

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DUKE ENERGY)	
KENTUCKY, INC. FOR AN ORDER)	
APPROVING THE ESTABLISHMENT OF)	CASE NO. 2021-00405
A REGULATORY ASSET FOR THE)	
LIABILITIES ASSOCIATED WITH THE)	
RETIREMENT OF CERTAIN)	
PROPANE-AIR FACILITIES)	

APPLICATION AND REQUEST FOR EXPEDITED TREATMENT

Comes now Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company), by counsel, pursuant to KRS 278.030(1), KRS 278.040(2), KRS 278.220 and other applicable law, and hereby requests that the Kentucky Public Service Commission (Commission) approve the establishment of a regulatory asset for the Company’s expenses incurred that arise from or relate to the retirement of a propane storage cavern and associated propane-air facilities. Further, the Company respectfully requests expedited treatment of this Application. In support of this Application, the Company states as follows:

I. Applicant Information and General Filing Requirements

1. Duke Energy Kentucky is an investor-owned utility engaged in the business of furnishing natural gas and electric services to various municipalities and unincorporated areas in Boone, Bracken, Campbell, Gallatin, Grant, Kenton, and Pendleton Counties in the Commonwealth of Kentucky.

2. Pursuant to 807 KAR 5:001, Section 14(2), Duke Energy Kentucky states that it was originally incorporated in the Commonwealth of Kentucky on March 20, 1901, and attests that it is currently in good standing in said Commonwealth.

3. Pursuant to 807 KAR 5:001, Section 14(1), Duke Energy Kentucky's business address is 139 East Fourth Street, Cincinnati, Ohio 45202. Duke Energy Kentucky's local office in Kentucky is 1262 Cox Road, Erlanger, KY 41018, and its electronic mail address is KYfilings@duke-energy.com.

II. Retirement of Propane Caverns

4. Duke Energy Kentucky has used a manmade cavern in Erlanger, Kentucky to store propane that it uses, along with related propane-air facilities (Erlanger Cavern), to supplement natural gas during peak usage periods in the winter months, and as otherwise needed, to serve its Kentucky customers. The Erlanger Cavern was placed into service in 1961 and Duke Energy Kentucky's customers have enjoyed the use of the cavern and its propane facilities which have been instrumental to the Company's provision of safe, reliable, reasonable and adequate service for the last sixty years. The Erlanger Cavern is now reaching the end of its useful life and will soon be no longer necessary for the continued provision of safe, reliable, reasonable and adequate service. Because of the age and nature of construction, the Erlanger Cavern can be neither inspected nor repaired should there be any structural failure. Similar propane caverns of a similar vintage have failed, resulting in the need to immediately retire such facilities. Thus, Duke Energy Kentucky seeks to retire and decommission the Erlanger Cavern, including the propane inventory, proactively and before an emergent situation arises. It is also for this reason Duke Energy Kentucky requests that the Commission issue its decision expeditiously.

5. Duke Energy Kentucky's parent, Duke Energy Ohio, Inc., (Duke Energy Ohio) also uses a portion of the Erlanger Cavern as well as other similar caverns, located in Ohio, to serve its own natural gas customers. Duke Energy Kentucky and Duke Energy Ohio have determined that all of the propane caverns and the associated propane-air facilities that are nearing the end of their useful life on their respective systems should be retired before an emergent situation arises necessitating immediate shutdown without adequate means to replace the needed peaking service. These caverns and associated facilities should thus be replaced by alternative methods to continue providing reliable natural gas distribution service.

6. Duke Energy Ohio's need to maintain its interests in propane caverns in both Ohio and Kentucky will soon be eliminated, due to the construction of its new Central Corridor Pipeline in Ohio. On November 21, 2019, the Ohio Power Siting Board (OPSB) issued an Opinion, Order, and Certificate for the construction and operation of this new pipeline that runs generally from northern Hamilton County, south for approximately 12.7 miles (the Central Corridor Pipeline).¹ Construction of the Central Corridor Pipeline is ongoing, with an in-service date expected in late 2021 or early 2022. Soon thereafter, Duke Energy Ohio's use of the propane caverns and related peaking facilities in both Ohio and Kentucky will cease. And, once Duke Energy Ohio's Central Corridor Pipeline is in service, Duke Energy Ohio will become less reliant upon natural gas capacity originating from the south, thereby making this capacity available for Duke Energy Kentucky, and thus enable Duke Energy Kentucky to also retire its own interest in the Erlanger Cavern

¹ *In the Matter of the Application of Duke Energy Ohio, Inc., for a Certificate of Environmental Compatibility and Public Need for the C314V Central Corridor Pipeline Extension Project*, Case No. 16-253-GA-BTX, Opinion, Order, and Certificate (Nov. 21, 2019). (Appeals of this proceeding are pending at the Ohio Supreme Court, but the Court refused to stay the Board's decision. S.C. Case No. 20-511.)

before any emergency arises. One of the major purposes of the Central Corridor Pipeline is to enable Duke Energy Ohio to retire the caverns and related propane-air peaking facilities, while maintaining safe and reliable service to customers.

