## VERIFICATION

| | | |
|---|---|---|
| **STATE OF NORTH CAROLINA** | ) | |
| | ) | **SS:** |
| **COUNTY OF MECKLENBURG** | ) | |

The undersigned, David R. Dye, Manager Accounting I, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data request and that it is true and correct to the best of his knowledge, information and belief.

David R. Dye

David R. Dye Affiant

Subscribed and sworn to before me by David R. Dye on this 5th day of November, 2019.

VIRGINIA M. ADAMS NOTARY PUBLIC EXP. 10/02/2021 MECKLENBURG COUNTY, NC

Virginia M. Adams

NOTARY PUBLIC

My Commission Expires: 10/2/21

**VERIFICATION**

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

The undersigned, Sarah E. Lawler, Director Rates & Regulatory Planning, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing data request and that it is true and correct to the best of her knowledge, information and belief.

Sarah E. Lawler Affiant

Subscribed and sworn to before me by Sarah E. Lawler on this 14th day of November, 2019.

NOTARY PUBLIC

My Commission Expires: July 8, 2022

NOTARY PUBLIC STATE OF OHIO

**E. MINNA ROLFES-ADKINS**
**Notary Public, State of Ohio**
**My Commission Expires**
**July 8, 2022**

**VERIFICATION**

| | | |
|---|---|---|
| **STATE OF NORTH CAROLINA** | ) | |
| | ) | **SS:** |
| **COUNTY OF MECKLENBURG** | ) | |

The undersigned, Christopher M. Jacobi, Director, Regional Financial Forecasting, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data request and that it is true and correct to the best of his knowledge, information and belief.

Christopher M. Jacobi Affiant

Subscribed and sworn to before me by Christopher M. Jacobi on this 5 day of November 2019.

NOTARY PUBLIC

My Commission Expires: 06|08|2020

## VERIFICATION

**STATE OF NORTH CAROLINA** )
) **SS:**
**COUNTY OF MECKLENBURG** )

The undersigned, Renee Metzler, Managing Director – Retirement and Health and Welfare, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing data request and that it is true and correct to the best of her knowledge, information and belief.

Renee Metzler Affiant

Subscribed and sworn to before me by Renee Metzler on this 4th day of NOVEMBER, 2019.

NOTARY PUBLIC

My Commission Expires:

FELICIA SUEANN RUTTY
NOTARY PUBLIC
MECKLENBURG COUNTY, NC
My Commission Expires 9-17-2023

# KyPSC Case No. 2019-00352
# TABLE OF CONTENTS

**STAFF-DR-01-001**

**REQUEST:**

Refer to the application, paragraph 5.

a. For the years 2014 through 2018, the forecasted test period in Case No. 2017-00321,[1] and the base period and forecasted test period in Case No. 2019-00271,[2] provide the following for Duke Kentucky's electric operations:

   (1) Service cost;

   (2) Interest cost;

   (3) Expected return on plan assets;

   (4) Expected rate of return on plan assets;

   (5) Gain or loss amortization; and

   (6) Prior service cost or credit amortization.

b. For the years 2014 through 2018 and the forecasted test period in Case No. 2018-00261,[3] provide the following for Duke Kentucky's gas operations:

   (1) Service cost;

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[1] Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc., for: 1) An Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief* (Ky. PSC Apr. 13, 2018).

[2] Case No. 2019-00271, *Electronic Application of Duke Energy Kentucky, Inc., for 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief* (Application filed Sept. 3, 2019).

[3] Case No. 2018-00261, *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 for All Other Required Approvals, Waivers, and Relief* (Ky. PSC Mar. 27, 2019).

(2) Interest cost;

(3) Expected return on plan assets;

(4) Expected rate of return on plan assets;

(5) Gain or loss amortization; and

(6) Prior service cost or credit amortization.

c. Explain how the service cost was determined for the actual and projected months of the base period and of the forecasted test period in Case No. 2019-00271.

d. Explain how interest cost is determined. Identify and describe any changes made between the calendar years 2014 through 2018, the forecasted test period in Case No. 2018-00261, and the base period and forecasted test period in Case No. 2019-00271. Identify and describe any differences in the method for gas and electric operations.

e. Provide a comparison of the expected and actual return on plan assets from 2014 through 2018. Identify and describe any differences for gas and electric operations.

