-11. Quantify the projected increase amounts for property tax expense associated with the "anticipated property tax rate increases" as opposed to all other causes of projected property tax expense increases.

**<u>Pension and OPEB Expenses</u>**

89. Provide the two most recent pension and OPEB actuarial reports for Duke Energy, DEO, and the Company.

90. Provide the pension and OPEB actuarial reports for Duke Energy, DEO, and the Company and/or other support for the test year pension expense and OPEB expense included in the test year.

91. For employees who participate in a defined benefit plan, provide the total and jurisdictional amount of matching contributions made on behalf of employees who also participate in any 40l(k) retirement savings account.

**<u>Income Tax Expense</u>**

92. Refer to the Direct Testimony of Ms. Lawler at 11 wherein she discusses tax savings associated with the Tax Cuts and Jobs Act of 2017 ("TCJA") in the Company's ASRP and the proposal to amortize the savings amount over five years to reduce test period operating expenses by $34,380.

a. Provide an accounting by FERC account of all 2018 income tax savings deferrals related to the ASRP, to base rates, and to all other riders effective during 2018. If none for base rates and all other riders, explain why.

b. Describe the methodology proposed by the Company for its gas customers to return the 2018 savings, and through the period when rates are reset, to customers and explain why.

c. Describe the methodology set for all other DEK affiliates, and for the electric operations, to return the 2018 savings to customers and provide citations for all cases providing these authorities.

93. Refer to the Direct Testimony of Mr. Panizza at 6-7. Refer also to balances of excess ADIT contained on workpaper WPB-6b. Provide copies of the calculation of excess ADIT due to the TCJA by FERC account and by temporary difference within each FERC account, separately identified as either protected or unprotected ADIT as of December 31, 2017 and the amortization of the excess ADIT by temporary difference recorded in each month starting with January 2018 through the most recent month for which actual accounting entries are available and projected for each remaining month in 2018, each month in 2019, and each month in 2020.

94. Indicate whether DEK is a C corporation for federal income tax purposes. If not, then describe DEK's entity status for federal income tax purposes.

95. Indicate whether DEO is a C corporation for federal income tax purposes. If not, then describe DEO's entity status for federal income tax purposes.

96. Provide a copy of DEK's 2016 and 2017 federal income tax returns.

97. Provide a copy of DEO's 2016 and 2017 federal income tax returns.

98. Provide a copy of Duke Energy's 2016 and 2017 federal income tax returns.

99. Provide a copy of Duke Energy, DEO, and DEK's income tax allocation agreement(s).

100. Reference the testimony of John R. Panizza, pages 9 and 10, wherein he provides the combined statutory federal and state income tax rates because, in his opinion, DEK should use the statutory tax rate. Provide the effective Kentucky income tax rate when combined with the statutory federal tax rate.

**Weather Normalization Adjustment ("WNA") Mechanism**

101. Reference the application, page 5, paragraph 10, wherein DEK states that it is proposing a new WMA mechanism, "similar to those that have been in effect for other Kentucky natural gas utilities for many years." Reference is also made to footnote 2 on page 5. Provide the principal similarities and differences between DEK's proposed WNA rider and the WNA riders specifically cited in footnote 2.

102. Reference the application, page 12, paragraph 25, wherein DEK states that its "proposed WNA mechanism will be applicable to customers served under Rate Schedules Residential Service (RS) and General Service (GS)." Explain why the WNA mechanism will not be applicable to DEK's other Rate Schedules.

**Rate of Return**

103. Reference the application, page 6, paragraph 11. Describe in detail specific instances where DEK's earned rate of return on rate base made it "extremely difficult for the Company to continue providing safe, reasonable and reliable service to its customers."

104. Are costs that are incurred above the line, but are otherwise not included for ratemaking (e.g. charitable contributions, social and service club dues, initiation fees and country club expenses not charged below the line), included in the calculation of test year/base period ROR calculation?

105. Reference the testimony of Roger A. Morin, PhD, generally.
    a. Confirm that Dr. Morin provided expert testimony on Return on Equity ("ROE") in DEK's most recent electric rate case, Case No. 2017-00321.
    b. Confirm that in Case No. 2017-00321, Dr. Morin's ROE recommendation provided in direct testimony fell "in the upper half of a range between 9.0% and 10.7%, that is 9.9% - 10.7%," with a mid-point of that upper half of 10.3%.
    c. Confirm that in Case No. 2017-00321 the Commission found an ROE of 9.725% to be reasonable.

