

**VERIFICATION**

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

The undersigned, Theodore H. Czupik, Jr., Rates & Regulatory Strategy Manager, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing testimony and that it is true and correct to the best of his knowledge, information and belief.

Theodore H. Czupik Jr.  
Theodore H. Czupik, Jr., Affiant

Subscribed and sworn to before me by Theodore H. Czupik, Jr., on this 24<sup>TH</sup> day of JUNE, 2019.



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

Adele M. Frisch  
NOTARY PUBLIC

My Commission Expires: 1/5/2024

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE	)	
PUBLIC SERVICE COMMISSION OF THE	)	Case No. 2019-00147
ENVIRONMENTAL SURCHARGE MECHANISM	)	
OF DUKE ENERGY KENTUCKY, INC. FOR THE	)	
SIX-MONTH BILLING PERIOD ENDING	)	
NOVEMBER 30, 2018	)	

---

**DIRECT TESTIMONY OF**  
**THEODORE H. CZUPIK JR.**  
**ON BEHALF OF**  
**DUKE ENERGY KENTUCKY, INC.**

---

June 28, 2019

**TABLE OF CONTENTS**

	<u>PAGE</u>
<b>I. INTRODUCTION AND PURPOSE .....</b>	<b>1</b>
<b>II. DISCUSSION .....</b>	<b>3</b>
<b>A. The Company’s Rider ESM.....</b>	<b>3</b>
<b>B. Data Requests and Tariffs Sponsored.....</b>	<b>8</b>
<b>III. CONCLUSION .....</b>	<b>8</b>

Attachment:

THC-1 - Correction to Property Tax Expense

**I. INTRODUCTION AND PURPOSE**

1 **Q. STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Theodore H. Czupik Jr. and my business address is 139 E. Fourth  
3 Street, Cincinnati, Ohio 45202.

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

5 A. I am employed by Duke Energy Business Services LLC (DEBS) as Rates and  
6 Regulatory Strategy Manager. DEBS is a service company subsidiary of Duke  
7 Energy Corporation and a non-utility affiliate of Duke Energy Kentucky, Inc.  
8 (Duke Energy Kentucky or Company).

9 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND  
10 AND PROFESSIONAL EXPERIENCE.**

11 A. I received a Bachelor of Science degree in Accounting from the University of  
12 Dayton in 1985. I became a Certified Public Accountant (CPA) in the State of  
13 Ohio in 1988.

14 I began my career with The Cincinnati Gas & Electric Company (CG&E)  
15 in 1985 as a Staff Accountant in the Accounting Department. Between 1985 and  
16 1993, I held various positions in the Accounting Department until I transferred to  
17 the Rate Department in 1993. I progressed through various positions until  
18 receiving my current position as Rates & Regulatory Strategy Manager in January  
19 2014.

20 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

21 A. I am a member of the American Institute of Certified Public Accountants and the  
22 Ohio Society of Certified Public Accountants.

1 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC**  
2 **SERVICE COMMISSION?**

3 A. Yes. I have testified in several fuel adjustment clause (FAC) proceedings before  
4 the Kentucky Public Service Commission (Commission).

5 **Q. PLEASE SUMMARIZE YOUR DUTIES AS RATES AND REGULATORY**  
6 **STRATEGY MANAGER.**

7 A. As Rates & Regulatory Strategy Manager, my duties include filing various  
8 monthly, quarterly and annual rate recovery mechanisms, preparation of cost of  
9 service studies, and preparation of other schedules used in retail rate filings for  
10 Duke Energy Kentucky and its parent, Duke Energy Ohio, Inc.

11 **Q. WHAT IS THE PURPOSE OF THIS PROCEEDING?**

12 A. The purpose of this proceeding is to review the operation of Duke Energy  
13 Kentucky's environmental surcharge mechanism tariff (Rider ESM or ESM)  
14 during the six-month billing period ending November 30, 2018 and to determine  
15 whether the ESM revenues collected during the review period are just and  
16 reasonable.

17 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

18 A. The purpose of my testimony is to (1) support the Company's Rider ESM filings  
19 during the sixth-month review period, (2) explain how the ESM billing factors  
20 were calculated, (3) demonstrate that the revenue collected during the period was  
21 just and reasonable and (4) explain an inadvertent error that was included in all of  
22 the Company's monthly Rider ESM filings, both in the review period and in

1 filings outside of the review period through the expense month of April 2019 and  
2 how the Company will correct this error.

