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	**)**	**CASE NO. 2021-00190**
RATES; 2) APPROVAL OF NEW TARIFFS;	**)**	
3) ALL OTHER REQUIRED APPROVALS	**)**	
AND RELIEF	**)**	

CORRECTED

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

KENTUCKY OFFICE OF THE ATTORNEY GENERAL

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

SEPTEMBER 2021

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BEFORE THE PUBLIC SERVICE COMMISSION

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TABLE OF CONTENTS

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DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. What is your occupation and by whom are you employed?

A. I am a utility rate and planning consultant holding the position of Vice President and Principal with the firm of Kennedy and Associates.

Q. Describe your education and professional experience.

A. I earned a Bachelor of Business Administration ("BBA") degree in accounting and a Master of Business Administration ("MBA") degree from the University of Toledo. I also earned a Master of Arts ("MA") degree in theology from Luther Rice University. I am a Certified Public Accountant ("CPA"), with a practice license, Certified Management Accountant ("CMA"), and Chartered Global Management Accountant ("CGMA"). I am a member of numerous professional organizations, including the American Institute of CPAs and the Society of Depreciation Professionals, among others.

I have been an active participant in the utility industry for more than forty years, initially as an employee of The Toledo Edison Company from 1976 to 1983 and thereafter as a consultant to government agencies and utility customers. I have testified as an expert witness on ratemaking, accounting, financing, taxation, mergers and acquisitions, and planning issues in proceedings before regulatory commissions and courts at the federal and state levels on hundreds of occasions.

I have testified before the Kentucky Public Service Commission on dozens of occasions, including base rate, environmental surcharge, fuel adjustment clause, resource acquisition, resource retirement, and merger and acquisition proceedings involving Duke Energy Kentucky, Inc. ("Duke Energy" or "Company"), Kentucky Power Company ("KPC"), Kentucky Utilities Company ("KU"), Louisville Gas and Electric Company ("LG&E"), East Kentucky Power Cooperative, Inc. ("EKPC"), Big Rivers Electric Corporation ("BREC"), Atmos Energy Corporation ("Atmos"), and Columbia Gas of Kentucky, Inc.[1]

[1] My qualifications and regulatory appearances are further detailed in my Exhibit___(LK-1).

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Office of the Attorney General of the Commonwealth of Kentucky ("AG").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address and make recommendations on numerous rate base, revenue, expense, and rate of return issues that affect the Company's claimed revenue requirement and requested rate increase and to quantify the effects of AG witness Mr. Richard Baudino's recommendations on the Company's claimed revenue requirement and requested rate increase.

Q. Please summarize your testimony.

A. I recommend that the Commission increase the Company's base rates by no more than $6.348 million compared to the Company's requested base rate increase of $15.228 million. I summarize my recommendations and the effects on the Company's requested base rate increase in the following table. I also reflect the effects of Mr. Baudino's cost of capital recommendations on the Company's requested increase in base rates on the following table.[2] I developed my adjustments in consultation with the AG, but I understand that the AG's final adjustments may differ based upon discovery, testimony and further evidence produced at the hearing.

[2] My electronic workpapers in live format, and with all formulas intact, have been filed along with my testimony.

Duke Energy Kentucky, Inc. Gas Division
Summary of Attorney General Recommendations
KPSC Case No. 2021-00190
Test Year Ended December 31, 2022
$ Millions

	Before Gross-Up Amount	B/D and PSC Gross-up	Adjustment Amount
Duke Energy Kentucky, Inc. - Gas Division Requested Base Rate Increase			$ 15.228
Effects on Increase of AG Rate Base Recommendations			
Reduce Working Capital for Construction Accounts Payable			(0.442)
Reflect Rate Base Effects of Deferring and Amortizing CIS Developmental Costs			0.057
Reflect Rate Base Effects of Changing Customer Connect Depreciation Rates			0.002
Effects on Increase of AG Operating Income Recommendations			
Increase Commercial Gas Transportation Revenue	(0.245)	1.002	(0.245)
Defer and Amortize CIS Developmental Costs To Be Incurred in Test Year	(1.737)	1.002	(1.740)
Remove Payroll Taxes Related to Company's Incentive Compensation Adjustment	(0.045)	1.002	(0.045)
Exclude Short Term Incentive Plan Expense Tied to "Circuit Breaker" EPS	(0.358)	1.002	(0.359)
Reduce 401K Matching Costs for Employees Who Also Participate in Defined Benefit Plan	(0.220)	1.002	(0.221)
Remove SERP Costs	(0.034)	1.002	(0.034)
Remove AGA and INGAA Dues	(0.055)	1.002	(0.055)
Reduce Excessive Cost of Capital Included in DEBS Expenses	(0.311)	1.002	(0.312)
Modify Depreciation Expense for Customer Connect Plant in Service	(0.061)	1.002	(0.061)
Effects on Increase of AG Rate of Return Recommendations			
Increase Level of Money Pool Short Term Debt			(1.783)
Reflect Company's Update to Interest Rates for Projected Issuances			(0.079)
Adjust Interest Rate for Projected September 2022 Issuance Using Company's Methodology			(0.009)
Reflect Reduction of Return on Equity from 10.30% to 9.10%			(3.555)
Total AG Recommendations			$ (8.881)
Maximum Base Rate Increase after AG Recommendations			$ 6.348

Q. **Do you have any comments with respect to the Company's assumptions and calculations reflected in the forecast test year before you address the specific issues listed on the preceding table?**

A. Yes. I recommend that the Commission exercise a healthy skepticism and critically review the reasonableness of the assumptions made and the methodologies employed by the Company to project and calculate rate base components, revenues, expenses, and cost of capital in the forecast test year. These assumptions and methodologies result in forecast amounts that cannot be verified against actual accounting records.

Where the Company's assumptions are not reasonable, not consistent with historic revenues and expenses, and/or not consistent with known facts and trends, and/or otherwise do not reflect sound ratemaking or economics, I recommend that the Commission make the adjustments necessary to ensure the base revenue requirement is reasonable.

The remainder of my testimony is structured to sequentially address each of the issues identified and quantified on the preceding table.

II. RATE BASE ISSUES

A. Cash Working Capital

Q. Describe the Company's request for cash working capital.

A. The Company simply set the cash working capital to $0 in this proceeding in lieu of performing and providing a cash working capital study in this proceeding calculated using the lead/lag approach. In prior cases, the Company calculated cash working capital using the one-eighth non-gas O&M expense approach. In this case, the Company's request for $0 is consistent with the Commission's decision in Case No. 2019-00271.[3] In that case, the Company did not and declined to perform a cash working capital study using the lead/lag approach. In the absence of a cash working

[3] In Re: 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.

capital study calculated using the lead/lag approach, the Commission set the cash working capital to $0.

