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

JOINT STIPULATION AND RECOMMENDATION

On June 1, 2021, Duke Energy Kentucky, Inc. ("Duke Energy Kentucky" or the "Company") filed its application with the Kentucky Public Service Commission ("Commission"), pursuant to KRS 278.180, KRS 278.190, and other applicable law for an increase in retail natural gas base rates and to implement new tariffs and revised charges in the above-captioned proceeding ("Application"). On June 2, 2021, the Attorney General of the Commonwealth of Kentucky ("Attorney General"), the only other party in the case, filed his motion to intervene, which was granted by the Commission.

Duke Energy Kentucky and the Attorney General (collectively as the "Parties") have filed testimony supporting their respective positions relating to Duke Energy Kentucky's Application. The Parties and the Commission Staff have engaged in substantial discovery of the Parties' respective positions by issuing numerous information requests to which the Parties have responded.

The Parties, representing diverse interests and viewpoints, have reached a complete settlement of all the issues raised in this proceeding and have executed this Joint Stipulation and Recommendation ("Stipulation") for purposes of documenting and submitting their agreement to the Commission for consideration and approval. It is the intent and purpose of the Parties to express their agreement on a mutually satisfactory resolution of all issues in the instant proceeding.

The Parties understand that this Stipulation is not binding upon the Commission, but believe it is entitled to careful consideration by the Commission. The Parties agree that this Stipulation, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

The Parties request that the Commission issue an Order approving this Stipulation in its entirety pursuant to KRS 278.190, including the rate increase, rate structure, and tariffs as described herein. The request is based upon the belief that the Parties' participation in settlement negotiations and the materials on file with the Commission adequately support this Stipulation. Adoption of this Stipulation will lessen the need for the Commission and the Parties to expend significant resources in litigation of this proceeding and will eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final Order herein.

NOW, THEREFORE, for and in consideration of the mutual premises set forth above and the terms and conditions set forth herein, the Parties agree that the Company's Application should be approved as filed, except as modified or specified below:

1. Revenue Increase. The Parties agree that Duke Energy Kentucky's revenue requirement for natural gas distribution service for the forecasted test year of

January 1, 2022, through December 31, 2022, is $121,059,033. This represents an increase of $9,360,374 over the test year revenue that would be collected at current rates. This represents an overall increase of 8.4%. A residential customer with average usage of 57 CCF will see an 8.0% increase. The total revenue requirement is comprised of $80,320,545 in base revenues, $40,470,396 in gas cost revenues and $268,092 of miscellaneous revenues. Stipulation Attachment A provides a detailed summary of the adjustments to the Company's proposed overall revenue requirement as agreed to in this Stipulation. The significant concessions and adjustments are described below.

2. **Rate Base.** The Parties agree that the thirteen-month average rate base for the forecasted test period is $466,486,600.

3. **Cost of Capital.** The Parties agree that:

a. Duke Energy Kentucky's authorized Return on Equity (ROE) shall be 9.375 percent for natural gas base rates;

b. Duke Energy Kentucky's authorized Return on Equity (ROE) shall be 9.3 percent for natural gas capital riders;

c. Duke Energy Kentucky's long-term debt rate included in the cost of capital shall be 3.656 percent;

d. Duke Energy Kentucky's short-term debt rate included in the cost of capital shall be 1.667 percent; and

e. The capital structure is approved as 51.344 percent equity, 46.039 percent long-term debt, and 2.617 percent short-term debt.

f. Duke Energy Kentucky's Weighted Average Cost of Capital (WACC) is 6.541%.

4. **Working Capital.** The Parties agree, for settlement purposes only, to a reduction in the Company's Working Capital for Construction Accounts Payable equal to 50 percent of Mr. Kollen's recommended adjustment. This reduces rate base by $2.5 million and the result of this adjustment is a reduction to the revenue requirement of $0.221 million.

5. **Deferring and Amortizing CIS Development Costs.** The Parties agree, for settlement purposes only, with Mr. Kollen's proposal to normalize non-developmental Customer Connect and retired CMS O&M expense and to the creation of a regulatory asset included in rate base to defer and amortize the developmental Customer Connect and retired CMS O&M expense. 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.

