VERIFICATION

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

The undersigned, Jay Brown, Director Rates & Regulatory Planning, deposes and says that he has personal knowledge of the matters set forth in the foregoing supplemental data requests, and that the answers contained therein are true and correct to the best of his knowledge information and belief.

Jay Brown Affiant

Subscribed and sworn to before me by Jay Brown on this 24th day of August, 2021.

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, Jake Stewart, Director Compensation, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing supplemental data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Jake Stewart Affiant

Subscribed and sworn to before me by Jake Stewart on this 24 day of August, 2021.

MICHAEL J KELLEY
COMMISSION NO. 201705100159
NOTARY
PUBLIC
MY COMMISSION EXPIRES 02/14/2022
MECKLENBURG COUNTY, N.C.

NOTARY PUBLIC

My Commission Expires: 02/14/2022

KyPSC Case No. 2021-00190
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PUBLIC SUPPLEMENTAL AG-DR-02-015
(As to Attachment 1 only)

REQUEST:

Provide the pension expense reflected in the test year separately for DEK, allocated from DEO, and allocated from DEBS. Provide the actuarial report relied on for these amounts and annotate the amount included in the revenue requirement to the actuarial report, including the allocations of DEO and DEBS amounts to DEK, jurisdictional allocations, and allocations of total cost to the expense reflected in the test year.

SUPPLEMENTAL RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment 1 only)

Please see AG-DR-02-015 Confidential Supplemental Attachment 1 for the actuarial valuation report as of December 2020. An actuarial valuation report is received annually from the Company's actuary, Willis Towers Watson each fiscal year. The confidential attachment provided in response to AG-DR-01-040 represents the forecast received by the Company from Willis Towers Watson, for Pension and OPEB cost for Duke Energy and its subsidiaries, including total Duke Energy Kentucky, that was used for the 2022 test period. The numbers provided in response to AG-DR-01-040 included total cost (O&M and capital). The "actuarial report" referred to above, containing pension trust fund assets, pension obligations, etc. does not exist on a forward-looking basis.

Please see AG-DR-02-015 Supplemental Attachment 2 for the pension expense reflected in the test year separately for Duke Energy Kentucky, allocated from Duke Energy Ohio, and allocated from DEBS for Duke Energy Kentucky natural gas. The

Company erroneously included total Duke Energy Kentucky <u>including electric</u> in its initial response to AG-DR-02-015. Annotation footnotes A and B are provided at the bottom of AG-DR-02-015 Supplemental Attachment 2 to tie back to numbers provided in response to AG-DR-01-040.

PERSON RESPONSIBLE: Jake J. Stewart
Jay P. Brown

CONFIDENTIAL PROPRIETARY TRADE SECRET

AG-SUPPLEMENTAL-DR-02-015
CONFIDENTIAL
ATTACHMENT 1

FILED UNDER SEAL

DUKE ENERGY KENTUCKY
Case No. 2021-00190
Attorney General
Second Set Data Requests

AG-DR-02-015 SUPP

a. Provide the pension expense reflected in the test year separately for DEK, allocated from DEO, and allocated from DEBS.
b. Provide the actuarial report relied on for these amounts and annotate the amount included in the revenue requirement to the actuarial report, including the allocations of DEO and DEBS amounts to DEK, jurisdictional allocations, and allocations of total cost to the expense reflected in the test year.

Response:

Pension expense reflected in the test year for DEK (gas) is as follows:

DEK (gas) - direct	$	(155,300)
Allocated from DEO	$	23,349
Allocated from DEBS	$	197,412

Detailed calculation for Pension expense reflected in the test year, including components of calculation based on actuarial report, is as follows:

		DEK		DEBS		DEO
Qualified Pension						
Net periodic benefit cost - service cost (A)	$	1,186,194	$	45,126,036	$	3,696,132
O&M percentage		68.05%		72.42%		47.38%
Percent DEBS allocation to DEK (gas)				1.05%		
Percent DEO allocation to DEK (gas)						1.33%
Expense O&M		807,205		343,143		23,349
Percent allocated to DEK (gas)		26.6%				
Expense O&M portion to DEK (gas)	$	214,394		343,143		23,349
Qualified Pension						
Net periodic benefit cost - non-service cost (B)	$	(1,550,710)	$	(38,350,134)	$	-
Purchase accounting amortization		158,793				
Total non-service cost and purchase accounting amortization		(1,391,917)		(38,350,134)		-
Percent DEBS allocation to DEK (gas)				0.38%		
Non-service cost including purchase accounting adjustment		(1,391,917)		(145,731)		-
Percent allocated to DEK (gas)		26.6%				
Non - service cost portion to DEK (gas)	$	(369,693)	$	(145,731)		
Total Pension Expense - DEK (gas)	$	(155,300)	$	197,412	$	23,349

A Please refer to the 'Service Cost" line within the "Qualifed Pension" tab of actuarial report, provided in response to AG-DR-01-040 (AG-DR-01-040 CONF Attachment.xls).

B Please refer to to the "Other" line within the "Qualified Pension" tab of actuarial report, provided in response to AG-DR-01-040 (AG-DR-01-040 CONF Attachment.xls).

SUPPLEMENTAL AG-DR-02-016

REQUEST:

Provide the OPEB expense reflected in the test year separately for DEK, allocated from DEO, and allocated from DEBS. Provide the actuarial report relied on for these amounts and annotate the amount included in the revenue requirement to the actuarial report, including the allocations of DEO and DEBS amounts to DEK, jurisdictional allocations, and allocations of total cost to the expense reflected in the test year.

SUPPLEMENTAL RESPONSE:

Please see AG-DR-02-015 Confidential Supplemental Attachment 1 for the actuarial valuation report as of December 2020. An actuarial valuation report is received annually from its actuary, Willis Towers Watson each fiscal year. The confidential attachment provided in response to AG-DR-01-040 represents the forecast received by the Company from Willis Towers Watson, for Pension and OPEB cost for Duke Energy and its subsidiaries, including total Duke Energy Kentucky, that was used for the 2022 test period. The numbers provided in response to AG-DR-01-040 included total cost (O&M and capital). The "actuarial report" referred to above, containing pension trust fund assets, pension obligations, etc. does not exist on a forward-looking basis.

Please see AG-DR-02-016 Supplemental Attachment for the OPEB expense reflected in the test year separately for Duke Energy Kentucky, allocated from Duke Energy Ohio, and allocated from DEBS for <u>Duke Energy Kentucky natural gas</u>. The Company erroneously included total Duke Energy Kentucky <u>including electric</u> in its initial response to AG-DR-02-016. Annotation footnotes A and B are provided at the bottom of

AG-DR-02-016 Supplemental Attachment, to tie back to numbers provided in provided in response to AG-DR-01-040.

PERSON RESPONSIBLE: Jake J. Stewart
Jay P. Brown

DUKE ENERGY KENTUCKY
Case No. 2021-00190
Attorney General
Second Set Data Requests

AG-DR-02-016 SUPP
Provide the OPEB expense reflected in the test year separately for DEK, allocated from DEO, and allocated from DEBS.
Provide the actuarial report relied on for these amounts and annotate the amount included in the revenue requirement to the actuarial report, including the allocations of DEO and DEBS amounts to DEK, jurisdictional allocations, and allocations of total cost to the expense reflected in the test year.

Response:

OPEB expense reflected in the test year for DEK (gas) is as follows:

DEK (gas) - direct	$	122,913
Allocated from DEO	$	1,189
Allocated from DEBS	$	7,218

Detailed calculation for OPEB expense reflected in the test year, including components of calculation based on actuarial report, is as follows:

	DEK	DEBS	DEO
OPEB			
Net periodic benefit cost - service cost (A)	$ 72,842	$ 974,103	$ 188,246
O&M percentage	68.05%	72.42%	47.38%
Percent DEBS allocation to DEK (gas)		1.05%	
Percent DEO allocation to DEK (gas)			1.33%
Expense O&M	49,569	7,407	1,189
Percent allocated to DEK (gas)	26.6%		
Expense O&M portion to DEK (gas)	$ 13,166	$ 7,407	$ 1,189
OPEB			
Net periodic benefit cost - non-service cost (B)	$ 245,386	$ (49,807)	$ -
Purchase accounting amortization	167,818		
Total non-service cost and purchase accounting amortization	413,204	(49,807)	-
Percent DEBS allocation to DEK (gas)		0.38%	
Non-service cost including purchase accounting adjustment	413,204	(189)	-
Percent allocated to DEK (gas)	26.6%		
Non - service cost portion to DEK (gas)	109,747	(189)	-
Total OPEB Expense - DEK (gas)	**$ 122,913**	**$ 7,218**	**$ 1,189**