**RESPONSE:**

a. The information provided represents Duke Energy Kentucky direct costs and does not include amounts allocated to Duke Energy Kentucky from affiliates. The components of pension expense that are being requested are supported by actuarial statements that are prepared on a jurisdictional basis only. Pension expense allocated to Duke Energy Kentucky from affiliates is allocated in total and not calculated at this level of detail. Please refer to STAFF-DR-01-001(a)(b) Attachment for years 2014 through 2018. For the forecasted period in Case No. 2017-00321 the service/non-service costs were $485,133. For Case No. 2019-

00271 the base period included $944,798 of service costs and ($888,685) of non-service costs and the forecasted period included $959,676 of service costs and ($911,092) of non-service costs. The budgeted/forecasted data is only compiled at this level of data and therefore the detailed components are not available for the base period and forecasted test periods.

b. The information provided represents Duke Energy Kentucky direct costs and does not include amounts allocated to Duke Energy Kentucky from affiliates. The components of pension expense that are being requested are supported by actuarial statements that are prepared on a jurisdictional basis only. Pension expense allocated to Duke Energy Kentucky from affiliates is allocated in total and not calculated at this level of detail. Please refer to STAFF-DR-01-001(a)(b) Attachment for years 2014 through 2018. For Case No. 2018-00261 the forecasted period included $318,693 of service costs and ($292,004) of non-service costs. The budgeted/forecasted data is only compiled at this level of data and therefore the detailed components are not available for the base period and forecasted test periods.

c. Service cost for the actual months of the base period was determined by summing the service cost for each pension plan participant assigned to Duke Kentucky's payroll company, based upon census data collected as of January 1, 2019. Service cost for the projected months of the base period and for the forecasted test period was determined by summing the service cost for each pension plan participant assigned to Duke Kentucky's payroll company, based upon census data collected as of January 1, 2018 adjusted for known population changes (i.e. severance programs).

d. Interest cost represents the increase in the projected benefit obligation (PBO) associated with the passage of time during the year. This is determined by multiplying the discount rate by Duke Kentucky's payroll company beginning of year PBO, adjusted for current year expected benefit payments of participants assigned to Duke Kentucky's payroll company. There were no changes made between the calendar years 2014 through 2018, the forecasted test period in Case No. 2018-00261, and the base period and forecasted test period in Case No. 2019-00271 in how interest cost was determined. There are no differences in the method used for electric and gas operations.

e. Expected and actual returns on plan assets for the years 2014 through 2018 are as follows (there are no differences in returns for electric and gas operations):

| Year | Actual Return | Expected Return |
|---|---|---|
| 2018 | -4.0% | 6.50% |
| 2017 | 12.0% | 6.50% |
| 2016 | 7.25% | 6.50% |
| 2015 | -0.7% | 6.50% |
| 2014 | 11.0% | 6.75% |

**PERSON RESPONSIBLE:** David Dye

**Duke Energy Kentucky**
**Pension Settlement Accounting**

1. Refer to the application, paragraph 5.

a. For the years 2014 through 2018, the forecasted test period in Case No. 2017-00321,1 and the base period and forecasted test period in Case No. 2019-00271 ,2 provide the following for Duke Kentucky's **electric** operations:

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| (1) Service cost; | $ 1,089,896 | $ 1,149,106 | $ 1,164,099 | $ 1,068,074 | $ 1,077,445 |
| (2) Interest cost; | 3,052,077 | 2,858,028 | 3,278,784 | 3,144,976 | 2,995,721 |
| (3) Expected return on plan assets; | (4,210,070) | (4,247,517) | (4,621,399) | (4,628,712) | (4,690,230) |
| (4) Expected rate of return on plan assets; | 6.75% | 6.50% | 6.50% | 6.50% | 6.50% |
| (5) Gain or loss amortization; and | 1,186,545 | 1,561,943 | 1,258,374 | 1,407,612 | 1,418,088 |
| (6) Prior service cost or credit amortization. | 77,300 | 38,753 | 3,076 | (69,699) | (72,359) |

b. For the years 2014 through 2018 and the forecasted test period in Case No. 2018-00261,3 provide the following for Duke Kentucky's **gas** operations:

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| (1) Service cost; | $ 373,837 | $ 401,644 | $ 386,586 | $ 383,311 | $ 409,506 |
| (2) Interest cost; | 1,046,872 | 998,960 | 1,088,852 | 1,128,670 | 1,138,589 |
| (3) Expected return on plan assets; | (1,444,067) | (1,484,625) | (1,534,721) | (1,661,154) | (1,782,624) |
| (4) Expected rate of return on plan assets; | 6.75% | 6.50% | 6.50% | 6.50% | 6.50% |
| (5) Gain or loss amortization; and | 406,988 | 545,942 | 417,893 | 505,164 | 538,975 |
| (6) Prior service cost or credit amortization. | 26,514 | 13,545 | 1,022 | (25,013) | (27,502) |

