COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Electronic Application of Duke Energy Kentucky, Inc., for: 1) An Adjustment of the Natural Gas Rates; 2) Approval of New Tariffs; and 3) All Other Required Approvals, Waivers, and Relief.	)))))	Case No. 2021-00190

SUPPLEMENTAL TESTIMONY OF

SARAH E. LAWLER

IN SUPPORT OF SETTLEMENT

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

October 8, 2021

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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Sarah E. Lawler and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

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

A. I am employed by Duke Energy Business Services LLC (DEBS), as Vice President, Rates and Regulatory Strategy for Ohio and Kentucky. DEBS provides various administrative and other services to Duke Energy Kentucky, Inc., (Duke Energy Kentucky or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. ARE YOU THE SAME SARAH E. LAWLER THAT SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN THIS PROCEEDING?

A. My supplemental testimony is filed in support of the Joint Stipulation and Recommendation (Stipulation) filed with the Kentucky Public Service Commission (Commission) on October 8, 2021 in this proceeding. My supplemental testimony will describe how the Stipulation results in a fair, just and reasonable settlement of the issues in this case.

II. OVERVIEW OF THE STIPULATION

Q. ARE YOU FAMILIAR WITH THE STIPULATION FILED IN THIS PROCEEDING?

A. Yes. As, Vice President, Rates and Regulatory Strategy for Duke Energy Kentucky and Ohio, my responsibilities include the establishment and implementation of rates for Duke Energy Kentucky. I participated in negotiating the Stipulation.

Q. WHO ARE THE PARTIES TO THE STIPULATION?

A. The Stipulation is between the Attorney General of the Commonwealth of Kentucky (Attorney General), the only other party to the proceeding, and Duke Energy Kentucky (collectively, the Parties).

Q. PLEASE EXPLAIN WHY THE PARTIES WERE WILLING TO COMPROMISE.

A. Each Party recognizes that the settlement process can promote administrative efficiency. Full litigation is time consuming and expensive for all parties involved and the litigation can produce unexpected and undesirable results for the Parties. Settlement provides an opportunity for each Party to reach an outcome that achieves a result the Parties believe is reasonable and preferable to the outcome that could result from a full litigation of each individual issue in an evidentiary hearing and allows for Parties to agree to terms that could not otherwise be required by the Commission, such as a base rate case stay-out provision. Settlement also provides the framework to avoid any need for costly and time-consuming appeals that may follow a Commission decision in a fully litigated case.

Q. PLEASE SUMMARIZE THE KEY TERMS OF THE STIPULATION.

A. The Stipulation expressly reflects the Parties' agreement on all issues in this proceeding. Duke Energy Kentucky's total natural gas base revenue requirement is approximately $80.3 million. Including miscellaneous revenue and projected gas cost revenue, the overall revenue requirement after the increase is approximately $121.1 million. The total revenue requirement represents an increase of approximately $9.36 million over total revenue projected for the forecasted test year at current rates. The Stipulation provides that new rates are to be effective on a service rendered basis following the Commission's Order in this proceeding.

Stipulation Attachment A provides a summary of the Company's revenue requirement as filed in its Application and the adjustments agreed to in the Stipulation to arrive at the final overall revenue requirement increase for natural gas service. While the respective positions of the Parties would be different if this case was fully litigated, the Stipulation – as a whole – is the product of good faith negotiations to arrive at a fair, just and reasonable outcome.

The Stipulation resolves all issues among the Parties, including the following major points: 1) the overall revenue requirement, including various adjustments agreed-upon for purposes of settlement; 2) establishment of a pipeline modernization mechanism to enable the Company to receive timely recovery of pipeline replacements necessary for compliance with the Pipelines and Hazardous Materials Safety Administration (PHMSA); 3) cost of capital, including rate of return; and 4) the residential customer charge. Finally, the settlement provides an enhanced benefit to customers in that the Company has agreed to a lengthy "stay-out," to January 2026, for increases in natural gas base rates. This is significant insofar as an agreement to a base rate case stay-out is not achievable outside of a settlement. The key provisions of the settlement "package" are as follows:

