COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Verified Application of Duke Energy	)	
Kentucky, Inc. for Proposed Accounting and	)	
Fuel Adjustment Clause Treatment and for	)	Case No. 2021-00459
Declaratory Ruling	)	

VERIFIED APPLICATION OF DUKE ENERGY KENTUCKY, INC. AND REQUEST FOR EXPEDITED TREATMENT

Now comes Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company), by and through counsel, pursuant to KRS 278.030(1), KRS 278.040(2), KRS 278.220, 807 KAR5: 056, and other applicable law, and hereby requests that the Kentucky Public Service Commission (Commission) approve the establishment of a regulatory asset and reasonable amortization period of ten (10) months for the recovery of the Company's increased purchased power expense resulting from the planned maintenance outage at its East Bend Generating Station. The replacement power expense that would otherwise flow through the Fuel Adjustment Clause mechanism (FAC), absent this accounting treatment, would result in a significant increase in the Company's FAC rate in January 2022. In order to mitigate this increase for customers, the Commission should permit the Company to defer and amortize this expense as more fully described herein.

Duke Energy Kentucky respectfully requests an order from the Commission on an expedited basis, on or before December 20, 2021, so the requested accounting treatment can go into effect before the Company makes its FAC filing for the January 2022 FAC rate adjustment and the rate goes into effect. In support of this Application, Duke Energy Kentucky states as follows:

Introduction

1. Duke Energy Kentucky is a Kentucky corporation with its principal office and principal place of business at 139 East Fourth Street, Cincinnati, Ohio 45202. The Company's local office in Kentucky is Duke Energy Erlanger Operations Center, 1262 Cox Road, Erlanger, Kentucky 41018. The Company further states that its electronic mail address for purposes of this matter is KYfilings@duke-energy.com.

2. Duke Energy Kentucky is a utility as defined by KRS 278.010(3)(a) and (b) which is engaged in the gas and electric business. Duke Energy Kentucky purchases, sells, stores and transports natural gas in the Boone, Bracken, Campbell, Gallatin, Grant, Kenton, and Pendleton Counties. Duke Energy Kentucky also generates electricity, which it distributes and sells, in the Boone, Campbell, Grant, Kenton, and Pendleton Counties.

3. 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.

4. Pursuant to KRS 278.380, Duke Energy Kentucky waives any right to service of Commission orders by mail for purposes of this proceeding only. Copies of all orders, pleadings, and other communications related to this proceeding should be directed to:

Rocco O. D'Ascenzo
Deputy General Counsel
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202
rocco.d'ascenzo@duke-energy.com

Background

5. 807 KAR 5:056 sets forth the formula and process for recovery of reasonable costs of fuel and purchased power necessary to serve customers. 807 KAR 5:06, Section 1, (3)(a)-(d), defines eligible fuel costs as follows:

> 3) Fuel costs (F) shall be the most recent actual monthly cost, based on weighted average inventory costing, of:
>
> > (a) Fossil fuel consumed in the utility's own plants, and the utility's share of fossil and nuclear fuel consumed in jointly owned or leased plants, plus the cost of fuel that would have been used in plants suffering forced generation or transmission outages, but less the cost of fuel related to substitute generation; plus
> >
> > (b) The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than as established in paragraph (c) of this subsection, but excluding the cost of fuel related to purchases to substitute for the forced outages; plus
> >
> > (c) The net energy cost of energy purchases, exclusive of capacity or demand charges irrespective of the designation assigned to the transaction, if the energy is purchased on an economic dispatch basis. Costs, such as the charges for economy energy purchases, the charges as a result of scheduled outage, and other charges for energy being purchased by the buyer to substitute for the buyer's own higher cost energy, may be included; and less
> >
> > (d) The cost of fossil fuel recovered through intersystem sales, including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.[1]

6. Duke Energy Kentucky's East Bend Generating Station (East Bend) entered into a planned maintenance outage on September 10, 2021, that was scheduled to end on November 21, 2021. This outage was planned and scheduled several years ago to occur in the Spring of 2021, but in January 2021, the outage was moved to the fall of 2021. On October 27, 2021, East Bend's planned outage was extended due to vendor performance issues and COVID-related resource and supply chain constraints. The Company anticipates East Bend returning to service on December 15, 2021.