**STAFF-DR-01-002**

**REQUEST:**

Refer to the application, paragraph 6.

a. For Duke Kentucky's electric operations, provide the amount of pension actuarial gain or loss for the calendar years 2014 through 2018, the forecasted test period in Case No. 2017-00321, and the base period and forecasted test period in Case No. 2019-00271.

b. For Duke Kentucky's gas operations, provide the amount of pension actuarial gain or loss for the calendar years 2014 through 2018 and the forecasted test period in Case No. 2018-00261.

c. Provide the pension actuarial gain or loss amortization expense currently included in Duke Kentucky's base rates, separately for electric and gas operations.

**RESPONSE:**

a. See STAFF-DR-01-002(a)(b) Attachment for pension actuarial gain and loss amounts for calendar years 2014-2018. Pension actuarial gain and losses are recorded to the balance sheet and then amortized. Amortization expense of these gains and losses was provided in response to STAFF-DR-001-001. Pension actuarial gain and loss amounts for the forecasted test period in Case No. 2017-00321 and the base period and forecasted test period in Case No. 2019-00271 were based on the most recent available actual amounts preceding each period, which was 2018.

b. See STAFF-DR-01-002(a)(b) Attachment for pension actuarial gain and loss amounts for calendar years 2014-2018. Pension actuarial gain and losses are recorded to the balance sheet and then amortized. Amortization expense of these gains and losses was provided in response to STAFF-DR-001-001. Pension actuarial gain and loss amounts for the forecasted test period in Case No. 2018-00261 was based on the most recent available actual amounts for the period, which was 2018.

c. Pension actuarial gain or loss amortization expense currently included in Duke Kentucky's base rates equals the amount included the forecasted test period in Case No. 2017-00321 and forecasted test period in Case No. 2018-00261 for electric and gas operations, respectively. Please refer to responses to STAFF-DR-01-001(a) and (b).

**PERSON RESPONSIBLE:** David Dye

**Duke Energy Kentucky**
**Pension Settlement Accounting**

2. Refer to the application, paragraph 6.

a. For Duke Kentucky's electric operations, provide the amount of pension actuarial gain or loss for the calendar years 2014 through 2018, the forecasted test period in Case No. 2017-00321 , and the base period and forecasted test period in Case No. 2019-00271.

| **Response:** | **2014** | **2015** | **2016** | **2017** | **2018** |
|---|---|---|---|---|---|
| | $ 3,320,969 | $ 3,666,186 | $ 4,121,933 | $ 3,601,302 | $ (575,369) |

b. For Duke Kentucky's gas operations, provide the amount of pension actuarial gain or loss for the calendar years 2014 through 2018 and the forecasted test period in Case No. 2018-00261.

| **Response:** | **2014** | **2015** | **2016** | **2017** | **2018** |
|---|---|---|---|---|---|
| | $ 1,139,102 | $ 1,281,433 | $ 1,368,853 | $ 1,292,436 | $ (218,681) |

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-003**

**REQUEST:**

Refer to the application, paragraph 7.

a. Separately for gas and electric operations, provide a comparison of the amount of pension cost recovered in rates and the actual pension costs incurred for calendar years 2007 through 2018.

b. Provide the amount of pension costs projected to be recovered in rates for the base period and forecasted test period in Case No. 2019-00271.

**RESPONSE:**

a.

| | Recovered in Rates | | Actual Pension Costs | |
|---|---|---|---|---|
| Year | Electric | Gas | Electric | Gas |
| 2007 | $ 2,935,222 | $ 848,056 | $ 3,122,490 | $ 993,631 |
| 2008 | $ 2,935,222 | $ 848,056 | $ 2,138,645 | $ 680,554 |
| 2009 | $ 2,935,222 | $ 848,056 | $ 852,994 | $ 271,438 |
| 2010 | $ 2,935,222 | $ 1,005,652 | $ 2,322,315 | $ 739,002 |
| 2011 | $ 2,935,222 | $ 1,005,652 | $ 1,404,983 | $ 447,091 |
| 2012 | $ 2,935,222 | $ 1,005,652 | $ 1,697,540 | $ 540,187 |
| 2013 | $ 2,935,222 | $ 1,005,652 | $ 3,214,899 | $ 1,023,038 |
| 2014 | $ 2,935,222 | $ 1,005,652 | $ 1,822,479 | $ 625,115 |
| 2015 | $ 2,935,222 | $ 1,005,652 | $ 2,265,487 | $ 791,850 |
| 2016 | $ 2,935,222 | $ 1,005,652 | $ 1,815,817 | $ 603,015 |
| 2017 | $ 2,935,222 | $ 1,005,652 | $ 1,474,298 | $ 529,096 |
| 2018 | $ 1,010,797 | $ 1,005,652 | $ 1,088,402 | $ 413,671 |

b. For Case No. 2019-00271, the base period included $1,445,520 of service costs and ($1,603,460) of non-service costs; the forecasted period included $1,442,007 of service costs and ($1,804,532) of non-service costs. The amount of pension costs included in the forecasted period will be recovered in rates.