Q. Is simply setting the cash working capital to $0 an acceptable approach going forward?

A. No. It certainly is better than the outdated and excessive result using the one-eighth non-gas O&M expense formula approach. However, a properly performed cash working capital study using the lead/lag approach would provide a more accurate analysis and result than simply setting the cash working capital to $0.

The result of a properly performed cash working capital study using the lead/lag approach most likely would be negative. This is due to the fact that the Company sells its receivables, which results in a very short revenue lag, generally less than two days. The expense lags on the cash expenses generally are much longer than two days.

Q. What is your recommendation?

A. I recommend that the Commission direct the Company to provide a cash working capital calculation using the lead/lag approach in its next base rate case filing so that the Commission at least has the evidence to consider those results in the base revenue requirement in that proceeding.

Q. Is there any effect of your recommendation on the base revenue requirement and base rate increase in this proceeding?

A. No.

B. Other Working Capital Allowances – Construction Accounts Payable

Q. Describe the components of the Company's other working capital allowances.

A. The Company included gas enricher liquids, gas stored underground, materials and supplies inventories, and prepayments in the other working capital allowances component of rate base. These are balance sheet asset amounts that it finances and it is appropriate to include them in rate base.

Q. Did the Company subtract any balance sheet liability amounts from the other working capital allowances component of rate base?

A. No.

Q. Is there one balance sheet liability amount in particular that the Company failed to subtract from rate base?

A. Yes. The Company failed to subtract any accounts payable liability balance sheet amounts from rate base. This is a balance sheet amount that allows the Company to avoid financing and it is appropriate to subtract it from rate base either through the cash working capital calculation using the lead/lag approach or through a separate adjustment or a combination. The accounts payable amounts represent temporary vendor financing at 0% cost to the Company for both operating expenses and capital expenditures. The Company issues no equity, long term debt, or short-term debt to finance the delay in paying the expenses or capital expenditures after the costs are incurred.

The accounts payable amounts related to operating expenses typically are reflected in the expense lead or lag days used in the calculation of cash working capital under the lead/lag approach. In lieu of a properly performed cash working capital study, there is no direct measurement of accounts payable amounts related to operating expenses and no evidence that it is or is not subtracted from rate base in this proceeding.

That is not the case with the accounts payable amounts related to capital expenditures. In a cash working capital study using the lead/lag approach, only the lead/lags on expenses are included; the study does not include balance sheet assets and liabilities. Instead, the accounts payable amounts related to capital expenditures must be considered separately and subtracted directly from rate base in the same manner that the materials and supplies and prepayments are considered separately and added directly to rate base as components of the other working capital allowances.

Q. What is your recommendation?

A. I recommend that the Commission reduce the Company's other working capital allowances for the accounts payable amounts related to capital expenditures. This is cost-free financing provided by the Company's vendors and should be subtracted from rate base in the same manner that materials and supplies and prepayments that will be charged to capital expenditures are added to rate base.

Q. What is the effect of your recommendation?

A. The effect is a reduction in the claimed revenue requirement deficiency and requested base increase of $0.442 million.

III. OPERATING INCOME ISSUES

A. Increase Commercial Gas Transportation Revenues

Q. Compare the commercial gas transportation revenues in the test year to the base period and prior years.

A. The Company included forecast commercial gas transportation revenues of $1.379 million in the test year compared to $1.498 million in the base period, a decrease of 8%.

The Company's commercial gas transportation revenues were $1.179 million in 2018, $1.235 million in 2019, and $1.328 million in 2020, showing consistent growth each year, even in 2020, the year of the Covid-19 pandemic shutdowns and reduced economic activity.[4] Since 2018, the average annual growth rate has been 6.3%. The growth in 2021 and the test year likely will be greater due to the post-pandemic economic rebound and increase in hiring.

After the forecast decline in the test year, the Company forecasts that the commercial gas transportation revenues will grow again, increasing to $1.573 million in 2023 and $1.611 million in 2024.[5]

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[4] Schedule I-2.1.
[5] *Id.*

Q. **Compare the Company's forecast decline in the commercial gas transportation revenues to the forecast increases in the industrial and Other Public Authorities ("OPA") gas transportation revenues in the test year compared to the base period.**

A. In stark contrast to the Company's forecast decline in commercial gas transportation revenues, the Company forecasts robust growth in industrial and OPA gas transportation revenues in the test year compared to the base period. More specifically, the Company forecasts industrial gas transportation revenues of $3.496 million in the test year compared to $2.988 million in the base period, an increase of 17%. The Company forecasts OPA gas transportation revenues of $0.412 million in the test year compared to $0.261 million in the base period, an increase of 58%.

Q. What is the Company's explanation for the reduction in the commercial gas transportation revenues in the test year compared to the base year?

A. The Company acknowledges that there has been a "recent surge in sales," but claims "[a]s the economy re-approaches its pre-pandemic output level, that hiring will slow, implying a slowdown in sales projected by the model."[6]

Q. Does that explanation justify a decrease in commercial gas transportation revenues in the test year compared to the base period?

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[6] Response to AG 2-20. I have attached a copy of this response as my Exhibit___(LK-2).

A. No. This explanation does not justify a decrease in these revenues. First, there is no evidence that the number of jobs will decline or that commercial transportation customers will transport and use lower natural gas volumes. Even if there is a slowdown in hiring and economic growth in the test year compared to the base period, that still will translate into growth in revenues, not a decrease. Second, the actual evidence is that hiring is strong and the economy continues to rebound sharply. That means that commercial gas transportation revenues should increase, not decrease. Third, there actually was an increase in commercial gas transportation revenues during 2020, despite the fact that there was widespread unemployment and the economy was shutdown for a significant portion of the year. It is unreasonable to assume that rising employment and economic recovery will have the opposite outcome. Fourth, the Company's forecast decline in commercial gas transportation revenues is completely at odds with the forecast increases in industrial and OPA gas transportation revenues.

Q. What is your recommendation?

A. I recommend that the Commission reflect $1.624 million in commercial gas transportation revenues in the test year. I started with the base period revenue of $1.498 million and then escalated it by the historic annual growth of 6.3% for the 16 months from the end of the base period to the end of the test year, for an increase of $0.126 million in the test year compared to the base period.