106. Reference the testimony of Roger A. Morin, PhD, pages 3-4. Provide documentation of all instances since the Commission's April 13, 2018 Order providing DEK with a 9.725% ROE that Dr. Morin is aware of in which:
    a. DEK was unable to attract the capital needed for infrastructure and reliability investments on reasonable terms; or
    b. DEK was unable to maintain its financial integrity.

107. Reference the testimony of Roger A. Morin, PhD, pages 4 & 61.
    a. Confirm that Dr. Morin's recommendations can be summarized as follows:

i. The Commission approve an ROE of 9.9%, only if the Commission approves the Company's requested weather adjustment clause ( referred to as the "WNA"); or
ii. Approve an ROE in the upper half of a ROE range of 9.9% - 10.6%.

b. Provide the case number, jurisdiction and date of the last three instances where Dr. Morin has recommended an ROE for a regulated utility that is below the midpoint of the range of his ROE results/approaches.
i. If Dr. Morin is able to identify any instance where he has recommended an ROE for a regulated utility that is below the midpoint of the range of his ROE results/approaches, how many of these instances were contingent on the jurisdictional regulator approving a distinct cost-recovery mechanism or clause, such as the WNA-contingent proposal in the instant Application?

108. Reference the testimony of Roger A. Morin, PhD, pages 5-7.
a. Provide documentation of a single instance that Dr. Morin is aware in which the Kentucky Public Service Commission adopted an ROE lower than a utility-sponsored ROE expert recommended and the direct or indirect result was "increase costs for ratepayers."
b. Confirm that Duke Energy's stock price (traded as "DUK") has trended upward since Duke Energy began operating under the Kentucky Public Service Commission's jurisdiction in Kentucky in approximately 2006.

109. Provide all work papers and supporting documentation used and relied upon by Dr. Morin in the preparation of his Direct Testimony and exhibits, which have not already been provided. Provide all spreadsheets in Excel format with cell formulas intact.

110. Provide Excel spreadsheet versions of Dr. Morin's exhibits with cell formulas intact, if not already provided.

111. Provide all bond rating agency reports (Standard and Poor's, Moody's, Fitch) on Duke Energy from 2014 through the most recent month in 2018.

112. Provide copies of all articles and publications cited by Dr. Morin in his Direct Testimony.

113. Provide any analyses performed by Dr. Morin or other persons at Duke Energy that quantify the credit metrics used by Standard and Poor's and/or Moody's showing that Dr. Morin's recommended ROE is necessary to maintain Duke Energy Kentucky's financial integrity. If no such analyses were performed, please so state.

114. Provide a copy of the Company's guidelines and/or all written criteria that describe when, what (type), how, and how much short-term debt will be issued and outstanding at any time. If the Company has no written guidelines and/or written criteria, so state.

115. Provide a schedule in electronic spreadsheet format showing the Company's average daily and end of month borrowings from the Duke Energy Money Pool for each month in 2016, 2017, and 2018 to date and projected for each month thereafter through the end of the test year. In addition, provide the interest rates applicable to those borrowings on a daily basis and on average for each month. Provide a copy of all source documents relied on for the projected cost of short-term debt during the test year.

116. Reference the testimony of Roger A. Morin, PhD, page 13, wherein he states that "[i]nvestors establish the price for equity capital through their buying and selling decisions in capital markets."
    a. Would Dr. Morin agree that appreciation of stock price indicates that investors are attracted to the return expected from that equity investment?

117. Reference the testimony of Roger A. Morin, PhD, generally, and <u>Federal Power Commission v. Hope Natural Gas Co.</u>, 64 S. Ct. 281, cited by Dr. Morin on page 9 of his testimony.
    a. Cite to the specific instances in Dr. Morin's testimony where he balanced the interests of investors and consumers.

118. Reference the testimony of Roger A. Morin, PhD, pages 19-20. Dr. Morin states that although "[s]ome analysts multiply the spot dividend yield by one plus one half the expected growth rate" he uses "the conventional one plus the expected growth rate" procedure.
    a. What effect on Dr. Morin's calculations would using the (1 + .5g) procedure rather than his preferred (1 + g) have for his four (4) DCF estimates?