- The Company's proposal to implement a Governmental Mandates Adjustment Mechanism (Rider GMA) is modified to a pipeline modernization mechanism (Rider PMM) only, as I explain further below;
- The residential customer charge will be increased by $1.00, to $17.50 per month. The customer charges for other rate classes will be adjusted as proposed in the Company's Application. The remainder of the increase allocable to each rate class will be allocated to the volumetric charge. The rate design and accompanying tariff changes are included in Attachments B and C to the Stipulation;
- The revenue requirement for base rates is based on a Return on Equity of 9.375 percent;
- The Return on Equity for the Company's Rider PMM is 9.3 percent;
- The Company's average long-term debt rate for the forecasted test period is 3.656 percent and the Company's average short-term debt rate for the forecasted test period is 1.667 percent;

- The Company's capital structure is 51.344 percent equity, 46.039 percent debt and 2.617 percent short-term debt;
- Duke Energy Kentucky's Weighted Average Cost of Capital (WACC) is 6.541%;
- The Company's proposed tariff language changes, as amended and agreed upon through the Company's responses to discovery submitted by Staff of the Commission, will be approved;
- The Parties agree to the allocation of the base revenue requirement as shown in Stipulation Attachment D; and
- All other items not specifically mentioned, should be approved as filed in the Company's Application.

This settlement, as a total package, provides a fair, just and reasonable resolution of all issues. The Parties held lengthy settlement discussions on multiple occasions where issues were debated rigorously to come up with a fair balance of all issues. The Company was willing to concede issues that were important to the AG in exchange for issues that were of greater importance to the Company, and vise-versa. Together, this settlement "package" allows the Company to agree many of the terms and conditions that were of interest to the AG, which the Company would not have otherwise agreed, including the lengthy stay-out provision. Thus, the Company submits that the Commission should evaluate this Settlement as a total package producing a reasonable resolution and not as individual terms and conditions.

Q. PLEASE DESCRIBE THE ATTACHMENTS TO THE STIPULATION.

A. Attachment A to the Stipulation includes a detailed calculation of the revenue requirement increase comparing the Company's Application to the recommendations made by the Attorney General, and the ultimate agreement achieved. Attachment B includes two copies of the Company's proposed tariff rate sheets, showing the new rates and any language changes as proposed in the Company's application as modified through responses to discovery and agreed to in the Stipulation. The first copy shows the rates in a "tracked changes form" and the second version is in a clean form. Attachment C to the Stipulation is the proof of revenue sheets that provide an overview of the proposed distribution rates by service type with the total increase shown. Attachment D to the Stipulation is a revised allocation of the base revenue requirement to reflect the final agreed upon revenue requirement.

Q. DOES THE STIPULATION ADDRESS AND RESOLVE ALL OF THE PROPOSALS MADE IN THE COMPANY'S APPLICATION?

A. Yes. As described above, the Stipulation serves to resolve the contested and uncontested issues in this proceeding.

III. CALCULATION OF THE AGREED UPON REVENUE REQUIREMENT

Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE TO ARRIVE AT THE STIPULATED REVENUE REQUIREMENT.

A. As I previously mentioned, the negotiations considered numerous issues that were of importance in arriving at the final recommended revenue requirement. The Company's Application included testimony and documents that supported a proposed overall increase of approximately $15.228 million in revenue. The Attorney General, following discovery and investigation, filed his expert testimony of Mr. Lane Kollen that supported a recommended increase of approximately $6.348 million. The Company (and the Commission) then had an opportunity to conduct further discovery and filed rebuttal testimony on October 8, 2021. This rebuttal testimony explained the Company's disagreement with the Attorney General's positions and calculations.

The Parties started with the specific items identified by the Attorney General's witness as the outline of issues to discuss regarding the overall revenue requirement calculation. These items included the following issues:

- Working Capital for Construction Accounts Payable;
- Deferral and Amortization of CIS Development Costs;
- Commercial Gas Transportation Revenue;
- Payroll Taxes Related to Incentive Compensation;
- Short Term Incentive Plan Expense Tied to "Circuit Breaker" EPS;
- 401k Matching costs for Employees who also participate in a Defined Benefit Plan;
- SERP Costs;
- Association Dues;
- Cost of Capital Included in DEBS Expense;
- Depreciation Expense for Customer Connect Plant in Service;
- Financing Adjustments;
- Interest Rates for Projected Issuances; and

- Return on Equity.