Q. What is the effect of your recommendation?

A. The effect is an increase in forecast commercial gas transportation revenues of $0.245

million in the test year and a reduction in the base rate increase of an equivalent amount. This is the difference in the $1.624 million in commercial gas transportation revenues that I recommend and the $1.379 million the Company included in the test year.

B. <u>Normalize Non-Developmental Customer Connect And Retired CMS O&M Expense; Defer and Amortize Developmental Customer Connect and Retired CMS O&M Expense</u>

Q. Describe the Company's request to include nonrecurring developmental Customer Connect O&M expense in the base revenue requirement.

A. The Company seeks to include $1.902 million in nonrecurring developmental Customer Connect O&M expense and another $0.085 in recurring non-developmental expense, or a total of $1.987 million in the test year.[7]

Q. How does the Company's Customer Connect forecast test year developmental expense compare to the historic actual developmental expense since 2018?

A. The Company's forecast test year developmental expense is significantly greater than the expenses it actually incurred each year from 2018 through 2020 and the expense that it expects to incur in 2021. The Company actually incurred $0.544 million in 2018, $0.580 million in 2019, $0.545 million in 2020, and expects to incur $0.953 million in 2021.

[7] Response to AG 2-5. I have attached a copy of this response and the attachments as my Exhibit___(LK-3).

Q. How does the Company's Customer Connect forecast test year developmental expense compare to the forecast developmental expense for 2023?

A. The Company's forecast test year developmental expense is significantly greater than the forecast expense for 2023. It forecasts that it will incur $0.145 million in developmental expense in 2023, a reduction of $1.757 million compared to the test year.[8]

Q. How does the Company's forecast test year recurring non-developmental expense compare to the forecast for 2023?

A. It is less in the test year than it forecasts it will incur in 2023. It forecasts that it will incur $0.335 million in non-developmental expense in 2023, an increase of $0.250 million.[9]

Q. Will the Company continue to incur expenses for the old CMS after it is retired?

A. No. The Company actually incurred $0.359 million in 2018, $0.313 million in 2019, $0.304 million in 2020, expects to incur $0.255 million in 2021, $0.209 million in 2022, and then $0.042 million in 2023.[10]

Q. Is the test year level of developmental expense recurring?

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[8] *Id.*
[9] *Id.*
[10] *Id.*

A. No. The developmental expense is not recurring. This fact is not disputed. It will decline from $1.902 million in the test year to $0.145 million in 2023. The Company's development of the Customer Connect modules will be completed in the first half of the test year.[11] These developmental costs are more akin to capital expenditures because they have future value to customers. The Company agrees that it is reasonable to defer these developmental expenses and to amortize and recover the regulatory asset over the service life of the Customer Connect asset. In Case No. 2019-00271, Company witness Sarah Lawler stated the following:

> [T]he Company is willing to accept Mr. Kollen's recommendation only if regulatory asset authority is granted by the Commission to allow the Company to accumulate all actual O&M expenses, including carrying costs, associated with the Customer Connect program incurred (beginning with those incurred during the test period in this case) into a regulatory asset. Once the total actual costs for the project are incurred and the actual amount of the regulatory asset is known, the Company will request recovery in a subsequent rate proceeding. The Company also agrees with Mr. Kollen's recommendation to include this regulatory asset in rate base in that subsequent rate proceeding with an amortization period equal to the service life used for the depreciation rate applied to the capital costs. [12]

Q. Why is the issue of whether the test year level of expense is recurring important?

A. It is important because it affects the base rates and the recoveries of the expenses until base rates are reset in a future proceeding. If the expense is included in the base revenue requirement, then there will be a significant mismatch between the revenue recovered and the expense incurred. The Company will continue to recover the nonrecurring expense in its base revenues even as the expense recedes and disappears. In fact, if it is included in the base revenue requirement as a recurring expense, then

[11] Response to AG 2-6, including the development timeline reflected in the Attachment to the response. I have attached a copy of the response as my Exhibit___(LK-4).

[12] Rebuttal Testimony of Sarah Lawler at 24 in Case No. 2019-00271.

the Company likely will recover the nonrecurring expense multiple times, clearly an inequitable and incorrect result. If the Commission allows the $1.902 million nonrecurring expense and the $0.085 million in recurring expense in the base revenue requirement, the sum of the nonrecurring and recurring expense is $0.481 in 2023, and this total expense repeats in subsequent years, then the Company will recover $1.506 million in excess of its actual expense each year until its base rates are reset. Over three years, the excess recovery will be $4.518 million. Over four years, the excess recovery will be $6.024 million.

The excess recovery of the nonrecurring developmental expenses is exacerbated by the fact that the old CMS expenses also are nonrecurring, except for a small amount forecast in 2023. The Company will recover another $0.166 million in excess of its actual expense each year for the old CMS until its base rates are reset. Over three years, the excess recovery will be another $0.498. Over four years, it will be $0.664 million.

Q. Is there a fair and equitable way to address the recovery of these two nonrecurring expenses?

A. Yes. I recommend that the Commission determine the normalized level of recurring expense and allow recovery of this amount in the base revenue requirement. In addition, I recommend that it direct the Company to defer the nonrecurring developmental expense of Customer Connect and the nonrecurring expense of the old CMS and amortize the two deferred expenses over the service life of Customer Connect. I also recommend that the deferred expenses be included in rate base in this proceeding because they are akin to capital expenditures with future value.

This approach provides a fair and equitable result. In this manner, the Company is fully compensated for its developmental expenses in the base revenue requirement, but does not obtain excessive recovery, which could be as much as three or four times the actual expenses that it incurs if there is no deferral.

Q. What is the effect of your recommendation?

A. The effect is a reduction of $1.683 million in the base revenue requirement and the base rate increase. This effect consists of reductions in grossed-up expense of $1.545 million and $0.195 million to remove the nonrecurring developmental Customer Connect expenses and the old CMS, respectively, net of an increase in expense to reflect the recurring non-developmental Customer Connect expenses, and the deferral of the nonrecurring expenses to a regulatory asset, an amortization of the regulatory asset based on a 15 year service life, and an increase of $0.057 million for the return on the regulatory asset, net of accumulated amortization and ADIT.

C. Exclude Payroll Tax Expense On Incentive Compensation Payroll Expense

Q. Describe generally the Company's adjustments to remove incentive compensation payroll expense tied to the achievement of financial targets.

A. The Company removed incentive compensation payroll expense tied to the achievement of financial targets for the short-term incentive plan, long-term incentive plan, and the restricted stock units.