## II. DISCUSSION

### A. The Company's Rider ESM

3 **Q. PLEASE DESCRIBE THE OPERATION OF DUKE ENERGY**  
4 **KENTUCKY'S RIDER ESM FOR THE BILLING PERIODS UNDER**  
5 **REVIEW.**

6 A. The monthly environmental surcharge billing factors applied during the billing  
7 period under review were calculated consistent with the Commission's Orders in  
8 Duke Energy Kentucky's previous applications to implement or amend its  
9 environmental surcharge mechanism and compliance plan. In each month of the  
10 six-month period under review in this proceeding, Duke Energy Kentucky  
11 calculated the environmental surcharge factors in accordance with its Rider ESM  
12 Tariff approved by the Commission's Order in Case No. 2017-00321. Duke  
13 Energy Kentucky billed an environmental surcharge to its customers from June 1,  
14 2018 through November 30, 2018. The calculations were made in accordance with  
15 the Commission approved monthly forms and were filed with the Commission ten  
16 days before the new monthly charge was billed by the Company, per KRS  
17 278.183.

18 **Q. WHAT ARE THE COMPONENTS OF THE ENVIRONMENTAL**  
19 **COMPLIANCE COSTS THAT WERE INCLUDED IN THE**  
20 **CALCULATION OF THE ENVIRONMENTAL SURCHARGE BILLING**  
21 **FACTORS FOR THE BILLING PERIODS UNDER REVIEW?**



1 A. In each month of the six-month period under review in this proceeding, Duke  
2 Energy Kentucky's environmental compliance costs, E(m), include: (1) a return  
3 on environmental compliance rate base, (2) environmental operating expenses,  
4 and (3) and adjustment for over- or under-recovery of previously filed monthly  
5 jurisdictional E(m).

6 **Q. PLEASE DESCRIBE THE COMPONENTS OF ENVIRONMENTAL**  
7 **COMPLIANCE RATE BASE THAT WERE INCLUDED IN THE**  
8 **CALCULATION OF THE ENVIRONMENTAL SURCHARGE BILLING**  
9 **FACTORS FOR THE BILLING PERIODS UNDER REVIEW?**

10 A. Environmental compliance rate base included in the calculation of the  
11 environmental surcharge billing factors for the six-month billing period under  
12 review includes: (1) eligible environmental compliance plant in-service, (2)  
13 eligible environmental compliance construction work in progress (CWIP), (3)  
14 emission allowance inventory, (4) accumulated depreciation on eligible  
15 environmental compliance plant in-service, and (5) deferred income taxes on  
16 eligible environmental compliance plant in-service. The capital projects that  
17 comprise the environmental compliance plant in-service and CWIP are those  
18 approved by the Commission in Case No. 2017-00321. Capital projects included  
19 in the calculation of the Rider ESM include the following as shown on FORM  
20 2.10 of the monthly Rider ESM filings:

Project No.	Description
1	EB020290 Lined Retention Basin West
2	EB020745 Lined Retention Basin East
3	EB020298 East Bend SW/PW Reroute

1 **Q. WHAT ENVIRONMENTAL PLAN OPERATING EXPENSES WERE**  
2 **INCLUDED IN THE CALCULATION OF THE ENVIRONMENTAL**  
3 **SURCHARGE BILLING FACTORS FOR THE BILLING PERIODS**  
4 **UNDER REVIEW?**

5 A. The environmental plan operating expenses included in the calculation of the  
6 environmental surcharge billing factors for the six-month billing period under  
7 review are those approved by the Commission in Case No. 2017-00321 and are  
8 shown on FORM 2.00 of the monthly Rider ESM filings. The expenses included  
9 in the calculation of Rider ESM include the following as shown on FORM 2.00 of  
10 the monthly Rider ESM filings:

Description	Source
Monthly Depreciation Expense	ES Form 2.10
Monthly Taxes Other Than Income Taxes	ES Form 2.10
Monthly Amortization Expense	ES Form 2.20
Monthly Emission Allowance Expense	ES Form 2.30
Monthly Environmental Reagent Expense	ES Form 2.50

11 **Q. PLEASE DESCRIBE THE MOST RECENTLY APPROVED CHANGES**  
12 **TO DUKE ENERGY KENTUCKY’S ESM COMPLIANCE PLAN.**

13 A. In Case No. 2018-00156 the Commission approved Duke Energy Kentucky’s  
14 request to amend its environmental compliance plan for purposes of recovering



1 costs related to the East Bend West Landfill Phase Two project. Any costs  
2 associated with this project were not included in the Rider ESM filings until the  
3 expense month of December 2018 for billing month February 2019. Therefore,  
4 costs associated with this project have not been included in any Rider ESM filings  
5 under review in this proceeding.