**PERSON RESPONSIBLE:** Sarah E. Lawler – a.
David R. Dye – b.

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-004**

**REQUEST:**

Refer to the application, paragraph 8.

a. Explain how Duke Kentucky amended its pension plans to allow for lump-sum payments.

b. Explain how duke Kentucky calculates the lump-sum payment.

c. Provide the number of employees separated from their employment as part of workforce reductions in 2019 for Duke Kentucky and Duke Energy Business Services, LLC, respectively.

d. Identify the percentage of the employees that have been separated in 2019 as part of the workforce reductions referred to in paragraph 8 of the application that was eligible to receive lump-sum pension payments and the percentage of employees eligible to receive lump-sum pension payments who took the lump-sum payments.

e. Describe the groups or classes of employees eligible to take lump-sum pension payments by job title, date of hire, and other relevant classifications.

f. Provide the actual settlement charges for the second quarter of 2019 and the third quarter of 2019 that Duke Kentucky proposes to include in the regulatory asset/liability requested herein, including the net total and an itemized explanation of any costs or savings included in the regulatory asset/liability.

g. Provide updates to the estimated settlement charges in 2019 as they become available.

h. Explain whether Duke Kentucky administers its pension plans on a standalone basis or through Duke Energy Corporation. If both entities administer Duke Kentucky's pension plans, provide the relative proportion of each.

i. Explain whether Duke Kentucky's allocated and direct costs would exceed the threshold on a standalone basis.

**RESPONSE:**

a. Lump sums generally became available under the Duke Energy pension plans with the introduction of cash balance formulas. Following termination of employment, participants may elect to receive their cash balance benefits as a lump sum. Most employees for whom costs are included in Kentucky rates are legacy Cinergy employees.

In 2003 Cinergy offered employees a choice to move to a cash balance design which provides a lump sum optional form of payment. In 2007 when Duke Energy bought Cinergy there was another choice offering for non-union participants to move to a cash balance design which provides a lump sum optional form of payment for their pension. In the subsequent years all the union groups were given choices to move to cash balance. After a few years, except for certain grandfathered union employees, all employees were required to move to cash balance and have a lump sum optional form of payment for some or all of their benefit.

Duke Energy converted all its legacy employees to a cash balance design in 1997 which provides a lump sum optional form of payment.

Legacy Progress employees also have cash balance benefits. Current legacy Piedmont employees have always had a lump sum optional form of payment available.

b. For those employees under a cash balance formula, the lump sum is equal to the cash balance account. For those employees, including legacy Cinergy employees, with a traditional final average pay benefit that is eligible to be distributed in a lump sum, the lump sum is determined using the IRS Code section 417(e) minimum required interest rates and mortality.

c. The number of employees separated from employment in 2019 as part of workforce reductions (termination date was 12/31/2018 or between January 1, 2019 – October 31, 2019) for Duke Kentucky and Duke Energy Business Services, LLC are 4 and 352, respectively.

d. Percentage of the employees that have been separated in 2019 as part of the workforce reductions that was eligible to receive lump-sum pension payments and the percentage of employees eligible to receive lump-sum pension payments who took the lump-sum payments:

   - 332 of the 356 in a pension plan – 93%
   - 329 of the 332 eligible for a lump sum – 99%
   - 195 of the 329 elected a lump sum – 59%

e. Following termination of employment, all employees are eligible to receive a lump sum of all or part of their pension based on the description of a) above except the following:

   - Those grandfathered union employees who did not move to a cash balance design:

      i. USW who were age 50 with 25 years of service as of 12/31/11

      ii. UWUA who were age 50 with 25 years of service as of 12/31/12

      iii. IBEW 1347 who had 75 points (age + service) as of 12/31/13

iv. IBEW 1393 who had 75 points (age + service) as of 12/31/14

- Florida union employees hired before 1/1/2003 who participate in the Retirement Plan for Bargaining Unit Employees of Florida Progress Corporation (with a benefit the present value of which is at least $7,500)

f. Duke Energy Kentucky proposes to include in the requested regulatory asset/liability, actual settlement charges of $243,841 and $78,087 that were recorded for the second quarter of 2019 and the third quarter of 2019, respectively. Savings included in the regulatory asset represent expense that would be recorded to FERC account 926 absent the ability to defer the settlement charges.