Q. Do the Company's proposed adjustments remove all incentive compensation expenses tied to the achievement of financial targets?

A. No. The Company failed to remove the payroll tax expense on the incentive compensation payroll expense. These payroll tax expenses would not have been incurred but for the payroll expense tied to the achievement of financial targets.

Q. Does the Company agree that the payroll tax expense on the incentive compensation expense also should be removed?

A. Yes. The Company agreed that the payroll expense on the incentive compensation expense also should be removed in Case No. 2019-00271.[13]

Q. Did the Commission also agree that the payroll tax expense on the incentive compensation expense should be removed in Case No. 2019-00271?

A. Yes. In its Order in the case, it stated: "The Commission agrees with the adjustment to payroll taxes associated with incentive compensation."[14]

Q. What is your recommendation?

A. I recommend that the Commission remove the payroll tax expense related to the adjustments to remove incentive compensation expense tied to financial performance from the base revenue requirement and requested base rate increase.

[13] Rebuttal Testimony of Sarah Lawler at 23 in Case No 2019-00271.
[14] Order in Case No. 2019-00271 at 19.

Q. What is the effect of your recommendation?

A. The effect is a $0.045 million reduction in other taxes expense and in the base revenue requirement and requested base rate increase.

D. Exclude Short Term Incentive Plan Expense Tied To Earnings Per Share "Circuit Breaker" Threshold

Q. Describe the Earnings Per Share ("EPS") funding threshold for the Company's short term incentive plan.

A. The Company's funding for the short-term incentive plan ("STI") is contingent on the achievement of an EPS "circuit breaker" threshold. The Company provided the following description:

> [T]he EPS measure has a "circuit breaker" level that is set between the minimum and target EPS performance levels and may reduce any incentive during periods when the Companies cannot afford it. If actual EPS is greater than the EPS circuit breaker, all measures will be paid out based on the scorecard. If actual EPS is less than or equal to the EPS circuit breaker, payouts for all measures will be reduced. [15]

Q. Did the Commission deny recovery of the STI expense contingent on the EPS "circuit breaker" in Case No. 2019-00271?

A. Yes. In that case, the Commission denied recovery of STI expense that would be paid out only in the event that a predetermined "circuit breaker" EPS value was met in the fiscal year.[16]

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[15] Direct Testimony of Jake Stewart at 17-18.
[16] Direct Testimony of Jake Stewart at 27.

Q. What is your recommendation?

A. I recommend that the Commission deny recovery of the STI expense subject to the "circuit breaker" EPS threshold. Pursuant to this EPS threshold, all other target metrics are subject to the parent Company's EPS, which is functionally equivalent to an EPS metric overlay imposed on all other metrics. In addition, the EPS is calculated at the parent company level, not at the Company level, which means that the EPS is affected by the financial performance of all Duke Energy, Inc. utilities and other affiliates, not only by the Company's financial performance. Further, including the STI expense in the base revenue requirement provides the Company recovery of the expense regardless of whether it actually is incurred and regardless of the amount that it incurs. Finally, including the expense in the base revenue requirement provides the Company an incentive to seek greater and more frequent rate increases or other forms of recovery to ensure that it achieves the "circuit breaker" EPS threshold.

Q. What is the effect of your recommendation?

A. The effect is a reduction in STI expense and the related payroll taxes expense of $0.358 million, consisting of a reduction in payroll expense of $0.333 million and a reduction in payroll taxes expense of $0.025 million.

E. Reduce 401(k) Matching Costs for Employees Who Also Participate in Defined Benefit Plan

Q. Did the Company reduce employee benefits expense to remove the 401(k) match expense for those employees who also participate in the defined benefit pension plan?

A. No. The Commission's recent precedent is to adjust benefits expense to remove the 401(k) match expense for those employees who also participate in a defined benefit pension plan. In lieu of an adjustment to remove a portion of the 401(k) match expense in Case No. 2019-00271, the Company made an adjustment to remove the pension expense for the employees who also receive a 401(k) match. The Commission noted and implicitly accepted the adjustment in its Order in the case, but neither affirmed nor denied the adjustment in its narrative discussion.

However, in this proceeding, the Company made no adjustment either to the 401(k) matching expense or pension expense. The Company stated in discovery that if it made an adjustment to remove the pension expense for the employees who also receive a 401(k) match, the adjustment would be to remove a negative pension expense and increase the base revenue requirement and requested increase.[17] Although that may be correct, the Company's claim addresses a potential adjustment that the Commission has not affirmed, but merely accepted, rather than the adjustment that it historically has adopted.

Q. Has the Company quantified the amount of the adjustment necessary to remove

[17] Response to AG 2-17. I have attached a copy of this response as my Exhibit___(LK-5).

the 401(k) match expense for employees who also participate in the defined benefit plan, the adjustment historically adopted by the Commission?

A. Yes. The Company quantified the reduction in expense as $0.220 million.[18]

Q. What is your recommendation?

A. I recommend that the Company remove the 401(k) match expense for those employees who also participate in the defined benefit plan consistent with the Commission's recent precedent.

F. Exclude Supplemental Executive Retirement Plan Expense

Q. Did the Company include Supplemental Executive Retirement Plan ("SERP") expense in its requested increase in base rates?

A. Yes.[19] The Company included $0.034 million in its claimed revenue requirement and requested increase in base rates.[20]

Q. Did the Commission previously deny recovery of SERP expense in Case No. 2019-00271?

A. Yes. In its Order in that proceeding, the Commission stated:

> Kollen recommends that, in addition to the pro forma adjustment already made by Duke Kentucky, the Commission exclude expenses associated with Duke Kentucky's Supplemental Executive Retirement Plan (SERP) of $0.122 million. Kollen recommends this on the grounds that the expenses are incurred

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[18] Response to AG 1-41. I have attached a copy of this response as my Exhibit___(LK-6).
[19] Response to AG 2-18. I have attached a copy of the response as my Exhibit___(LK-7).
[20] Response to AG 1-60. I have attached a copy of this response as my Exhibit___(LK-8).

> to provide certain highly compensated executives retirement benefits in addition to the benefits otherwise available through the Duke Energy pension and other postretirement benefits plans. The Attorney General recommends that the Commission accept this adjustment. Duke Kentucky states that it accepts the adjustment to remove the SERP expense.
>
> The Commission finds that this adjustment should be accepted and Duke Kentucky's revenue requirement reduced by $0.122 million. (footnotes omitted).