6 **Q. IS THE COMPANY AWARE OF ANY PROBLEMS RELATED TO THE**  
7 **OPERATION OF ITS MONTHLY RIDER ESM FILINGS?**

8 A. Yes. Duke Energy Kentucky has recently discovered that it has incorrectly  
9 calculated monthly property tax expense on FORM 2.10 in each of its monthly  
10 Rider ESM filings through the expense month of April 2019, including the  
11 months of the review period. The Company has inadvertently used annual  
12 property tax rates rather than monthly property tax rates for the expense months of  
13 April 2018 through April 2019. The total dollar impact of the error is that the  
14 Company has over-collected property tax expense in the amount of \$5,657,278, as  
15 shown on Attachment THC-1, line 21.

16 **Q. HAS THE COMPANY NOTIFIED THE COMMISSION OF THIS**  
17 **ERROR?**

18 A. Yes. The Company promptly notified the Commission as soon as it discovered  
19 that monthly property tax expense was being calculated incorrectly in its Rider  
20 ESM filings.

1 **Q. HOW DOES DUKE ENERGY KENTUCKY PROPOSE TO REFUND THE**  
2 **OVER-COLLECTION TO CUSTOMERS?**

3 A. After discussion with Commission Staff, the Company originally proposed to  
4 amortize the \$5,657,278 over-collection of property tax expense over three  
5 months. A credit of \$1,885,759 was proposed to be included on FORM 1.10, line  
6 10, Prior Period Adjustment, for the expense months of May, June and July 2019.  
7 Therefore, the refunds were to be given back to customers in the billing months of  
8 July, August and September 2019. Although the Company's inadvertent  
9 overcollection occurred over twelve months, the Company is recommending that  
10 the overcollection be returned to customers over a much shorter period so to  
11 coincide with the warmer summer months where customers are likely to  
12 experience higher bills due to increased usage.

13 **Q. DOES THE COMPANY STILL BELIEVE THAT THIS IS THE PROPER**  
14 **WAY TO REMEDY THE OVER- COLLECTION OF THE PROPERTY**  
15 **TAX EXPENSE?**

16 A. The Company still believes that the best approach is to provide a refund to  
17 customers in the expense months of May, June and July 2019. In its May 2019  
18 expense month filing the Company did include a credit of \$1,885,759 on FORM  
19 1.10, line 10, Prior Period Adjustment, as proposed. However, upon further  
20 review, the Company believes that the refund should be given back to customers  
21 through both Rider ESM (jurisdictional/native) and Rider PSM (non-  
22 jurisdictional/non-native). The correction impacts both native and non-native  
23 E(m). Since the Company has already included a credit of \$1,885,759 in its Rider

1           ESM filing in the expense month of May 2019, the remaining jurisdictional  
2           (native) portion to be refunded to customers in the expense months of June and  
3           July 2019 is \$3,610,160. In both the expense months of June and July, 2019 the  
4           Company now proposes to include a credit of \$1,805,080 on FORM 1.10, line 10,  
5           Prior Period Adjustment. The total amount that will be refunded to customers is  
6           still \$5,657,278 but \$5,495,919 will be refunded in Rider ESM and \$161,359 will  
7           be refunded in Rider PSM. The details of the proposed adjustment are shown on  
8           Attachment THC-1.

9   **Q.   IS THE COMPANY PROPOSING TO MAKE ANY CHANGES TO ITS**  
10 **RIDER ESM TARIFF?**

11  A.   No. The Company does not believe that it is necessary to make any changes to its  
12  Rider ESM tariff.

**B.    Data Requests Sponsored**

13 **Q.   PLEASE IDENTIFY THE RESPONSES TO COMMISSION DATA**  
14 **REQUESTS YOU ARE SPONSORING.**

15  A.   I sponsor the Company's responses to Staff Data Request Numbers 1 through 4.  
16  These responses were prepared by me and/or under my direction and control and  
17  are true and accurate to the best of my knowledge and belief.