119. Reference the testimony of Roger A. Morin, PhD, page 23, wherein Dr. Morin states "while there is an abundance or earnings growth forecasts, there are very few forecasts of dividend growth. As a result, investors' attention has shifted from dividends to earnings."
    a. This statement seems to be applied generally to the equity market. Provide specific documentation that this observation applies to investors looking specifically at stocks of regulated utilities.

120. Reference the testimony of Roger A. Morin, PhD, page 23, wherein Dr. Morin states, "it is growth in earnings that will support future dividends and share price."
    a. Is it Dr. Morin's opinion that when interest rates fell following 2008, it was earnings growth and not dividends or dividend growth that led investors toward utility stocks in seek of yield?

121. Reference the testimony of Roger A. Morin, PhD, page 23, wherein he states "the sheer volume of earnings forecasts available from the investment community relative to the scarcity of dividend forecasts attests to their importance."
   a. Confirm that not all equities pay dividends.
   b. How many stocks in the proxy group pay dividends over the last 3 years- or how many did not?
   c. What resources are available that provide dividend forecasts?

122. Reference the direct testimony of Roger A. Morin, PhD in Case No. 2009-00202, *In Re: Application of Duke Energy Kentucky, Inc. For an Adjustment of Rates*.
   a. Confirm that in that matter Dr. Morin used the then-current 30-year U.S. Treasury yield in calculating his CAPM and ECAPM.
   b. If confirmed, follow Dr. Morin's previous methodology and perform the CAPM and ECAPM in this matter using the current 30-year U.S. Treasury bond yield. This calculation should use the same beta and market risk premium as Dr. Morin used in his direct testimony in this matter. Provide the outcome of this calculation, both with and without flotation costs. Provide all workpapers used in these calculations in native Excel format. Further, provide the source for the 30-year U.S. Treasury bond yield used.

123. Reference the testimony of Roger A. Morin, PhD, pages 33 and 37.
   a. Provide the sources or copies of the sources for the forecast yields for 30-year U.S. Treasury Bonds used by Dr. Morin (i.e. web address, printed materials).
   b. Have any or all of these sources provided forecasted treasury yields for the past 10 years? If so, are these historical forecasts readily accessible for the parties and Commission to review?

124. Reference the testimony of Roger A. Morin, PhD, generally. Dr. Morin's direct testimony discusses at length his opinions on the risks a utility faces should a regulatory commission set the return on equity too low. What risks do utilities, their customers and their stakeholders face if regulatory commissions set the allowed return on equity too high? Please explain in detail any response.

125. Reference the testimony of Robert H. "Beau" Pratt, page 6, wherein he discusses the regulatory environment in Kentucky.
   a. Is DEK aware of any organizations that rate or rank state regulatory commissions?
   b. If so, provide a discussion of how Kentucky's regulatory Commission ranks or rates in such reviews.

126. Reference the testimony of Robert H. "Beau" Pratt, page 7. Are the credit ratings provided on page 7 prescribed specifically to DEK or to Duke Energy as an organization?

127. Reference the testimony of Robert H. "Beau" Pratt, page 13, wherein he discusses that [DEK] has effectively managed its financing costs since the last natural gas base rate case in 2009.
    a. Confirm that since DEK's 2009 gas base rate case, interest rates, and thus financing costs, have been at historically low levels.

128. Reference the testimony of Robert H. "Beau" Pratt, page 14. Explain what Mr. Pratt means when he says that "[i]t is important to remember that Duke Energy also has dividend obligations to its shareholders."

129. Reference the testimony of William Don Wathen Jr., page 13, lines 5-9 and page 16, lines 13-21. Explain how Dr. Morin's testimony supports DEK's commitment that it "will not seek a higher rate or return on equity than would have been sought if the merger transaction had not occurred."

130. Identify any and all change(s) in DEK's equity-to-capital ratio since the final order in the last gas rate case.

**<u>Rate Design/ Cost of Service</u>**

131. Explain the basis for the calculation of gas service reconnection costs provided in BLS-5, page 1 of 1.

132. Reference the testimony of Bruce L. Sailers, page 19. Explain the phrase "estimated completion times are based on management expertise."

133. Reference the testimony of James E. Ziolkowski, generally.
    a. Confirm that Mr. Ziolkowski only performed one cost-of-service study using a single methodology to allocate production plant and other demand related items to the various classes of customers.