6. **Payroll Taxes.** The Parties agree to Mr. Kollen's adjustment to adjust payroll taxes related to the Company's incentive compensation adjustment. The impact of this adjustment is a reduction to the Company's revenue requirement of $0.045 million.

7. **Short-Term Incentive Plan Circuit-Breaker Expense.** The Parties agree, for settlement purposes only, to 50 percent of Mr. Kollen's adjustment to exclude short-term incentive plan expense tied to the "circuit breaker." The result of this adjustment is a reduction to the Company's revenue requirement of $0.179 million.

8. <u>401k Matching Costs for Employees Who Participate in a Defined Benefit Plan.</u> The Parties agree, for settlement purposes only, to Mr. Kollen's adjustment to exclude 401k Matching Costs for employees that also participate in a defined benefit plan. The result of this adjustment is a reduction to the Company's revenue requirement of $0.221 million.

9. <u>Supplemental Executive Retirement Plan (SERP) Expense.</u> The Parties agree, for settlement purposes only, to Mr. Kollen's adjustment to exclude SERP expense from the Company's revenue requirement. The result of this adjustment is a reduction of $0.034 million to the Company's revenue requirement.

10. <u>Association Dues.</u> The Parties agree, for settlement purposes only, to Mr. Kollen's adjustment to exclude association dues for the American Gas Association and Interstate Natural Gas Association of America from the Company's revenue requirement. The result of this adjustment is reduction of $0.055 million from the Company's revenue requirement.

11. <u>Depreciation Expense for Customer Connect Plant in-Service.</u> The Parties agree, for settlement purposes only, to Mr. Kollen's adjustment to modify the depreciation expense for Customer Connect plant in-service. The result of this adjustment 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.

12. <u>Interest Rates.</u> The Parties agree, for settlement purposes only, to Mr. Kollen's adjustment to update the forecast of interest expense for issuances after the base period and in the test year. The result of this adjustment is a reduction of $0.088 million to the revenue requirement.

13. **<u>Company Financing Forecast.</u>** The Parties agree, for settlement purposes only, to update the capital structure for certain recent changes in financing plans for Duke Energy Kentucky. This update results in a reduction of $0.107 million to the revenue requirement. As outlined in the supplemental response to AG-DR-01-46, the Company was not successful in issuing its planned $50 million long-term debt issuance for September 2021 in the private placement market. Instead the Company is now planning a two-year $50 million debt issuance at a rate yet to be determined but currently estimated rate of 0.83% (SOFR plus 60 basis points). Additionally, the Company will no longer be making the $70 million September 2022 debt issuance 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%

14. **<u>Increase in Commercial Gas Transportation Revenue.</u>** The Parties agree for settlement purposes only, to Mr. Kollen's adjustment to increase the Commercial Natural Gas Transportation Revenue. The result of this adjustment is a decrease to the Company's revenue requirement by $0.245 million.

15. **<u>Depreciation Rates.</u>** The Company's existing depreciation rates as approved in Case No. 2018-0261 shall continue, subject to the CIS modifications described above.

16. **<u>Approval of a Pipeline Modernization Mechanism</u>.** The Parties agree that Duke Energy Kentucky's proposal for a Governmental Mandate Adjustment mechanism (Rider GMA) shall be modified as follows:

a. The name of the Rider shall be changed to the Pipeline Modernization Mechanism (PMM);

b. The Rider shall be limited to pipeline replacement projects as necessitated by the Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations for pipeline integrity. For avoidance of doubt, the Company's AM07 pipeline replacement shall be eligible for Rider PMM recovery. Duke Energy Kentucky withdraws its request to include changes related to state or federal corporate tax rate changes;

c. 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;

d. Rider PMM shall have an initial term limit of seven (7) years from the date of order in the natural gas base rate case proceeding in Case No. 2021-00190, subject to renewal, if authorized by the Commission either as part of a natural gas base rate proceeding or as part of a separate application filed in accordance with KRS 278.509;

