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 DECOUPLING MECHANISM 3) APPROVAL OF NEW TARIFFS 4) AND ALL OTHER REQUIRED APPROVALS, WAIVERS, AND RELIEF	)	CASE NO. 2018-00261

ATTORNEY GENERAL'S RESPONSES TO DATA REQUESTS OF KENTUCKY PUBLIC SERVICE COMMISSION STAFF

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits the following responses to data requests of Kentucky Public Service Commission Staff, in the above-styled matter.

Respectfully submitted,

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WITNESS/RESPONDENT RESPONSIBLE:
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QUESTION No. 1

Refer to the Direct Testimony of Lane Kollen (Kollen Testimony), page 4, regarding the proposed roll-in of the Accelerated Service Line Replacement Program into base rates. Explain and provide the calculation of how the requested rate base increase would be reduced to approximately $7.1 million, all else equal, if the Commission does not approve the Company's request.

RESPONSE:

The Company did not provide a calculation of the ASRP revenue requirement rolled-into the base revenue requirement in its filing or in response to discovery. The Company's requested base rate increase in this case is $10.542 million, which includes the ASRP roll-in. The Company's last ASRP filing was made on July 2, 2018 in Case No. 2018-00198. That filing included in EXHIBIT 1 Schedule 1.1 a total annual revenue requirement of $3.404 million based on a projected test year ended December 31, 2019. The projected test year in the instant case is March 31, 2020. Mr. Kollen estimates that the ASRP revenue requirement for the period ended March 31, 2020 would be approximately $0.040 million more than the Company's request of $3.404 million in Case No. 2018-00198. This estimate is based on his understanding that approximately $4 million more would be spent on the ASRP by March 31, 2020.

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QUESTION No. 2

Refer to the Kollen Testimony, page 11, regarding the calculation of cash working capital in Case No. 2017-00349.[1]

a. Provide support as to why it is inappropriate to include the revenue lag days with expense lag days of zero for the non-cash depreciation expense, deferred tax expense, and return on equity (ROE).
b. Provide a list of other state commissions and case numbers in which the inclusion of revenue lag days with expense lag days of zero has been found inappropriate.

RESPONSE:

a. The lead/lag study measures the cash investment provided by investors (positive) or customers (negative) on average over the course of the study period. The return on non-cash expenses, such as depreciation and deferred income tax expenses is reflected in the return on rate base. The net accumulated depreciation and accumulated deferred income taxes are subtracted from rate base, but on a lagged basis, which essentially provides a return on the monthly depreciation expense and deferred income tax expense for 30 days, all else equal. In addition, current income tax and deferred income tax expense should reflect the same expense lag days. That is due to the fact that the total income tax expense is a function of the gross-up of the return on equity and cannot be realistically distinguished given that the deferred income tax expense necessarily is the direct result of the tax effect of a Schedule M deduction for current income tax purposes. Further, the use of zero expense lag days for these non-cash items effectively assumes that they are paid when incurred with no lag rather than never paid. Of course, they are never paid because the cash was incurred when the project was constructed. Finally, see Mr. Kollen's Direct Testimony at page 12 for a discussion concerning why it is inappropriate to include the revenue lag days with expense lag days of zero for the return on equity (ROE).
b. Mr. Kollen notes the following cases, although this is not an exhaustive list.

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[1] Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 3, 2018).

In Colorado Docket No. 13AL-0496G (2012), Atmos filed a working capital analysis with $77.668 million in operating expenses and negative $2.773 million cash working capital. In Colorado Docket No. 14AL-0300G (2013), Atmos filed a working capital analysis with $103.090 million in operating expenses and negative $3.836 million in cash working capital. In Colorado Docket No. 15AL-0299G (2014), Atmos filed a working capital analysis with $105.723 million in operating expenses and negative $2.578 million in cash working capital. In Texas Docket No. 10174 (2012), Atmos Mid-Tex filed a working capital analysis with $179.219 million in operating expenses and negative $1.957 million in cash working capital. In Statement of Intent in Texas (2013), Atmos Mid-Tex filed a working capital analysis with $173.655 million in operating expenses and negative $2.757 million in cash working capital.