As was reflected in the Company's Rebuttal Testimony, filed on October 8, 2021, the Company opposed the Attorney General's recommended adjustments. Through negotiations, the Company and the Attorney General were able to come to a reasonable compromise on each of these items, that on balance, represents a fair resolution of the issues in total. In the spirit of compromise, the Company was willing to accept nearly all of the Attorney General's adjustments in exchange for the Attorney General's acceptance of the Company's position on others. For some of the items, a balance and meeting of the minds was required to come to a reasonable resolution between the Parties. Attachment A to the Stipulation includes a detailed list of the agreed-upon adjustments that comprise the final proposed revenue requirement increase.

Q. PLEASE EXPLAIN THE ISSUE OF WORKING CAPITAL FOR ACCOUNTS PAYABLE AND HOW IT WAS RESOLVED.

A. The Company's Application proposed no allowance for cash working capital in this case. Despite requesting $0 for cash working capital, the Mr. Kollen, in his Direct Testimony, recommended a negative adjustment to working capital of $442,000. Company Witness Jay Brown supports in his Rebuttal Testimony why the Company rejects this adjustment. In resolution of this issue however, and for settlement purposes in this case, the Parties have agreed to a reduction to the Company's revenue requirement of $221,000 or 50 percent of Mr. Kollen's recommended adjustment.

Q. PLEASE EXPLAIN THE ISSUES RELATED TO THE DEFERRAL AND AMORTIZATION OF CUSTOMER INFORMATION SYSTEM (CIS) DEVELOPMENTAL COSTS AND HOW IT WAS RESOLVED.

A. Mr. Kollen states that the Company has included $1.902 million in nonrecurring developmental Customer Connect O&M expense and another $0.085 million in recurring non-developmental expense, or a total of $1.987 million in the test year. He recommends the Commission determine the normalized level of recurring expense and allow recovery of this amount in the base revenue requirement. Mr. Kollen further recommends that the Company defer the nonrecurring developmental expense of both the new CIS, Customer Connect, and the old CIS, Customer Management System, and amortize the two deferred expenses over the service life of Customer Connect. Mr. Kollen also recommends that the deferred expenses be included in rate base in this proceeding. The impact of this adjustment is an increase to the Company's rate base of $0.652 million. The higher rate base results in a $0.057 million increase to the Company's revenue requirement. This also results in a decrease to the Company's revenue requirement of $1.740 million associated with the removal of costs from the test period. The Company has agreed to these adjustments.

Q. PLEASE DESCRIBE THE ISSUE OF COMMERCIAL GAS TRANSPORTATION REVENUES AND HOW IT WAS RESOLVED.

A. In his direct testimony, Mr. Kollen identified $0.245 million in Commercial Gas Transportation revenues that he believes should have been included in the Company's forecast of revenues. In its rebuttal testimony, Duke Energy Kentucky explained why it disagrees with Mr. Kollen's assessment and characterization of these revenues. The Company has agreed, however in the spirit of compromise and for settlement purposes only, to reduce the Company's proposed base rate increase by this amount.

Q. PLEASE EXPLAIN THE ISSUE OF PAYROLL TAX RELATED TO THE COMPANY'S INCENTIVE COMPENSATION AND HOW THAT WAS RESOLVED.

A. In its Application, the Company removed incentive compensation related to achievement of financial targets for the short-term incentive plan, long-term incentive plan and the restricted stock units. Mr. Kollen argues that the Company should have removed the payroll tax expense related to the adjustments to remove incentive compensation expense tied to financial performance. The effect of this adjustment is a reduction of $0.045 million in the requested base rate increase. The Parties have agreed to this adjustment.

Q. PLEASE EXPLAIN THE ISSUE REGARDING SHORT TERM INCENTIVE PLAN EXPENSE TIED TO THE CIRCUIT BREAKER EPS AND HOW THAT WAS RESOLVED.

A. Mr. Kollen argues in his testimony that all STI expense tied to the Company's "circuit breaker" EPS threshold should be removed from base rates. The Company's Rebuttal Testimony of Jake Stewart explains why the Commission should disregard Mr. Kollen's proposed adjustment. However, for purposes of settlement only, the Parties are agreeing to fifty percent of Mr. Kollen's recommended adjustment. The result of this concession is a reduction of $0.179 million to the requested base rate increase.