7. As Duke Energy Ohio transitions to providing safe and reliable natural gas service through the use of the Central Corridor Pipeline, Duke Energy Kentucky will have the opportunity to continue and increase use of the KOT Pipeline for the benefit of Duke Energy Kentucky, which will enable Duke Energy Kentucky to provide safe and reliable service without the use of the Erlanger Cavern and associated facilities.

8. No customer of Duke Energy Kentucky will be negatively impacted by the retirement of the propane caverns and related propane-air facilities, as service during peak usage will be maintainable without such caverns and facilities as a result of the Company's ability to rely upon natural gas transmission infrastructure and capacity that will no longer be required by Duke Energy Ohio. Once the Central Corridor Pipeline is in service, Duke Energy Ohio will no longer need as much of the southern pipeline capacity, which will free such capacity for Duke Energy Kentucky's use. Therefore, once Duke Energy Ohio ceases using its interests in the propane caverns and related facilities, there is no need for Duke Energy Kentucky to maintain its share in the Erlanger Cavern facility on its own and bear the risk of potential failure. Duke Energy Kentucky submits that, given the fact that the Erlanger Cavern and related facilities are nearing the end of their useful lives, and that the facilities can be retired now, before any critical failure, and without creating any adverse consequences to the Duke Energy Kentucky natural gas delivery system, it is reasonable and in the best interest of the public, to retire these facilities now.

9. The Erlanger Cavern and its related facilities, while near the end of their useful life, have not yet been fully depreciated. And as the Erlanger Cavern is the only propane cavern on Duke Energy Kentucky's books, there is not an ability to simply transfer this remaining book value to a remaining asset life, as there are no other propane caverns on Duke Energy Kentucky's books. Accordingly, to avoid the negative financial impact of having to immediately take a write-off for the stranded costs that will be created once the Erlanger Cavern and propane facilities are retired, Duke Energy Kentucky requests the creation of a regulatory asset through a deferral to account for this remaining net book value of the Erlanger Cavern, including the related propane facilities and remaining propane inventory as discussed below.

III. Request to Establish a Regulatory Asset

10. A regulatory asset is created when a utility is authorized to capitalize an expenditure that under traditional accounting rules would be recorded as a current expense. The reclassification of an expense to a capital item allows the utility the opportunity to request recovery in future rates of the amount capitalized. The authority to establish regulatory assets arises out of the Commission's plenary authority to regulate utilities under KRS 278.040 and to "establish a system of accounts to be kept by utilities subject to its jurisdiction... and may prescribe the manner in which such accounts shall be kept."²

11. Duke Energy Kentucky must obtain Commission approval for accounting adjustments before establishing any expense as a new regulatory asset. Specifically, the Commission stated in Case No. 2001-00092, "[t]herefore, the Commission finds that in the future, ULH&P shall formally apply for Commission approval before accruing a cost as a

² KRS 278.220.

deferred asset, regardless of the rate-making treatment that the Commission has afforded a similar cost in previous rate case proceedings.”³

12. The Commission has exercised its discretion to approve regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility’s planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.⁴ In exercising discretion to allow the creation of a regulatory asset, the Commission’s overarching consideration has been the context in which the regulatory asset is sought to be established and not necessarily the specific nature of the costs incurred.⁵

13. Duke Energy Kentucky asserts that its request to establish a regulatory asset for the expenses related to the retirement of the Erlanger cavern and associated facilities is consistent with the first above-listed example, “an extraordinary, nonrecurring expense

³ *In the Matter of Adjustment of Gas Rates of The Union Light, Heat and Power Company*, Final Order, Case No. 2001-00092 (Ky. P.S.C., Jan. 31, 2002).