Q. What is your recommendation?

A. I recommend that the Commission deny recovery of SERP expense in this proceeding, consistent with its Order in Case No. 2019-00271.

<u>G. Remove American Gas Association ("AGA") and Interstate Natural Gas Association of America ("INGAA") Dues</u>

Q. Describe the Company's request for recovery of AGA and INGAA dues.

A. The Company included $0.050 million for AGA and $0.005 million for INGAA dues in the test year.

Q. Describe generally the public-facing activities of AGA and INGAA.

A. The Company described these activities in response to AG discovery:

> **The AGA works with elected political leaders on key issues that could have an impact on its member companies, the energy utility sector and gas customers. INGAA is a trade organization that advocates regulatory and legislative positions of importance to the natural gas pipeline industry in North America.** [21]

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[21] Response to AG 2-02(d). I have attached a copy of that response as my Exhibit___(LK-9).

Q. Describe the Commission's precedent regarding recovery of Edison Electric Institute ("EEI") dues.

A. The AGA and INGAA dues are similar to EEI dues. In various cases, the Commission disallowed EEI dues in part or whole because EEI engages in 1) legislative advocacy, 2) regulatory advocacy, and 3) public relations. In prior Orders, the Commission disallowed EEI dues in part based on operating expense categories.[22] In more recent Orders, the Commission disallowed EEI dues in whole.[23] In the recent Orders, the Commission stated that the utilities had not met their affirmative burden of proof to show that the EEI dues expense were fair, just, and reasonable.

Q. Has the Company provided proof that the dues its ratepayers provide toward the Company's membership in both AGA and INGAA provide a direct benefit to ratepayers?

A. No.

Q. Has the Company provided proof that the dues its ratepayers provide toward the Company's membership in both AGA and INGAA are not used for legislative advocacy, regulatory advocacy, and/or public relations?

A. No.

[22] Order in Case No. 2003-00433 at 51-52 and Order in Case No. 2003-00434 at 44-45.

[23] Order in Case No. 2020-00349 at 25-28 and Order in Case No. 2020-00350 at 27-31("Regulatory advocacy and public relations, in addition to legislative advocacy, are categories of costs incurred by EEI and passed onto KU for which the Commission has explicitly denied recovery from customers." Case No. 2020-00349, Order at 26).

Q. What is your recommendation?

A. I recommend that the costs for AGA and INGAA dues in the test year be removed in accordance with Commission precedent unless the Company can provide the requisite affirmative proof. The Company has thus failed to establish that this expense is fair, just, and reasonable. The Company has provided no evidence of a direct ratepayer benefit from its memberships in these two trade organizations, and no evidence that ratepayer-provided dues are not used for legislative advocacy, regulatory advocacy, and/or public relations.

H. Correct DEBS Affiliate Cost Of Capital

Q. Describe the DEBS affiliate "rent" expense included by the Company in its base revenue requirement.

A. DEBS is an affiliate service company that provides certain centralized and shared services to all Duke Energy utilities, including the Company. In addition to other DEBS affiliate expenses, the Company included $0.327 million in "rent" expense for an *imputed return on* DEBS' so-called "rate base" costs. The Company used this imputed return instead of the interest expense incurred by DEBS on the short-term debt that DEBS actually uses to finance these rate base costs.[24]

Q. How did the Company calculate this imputed return?

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[24] Response to AG 1-68. I have attached a copy of that response as my Exhibit___(LK-10).

A. The Company calculated the *imputed return* using its cost of capital, including a gross-up for income taxes. The Company calculated the "rate base" costs using the DEBS plant in service (less accumulated depreciation and ADIT), pension asset, and inventories. It then allocated each of these amounts to the Company and its gas business and applied the Company's present authorized grossed up rate of return.

Q. Does the Company itself finance the DEBS "rate base" costs?

A. No. The Company itself does not finance and does not incur any financing costs for the assets net of liabilities owned by DEBS. Rather, DEBS finances its own "rate base" costs. DEBS uses short-term debt, ADIT, accounts payable vendor financing, and other liabilities to finance these costs.

Q. Does the DEBS affiliate "rent" expense reflect an actual financing cost incurred by DEBS that it just allocates and passes through to the Company?

A. No. DEBS has minimal common equity and no long-term debt. Its financing, other than the vendor financing and other liabilities, is limited to short term debt and the cost of this financing is limited to the interest expense. The DEBS short-term debt financing consists of borrowings from the Duke Energy Money Pool, an intercompany financing arrangement that allows DEBS and the Duke Energy utilities to borrow through the issuance of commercial paper and/or from each other. Pursuant to the terms of the Money Pool Agreement, DEBS is able to access excess funds on deposit in the Money Pool from other Duke affiliates and low-cost commercial paper borrowings available through the Money Pool.

Q. Does it make a difference if the assets and related costs are incurred and financed by DEBS or if they are incurred and financed directly by the Company?

A. Yes. It does matter which entity owns assets and incurs and finances the costs of those assets. The Company's cost of capital is significantly greater than the DEBS cost of capital. The Company's base revenue requirement should not be increased based on charges for imputed costs that DEBS does not *actually* incur under the pretense that the DEBS and Company costs of capital are equivalent when they factually are not.

Q. What is your recommendation?

A. I recommend that the Commission reject the Company's request for recovery of an imputed return on the DEBS so-called "rate base" assets that DEBS itself does not incur. Instead, I recommend that the Commission allow recovery of an allocation of the DEBS short-term interest expense, which DEBS does incur.

Q. What is the effect of your recommendation?

A. The effect is a $0.311 million reduction in the DEBS affiliate expense for its cost of capital, consisting of the elimination of $0.327 million in "rent" expense for the imputed return on a proxy rate base that DEBS does not incur, and the addition of $0.016 million for an allocation of the DEBS short term interest expense that DEBS does incur.

Q. If the Commission accepts the Company's calculation of an imputed return using its requested grossed up cost of capital, then should it correct the Company's calculation to remove the DEBS pension asset included in the DEBS "rate base" in this calculation?

A. Yes. The Company did not include a pension asset in its rate base and agrees as a conceptual matter that a pension asset should not be included in rate base.[25] Yet, it included an imputed return on the DEBS pension asset in its calculation of the DEBS "rent" expense. The Company's position should be consistently applied, regardless of whether it is applied to the costs on its accounting books or the costs recorded on DEBS' accounting books. As the Company explained in response to AG discovery, the Company has "not historically included the pension and OPEB regulatory assets as part of rate base . . . Regulatory assets and liabilities, which simply represent deferred gains/losses, are not considered when making financing decisions. Financing decisions are made when assessing a plan's Funded Status in accordance with funding rules."[26]

If it is not correct to include a pension asset in rate base, and it is not, then the DEBS pension asset should not be included in the DEBS rate base in the calculation of this affiliate expense as a matter of consistency.