Q. PLEASE EXPLAIN THE ISSUE OF THE 401(K) MATCHING FOR EMPLOYEES WHO ALSO PARTICIPATE IN A DEFINED BENEFIT PLAN AND HOW IT WAS RESOLVED.

A. Mr. Kollen recommended a reduction to the Company's test year revenue requirement to eliminate $0.221 million from the test year revenue requirement related to 401(k) matching expense for employees who participate in both a 401(k) and a defined benefit plan. Duke Energy Kentucky opposed this adjustment for the reasons stated in the Rebuttal Testimony of Mr. Stewart. However, in the spirit of compromise and as part of the settlement negotiations, Duke Energy Kentucky agreed to this adjustment.

Q. PLEASE EXPLAIN THE ISSUE OF THE SERP COSTS AND HOW THAT WAS RESOLVED.

A. The Company included $0.034 million in SERP expense in its rate case test year revenue requirement. Mr. Kollen recommends disallowing this adjustment based upon a prior Commission decision. Mr. Brown summarizes the Company's position on this adjustment in his Rebuttal Testimony and in the spirit of reaching a settlement, the Parties are agreeing to this adjustment.

Q. PLEASE EXPLAIN THE ISSUE OF ASSOCIATION DUES AND HOW THAT WAS RESOLVED.

A. The Company included approximately $0.055 million in dues attributed to the Company's membership in the American Gas Association and the Interstate

Natural Gas Association of America in its test year. Mr. Kollen recommends eliminating these costs on the basis that these organizations work with political leaders on key issues that could impact companies, the energy utility sector and gas customers. In its rebuttal testimony, the Company points out that both of these organizations identify the portion of their membership dues that support lobbying activities and that the majority of the dues are not supporting lobbying. Accordingly, the Company opposed Mr. Kollen's adjustment and instead conceded to an adjustment that is solely attributed to the portion of dues that actually support lobbying as identified by these associations. For purposes of settlement in this case only however, the Parties have agreed to Mr. Kollen's entire adjustment to remove $0.055 million from the Company's test year revenue requirement.

Q. PLEASE EXPLAIN THE ISSUE REGARDING DEPRECIATION EXPENSE FOR CUSTOMER CONNECT AND HOW IT WAS RESOLVED.

A. Mr. Kollen recommends that the Company should use the same deprecation rate for all capital components of the Customer Connect system. Company witness David Raiford supports why the Company opposes this adjustment. However, for settlement purposes only, the Company has agreed to this adjustment. The result is a reduction of $0.061 million to the Company's revenue requirement. The adjustment also increases rate base by $0.023 million. The higher rate base results in a $0.002 million increase to the Company's revenue requirement.

Q. PLEASE EXPLAIN THE ISSUE REGARDING THE DEBS COST OF CAPITAL AND HOW THAT WAS RESOLVED.

A. The Company has included a return on the DEBS rate base in the test year revenue requirement. Mr. Kollen believes that this cost should be removed from the Company's revenue requirement. Duke Energy Kentucky witness Jeffrey Setser explains in his Rebuttal Testimony why Mr. Kollen's adjustment is improper and should be rejected, including the fact that the Commission rejected this adjustment previously in the Company's last electric base rate case proceeding. For purposes of settlement, the Parties have agreed not to make this adjustment. This results in no change to the Company's revenue requirement.

Q. PLEASE EXPLAIN THE ISSUE REGARDING THE MONEY POOL SHORT TERM DEBT AND HOW THAT WAS RESOLVED?

A. Mr. Kollen recommends that the Commission reflect $50 million in money pool borrowings in the proposed capital structure. Company Witness Chris Bauer explains in his Rebuttal Testimony why Mr. Kollen's adjustment is improper and should be rejected. For purposes of settlement, the Parties have agreed not to make this adjustment. This results in no change to the Company's revenue requirement.

Q. PLEASE EXPLAIN THE ISSUE RELATED TO THE COMPANY'S INTEREST RATE FOR PROJECTED ISSUANCES AND HOW THAT WAS RESOLVED.

A. Mr. Baudino recommends the revised coupon rate of 3.28% for the September 2021 issuance be used for both forecasted issuances in 2021 and 2022. Mr. Bauer explains in his Rebuttal Testimony why the Company disagrees with this adjustment. However, for purposes of settlement in this case, the Parties have agreed to Mr. Baudino's adjustment to remove $0.088 million from the Company's test year revenue requirement.