A Please refer to the 'Service Cost" line within the "OPEB" tab of actuarial report, provided in response to AG-DR-01-040 (AG-DR-01-040 CONF Attachment.xls).
B Please refer to to the "Other" line within the "OPEB" tab of actuarial report, provided in response to AG-DR-01-040 (AG-DR-01-040 CONF Attachment.xls).

Duke Energy Kentucky
Case No. 2021-00190
Attorney General's Second Set Data Requests
Date Received: August 4, 2021

PUBLIC SUPPLEMENTAL AG-DR-02-019
(As to Attachment only)

REQUEST:

Refer to the Company's response to AG 1-66.

a. Provide the requested copy of all documentation that addresses the capitalization or expensing of costs to install or remove assets, including retirements and cost of removal charged to the accumulated depreciation reserve or expensed as maintenance.

b. Provide a detailed description of the Company's accounting when it retires assets and replaces them with new assets, including the methodology it uses to allocate or otherwise determine the payroll and related costs allocated to the additions versus the retirements for cost of removal.

c. Provide a detailed description of the Company's guidelines and practices for the physical removal of assets by type of plant (pipeline, regulator, service, etc.) or whether they are left in place. For example, most utilities do not remove old pipeline when it is retired, at least longer sections, instead cutting and bypassing the old pipeline when a section is replaced.

d. Provide a copy of the most recent Time and Motion study or other study used by DEK in the determination of net salvage percentages or amounts to be written off when an existing asset is replaced with a new asset.

SUPPLEMENTAL RESPONSE:

<u>CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment only)</u>

The Company is providing additional information to correct and clarify its initial responses to parts (c) and (d).

c. The company mistakenly interpreted the question to be asking for accounting guidelines. Upon review and clarification with the Attorney General, please see AG-DR-02-019 Confidential Supplemental Attachment for the natural gas business unit's documentation on field operations procedures for abandoning facilities and pipeline in place.

d. Upon review and clarification with the Attorney General, it was determined that the question was asking for how the Company allocates costs between plant in-service and cost of removal. The Company does not rely on any studies (Time and Motion or otherwise) to determine the allocation. For certain projects, when capital work is initially identified, a charter is provided that contains cost detail, among other items. For these projects, the estimating team uses past costs for that geographic area and pipe diameter/footage and other assumptions to develop project specific estimates for materials, land, pipeline construction, etc. The cost detail will have estimated installation and retirement costs. This information feeds into the PowerPlan system and routes the funding project for approval. For emergent projects, the Company assumes 5% of the total project costs will be related to the retirement of the asset with the understanding that the project will be trued-up on the backend through the unitization process.

The process explained above is the "COR Derivation" process which is outlined in the company's capitalization guidelines on page 126 provided in response to AG-DR-02-019(a) Confidential Attachment and highlighted below.

In the COR Derivation process, PowerPlan has functionality that calculates the allocation split (Rate) between CWIP and RWIP at a detail project level. This allows charges (i.e. labor and contract labor) to be charged directly to additions (CWIP) and then gets allocated between addition (CWIP) and cost of removal (RWIP) based on the latest estimates at the detailed project level. Please note that not all charges are included in this COR Derivation allocation such as Material, AFUDC, and O&M charges. Project estimates may change significantly between the initial estimate and the final "As Built" document that is created on a project after the work has been completed. PowerPlan will automatically reallocate the cost of removal based on the As Built.