Q. What is the effect of correcting this error?

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[25] Response to AG 2-27. I have attached a copy of that response as my Exhibit___(LK-11).
[26] *Id.*

A. The effect is a $0.122 million reduction in the DEBS affiliate expense for its cost of capital to eliminate the pension asset from the so-called rate base used by the Company in its calculation of this expense.

I. Utilize Consistent Service Life for All Depreciation Expense on Customer Connect Plant In Service

Q. Describe the Company's proposed depreciation rates for the Customer Connect plant accounts.

A. The Company proposes two depreciation rates applicable to specific "projects," or components of Customer Connect. The Company proposes a 20.0% depreciation rate for the hardware projects and certain of the software projects, which reflects a 5-year service life for these assets, and a 6.67% rate for certain other software projects, which reflects a 15-year service life for these assets.[27]

Q. What is the Company's explanation for two different service lives and two different depreciation rates for the various components of Customer Connect?

A. The Company's only support for these service lives and depreciation rates is a memo prepared by "Asset Accounting" dated July 20, 2017, which it provided in response to AG discovery. [28] The Company claims that this memo is confidential, despite the fact that it is the only support for the service lives and depreciation rates that it already has

[27] Response to AG 1-19. I have attached a copy of this response and the non-confidential attachments to the response as my Exhibit___(LK-12).

[28] Confidential attachment provided in response to AG 1-19(d).

established and implemented and despite the fact that the memo recommends more than two different depreciation rates.

Q. Does the Company's explanation justify the two different service lives and two different depreciation rates for the various components of Customer Connect?

A. No. The Customer Connect should be viewed as an *integrated* system designed to perform multiple related and interdependent functions and depreciated over the same service life. There is no certainty as to the timing of future upgrades or the extent of those upgrades. If there are subsequent upgrades, then they will be expensed or capitalized when the costs actually are incurred. The integrated Customer Connect has a service life of at least 15 years and this should be the minimum starting point for this asset. The systems comprising the old CMS have been in service for more than 20 years.

Q. What is your recommendation?

A. I recommend that the Commission use a 15-year service life and a 6.67% depreciation rate for all Customer Connect plant in service costs and the regulatory asset for the deferred nonrecurring developmental costs that I previously addressed and recommended. I recommend that the Commission direct the Company to modify the 20.0% depreciation rate that it is presently using for the hardware and certain software project costs effective when base rates are reset in this proceeding. I recommend that the Commission direct the Company not to reverse any prior depreciation already recorded at the 20.0% rate prior to the date when base rates are reset in this proceeding.

The Company will fully recover its plant in service costs pursuant to my recommendation; however, the use of the 6.67% depreciation rates will match the recovery of the costs to the use of the Customer Connect system over its service life.

Q. What is the effect of your recommendation?

A. The effect is a reduction in the revenue requirement of $0.059 million, consisting of a reduction in depreciation expense of $0.061 million and an increase in the return on rate base of $0.002 million due to the resulting reduction in accumulated depreciation and increase in ADIT.

IV. RATE OF RETURN ISSUES

A. Increase Short-Term Debt In Capital Structure To Reflect Historic Use of Short-Term Debt Financing

Q. Describe the Company's forecast capital structure in the test year.

A. The Company forecasts a capital structure with 50.70% common equity, 46.72% long-term debt, and 2.58% short-term debt in the test year. The proposed short-term debt consists of 2.15% for accounts receivables sold pursuant to a receivables agreement, 0.34% for current maturities of long-term debt, and 0.09% for money pool borrowings.

Q. How does the Company's proposed capital structure compare to the base period and prior calendar years?

A. The Company proposes a significant increase in the common equity ratio and a significant reduction in the short-term debt ratio, and in particular, the money pool borrowings compared to the base period and prior calendar years. The following table compares the proposed capital structure for the test year, base period, and calendar years 2018 through 2020.

Duke Energy Kentucky, Inc.
Capital Structure Comparison

	Test Year	Base Year	Actual 2020	Actual 2019	Actual 2018
Short Term Debt	2.58%	10.97%	4.96%	5.95%	3.28%
Long Term Debt	46.72%	42.23%	47.87%	47.52%	46.42%
Common Equity	50.70%	46.81%	47.18%	46.53%	50.31%
Total Capital	100.00%	100.00%	100.00%	100.00%	100.00%

Q. How does the Company's actual capital structure in 2019 and 2020 compare to its proposed capital structure in Case No. 2018-00261?

A. The Company's actual capital structure in 2019 and 2020 reflected significantly less common equity than the forecast for the test year ending March 2020 in Case No. 2018-00261, its last base rate (gas) case. The following table compares the forecast capital structure for the test year in that case as filed and as approved by the Commission to the actual capital structures in 2019 and 2020.[29]

[29] The Company's forecast capital structure for the test year is shown on Schedule J-3 Forecast in Case No. 2018-00261. The Commission approved the Company's capital structure "as filed in the Company's Application" in the Order from that case at 6.

Duke Energy Kentucky, Inc. Capital Structure Comparison Case No. 2018-00261 Forecast and 2019 and 2020 Actuals			
	2018-00261 Test Year	Actual 2020	Actual 2019
Short Term Debt	6.91%	4.96%	5.95%
Long Term Debt	42.34%	47.87%	47.52%
Common Equity	50.76%	47.18%	46.53%
Total Capital	100.00%	100.00%	100.00%

Q. Why is the comparison shown in the preceding table relevant?

A. In the real world, not the hypothetical forecast world, the Company actually ran a lower common equity ratio than the Commission approved for the test year in its last base rate case proceeding. This strategy allowed the Company to reduce its actual costs and increase its earnings compared to the forecast costs included in the base revenue requirement and the resulting base revenue increase approved by the Commission in the last proceeding.

In the real world, the Company actually and intentionally reduced its costs after the Commission issued its Order in that proceeding. This experience highlights the need for the Commission to assess the utility's forecast costs with a healthy degree of skepticism, as I noted in the Summary section of my testimony, and to adjust the forecast amounts if they are not consistent with known facts, historic practices, or actual data.

Q. How do the Company's proposed money pool borrowings in the test year compare to the base period and prior calendar years?

