COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC INVESTIGATION OF THE FUEL ADJUSTMENT CLAUSE REGULATION 807 KAR 5:056, PURCHASED POWER COSTS, AND RELATED COST RECOVERY MECHANISMS	))))	CASE NO. 2022-00190

ADDITIONAL COMMENTS OF DUKE ENERGY KENTUCKY, INC.

I. INTRODUCTION

Please accept these additional comments submitted on behalf of Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company) regarding the Kentucky Public Service Commission's (Commission) August 13, 2026 Order requesting further comments on proposed changes to 807 KAR 5:056, the fuel adjustment clause (FAC) regulation, and related cost recovery mechanisms (August Order).[1]

II. BACKGROUND

On November 2, 2022, the Commission initiated this proceeding to investigate the FAC regulation, 807 KAR 5:056, purchased power costs, and related cost recovery mechanisms. In its November 2, 2022 Order, the Commission directed jurisdictional electric utilities to respond to fifteen questions and to identify and explain the provisions in their tariffs that allow recovery of fuel costs, purchased power costs, and related

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[1] Order (Ky. P.S.C. Aug. 13, 2026).

expenses outside the FAC. Duke Energy Kentucky filed its Initial Comments on December 2, 2022, and its reply comments on December 19, 2022.[2]

On February 19, 2026, Senate Bill 172 (SB 172) took effect and amended KRS 278.277 to authorize the Commission, upon an electric utility's request, to extend the recovery period for FAC costs that are typically recoverable when doing so would reduce volatility for consumers and encourage stability in rates.

On March 10, 2026, the Commission issued an order requesting comments on proposed changes to 807 KAR 5:056 and related FAC issues (March Order). Duke Energy Kentucky filed comments in response on May 11, 2026 (May Comments). In the May Comments, Duke Energy Kentucky addressed, among other matters, annual reviews, the procedures and regulatory amendments that could implement SB 172, proposed changes to the FAC calculation, regulatory accounting, and hedging.[3]

On August 13, 2026, after reviewing the comments filed in response to the March Order, the Commission issued an order directing Duke Energy Kentucky and other utilities to file additional responses regarding annual FAC reviews, implementation of SB 172 and extended recovery periods, a constant annual FAC factor, and regulatory asset requests.[4]

Duke Energy Kentucky submits these additional comments in response to the August Order.

[2] Order, Paragraphs 4-5 (Ky. P.S.C. Nov. 2, 2022); Duke Energy Kentucky, Inc.'s Initial Comments (Dec. 2, 2022); Duke Energy Kentucky, Inc.'s Reply Comments (Dec. 19, 2022).

[3] Order (Ky. P.S.C. Mar. 10, 2026); Duke Energy Kentucky, Inc.'s Comments (May 11, 2026).

[4] August Order, pp. 2-7.

III. DISCUSSION

Annual Review Process

The Commission requested additional comments regarding implementation of an annual FAC review process, including the optimal review period, the best time to transition from the current review periods to an annual review, and whether each utility should be permitted to select its own review period. The Commission directed utilities to assume for purposes of these comments that the FAC factor would continue to be updated monthly.[5]

Duke Energy Kentucky supports the implementation of an annual review period to replace the current six-month review.[6] The base rates have historically only been updated in the two-year review and the Company believes this should continue. The optimal period to be covered by each annual review would be from expense month November through expense month October, which are the billing months of January through December. This is the timeline used in the current audit process. The Company recommends to have a uniform period for all utilities. Additionally, Duke Energy Kentucky respectfully suggests that the best time to transition from a six-month review process to the annual review process would be after the next two-year review period, which would be for expense months November 2024 through October 2026.

Implementation of SB 172, Extended Recovery Periods, and Regulatory Asset Requests

The Commission requested further comments on whether a change to 807 KAR 5:056 is necessary to implement SB 172, whether additional regulation amendments should be proposed, the amendments previously proposed by Duke Energy Kentucky and

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[5] *Id.*, p. 3.

[6] *See* May Comments, p. 8.

LG&E/KU, and the process a utility would use to request an extended recovery period. The Commission also requested comments on whether notice would be sufficient or an approving order should be required, how a denial should be addressed, and, if notice alone were required, when a utility would expect any denial to occur.[7] On this same topic, the Commission requested comments regarding how utilities would request a regulatory asset, the time at which the request would be made, and the anticipated time that the Commission would decide the request.[8]

Even if a regulation change is no longer necessary in light of SB 172, Duke Energy Kentucky's previously suggested amendments to 807 KAR 5:056[9] would bring much-needed clarity and transparency by providing all stakeholders with the Commission's understanding and application of the statutory language.

As described in the Company's previously proposed amendments, the utility process to request an extended recovery period (and the corresponding regulatory asset) would be to include notice of an extension and its rationale in its monthly fuel adjustment, with such notice being sufficient to permit the extension and create the corresponding regulatory asset unless the Commission orders otherwise.[10] Duke Energy Kentucky recommends that, if the Commission wishes to deny the requested extended period for recovery, such denial would need to occur within five days of the Company's notice so that the monthly rate adjustment could be updated in time.

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[7] *See* August Order, pp. 3-5.

[8] *Id.*, p. 6.

[9] *See* May Comments, p. 6; August Order, pp. 4, 6.

[10] *See* May Comments, pp. 6-7.

The Company notes that every cost recovery mechanism, including the existing FAC, requires regulatory deferral accounting to function; FAC-recoverable costs a utility incurs in one month do not appear on customers' bills until the second billing cycle thereafter (*e.g.*, January expenses appear on March bills). In that sense, there is nothing new about using regulatory deferral accounting to address FAC costs and the recovery thereof from customers. From a practical standpoint, Duke Energy Kentucky recommends that the Commission allow the extension and creation of the asset immediately upon filing of the notice. This does not preclude the Commission's ability to review the prudency of all of these deferred costs, during its six-month, one-year and/or two-year reviews as it always has done.

<u>Constant Annual FAC Factor (Stagnant Rate Option)</u>

The Commission requested comments on a fifth FAC calculation option, described as the "stagnant rate" option, under which a utility would track the FAC factor monthly but charge a constant FAC factor for twelve months, followed by an annual true-up carried forward into the next twelve-month period. The Commission specifically requested comments on how the constant FAC factor should be selected, concerns with the proposed approach, and the optimal time to begin the annual review if a constant FAC factor were applied.[11]

Duke Energy Kentucky recommends against using the "stagnant rate" option, as this option would cause unnecessary complications in the rate calculations. Deferring costs in the manner that SB 172 allows would be simpler administratively and have the same impact of reducing volatility in rates as the "stagnant rate" proposal.

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[11] August Order, pp. 5-6.

IV. CONCLUSION

Duke Energy Kentucky appreciates the opportunity to provide additional comments regarding the Commission's proposed changes to the FAC regulation, 807 KAR 5:056, and the related issues identified in the August Order.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

/s/Larisa M. Vaysman

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CERTIFICATE OF SERVICE

This is to certify that the foregoing electronic filing is a true and accurate copy of the document in paper medium; that the electronic filing was transmitted to the Commission on September 14, 2026 that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that submitting the original filing to the Commission in paper medium is no longer required as it has been granted a permanent deviation.[12]

/s/Larisa M. Vaysman
Counsel for Duke Energy Kentucky, Inc.

[12] *In the Matter of Electronic Emergency Docket Related to the Novel Coronavirus COVID-19,* Case No. 2020-00085, Order (Ky. P.S.C. July 22, 2021).