Q. ARE THE COMPANY AND THE ATTORNEY GENERAL AGREEING TO ANY OTHER FINANCING ADJUSTMENTS IN THE STIPULATION?

A. Yes. As explained by Mr. Bauer in his Rebuttal Testimony, the Company will no longer be making the $70 million debt issuance in September 2022 that it had originally planned at the time this rate case was filed. As a result of this change, the revised test period capital structure is as follows:

a. Common Equity of $861,861,344 or 51.344%
b. Long-Term Debt of $772,830,214 or 46.039%
c. Short-Term Debt of $43,936,209 or 2.617%

Mr. Bauer further explains that the Company recently ceased all marketing efforts to place the planned 2021 $50 million of unsecured debentures with private placement investors. The $50 million debt financing is still required by Duke Energy Kentucky in 2021 and the company is actively working with select banks to secure bridge financing. The Company is now planning a two-year $50 million debt issuance at a rate yet to be determined. Due to these forecast revisions the Parties have agreed to a $0.107 million reduction to the test year revenue requirement. Company witness Mr. Brown provides the calculation supporting this revenue requirement reduction in his Rebuttal Testimony.

Q. PLEASE DESCRIBE THE ISSUE OF THE COMPANY'S RETURN ON EQUITY AND HOW THAT WAS RESOLVED.

A. In its Application, Duke Energy Kentucky proposed a Return on Equity (ROE) of 10.3 percent as supported by the Direct Testimony and analysis of Dylan D'Ascendis. The Attorney General's witness, Mr. Baudino, recommended a ROE of 9.1 percent. As part of the negotiation of this settlement, the Company and the Attorney General have agreed to a ROE of 9.375 percent for base rates and a 9.3 percent for the Company's new pipeline replacement mechanism that I describe later in my testimony (Rider PMM). This ROE is consistent with ROEs recently approved by the Commission and is actually lower than a recently approved ROE for Louisville Gas & Electric Company (LG&E), the only other combination natural gas and electric investor-owned utility within the Commonwealth of Kentucky. Moreover, this agreed-upon ROE results in a reduction to the Company's current ROE for its natural gas operations. The fact that the Company is agreeing to a lower ROE for its proposed Rider PMM is also consistent with recent Commission precedent. Applying this lower ROE reduces the Company's revenue requirement by $2.931 million.

Q. CAN YOU PLEASE PROVIDE SOME COLOR AROUND HOW THE ROE WAS REACHED IN THIS SETTLEMENT?

A. Yes. First, I would like to point out that with this settlement, Duke Energy Kentucky will have the lowest authorized ROE for its electric and natural gas operations within the entire Duke Energy family of regulated utilities. In fact, the

Company's sister natural gas utility in North Carolina just announced a settlement where the parties agreed to a 9.6 percent ROE.[1]

Second, as I said previously, this settlement as a package, is what the Parties agreed is a fair, just and reasonable resolution of all issues. Both the Company and the Attorney General were willing to negotiate and concede issues of lesser importance in exchange for issues of greater importance for each. For example, the Company is willing to agree to a much longer base rate case stay-out for its natural gas operations in exchange for certainty with its ROE at the agreed upon level. With the likelihood of increases in interest rates in the coming years, the need to refinance debt at higher levels, a cap on annual increases for the Rider PMM, and the commitment for a four-year base rate case stay-out, the Parties were willing to accept a 9.375 percent ROE for base rates.

From a comparison standpoint, agreeing to a lower ROE than what the Commission recently authorized for another combination utility shows the seriousness of the bargaining by the Parties in reaching a fair and reasonable resolution of all issues. Likewise, in exchange for the much needed pipeline replacement program to ensure the Company is able to continue to deliver safe and reliable natural gas service in compliance with PHMSA regulations, and receive timely recovery of its costs, the Company is also willing to accept a lower ROE for this adjustment mechanism. This delta between base rates and an adjustment mechanism is consistent with recent Commission precedence.