A. The forecast money pool borrowings in the test year are significantly less than the Company's actual borrowings in the prior periods. Through its forecast assumptions, the Company reduced the money pool borrowings for the test year compared to its recent practice and increased the common equity invested by its parent company in order to repay those borrowings. The money pool borrowings are the lowest cost source of capital available to the Company other than vendor financing through accounts payable, which are not typically included in the capital structure used to develop the cost of capital for the rate of return. The following table compares the proposed money pool borrowings in the test year to the base period and prior calendar years.[30]

[30] Historic and projected monthly money pool balances were provided in response to AG 2-26. I have attached a copy of that response as my Exhibit___(LK-13).

Duke Energy Kentucky, Inc. Average Money Pool Balances $ Millions	Average Amount
2018 Actual	48.657
2019 Actual	49.387
2020 Actual	73.028
Base Year	89.578
Test Year	1.574

Q. What is a normalized and reasonable level of money pool borrowings based on the Company's recent historic levels?

A. A normalized and reasonable level of money pool borrowings would be $50.000 million based on the Company's recent historic levels, which are *significantly* greater than the Company's forecast of a mere $1.574 million for the test year.

Q. How did the Company achieve the increase in common equity and the reduction in the money pool borrowings in the test year?

A. The Company achieved this transformation to a richer common equity ratio and leaner money pool borrowings ratio through its forecast assumptions. It assumed that its parent company would invest approximately $50 million in common equity in September 2021, the month after the end of the base period. It assumed that these funds would be used to reduce the money pool borrowings.[31]

[31] Response to AG 1-47. The common equity increased to $804.0 million in September 2021 from

Q. What is your recommendation?

A. I recommend that the Commission reflect $50.000 million in money pool borrowings in the proposed capital structure. I recommend that the Commission reduce common equity by an equivalent amount. This is consistent with the Company's recent experience and its likely financing in the future, especially given its experience in 2019 and 2020 when it intentionally ran a leaner common equity ratio and greater money pool borrowings than its forecasts for the test year in Case No. 2018-00261.

Q. What are the capital structure ratios and the weighted cost of capital based on your recommendation?

A. The following table compares the capital structure and weighted cost of capital (both before and after gross-up for income taxes, bad debt expense, and Commission fees) requested by the Company to my recommendation.

$752.1 million in August 2021. I have attached a copy of this response as my Exhibit___(LK-14).

Duke Energy Kentucky, Inc.
Capital Structure Comparison
Company Request vs AG Recommendation

As Filed by DEK

	Capital Amount	%	Component Costs	Weighted Avg Costs	Grossed-Up COC
Short Term Debt					
Sale of Accounts Receivable	36,592,595	2.15%	1.34%	0.03%	0.03%
N/P - Money Pool	1,574,383	0.09%	0.28%	0.00%	0.00%
Current Maturities of LTD	5,769,231	0.34%	4.01%	0.01%	0.01%
Total Short Term Debt	43,936,209	2.58%	1.67%	0.04%	0.04%
Long Term Debt	794,320,510	46.72%	3.84%	1.79%	1.80%
Common Equity	861,861,344	50.69%	10.30%	5.22%	6.97%
Total Capital	1,700,118,063	100.00%		7.06%	8.81%

As Recommended by AG

	Capital Amount	%	Component Costs	Weighted Avg Costs	Grossed-Up COC
Short Term Debt					
Sale of Accounts Receivable	36,592,595	2.15%	1.34%	0.03%	0.03%
N/P - Money Pool	50,000,000	2.94%	0.28%	0.01%	0.01%
Current Maturities of LTD	5,769,231	0.34%	4.01%	0.01%	0.01%
Total Short Term Debt	92,361,826	5.43%	0.94%	0.05%	0.05%
Long Term Debt	794,320,510	46.72%	3.80%	1.78%	1.78%
Common Equity	813,435,727	47.85%	9.10%	4.35%	5.81%
Total Capital	1,700,118,063	100.00%		6.18%	7.64%

Q. What is the effect of your recommendation?

A. The effect is a reduction of $1.783 million in the base revenue requirement and the requested base rate increase.

<u>B. Reduce Cost of Long-Term Debt To Reflect Company's Updated Forecast of Lower Interest Rates For Issuances After Base Period And In Test Year</u>

Q. Have you quantified the effect of Mr. Baudino's recommendation to use the Company's most recent forecast of the interest rates for the September 2021 and September 2022 long term debt issuances reflected in the test year average cost of debt?

A. Yes. The effect is a $0.079 million reduction in the base revenue requirement and the requested base rate increase. The lower interest rates on these two issuances reduce the average cost of long term debt in the test year to 3.81%% compared to the 3.84% reflected in the Company's request.

C. Reduce Cost of Long-Term Debt For Issuance In Test Year

Q. Have you quantified the effect of Mr. Baudino's recommendation to use the Company's most recent forecast interest rate for the September 2021 long term debt issuance as the interest rate for the September 2022 long term debt issuance?

A. Yes. The effect is a $0.009 million reduction in the base revenue requirement and the requested base rate increase. The lower interest rate on the September 2022 issuance further reduces the average cost of long-term debt in the test year to 3.80%.

D. Reduce Return on Equity to 9.1%

Q. Have you quantified the effect of Mr. Baudino's recommendation for a 9.1% return on equity?

A. Yes. The effect is a reduction in the base revenue requirement and requested base rate increase of $3.555 million. Each 10 basis points in the return on equity is equivalent to $0.296 million in the base revenue requirement and requested base rate increase.

V. GOVERNMENTAL MANDATE ADJUSTMENT RIDER

Q. Describe the Company's request for a Governmental Mandate Adjustment Rider.

A. The Company seeks to establish and implement a "new Governmental Mandate Adjustment mechanism ("Rider GMA") to enable the Company to implement and respond to governmental directives/mandates impacting the utility, including changes in federal or state tax rates and regulations promulgated by the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA)."[32]

If the Commission approves the mechanism and related tariff in this proceeding, the Company will file a separate application to implement any adjustments to Rider GMA in response to a governmental mandate. The application would be subject to Commission determination of prudence and reasonableness. Significant pipeline replacement projects required by a government mandate but that do not constitute an ordinary extension of the existing system in the ordinary course of business would be accompanied by a certificate of public convenience and necessity ("CPCN"). The Company will make annual applications with the Commission to

[32] Application at 5.

update Rider GMA, reflecting any new proposed capital projects and the depreciation of previously approved capital projects as well as any changes to federal and state income tax rates or changes to the amortization of unprotected excess or deficient deferred income taxes. [33]

Q. Does the Company's request reflect any limitations on what constitutes a "governmental mandate"?

A. No. The Company does not define "governmental mandate" or how it will determine the scope or incremental costs of any such "governmental mandate" for purposes of the proposed Rider GMA, although it states that it would include changes in federal or state income tax rates and "infrastructure" costs incurred to comply with regulations issued by PHMSA.