g. Duke Energy Kentucky will provide an update to the estimated settlement charge recorded for the fourth quarter of 2019 when the amount is available.

h. Duke Energy Corporation currently sponsors and has sole amendment authority for the Duke Energy Retirement Cash Balance Plan ("RCBP") and the Duke Energy Legacy Pension Plan (the "Legacy Plan"). Duke Energy Kentucky, Inc. and Duke Energy Business Services LLC are participating employers in the RCBP and Legacy Plan. Florida Progress Corporation currently sponsors the Retirement Plan for Bargaining Unit Employees of Florida Progress Corporation (the "Florida Plan"). Neither Duke Energy Kentucky, Inc. nor Duke Energy Business Services LLC is a participating employer in the Florida Plan.

i. Settlement accounting is triggered when lump sum pension benefit payments exceed the threshold (not allocated and direct costs). Information on lump-sum payments for Duke Kentucky is not readily available.

**PERSON RESPONSIBLE:** Renee H. Metzler – a. thru e., h.
David Dye – f., g., i.

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-005**

**REQUEST:**

Refer to the application, paragraph 8, and ASC 715-30-35-92 through 715-30-35-96. Explain whether Duke Energy Corporation or Duke Kentucky's workforce reductions or amendments to lock and freeze its defined benefit plans constitute a plan curtailment.

**RESPONSE:**

Curtailment accounting under ASC 715-30-35 is triggered when a significant number of employees terminate from a plan as a result of an event or action by the plan sponsor.

Effective January 1, 2014, Duke Energy Corporation's defined benefit plans were amended to close participation to new hires. However, because benefits for plan participants were not frozen, there was no reduction in future years of service for existing participants, so curtailment was not triggered.

In 2018, Duke Energy Corporation engaged its actuary to test for curtailment considering its workforce reduction activities. No defined benefit plans triggered curtailment as a result of the workforce reductions.

**PERSON RESPONSIBLE:** David Dye

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-006**

**REQUEST:**

Refer to the application, paragraph 9.

a. Identify the pension plans that have been closed to new employees and when they were closed.

b. Identify and explain the pension plan(s) that are available to new employees and when they become available.

c. Provide an estimate of the total expected settlement charges that Duke Kentucky expects to include in the regulatory asset/liability requested herein for the years 2020 through 2024, and explain in detail how Duke Kentucky made those estimates.

**RESPONSE:**

a. Duke Energy closed participation under the Duke Energy Retirement Cash Balance Plan for non-union new hires effective January 1, 2014, and negotiated closing of participation for all union new hires effective from 2014 through 2017. In addition, the Retirement Plan for Bargaining Unit Employees of Florida Progress Corporation was closed to new hires effective January 1, 2018.

b. There is not a pension plan available to new employees of Duke Energy. New hires only participate in the Duke Energy Retirement Savings Plan, which is a defined contribution plan.

c. The information below is an estimate of the total expected settlement charges for Duke Energy Kentucky (Gas and Electric) and Duke Energy Business Services for the time period 2020-2024. These are estimates as of 11/13/2019 and the data has been provided by Willis Towers Watson.

| | Duke Energy Kentucky | Duke Energy Business Services |
|---|---|---|
| 2020 | - | - |
| 2021 | 757,716 | 16,716,377 |
| 2022 | 593,903 | 14,836,671 |
| 2023 | 485,854 | 13,246,187 |
| 2024 | 424,299 | 11,642,083 |

**PERSON RESPONSIBLE:** Renee H. Metzler – a., b.
David Dye – c.

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-007**

**REQUEST:**

Refer to the application, paragraph 9, and ASC 715-30-35-82. State the accounting policy Duke Kentucky is adopting for gains or losses from settlements when the cost of all settlements is less than or equal to the sum of the service and interest cost components of net periodic pension cost for the plan for the year.

**RESPONSE:**

Duke Energy Kentucky elects to amortize, in accordance with US GAAP under ASC 715-30-35-24, net actuarial gain or loss amounts that are in excess of 10 percent of the greater of the market-related value of plan assets or the plan's projected benefit obligation, into net pension or other post-retirement benefit expense over the average remaining service period of active participants expected to benefit under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants is used instead of average remaining service period.