⁴ *See In the Matter of the Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages*, Final Order, Case No. 2008-00436 (Ky. P.S.C., Dec. 23, 2008); *In the Matter of the Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset*, Final Order, Case No. 2008-00456 (Ky. P.S.C., Dec. 22, 2008); *In the Matter of the Application of Kentucky Utilities Company for an Order Approving the Establishment of a Regulatory Asset*, Final Order, Case No. 2008-00457 (Ky. P.S.C., Dec. 22, 2008); *In the matter of the Joint Application of Duke Energy Kentucky, Inc., Kentucky Power Company, Kentucky Utilities Company and Louisville Gas and Electric Company for an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities Related to Certain Payments Made to the Carbon Management Research Group and the Kentucky Consortium for Carbon Storage*, Final Order, Case No. 2008-00308 (Ky. P.S.C., Oct. 30, 2008); *In the Matter of the Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred Debits to be Included in Earnings Sharing Mechanism Calculations*, Final Order, Case No. 2001-00169 (Ky. P.S.C., Dec. 3, 2001).

⁵ *In the Matter of the Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages*, Final Order, Case No. 2008-00436 (Ky. P.S.C., Dec. 23, 2008).

which could not have reasonably been anticipated or included in the utility's planning," and the fourth above-listed example, "a non-recurring expense that over time will result in a saving that fully offsets the costs."

14. The need to decommission the propane cavern at Erlanger and related facilities is an extraordinary and non-recurring expense which could not have reasonably been anticipated or included in Duke Energy Kentucky's planning. This cavern has been in use since 1961 and, once decommissioned, will never be in use again. Furthermore, Duke Energy Kentucky could not predict with reliability ahead of time when alternative methods to provide reliable natural gas service would become available, given the high level of complexity in obtaining approvals for and ultimately constructing such methods. Indeed, Duke Energy Kentucky's ability to retire the Erlanger Cavern is prompted by Duke Energy Ohio receiving approval to construct its Central Corridor Pipeline, which once placed in service, will change Duke Energy Ohio's reliance upon natural gas from the south such that Duke Energy Kentucky will have greater access to this pipeline capacity to fill its own needs, thus alleviating the need to rely upon the Erlanger Cavern.

15. Additionally, the retirement of the Erlanger Cavern now, and the associated propane facilities, will produce some Operations and Maintenance (O&M) savings. From a cost recovery standpoint, through the creation of this asset, Duke Energy Kentucky will continue to depreciate the asset through rates. Likewise, if the Company had continued operating the plant, the asset would also be depreciated. The associated propane facilities however would have continued to require ongoing maintenance.

16. Accordingly, Duke Energy Kentucky seeks establishment of a regulatory asset on its books and records to defer approximately \$3.6 million stemming from

decommissioning of these facilities, as detailed in the following table and discussed further below.

Line No.	Description	Amount in millions	Allocated to Kentucky	Total Kentucky
1	Propane inventory at Erlanger	3.0	36%	1.1
2	NBV of remaining assets at Erlanger*	5.2	36%	1.9
3	Decommissioning costs of Erlanger	2.0	36%	0.7
4	Total estimated costs	\$ 10.2		\$ 3.6
*Estimated Balance as of March 31, 2022. Amount included in regulatory asset will be the NBV of the assets as of the day the assets are decommissioned and retired.				

17. **Propane Inventory**: The Erlanger cavern is currently holding propane supplies which propane must be removed from the caverns for retirement purposes. Duke Energy Kentucky has determined that the least costly method for removal is to run the remaining propane inventory through the system, as it typically does for peaking purposes, thus using it both to supply the commodity to customers and to support system-wide pressure for distribution purposes. Once the propane is run through the system, the Company estimates that 500,000 gallons of propane will remain in the caverns, which will need to be removed at a later date as part of the decommissioning process.

18. To mitigate costs to customers, the Company proposes, and to the extent necessary, requests authorization, to charge customers, through its Gas Cost Adjustment Rider (GCA),⁶ for the propane that is run through the system at the lower of the weighted average cost of the propane inventory or the weighted average cost of gas for Duke’s supply and storage withdrawals at the Citygate⁷ for the month that the propane was burned, namely the same cost it would have incurred had the Company been running natural gas through

⁶ See KY.P.S.C. Gas No. 2, Sheet No. 70.

⁷ The “Citygate” is point or measuring station at which a gas distribution company receives gas from a pipeline company or transmission system.

the system instead of propane. Because propane is typically a more costly fuel than natural gas, there may be a difference between the propane inventory cost and the cost the Company will charge its customers through the GCA mechanism (Delta).⁸ Duke Energy Kentucky requests authorization to defer this Delta as part of the regulatory asset for future recovery. The Delta will be calculated as the difference between the cost of producing propane-air (weighted average cost of the propane inventory) and the weighted average cost of gas for Duke's supply and storage withdrawals at the Citygate for the month that the propane was burned. Based on the current propane inventory balance on the Company's balance sheet and the most current GCA rate, the Delta allocated to Duke Energy Kentucky is estimated to be approximately \$900,000. The Company also proposes to include the propane remaining in the cavern, that cannot be injected into the system during the coming winter, in the regulatory asset. Based on the current propane inventory balance on the Company's balance sheet, the cost of the propane remaining in the Erlanger cavern allocated to Duke Energy Kentucky is approximately \$200,000.