**III.   CONCLUSION**

18 **Q.   WERE THE ESM BILLING FACTORS CHARGED DURING THE SIX**  
19 **MONTHS UNDER REVIEW CALCULATED IN ACCORDANCE WITH**  
20 **THE RIDER ESM TARIFF AND APPLICABLE COMMISSION ORDERS?**

1 A. Yes, the ESM billing factors charged during the six months under review were  
2 calculated in accordance with the Rider ESM tariff and applicable commission  
3 orders. Notwithstanding the inadvertent overcollection of property tax through the  
4 ESM that I previously explained, the environmental surcharge billing factors  
5 charged during the review period were fair, just and reasonable. When the  
6 Company discovered the property tax calculation error, necessary actions were  
7 taken immediately by the Company to notify the Commission Staff and to correct  
8 the error in calculating property taxes in Rider ESM filings.

9 As shown on the bottom of Form 2.00 of each monthly filing, any over-  
10 recovery of net jurisdictional E(m) is deducted from the current expense month  
11 net jurisdictional E(m) and any under-recovery of net jurisdictional E(m) is added  
12 to the current expense month net jurisdictional E(m). This over- or under-  
13 recovery is reflected on Line 11 of FORM 1.10 of each monthly filing.

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes.



Duke Energy Kentucky, Inc.  
Environmental Surcharge Mechanism  
Correction to Property Tax Expense

Line No.	Expense Month	Total Property Tax Expense			Jurisdictional Allocation Ratio	Native Adjustment	Non-Native Adjustment
		As Filed	Revised	Adjustment			
1	April 2018	\$ 177,556	\$ 14,796	\$ (162,760)	96.62%	\$ (157,259)	\$ (5,501)
2	May 2018	337,475	28,122	(309,353)	97.05%	(300,227)	(9,126)
3	June 2018	396,023	33,002	(363,021)	97.21%	(352,893)	(10,128)
4	July 2018	419,712	34,976	(384,736)	96.82%	(372,501)	(12,235)
5	August 2018	456,727	38,061	(418,666)	96.82%	(405,352)	(13,314)
6	September 2018	<u>501,146</u>	<u>41,762</u>	<u>(459,384)</u>	96.93%	<u>(445,281)</u>	<u>(14,103)</u>
7							
8	Period Under Review	\$ 2,288,639		\$ (2,097,920)		\$ (2,033,513)	\$ (64,407)
9							
10	October 2018	507,506	42,292	(465,214)	97.33%	(452,793)	(12,421)
11	November 2018	529,630	44,136	(485,494)	97.37%	(472,726)	(12,768)
12	December 2018	545,496	45,458	(500,038)	97.09%	(485,487)	(14,551)
13	January 2019	554,481	46,208	(508,273)	97.39%	(495,007)	(13,266)
14	February 2019	561,343	46,779	(514,564)	97.42%	(501,288)	(13,276)
15	March 2019	<u>586,648</u>	<u>48,888</u>	<u>(537,760)</u>	97.15%	<u>(522,434)</u>	<u>(15,326)</u>
16							
17	Six Months Ended March 2019	\$ 3,285,104		\$ (3,011,343)		\$ (2,929,735)	\$ (81,608)
18							
19	April 2019	\$ 597,834	\$ 49,819	\$ (548,015)	97.20%	\$ (532,671)	\$ (15,344)
20							
21	Total Adjustment Related to Property Tax Expense			<u>\$ (5,657,278)</u>		<u>\$ (5,495,919)</u>	<u>\$ (161,359)</u>
22							
23	Amortization Period in Months			3		3	
24							
25	Monthly Amortization Expense			<u>\$ (1,885,759)</u>		<u>\$ (1,831,973)</u>	
26							
27							
28	Adjustment Related to Property Tax Expense					\$ (5,495,919)	
29	Monthly Amortization Expense Adjustment Included in May Expense Month					(1,885,759)	
30	Amount Refunded in June & July Expense Months					\$ (3,610,160)	
31	Remaining Amortization Period					2	
32	Adjustment Included in June & July Expense Month					<u>\$ (1,805,080)</u>	