

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Application of Duke Energy Kentucky,)
Inc., for an Adjustment to Rider PMM) Case No. 2022-00229
Rates and for Tariff Approval)

APPLICATION

Now comes Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company), pursuant to KRS 278.030(1), 278.040(2), 278.509, 807 KAR 5:001, Section 14, and other applicable law, and hereby respectfully requests approval from the Kentucky Public Service Commission (Commission) to set its Pipeline Modernization Mechanism (Rider PMM) annual projections, charges, and tariff. In support of this Application, Duke Energy Kentucky respectfully states as follows:

Introduction

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 is a Kentucky corporation originally incorporated on March 20, 1901, in good standing, and a public utility as that term is defined in KRS 278.010(3), and, therefore, is subject to the Commission's jurisdiction.

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 Duke Energy Erlanger Ops Center, 1262 Cox Road, Erlanger, Kentucky 41018.

4. Copies of all orders, pleadings and other communications related to this proceeding should be sent to:

Rocco O. D'Ascenzo
Deputy General Counsel
Duke Energy Kentucky, Inc.
139 E. 4th St., Cincinnati, OH 45202
Rocco.D'Ascenzo@duke-energy.com
KYfilings@duke-energy.com

5. On December 28, 2021, the Commission approved the Company's PMM initiative as part of the settlement in Case No. 2021-00190 (2021 Natural Gas Rate Case). As stipulated, Rider PMM provides incremental cost recovery for pipeline replacement projects that are necessitated by the United States Pipeline and Hazardous Materials Safety Administration (PHMSA) for pipeline integrity.¹ The PMM shall be adjusted annually for capital placed in service following the test year in the 2021 Natural Gas Rate Case.² The first Rider PMM adjustment was agreed be filed no earlier than July 1, 2022, with rates effective January 1, 2023. Rider PMM is subject to an annual revenue requirement cap of no more than a five percent increase in natural gas revenues per year.³ The rate of return attached to Rider PMM includes a 9.3 percent ROE.⁴

¹ *In the Matter of the Electronic Application of Duke Energy Kentucky, Inc., for: 1) An Adjustment of the Natural Gas Rates; 2) Approval of new Tariffs, and 3) All Other Required Approvals, Waivers, and Relief.* Case No. 2021-00190 Ky.P.S.C. (December 28, 2021).

² *Id.* pg. 23.

³ *Id.* pg. 21. Natural gas revenues from this case, including base revenues, gas cost revenues and miscellaneous revenues would be the baseline for measuring this five percent cap. Additional capital that results in an increase over five percent would be eligible for the creation of a regulatory asset.

⁴ *Id.* pg. 15.

6. In its Order, the Commission approved Rider PMM, within an initial limitation to the Company's AM07 Pipeline, and conditional upon receiving a certificate of public convenience and necessity (CPCN) by the Commission.⁵

7. AM07 is a 24 inch transmission line located north of Big Bone, Kentucky, near the I-275 corridor in Northern Kentucky, and is the backbone of Duke Kentucky's natural gas system.⁶ AM07 was constructed in the 1950's and is made of vintage materials that are no longer industry standard. As a result, the AM07 pipeline cannot be inspected for internal corrosion and records indicate that it does not meet current PHMSA standards⁷ for traceable and verifiable and complete records. Accordingly, the Company needs to replace approximately 14 miles of AM07 in sections over the next seven years at a total cost of \$191.2 million.

8. On March 28, 2022, Duke Energy Kentucky filed its application for a CPCN for approval of phase 1 of its AM07 pipeline replacement.⁸ A procedural schedule was established that includes two rounds of discovery, opportunity for intervention, and possibility of a public hearing. To date, no parties have intervened in the proceeding, and the deadline for intervention has passed.

9. Consistent with the Commission's Order, the rates of Rider PMM will go into effect no earlier than January 1, 2023 and are conditioned upon approval of the CPCN for AM07. Accordingly, the Company makes this Application so that if the

⁵ Id. pg. 23.

⁶ Id. pp.21-23.

⁷ Id.

⁸ *In the Matter of the Application of Duke Energy Kentucky, Inc., for a Certification of Public Convenience and Necessity Authorizing the Phase One Replacement of the AM07 Pipeline*, Case No. 2022-00084 Ky.P.S.C. (Application)(March 28, 2022).

Commission approves the pending CPCN, rates could become effective consistent with the Commission's Order and the settlement approved in the 2021 Natural Gas Rate Case.