In addition, Mr. Kollen notes that while KU and LG&E set the expense lag days for depreciation and deferred income taxes at 0, they set the expense lag days for return on equity at the same number as the revenue lag days in Case Nos. 2018-00294 and 2018-00295 (see Sched B-5.2 provided in response to Staff 1-53). KU and LG&E witness Mr. Seelye claims that the lead/lag methodology that he supports in the pending cases is the same as was approved in KU's VA jurisdiction (Seelye Direct at 102-103).

Further, Entergy New Orleans, LLC recently filed a rate case with the New Orleans City Council, which includes a CWC study. The CWC study reflects no non-cash items, including no depreciation and no deferred income taxes, and reflects no return on equity even though the dividend yield is a cash item. A copy of the CWC calculation is uploaded with these responses.

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QUESTION No. 3

Refer to the Kollen Testimony, page 20, line 11. Provide a detailed explanation as to why 3 percent was chosen for merit increases.

RESPONSE:

Mr. Kollen relied on the Company's overall wage increase budget for this purpose. Ms. Metzler stated the following in her Direct Testimony at page 14, lines 3-6:

> In 2018, Duke Energy's overall wage increase budget, or merit budget, set for exempt and non-exempt non-union employees was 3 percent, based on market information found in studies conducted by third party consultants.

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QUESTION No. 4

Refer to the Kollen Testimony, beginning at page 26, and Duke Energy Kentucky, Inc.'s (Duke Kentucky) response to Commission Staff's Third Request for Information, Item 2, regarding 401(k) matchings costs for employees who also participate in a defined benefit plan. Confirm that the correct amount of this adjustment should be $493,813 before gross-up, as provided in Duke Kentucky's response to Commission Staff's Second Request for Information, Item 5.e.

RESPONSE:

Mr. Kollen cannot confirm that this amount is correct. Mr. Kollen computed the amount of the adjustment as $296,111, before gross-up, below to represent the matching costs associated with only the union employees of Duke Energy Kentucky, Inc.'s ("DEK") Gas Division based on the Commission's decision regarding this adjustment in its Order in Case No. 2017-321 at pages 22-23. Mr. Kollen assumed all service company employees for which costs were allocated to DEK were non-union employees. The calculation is found on worksheet tab "401K Matching" in Mr. Kollen's Testimony workpapers.

Sources: Staff 2-05 e and Staff 1-65

DEK-Gas 401K Match for Employees of DEK Only Does Not Include Amounts Allocated from Affiliates	340,385
Staff 1-65 Union Total Salaries	16,987,362
Staff 1-65 Total - All Employees Total Salaries	19,527,285
% Union	87.0%
401K Match for Union Employees	296,111

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QUESTION No. 5

Refer to the Kollen Testimony Workpapers - Gross Revenue Conversion Factor Worksheet, line 14, and the Summary of Attorney General Recommendations. The gross revenue conversion factor worksheet does not appear to contain any amounts for bad debts but the summary lists a column entitled "B/D and PSC Gross-up" Confirm there is no bad debt provision in the gross-up.

RESPONSE:

Confirmed. The Company's Schedule H in its filing does not include a separate percentage for bad debt to compute the gross revenue conversion factor as do most other Company filings in Kentucky. The Company sells all of its accounts receivable to an affiliate, Cinergy Receivables, L.L.C. (Cinergy Receivables) at a discount according to Ms. Lawler's Direct Testimony at page 8.

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QUESTION No. 6

Refer to the Kollen Testimony, page 35, line 16. Confirm that the revised projected issuance of $35 million is to occur in December 2018, not December 2019.

RESPONSE:

Confirmed.

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QUESTION No. 7

Refer to the Kollen testimony, page 38, lines 11–12.

a. Provide support for the 0.125 percent reduction in the model ROE midpoint of 9.625 percent.
b. Provide examples of other state Commissions where the ROE was reduced by 0.125 percent, or by any other percent, due to the presence of a weather normalization clause.

RESPONSE:

a. The 0.125 percent was simply a modest reduction to reflect the reduction in business and regulatory risk resulting from a WNA rider.
b. Mr. Kollen has not researched this issue, but it is consistent with Dr. Morin's recommendation to increase his proposed return on equity if the Commission does not adopt the proposed WNA clause.

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QUESTION No. 8

Provide any necessary updates to the Kollen Testimony's Summary of Attorney General Recommendations, as well as Mr. Kollen's workpapers, that reflect all updated adjustments in the pending case, and provide an explanation of each updated adjustment.

RESPONSE:

Mr. Kollen is not aware of any necessary updates.