**PERSON RESPONSIBLE:** David Dye

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-008**

**REQUEST:**

Refer to the application, paragraph 10.

a. Explain in greater detail how, absent Commission approval of the instant application, Duke Kentucky would be treating Pension Settlement Accounting differently than all other aspects of its pension plan accounting.

b. Explain whether Duke Kentucky will separately calculate the amounts incremental to base rates for its existing pension plan accounting and Pension Settlement Accounting.

c. Clarify whether Duke Kentucky intends to defer all Pension Settlement Accounting gains or losses or only those amounts incremental to base rates.

d. State how often Duke Kentucky will calculate deferrals related to Pension Settlement Accounting.

**RESPONSE:**

a. Absent Commission approval of the instant application, Duke Energy Kentucky would record pension settlement charges as expense to FERC account 926. Absent the triggering of settlement accounting, actuarial losses are amortized over the estimated remaining service life of plan participants.

b. Yes. Amortization of deferred pension settlement charges will be calculated separately from amounts under existing pension plan accounting. Consistent with existing plan accounting, the amounts will be amortized over the average remaining service life of plan participants.

c. Duke Energy Kentucky intends to defer all pension settlement accounting gains and losses. Duke Energy Kentucky has not included any pension settlement accounting gains or losses in base rates.

d. Duke Energy Kentucky will calculate deferrals in any calendar year in which settlement accounting is triggered.

**PERSON RESPONSIBLE:** David Dye

**REQUEST:**

Refer to the application, paragraph 11.

a. Based on its various accounting and reporting requirements, state the latest possible date that Duke Kentucky can receive a Commission decision and record the proposed regulatory asset on its books for 2019.
b. Explain why Duke Kentucky did not request an expedited decision.
c. State the date by which Duke Kentucky requests a decision.
d. Explain why an amortization period of the average remaining service period of the pension plan participants is appropriate considering that Duke Kentucky's defined benefit pension plan is closed to new hires, and the instant request was prompted by workforce reductions.

**RESPONSE:**

a. Duke Energy Kentucky requires a decision by January 2, 2020 in order to record the proposed regulatory asset on its books in the 2019 accounting period.
b. Duke Energy Kentucky did not consider that expedited treatment was necessary and that the Commission would have time to issue an order on this issue. To the extent the Company was incorrect, it apologizes for not requesting expedited treatment.
c. See response to (a).

d. An amortization period of the average remaining service life of plan participants is appropriate because this period is consistent with the amortization period used under existing pension plan accounting for the amortization of actuarial gains and losses. Keeping the amortization period consistent with existing pension plan accounting will maintain alignment of expense with current rates.

**PERSON RESPONSIBLE:** David Dye

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-010**

**REQUEST:**

Refer to the application, paragraph 11 and 18. Clarify when Duke Kentucky proposes to begin amortizing the requested regulatory asset.

**RESPONSE:**

Duke Energy Kentucky proposes to begin amortizing the requested regulatory asset in the month subsequent to deferral.

**PERSON RESPONSIBLE:** David Dye

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-011**

**REQUEST:**

Refer to the application, paragraph 12. Identify and explain the deferral authority Duke Kentucky has for all other aspects of its pension plan accounting.

**RESPONSE:**

Duke Energy Kentucky's deferral authority is based on guidance issued by FERC in 2007 (Docket No. A107-1-000), which guided utilities to recognize a regulatory asset or liability for the Pension funded status asset or liability otherwise chargeable to Other Comprehensive Income under US GAAP per SFAS 87. Reference to this docket is provided on page 232.1 within Duke Kentucky's FERC Form 1 filing for the year ended December 31, 2018.

**PERSON RESPONSIBLE:** David Dye

**REQUEST:**

Refer to the application, paragraph 17.

a. Provide the actual and estimated cost savings for Duke Kentucky, including allocated amounts, for electric operations in 2019, and the base period and forecasted test period in Case No. 2019-00271.

b. Provide the actual and estimated cost savings for Duke Kentucky, including allocated amounts, for gas operations in 2019.

c. Provide an itemized explanation of the actual and estimated cost savings identified in response to subparts (a) and (b) of this request.

d. Explain whether actual cost savings should be included in the regulatory asset.

e. Identify the trustees or administrators of Duke Kentucky's pension plan and describe the basis for any trustee or administration fees.

f. Identify the "statutory or administrative directive" that Duke Kentucky contends justifies recording the settlement charges as a regulatory asset/liability.