e. The Rider shall be adjusted annually for capital placed into service following the test year in Case No. 2021-00190. The first such adjustment shall be filed no earlier than July 1, 2022 with new rates effective January 1, 2023. The Rider will use forecasted 13-month average plant in-service balances for purposes of calculating the annual revenue requirement. For the avoidance of doubt, the rate base included in the Rider filing will not include Construction Work In Process (CWIP) and plant in-service will include Allowance for Funds Used During Construction (AFUDC) consistent with rate base calculation included in the Company's base rate case filings. The Company will make annual Rider PMM adjustment filings on or before July 1st with rates to be implemented the following January;

f. 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;

g. Rider PMM shall be calculated as a per-bill monthly 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 this Stipulation.

h. 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 this 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.

i. The Rate of Return (ROR) used for calculating the Rider PMM (and any other capital-related natural gas adjustment mechanism) shall include a ROE of 9.3 percent and long-term and short-term debt rates approved in this proceeding.

17. **Residential Customer Charge.** The Parties agree that the monthly residential natural gas fixed customer charge shall increase by $1.00 from $16.50 to $17.50 per month.

18. **Natural Gas Base Rate Case Stay-out.** Subject to the exclusions set forth below, Duke Energy Kentucky will not file an application to adjust the base rates for its natural gas business, where such adjustment would have an effective date at the conclusion of the Commission's suspension period under KRS 278.190, prior to January 1, 2026. For avoidance of doubt, the Company may file an application prior to January 1, 2026, provided the effective date of rates, once suspended by the Commission in accordance with KRS 278.190, is on or after January 1, 2026. Notwithstanding the natural gas base rate case stay out commitment described above, Duke Energy Kentucky shall retain the right, at any time, to seek the approval from the Commission of:

a. The deferral of costs as permissible under the Commission's standard for deferrals:

 1. An extraordinary, nonrecurring expense that 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 savings that fully offsets the cost.

b. Emergency rate relief under KRS 278.190(2) to avoid a material impairment or damage to credit or operations;

c. Adjustments to the operation of any of Duke Energy Kentucky's cost recovery surcharge mechanisms (e.g., Gas Cost Adjustment, Weather Normalization Adjustment, Demand-side Management, Rider PMM, etc.,); and

d. During the effective stay-out period, Duke Energy Kentucky reserves the right to seek necessary rate relief and/or accounting treatment for costs or programs required due to changes in law or regulations, including but not limited to, changes in tax rates or environmental compliance costs applicable to natural gas operations that may occur during the stay-out period.

19. **Rate Case Expense.** For financial accounting purposes, Duke Energy Kentucky will amortize rate case expense associated with this proceeding for recovery over a five-year period, without carrying charges, beginning with the effective date of the revised tariffs.

20. **Tariff Changes.** The Parties agree that any language changes to tariff sheets as proposed in the Company's application as modified through responses to discovery should be approved. A complete set of tariff sheets are filed as Attachment B to this Stipulation.

21. **Proof of Revenue.** Attached to this Stipulation as Attachment C are proof-of-revenue sheets, showing that the rates set forth in Attachment B, plus projected Miscellaneous Revenue, will generate the revenue needed to recover the Company's test year revenue requirement to which the Parties have agreed in Paragraph Number 1 hereof.

22. **Allocation of Total Revenues.** The Parties agree to the allocation set forth in Attachment D, which uses the Company's cost of service study originally filed in this proceeding and updates for the final revenue requirement agreed to in this

Stipulation. The allocation results in a 67.40% allocation to Rate RS, a 26.04% allocation to Rate GS, a 4.97% allocation to Rate FT-L and a 1.59% allocation to Rate IT.

23. **Filing of Stipulation.** Following the execution of this Stipulation, the Parties shall cause the Stipulation to be filed with the Commission with a request to the Commission for consideration and approval of this Stipulation so that Duke Energy Kentucky may begin billing under the approved adjusted rates for service rendered on and after Approval.