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[1] 807 KAR 5:056

7. Pursuant to 807 KAR 5:056, Duke Energy Kentucky has incurred replacement power costs, which are recoverable in accordance with 807 KAR 5:56, Section 1(3)(c). The Company, to continue to provide safe and reliable service, procured replacement power through the PJM Interconnection LLC (PJM) market to meet customer load and demand needs. As specified in the Company's backup power supply plan, fixed forward contract purchases were entered into prior to the outage. Although these contracts provided an effective hedge for the customers, the price paid for these contracts, since they are at a higher price than the relatively low energy cost of generation from East Bend station, along with the price of additional energy purchased from the PJM daily energy markets due to the outage extension and off-peak energy prices, were not able to replace the station's generation at the same price.

8. Market prices for replacement power have risen substantially, higher than the Company anticipated, having a direct impact on the Company's current and anticipated FAC expense for customers. In order to mitigate this expense impact on customer bills for the winter months, Duke Energy Kentucky respectfully requests authorization to create a regulatory asset for these expenses, and to amortize them for recovery over an extended period of time, thereby spreading out the cost recovery so to mitigate the rate impact to customers.

9. 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]

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

11. 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

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[2] KRS 278.220.

[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).

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]

12. Duke Energy Kentucky asserts that its request to establish a regulatory asset related to its replacement power expense for recovery under its FAC constitutes an extraordinary, nonrecurring expense that could not have reasonably been anticipated or included in the utility's planning. Duke Energy Kentucky does not have control over market prices or the supply chain constraints that have necessitated the outage extension. Therefore, the replacement power market prices and the extension of the East Bend planned outage were both outside the Company's control.

13. The requested deferral, if approved, is in the best interests of customers as it will result in a lower immediate impact to the Company's FAC rate in January 2022 and allow the Company to recover its costs in accordance with the FAC regulation. The Commission will continue to have its authority to review the prudency of these costs at the appropriate review period under the FAC regulation.

14. In order to avoid a significant increase to the Company's FAC rate in January 2022, the Company respectfully requests the Commission to issue a decision permitting the Company to defer these costs and amortize the expense associated with the replacement power for the planned East Bend outage for a period of 10 months.

15. The Company proposes to defer \$13 million of replacement power expense with amortization over 10 months. If this deferral is approved, the FAC rate for January 2022 customer bills will be \$0.000721 per kWh. For a residential customer using 1,000 kWh, that

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[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).

customer will pay $0.72 in January 2022 for the FAC portion of the bill. This includes a $43.35 reduction in the bill for the $13 million deferred portion, plus a charge of $4.33 for the amortization of the deferral. This will bring a typical bill for a residential customer back in line with October 2021 levels.

16. Conversely, if the Commission denies the request, the FAC rate on customer bills in January 2022 will be $0.039735 per kWh. For a residential customer using 1,000 kWh, that customer will pay $39.74 in January 2022 for the FAC portion of the bill or an increase of $14.67 from December 2021. This represents a 12 percent increase compared to December 2021 for a typical residential customer using 1,000 kWh. The typical bill for residential customers had already increased in November by 17 percent and in December by 6 percent. Accordingly, the Company respectfully submits that good cause exists to grant the requested deferral and amortization request to mitigate the increases to the Company's FAC rate this winter.

WHEREFORE, Duke Energy Kentucky respectfully requests the Kentucky Public Service Commission to enter an order approving the accounting treatment discussed herein and confirm that, subject to the six-month and two-year reviews provided for in 807 KAR 5:056, the benefits and costs, as described above, may be flowed through the Fuel Adjustment Clause mechanism as set out herein.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

/s/ Rocco O. D'Ascenzo

Rocco O. D'Ascenzo (92796)
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VERIFICATION

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

The undersigned, Sarah E. Lawler, being duly sworn, deposes and says she is the VP Rates & Regulatory Strategy OH/KY, for Duke Energy Kentucky, Inc., and an employee of Duke Energy Corporation, and that she has personal knowledge of the matters set forth in the foregoing Verified Application, and that the content thereof is true and correct to the best of her information, knowledge, and belief.

SLEL

Sarah E. Lawler Affiant

Subscribed and sworn to before me by Sarah E. Lawler on this 9th day of December, 2021.

NOTARY PUBLIC

My Commission Expires:

NOTARIAL SEAL
STATE OF OHIO

ROCCO O. D'ASCENZO
ATTORNEY AT LAW
Notary Public, State of Ohio
My Commission Has No Expiration
Section 147.03 R.C.

CERTIFICATE OF SERVICE

This is to certify that the foregoing electronic filing is a true and accurate copy of the document being filed in paper medium; that the electronic filing was transmitted to the Commission on December 10th, 2021; and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

John G. Horne, II
The Office of the Attorney General
Utility Intervention and Rate Division
700 Capital Avenue, Ste 118
Frankfort, Kentucky 40601

/s/Rocco D'Ascenzo
Rocco D'Ascenzo