19. **Net Book Value of Remaining Assets:** Additionally, the estimated remaining net book value of the Erlanger propane cavern as of the estimated retirement date of March 31, 2022, allocated to Duke Energy Kentucky, is approximately \$1.9 million. The Company will continue to depreciate these assets in accordance with accounting rules and regulations until the retirement date. At that point, the assets will be written off. The Company is proposing that the write off be recorded to the regulatory asset being requested in this proceeding. The Company is also proposing that the regulatory asset be amortized during this period such that the overall expense related to these assets is the same as in the

⁸ In the unlikely event that propane is less costly than natural gas, then Delta will be zero.

last approved natural gas base rate case until the effective date of the next natural gas base rate case

20. **Decommissioning Costs**: Company will also incur costs to decommission the cavern. Decommissioning costs for the Erlanger location allocated to Duke Energy Kentucky are estimated to be approximately \$700,000. The Company is requesting that the regulatory asset include these values.

21. **Cost of Removal**: As of July 31, 2021, the Company has recovered through customer rates a cost of removal balance of only \$0.3 million for Erlanger, of which \$0.1 million is allocated to Kentucky. The net book value of the assets discussed in paragraph 19 is net of these values. The regulatory asset requested will be recorded net of the cost of removal balances currently recorded on the Company's balance sheet

22. The Company also requests authority to include this regulatory asset in rate base in a subsequent natural gas base rate case at which point the assets included in the regulatory asset would no longer be included in inventory or plant balances for inclusion in rate base as they had historically been included, and at which point the amortization described in paragraph 19 would be replaced by the treatment in the rate case order.

23. Duke Energy Kentucky proposes to record this cost as a regulatory asset in FERC account 182.3 on its balance sheet, in accordance with the FERC Unified System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act (USoA).⁹ Commission approval of the requested accounting treatment is necessary for the Company to assert probability of recovery of such expenditure under generally accepted accounting procedures (GAAP).

⁹ 18 C.F.R Part 201.

24. This application only requests authority for the accounting treatment described above. Recovery of any costs deferred under this application will be addressed in a separate proceeding. In such future proceeding, the Company would propose a reasonable period of time to recover these costs so as to not cause a significant impact to customer rates.

25. The costs included in this application are estimates and the Company will only defer the actual costs incurred for the expenditures outlined herein.

26. In order to record the accounting entries necessary to create the deferrals and not to significantly impact Duke Energy Kentucky's financial integrity, the Company requests the Commission issue its decision no later than December 31, 2021.

WHEREFORE, on the basis of the foregoing, Duke Energy Kentucky respectfully requests that the Commission expeditiously enter an Order:

1. Approving the establishment of a regulatory asset to defer the expenses related to the retirement of the Erlanger propane cavern and associated facilities; and
2. Granting Duke Energy Kentucky all other additional relief to which it may appear entitled.

This 4th day of November 2021.

VERIFICATION

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

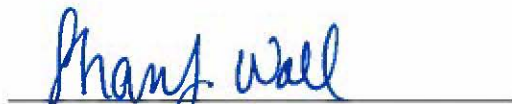
The undersigned, Brian Weisker, being duly sworn, deposes and says that he is the SVP, Chief Op Off Natural Gas and that the matters set forth in the foregoing Application are true and correct to the best of his information, knowledge, and belief.



Brian Weisker, Affiant

Subscribed and sworn to me by Brian Weisker on this 1st day of November, 2021.

SHANNON L. WALL
Notary Public, North Carolina
Mecklenburg County
My Commission Expires
June 28, 2022



NOTARY PUBLIC
My Commission expires: 6/28/2022

Respectfully submitted,

/s/Larisa Vaysman _____

Larisa Vaysman

Senior Counsel

Rocco O. D'Ascenzo

Deputy General Counsel

Duke Energy Business Services, LLC

139 East Fourth Street, 1303-Main

Cincinnati, OH 45202

(513) 287-4010

Larisa.Vaysman@duke-energy.com

Counsel for Duke Energy Kentucky, Inc.