**RESPONSE:**

a. Decisions regarding which departments and employees are eligible for voluntary or involuntary severance programs occurs at individual business group or department levels. Any savings projections that were calculated would have occurred within individual departments and are not compiled at an overall corporate level. Accordingly, such savings were absorbed in annual budgeting processes to offset other cost increases for individual department budgets and were not separately tracked. To the extent such savings were incorporated into the overall individual department budget, such savings would be reflected in the Company's test period in the currently pending electric rate case.

b. See response to part (a). Decisions regarding which departments and employees are eligible for voluntary or involuntary severance programs occurs at individual business group or department levels. Any savings projections that were calculated would have occurred within individual departments and are not compiled at an overall corporate level, such savings were absorbed to offset other cost increases for individual department budgets and were not separately tracked.

c. See response to part (a) and (b).

d. The Company is seeking deferral authority to treat Pension Settlement Accounting consistently with all other aspects of its pension deferral accounting. It would not be appropriate to include non-pension costs in a pension deferral.

e. The Trustee of Duke Energy Kentucky's pension plan is Northern Trust. Fees are paid to Northern Trust are both transactional and asset-based and are for both custodial and trustee services.

   The plan administrator is Alight. Fees paid to Alight are based on headcount.

   Fees are benchmarked periodically.

f. Generally Accepted Accounting Principles (GAAP)

**PERSON RESPONSIBLE:** Christopher Jacobi – a.
Sarah Lawler – b. thru d., f.
Renee Metzler – e.

**REQUEST:**

Refer to the application, paragraph 19, in which Duke Kentucky states that the "gains/losses would have been recorded to a FERC account 182.3 regulatory asset and amortized over the estimated remaining service life of the employees in the pension plan" if "Pension Settlement Accounting [had] not been triggered."

a. State whether Duke Kentucky recovers a carrying charge on pension gains/losses recorded to a FERC account 182.3 if Pension Settlement Accounting has not been triggered, and explain each basis for the response.

b. State whether pension gains/losses recorded to a FERC account 182.3 if Pension Settlement Accounting has not been triggered would be amortized even if the amortization of those gains/losses were not reflected in rates, and explain each basis for the response.

c. If the gains/losses would be amortized had Pension Settlement Accounting not been triggered even if the amortization of those gains/losses were not reflected in rates, state whether and explain why Duke Kentucky contends that additions to the regulatory asset/liability requested herein should not begin amortizing as soon as they are included in the proposed regulatory asset and liability accounts.

**RESPONSE:**

a. Duke Energy Kentucky does not recover a carrying charge on pension actuarial losses recorded to FERC account 182.3.

b. Yes. Pension actuarial losses recorded to FERC account 182.3 would be amortized even if the amortization was not reflected in rates. Amortization would be recorded in accordance to the policy provided in Duke Energy Kentucky's response to STAFF-DR-01-007.

c. Duke Energy Kentucky does not contend that additions should not begin amortizing soon as they are included in the proposed regulatory asset and liability accounts. Please refer to STAFF-DR-01-010, where Duke Energy Kentucky proposes to begin amortizing the requested regulatory asset in the month subsequent to deferral.

**PERSON RESPONSIBLE:** David Dye

**STAFF-DR-01-014**

**REQUEST:**

Refer to the application, page 9, item 2.

a. Describe in greater detail the request for carrying costs as part of the regulatory assets described in the application.

b. Explain why carrying costs are appropriate for the requested regulatory asset for Pension Settlement Accounting.

c. State whether Duke Kentucky includes carrying costs in its current regulatory assets for pension plan accounting.

**RESPONSE:**

a. The Company should not have included a request for carrying costs as part of this application. Item #2 on Page 9 of the Company's application should not have been included.

b. See response to (a).

c. The Company does not include carrying costs in its current regulatory assets for pension plan accounting. See response to STAFF-DR-01-013(a).

**PERSON RESPONSIBLE:** Sarah E. Lawler

**Duke Energy Kentucky**
**Case No. 2019-00352**
**Staff First Set Data Requests**
**Date Received: November 1, 2019**

**STAFF-DR-01-015**

**REQUEST:**

a. Describe how Duke Kentucky determines the average remaining future service of active plan participants for the purposes of determining the amortization period for pension plan gains and losses, assuming that method is used to determine the amortization period.

b. Using the same method it uses (or that would be used) to determine the average remaining future service of active plan participants, provide the average remaining future service of employees whose separation resulted in a lump-sum pension payment in the second quarter of 2019 and the third quarter of 2019, as of March 31, 2019 and June 30, 2019, respectively.

c. Confirm that the "cost savings" derived from "reducing headcount" through the involuntary separation and incentivized early retirement of current employees will be weighted toward the date on which the employees become separated, because the statistical likelihood that the employees would have remained with the company if they had not been separated goes down over time, and if it cannot be confirmed, explain the basis for your response.

d. Given that Duke Kentucky justified recording the settlement charges as regulatory assets and regulatory liabilities based on "cost savings" derived from "reducing headcount," state whether and, if so, explain why Duke Kentucky contends that the cost savings that occur between rate proceedings, including the savings arising from reductions in expenses for the employees' salary and benefits, should not be recorded as a regulatory liability.