24. **Commission Approval.** The Parties to this Stipulation shall act in good faith and use their best efforts to recommend to the Commission that this Stipulation be accepted and approved. Each Party hereto waives all cross-examination of the witnesses of the other Party hereto except in support of the Stipulation or unless the Commission fails to adopt this Stipulation in its entirety. Each Party further stipulates and recommends that the Notice of Intent, Notice, Application, direct testimony, rebuttal testimony, pleadings and responses to data requests filed in this proceeding be admitted into the record. The Parties further agree and intend to support the reasonableness of this Stipulation before the Commission, and to cause their counsel to do the same in this proceeding and in any appeal from the Commission's adoption and/or enforcement of this Stipulation. If the Commission issues an order adopting this Stipulation in its entirety, each of the Parties hereto agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin County Circuit Court with respect to such order.

25. **Effect of Non-Approval.** If the Commission does not accept and approve this Stipulation in its entirety or imposes any additional conditions or requirements upon

the signatory Parties, then: (a) either Party may elect, in writing docketed in this proceeding, within ten days of such Commission Order, that this Stipulation shall be void and withdrawn by the Parties hereto from further consideration by the Commission and neither Party shall be bound by any of the provisions herein; and (b) each Party shall have the right, within 20 days of the Commission's order, to file an petition for rehearing, including a notice of termination of and withdrawal from the Stipulation; and, (c) in the event of such termination and withdrawal of the Stipulation, neither the terms of this Stipulation nor any matters raised during the settlement negotiations shall be binding on either of the signatory Parties to this Stipulation or be construed against either of the signatory Parties. Should the Stipulation be voided or vacated for any reason after the Commission has approved the Stipulation and thereafter any implementation of the terms of the Stipulation has been made, then the Parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this Stipulation.

26. **Commission Jurisdiction.** This Stipulation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

27. **Successors and Assigns.** This Stipulation shall inure to the benefit of and be binding upon the Parties hereto, their successors and assigns.

28. **Complete Agreement.** This Stipulation constitutes the complete agreement and understanding among the Parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Stipulation.

29. **Implementation of Stipulation.** For the purpose of this Stipulation only, the terms are based upon the independent analysis of the Parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Stipulation, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of Duke Energy Kentucky are unknown and this Stipulation shall be implemented as written.

30. **Admissibility and Non-Precedential Effect.** Neither the Stipulation nor any of the terms set forth herein shall be admissible in any court or Commission except insofar as such court or Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Stipulation or a Party's compliance with this Stipulation. This Stipulation shall not have any precedential value in this or any other jurisdiction.

31. **No Admissions.** Making and entering into this Stipulation shall not be deemed in any respect to constitute an admission by either Party that any computation, formula, allegation, assertion or contention made by any Party in these proceedings is true or valid. Nothing in this Stipulation shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of a Party.

32. **Authorizations.** The signatories hereto warrant that they have informed, advised, and consulted with the respective Parties hereto regarding the contents of this

Stipulation, and based upon the foregoing, are authorized to execute this Stipulation on behalf of the Parties hereto.

33. **Commission Approval.** This Stipulation is subject to the acceptance of and approval by the Commission.

34. **Interpretation of Stipulation.** This Stipulation is a product of negotiation among all Parties hereto, and no provision of this Stipulation shall be strictly construed in favor of or against any Party.

35. **Counterparts.** This Stipulation may be executed in multiple counterparts.

36. **Future Proceedings.** Noting in this Stipulation shall preclude, prevent or prejudice any Party hereto from raising any argument/issue or challenging any adjustment in any future rate case proceeding of Duke Energy Kentucky.

IN WITNESS WHEREOF, this Stipulation has been agreed to effective this 7th day of October 2021. By affixing their signatures below, the undersigned Parties respectfully request the Commission to issue its Order approving and adopting this Stipulation the Parties hereto have hereunto affixed their signatures.

DUKE ENERGY KENTUCKY, INC

By: Amy B. Spiller
Amy B. Spiller
Title: President

ATTORNEY GENERAL OF THE
COMMONWEALTH OF KENTUCKY

By: John G. Horne II
John G. Horne, II
Title: Executive Director,
Office of Rate Intervention