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[1] Piedmont Natural Gas agrees to cut NC rate hike to 6.6% in proposed deal with rate challengers - Charlotte Business Journal (bizjournals.com)

Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL (WACC) FOR DUKE ENERGY KENTUCKY'S NATURAL GAS OPERATIONS AS A RESULT OF THIS SETTLEMENT?

A. As a result of the settlement, the agreed upon WACC is 6.541% as shown in the following table.

Final Stipulated Capital Structure and WACC

Class of Capital	13 month average	% to total	Cost	Wtd Cost
Common Equity	861,861,344	51.344%	9.375%	4.814%
Long-Term Debt	772,830,214	46.039%	3.656%	1.683%
Short-Term Debt	43,936,209	2.617%	1.667%	0.044%
	1,678,627,767	100.00%		6.541%

Q. PLEASE EXPLAIN HOW THE TOTAL AMOUNT OF THE INCREASE IN REVENUES AS PROPOSED IN THE STIPUALTION IS FAIR, JUST AND REASONABLE.

A. The amount of the increase agreed upon in the Stipulation is fair, just and reasonable because it is the result of a negotiated compromise, in consideration of all terms of the Stipulation by knowledgeable and capable Parties. By vigorously pursuing their respective positions, stakeholders, including customers, the Company, and its shareholders, were represented and their priorities were recognized and protected through the Stipulation. The initial revenue proposal by the Company and the Attorney General in this proceeding represented the best possible outcome based upon the facts, as understood by each of the Parties at the commencement of this case. Since that time, substantial data was exchanged, and the Parties engaged in extensive negotiations to arrive at an outcome that is fair, just, and reasonable to Duke Energy Kentucky's customers and its shareholders.

The compromise of the revenue increase, rate design, and recovery of certain costs has resulted from these negotiations and reflects the best judgment of the Parties, including their respective experts, as to a fair resolution of all issues. The base rates agreed upon provide sufficient revenue for Duke Energy Kentucky to operate and provide safe, reliable, and reasonable natural gas service to its customers while also providing a fair return to its shareholders. The Stipulation as a total package provides a fair and reasonable outcome that the Commission should approve.

IV. PIPELINE MODERNIZATION MECHANISM

Q. PLEASE EXPLAIN THE ORIGIN OF THE PIPELINE MODERNIZATION MECHANISM (RIDER PMM) AS AGREED UPON IN THE SETTLEMENT.

A. The Company's Application contained a proposal for a Governmental Mandates Adjustment mechanism (Rider GMA) to adjust for two primary types of costs. First, the mechanism was intended to adjust for any future state or federal tax law changes. As the Commission is aware, as a result of the Tax Cuts and Jobs Act of 2017, the corporate federal income tax rate was reduced. This Commission initiated an investigation into all utilities to adjust rates to reflect this change in the tax rate. The proposed Rider GMA was intended to act as a place holder for any future changes in either state or federal corporate tax rates. Second, Rider GMA was intended to act as a pipeline replacement mechanism for investments necessary to comply with PHMSA regulations impacting the natural gas delivery system.

With this Stipulation, the Company's proposal for Rider GMA is amended and renamed the Pipeline Modernization Mechanism (Rider PMM). The name change is in response to an agreement to limit it to pipeline preplacement projects, including integrity-related replacements, prompted by regulations promulgated by the PHMSA. The Company is withdrawing its proposal to include tax law changes in the rider.

Q. WHAT IS THE TERM OF RIDER PMM?

A. The initial term of the mechanism is for seven years from the date of the Commission's Order in this proceeding, with the ability for the Company to seek to extend the term either as part of a subsequent rate case or through a separate application filed in accordance with KRS 278.509. The initial seven-year term was established to coincide with the timing of the Company's anticipated multi-phase AM07 Pipeline replacement project.

Q. HOW WILL RIDER PMM WORK?

A. Rider PMM shall be adjusted annually for capital placed into service following the test year in this case and will use forecasted 13-month average plant in service balances for purposes of calculating the annual revenue requirement. This is similar to how the Company's prior pipeline replacement mechanism, the Accelerated Service Replacement Program, operated when it was in effect. The first Rider PMM adjustment will be filed no earlier than July 1, 2022, (and by July 1st each year thereafter) with new rates effective the following January. This means that the first Rider PMM rate adjustment will go into effect no earlier than January 2023.