Q. Is this problematic?

A. Yes. This is problematic for several reasons. First, the opportunity for recovery of costs between base rate cases through Rider GMA will provide the Company a strong financial incentive to characterize costs as new or expanded "governmental mandates." Second, there will be a strong financial incentive to characterize costs as new and "incremental" due to the new or expanded "governmental mandates." Third, as a practical matter, it is almost impossible to clearly distinguish between "new" and "incremental" costs due to "new" or expanded "governmental mandates" from costs

[33] Direct Testimony of Sarah Lawler at 9-10.

that would otherwise have been incurred in the normal course of business due to existing "governmental mandates," including the existing mandates resulting from the PHMSA "Mega Rule." Fourth, since the PHMSA Rules and Regulations are subject to the utility's interpretation, the utility has discretion as to its response to the Rules and Regulations, and the Rules and Regulations continue to evolve and expand. Thus, the utility's responses to these Rules and Regulations are subject to its judgment as to the scope and manner of compliance and likely will continue to evolve as well. If the Commission approves the Rider GMA, then the ability to obtain contemporaneous recovery of the costs that it incurs will likely factor into the Company's judgment as a simple matter of behavior and incentives.

Q. Is the proposed Rider GMA necessary to address changes in federal and state income tax rates?

A. No. The Commission's responses to prior changes in the federal income tax rate, including the reductions pursuant to the Tax Cuts and Jobs Act ("TCJA"), did not require a Rider GMA, nor is such a rider necessary for future changes. In response to the prior changes, the Commission initiated generic and company-specific proceedings for the gas and electric utilities subject to its ratemaking jurisdiction. This approach has allowed the Commission to address the issues on a consistent statewide basis while allowing for differences among the utilities based on their unique facts and circumstances. In addition, there often are changes in the federal and state income tax code that do not affect income tax rates, but do affect income tax expense, including deductions and tax credits. If and when there are changes in the federal and state income tax code, whether income tax rates or other changes, then the Commission's historic approach is sufficient, and indeed, superior, to the Company's proposed Rider GMA.

Q. Is there be an expiration date on the proposed Rider GMA?

A. No. There is no sunset provision. Essentially the proposed Rider GMA will result in a parallel, and in many respects, an alternative ratemaking paradigm that will permanently supplement, if not supersede in many respects, the existing base ratemaking paradigm.

Q. Does the existing base ratemaking paradigm adequately address "governmental mandates"?

A. Yes. The existing base ratemaking paradigm not only adequately addresses all "governmental mandates," however they are defined or interpreted by the utility, but is superior to the Rider GMA from a customer perspective. First, in the base ratemaking paradigm, the Company utilizes a forecast test year, which means that it is able to include its forecast capital costs in base rates on a timely basis. It does not require the proposed Rider GMA to achieve that objective. Second, in the base ratemaking paradigm, the Company has an inherent financial incentive to minimize its capital (and operating) costs after base rates are reset in every base rate case proceeding. This aligns the Company's interests with its customers' interests, unlike the proposed Rider GMA, which eliminates this inherent financial incentive in the base ratemaking process in exchange for the new financial incentive to incur capital costs due to the accelerated ratemaking recovery.

Q. What is your recommendation?

A. I recommend that the Commission reject the Company's request for a "governmental mandates" rider in the form of the proposed Rider GMA. It is not necessary. It provides a perverse incentive for the Company to characterize costs as due to "governmental mandates," increase the scope of the mandates, and increase the new and incremental costs of such mandates. The Commission already has the capability to address changes in the federal and state tax codes, including changes in income tax rates. The existing base ratemaking paradigm already provides the Company recovery of its reasonable costs to comply with "governmental mandates," and provides financial incentives for the Company to minimize the costs to comply with any such "mandates" in a safe and efficient manner. Finally, the existing base ratemaking paradigm avoids the administrative burden of proceedings to determine new or expanded "governmental mandates" and the new or incremental costs of such "governmental mandates" as well as the proposed annual Rider GMA proceedings.

Q. If the Commission adopts a Rider GMA, do you have any recommendations to protect customers from excessive costs and charges?

A. Yes. First, I recommend that the Commission require the Company to establish a baseline "inventory" of existing "governmental mandates," the specific scope of work that the Company plans to comply with each of those mandates for each of the next ten years, and the cost to perform the specific scope of work for each of those mandates in each of the next ten years. Only in this manner, is there any hope for the Commission to determine what is a new governmental mandate and the incremental cost to comply with the new mandate. Even still, the Commission will be hard pressed to assess what is a new mandate and the incremental costs resulting from the mandate.

Second, to the extent that the new governmental mandate requires retirements of existing plant in service, then the reduction in depreciation expense and any savings due to reductions in maintenance expense on the existing plant in service, should be credited to the Rider GMA and used to reduce the revenue requirement, as well as the reduction in the rate base on the existing plant due to the ADIT effect of the abandonment loss deduction for the remaining tax basis.

Third, to the extent that the Company determines that it is required or, in its judgment, should replace any specific type of pipe or any other assets on a generic basis, such as Aldyl-A pipe, on a system wide basis, then the Commission should limit scope and recovery of the costs of such a program in the same manner that it has done in the past for the Company and other utilities through a Pipeline Replacement Rider form of recovery, to ensure that the project is properly and well managed, subject to: (a) annual cost and recovery limitations; (b) a sunset provision; (c) reductions through credits to the revenue requirement for savings in depreciation expense, savings in any other expenses, and savings from the ADIT effect of the abandonment loss deduction for the remaining tax basis of existing plant retirements.

Fourth, the Commission should adopt a lower return on equity for this rider, consistent with Mr. Baudino's recommendation in this proceeding.

Q. Does this complete your testimony?

A. Yes.

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	**)**	**CASE NO. 2021-00190**
RATES; 2) APPROVAL OF NEW TARIFFS;	**)**	
3) ALL OTHER REQUIRED APPROVALS	**)**	
AND RELIEF	**)**	

EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

KENTUCKY OFFICE OF THE ATTORNEY GENERAL

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

SEPTEMBER 2021