**RESPONSE:**

a. Average remaining service life of pension plan participants of employees expected to receive benefits, which serves as the basis for amortization of actuarial gains and losses, is calculated by Duke Energy's actuaries by dividing the total future service years for these plan participants by the number of plan participants. Future service years considers actuarial assumptions related to mortality, retirement and turnover.

b. The average remaining service life calculation prepared by Duke Energy's actuary is only for the total pension plan participant population. The average remaining service life for subsets of the participant plan population are not readily available.

c. Confirmed. However, Duke Energy did not offer a pension enhancement incentivizing early retirement for the 2018 workforce reductions. The release dates for employees leaving under Duke Energy's severance plans, regardless of whether the separation is voluntary or involuntary, were established based primarily on business need. Several factors were considered when establishing release dates, including, but not limited to (i) transition and/or training timelines, and (ii) anticipated end dates of projects staffed by impacted employees.

d. The Commission has exercised its discretion to approve a regulatory asset upon demonstration that the expenses to be deferred fall into one of four categories:

    (1) An extraordinary, nonrecurring expense which could not have reasonably been anticipated in the utility's planning;

(2) An expense resulting from a statutory or administrative directive;

(3) An expense in relation to an approved industry initiative; or

(4) An extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.

The rationale we used for the pension regulatory asset as discussed in our application satisfies the Commission's standard. The Company is not aware of any instance, Commission rule, or regulatory requirement where a utility was required to record a regulatory liability for the savings between rate cases. The savings resulting from this pension settlement issue are reflected in the Company's test year revenue requirement in its current electric base rate case and will be reflected in the Company's next natural gas base rate case and customers, therefore, will benefit from the pension settlement indefinitely.

**PERSON RESPONSIBLE:** David Dye – a., b.
Renee H. Metzler – c.
Sarah E. Lawler – d.

**STAFF-DR-01-016**

**REQUEST:**

State whether and explain why Duke Kentucky contends that the "cost savings" derived from "reducing headcount" against which the settlement charges should be measured to determine whether the settlement charges can be treated as a regulatory asset should be measured based on the cost savings arising from the separation of employees who took the lump sum pension payments; the cost savings arising from the separation of employees who were eligible to take the lump-sum pension payments, regardless of whether they took them or not; or the cost savings arising from the separation of every employee separated during the relevant quarter or year during which the lump sum pension payments were made.

**RESPONSE:**

Duke Energy Kentucky does not contend the treatment of settlement charges as a regulatory asset should be based on cost savings derived from reducing headcount. Duke Energy Kentucky's request to record settlement charges in regulatory asset or regulatory liability accounts and to amortize those assets or liabilities in the same manner they would have been amortized had the Pension Settlement Accounting not been triggered, has been made to avoid recognition of expense or income impacts to its financial statements that are lumpy and irrational, and are not aligned with current rates.

**PERSON RESPONSIBLE:** David Dye

**STAFF-DR-01-017**

**REQUEST:**

State whether the lump sum pension payments in 2019 from which the settlement charges at issue arose are something that employees were eligible for as a matter of right upon their separation or whether lump-sum payments were offered as part of an effort to encourage employees to accept a voluntary separation (or early retirement) from Duke Kentucky.

a. If the lump sum pension payments made in 2019 were offered as part of an effort to encourage employees to accept a voluntary separation from Duke Kentucky (or early retirement), describe the terms of the incentive offered and Duke Kentucky's plans to offer similar incentives in the future.
b. If the lump-sum pension payments made in 2019 are something that the employees were entitled to as a matter of right under the terms of the current pension plans, describe the circumstances under which employees are entitled to the receive a lump-sum pension payment under current plans and the employees who are entitled to receive them.

**RESPONSE:**

a. Duke Energy's pension plans include provisions allowing distributions to employees in the form of lumps sums following their termination of employment in the normal course. In other words, no special lump sums or other incentives were offered under Duke Energy's pension plans to encourage retirement in 2019, and there is no plan to offer such incentives at this time.

b. See the response to STAFF-DR-01-004(e).

**PERSON RESPONSIBLE:** Renee H. Metzler