The first pipeline replacement project eligible for rider recovery, subject to certificate of public convenience and necessity (CPCN) approval by the Commission, shall be the Company's upcoming AM07 pipeline replacement. The Company shall file a CPCN for each phase of the AM07 Replacement project but shall not be required to file a CPCN for Rider PMM projects that qualify as an ordinary extension of the existing system in the ordinary course of business.

Rider PMM shall be calculated as a per-bill charge for residential and general service rates. Rider PMM shall be calculated on a per ccf charge for transportation rates. The revenue requirement calculated in the rider will be allocated between the rate classes as outlined in Paragraph Number 22 in the Stipulation.

The rider shall be subject to an annual revenue requirement cap of no more than a 5 percent increase in natural gas revenues per year. For purposes of determining the 5 percent cap, the Parties agree that the natural gas revenues, including base revenues, gas cost revenues and miscellaneous revenues of $121,059,033 outlined in Paragraph Number 1 of the Stipulation shall become the baseline for measuring the 5 percent annual cap on increases for the duration of the rider. Any additional capital placed into service that would result in an increase over 5 percent shall be eligible for the creation of a regulatory asset for recovery of the deferral of property taxes, depreciation, and post-in-service carrying costs for that incremental capital (PISCC based on approved WACC). Such deferral shall be eligible for amortization in the Company's next natural gas base rate proceeding.

Finally, As previously discussed, the ROE used for calculating the Rider PMM (and any other capital-related natural gas adjustment mechanism) shall be 9.3 percent.

V. OTHER SETTLEMENT TERMS

Q. ARE THERE ANY OTHER NOTEWORTHY ISSUES REGARDING THE PROPOSED TARIFFS?

A. Yes. The Parties are also agreeing that the Company's fixed residential customer charge should be increased by only $1.00. The final charge will be $17.50. The Company had proposed other tariff language changes in its application. The Parties agree that those changes, as amended and agreed upon through the Company's responses to discovery submitted by Staff of the Commission, should be approved.

Q. WHAT CHANGES TO THE PROPOSED TARIFFS WERE AGREED UPON THROUGH THE COMPANY'S RESPONSES TO DISCOVERY?

A. The correction of an error in the calculation of the charges for pulse meters resulted in revised charges for Sheet No. 84, Rate MPS. The charge for the Installation of Meter Pulse Equipment was revised from $1,000 to $970 and the additional charge if replacement of the Meter Index is necessary was revised from $700 to $680.[2] The Company is also proposing a $15 field collection charge to be added to Sheet No. 81 Charge for Reconnection of Service.[3]

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[2] *See* Response to Staff-DR-03-016

[3] *See* Response to Staff-DR-03-025(d).

Q. WHAT EVIDENCE SHOULD THE COMMISSION CONSIDER THAT EACH CONSTITUENCY WAS VIGOROUSLY REPRESENTED IN THE NEGOTIATIONS THAT LED TO THIS SETTLEMENT?

A. The Parties supported their positions in the record through pre-filed direct and rebuttal testimony and the submission of, and responses to, numerous data requests. The Stipulation reveals the sincerity of the negotiations on all sides when compared to the initial positions supported. The result is that the Parties made appropriate concessions to ensure their priorities were reflected in the final compromise. Accordingly, the Stipulation must be viewed in its entirety rather than evaluated on the basis of any discrete term or issue. The Stipulation was negotiated in the context of an overall result, including the impact on customers and the Company's financial operation.

Q. DO YOU HAVE AN OPINION REGARDING THE REASONABLENESS OF THE STIPULATION?

A. Yes. The Stipulation is the result of extensive, good faith negotiation among knowledgeable and capable parties. The Stipulation is a reasonable compromise that produces rates that are fair and in the best interests of all concerned. Duke Energy Kentucky requests that the Commission approve the Stipulation in its entirety and without modification.

VI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

VERIFICATION

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

The undersigned, Sarah E. Lawler, VP Rates & Regulatory Strategy, OH/KY, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing supplemental testimony and that it is true and correct to the best of her knowledge, information and belief.

S. E. L

Sarah E. Lawler Affiant

Subscribed and sworn to before me by Sarah E. Lawler on this 28 day of September, 2021.

NOTARY PUBLIC