Guidelines

- Cost of removal is either directly charged or allocated to removal work in process (RWIP). The allocation is referred to as "COR Derivation" and is described in further detail below.
- Business units directly charge retirement project ids / work codes for any salvage costs.
- When a retirement unit is retired from plant, if the retirement unit is of a depreciable class, the cost of removal and the salvage shall be charged or credited, as appropriate, to the accumulated depreciation account.
- When a minor item of property is retired and not replaced, and the minor item is a part of depreciable plant, the accumulated depreciation account shall be charged with cost of removal and credited with salvage.
- Non-regulated plant cost of removal is expensed and is not part of capital.
- The costs to prepare and sell vehicles should be charged to cost of removal. Costs that would otherwise have been incurred in the course of business, such as for maintenance and repairs, should be expensed as incurred.

Additional related information can be found in the Code of Federal Regulations, Title 18, Electric / Gas Plant Instruction 10(b)(2).

COR Derivation - Cost of Removal Allocation Process

The Power Plan system has functionality for Cost of Removal Derivation. This allows labor charges to be charged directly to additions (CWIP) and then get allocated between addition (CWIP) and cost of removal (RWIP) based estimates at the detailed project level.

Advantages of Using Power Plant Cost of Removal Allocation

- Cost of Removal will be recorded in a timely manner
- One Project and one activity could be charged for both additions and cost of removal
- Eases burden on field and craft personnel to separate their time between construction and removal tasks
- Cost of removal is a current year tax deduction and proper, timely recognition can generate significant tax savings

COR Derivation occurs on a daily basis for the current charges.

COR Derivation - Cost of Removal True-Up Process

Power Plant allows estimates to be identified as Labor, Material, Contractor or Other where applicable. Project estimates may change significantly over the life of a project and as such should be updated during or shortly after completion of the work. Once the estimate is updated, Power Plant will automatically record journal entries to reallocate the cost of removal based on the updated estimates. This true-up of the allocation is performed three times per month: Day 10, last working day of the month, and Day 3.

For example, on a project where the scope of the job is to install main and abandon or remove the existing main. The project manager would set up a work order in Maximo (work management) and send PowerPlan a unit estimate with an addition estimate for the main(s) being installed with the estimated cost along with the estimated cost for abandoning or removing the existing main. In this example, the project manager has estimated company labor $900 and contractor labor of $80 for the install and for the abandonment/removal company labor $100 and contract labor $20. The COR Derivation process will calculate a rate/split between CWIP and RWIP where 90% of company labor charges would be expected to be booked to CWIP and 10% to RWIP. Then for contract labor 80% of the charges would be expected to be booked to CWIP and 20% booked to RWIP. The other charges on the project would follow the priority based on the labor and get a 90% CWIP to 10% RWIP split.

If there was a $100.00 that gets charged for company labor, $200 for contact labor, and $1,000 for other cost. The COR Derivation process will do a journal entry that will reverse the original charges and then split the charges between CWIP and RWIP based on the unit estimate. Please see below:

Type of Charge	CWIP/RWIP Rate	Original Charges	Reversal	Allocation CWIP Charges	Allocation RWIP Charges
Labor	90%/10%	$100	(100)	$90	$10
Contract Labor	80%/20%	$200	(200)	$160	$40
Other	90%/10%	$1,000	(1,000)	$900	$100

Now when the As Built is provided and the cost on the As Built has changed, the COR Derivation process will recalculate a rate/split between CWIP and RWIP and adjust/true-up charges based on the As Built. For example, the company labor is now $750 and contract labor is now $85 on the install and the company labor is $250 and contract labor is $15 for the abandonment/retirement. The company labor split is now 75% CWIP/25% RWIP and contract labor is 85% CWIP/15% RWIP.

Type of Charge	Initial CWIP/RWIP Rate	Original Charges	Allocation CWIP Charges	Allocation RWIP Charges	New CWIP/RWIP Rates	True-up Adjust CWIP	True-up Adjust RWIP	After True-up CWIP	After True-up RWIP
Labor	90%/10%	$100	$90	$10	75%/25%	(15)	15	$75	$25
Contract Labor	80%/20%	$200	$160	$40	85%/15%	10	(10)	$170	$30
Other	90%/10%	$1,000	$900	$100	75%/25%	(150)	150	$750	$250

PERSON RESPONSIBLE: David G. Raiford

CONFIDENTIAL PROPRIETARY TRADE SECRET

AG-SUPPLEMENTAL-DR-02-019 CONFIDENTIAL ATTACHMENT

FILED UNDER SEAL