10. The Rider PMM rates that Duke Energy Kentucky seeks to implement beginning January 2023 are reflected in the Company's tariff, Ky.P.S.C. Gas No. 2 Rider PMM, Pipeline Modernization Mechanism, First Revised Sheet No. 66, as attached hereto as Exhibit 1.

11. Pursuant to the Commission's Order, Duke Energy Kentucky is including its PMM projections for 2023. This information is attached hereto as Exhibit 2.

WHEREFORE, Duke Energy Kentucky respectfully requests that its PMM Rider annual projections be approved as requested herein.

Respectfully submitted,

/s/Rocco O. D'Ascenzo

Rocco O. D'Ascenzo (92796)

Deputy General Counsel

Larisa M. Vaysman (98944)

Senior Counsel

Duke Energy Business Services, LLC

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Cincinnati, Ohio 45202

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rocco.d'ascenzo@duke-energy.com

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 August 1, 2022; and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

/s/Rocco O. D'Ascenzo
Rocco O. D'Ascenzo

John G. Horne, II
The Office of the Attorney General
Utility Intervention and Rate Division
700 Capital Avenue, Ste 118
Frankfort, Kentucky 40601-8204

Duke Energy Kentucky, Inc.
1262 Cox Road
Erlanger, Kentucky 41018

RIDER PMM

PIPELINE MODERNIZATION MECHANISM

APPLICABILITY

Applicable to all customers receiving service under Rate RS, Residential Service, Rate GS, General Service, Rate IT, Interruptible Transportation, and Rate FT-L, Firm Transportation.

RATE

Customers shall be assessed a surcharge or credit to enable the Company to fully recover all costs associated with compliance with regulations promulgated by the U.S. Department of Transportation Pipeline and Hazardous Materials Administration, as approved by the Kentucky Public Service Commission. The monthly billing amount calculated for each rate schedule for which this rider is eligible shall increase or decrease as shown below. This Rider shall initially be limited to the Company's AM07 Project, which is subject to approval of a certificate of public convenience and necessity by the Kentucky Public Service Commission. This Rider will not reflect costs for other pipeline projects unless approved by the Kentucky Public Service Commission.

PMM Surcharge or Credit per Ccf

Residential (Rate RS)	\$0.670.00 / Month	<u>①</u>
General Service (Rate GS)	\$1.200.00 / Month	<u>①</u>
Firm Transportation – Large (Rate FT-L)	\$0.000110.0000 / Ccf	<u>①</u>
Interruptible Transportation (Rate IT)	\$0.000120.0000 / Ccf	<u>①</u>

TERM

The Rider PMM rates shown on this page will be effective until the earlier of the effective date of new base rates or until future order by the Commission to modify or eliminate the rider.

SERVICE REGULATIONS

The supplying of, and billing for, service and all conditions applying thereto are subject to the jurisdiction of the Kentucky Public Service Commission, and to Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission as provided by law.

Issued by authority of an Order of the Kentucky Public Service Commission dated December 28, 2021, in Case No. 20221-0022900190.
Issued: January 14, 2022
Effective: January 4, 2022 January x, 2023
Issued by Amy B. Spiller, President /s/ Amy B. Spiller

Duke Energy Kentucky, Inc.
 1262 Cox Road
 Erlanger, Kentucky 41018

RIDER PMM

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PMM Surcharge or Credit per Ccf

Residential (Rate RS)	\$0.67 / Month	(I)
General Service (Rate GS)	\$1.20 / Month	(I)
Firm Transportation – Large (Rate FT-L)	\$0.00011 / Ccf	(I)
Interruptible Transportation (Rate IT)	\$0.00012 / Ccf	(I)

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Issued by authority of an Order of the Kentucky Public Service Commission dated _____ in Case No. 2022-00229.

Issued: _____

Effective: January x, 2023

Issued by Amy B. Spiller, President /s/ Amy B. Spiller

Duke Energy Kentucky
Pipeline Modernization Mechanism ("Rider PMM")
Forecasted Period Ending December 31, 2023
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**Duke Energy Kentucky
 Pipeline Modernization Mechanism ("Rider PMM")
 Rider PMM by Rate Schedule**

Line No.	Rate Schedule (A)	Weighted	2023 Projected	XXXX True Up	Total	Billing	Monthly
		Gross Distribution Plant Approved KyPSC Case No. 2021-00190 (B)	Revenue Requirement (C)	Revenue Requirement (D)		Determinants # of Bills / CCF (F)	Rider PMM (G)
1	RS- Residential	86.932%	\$ 773,284	\$ -	\$ 773,284	1,156,418	\$ 0.67 Per Customer
2	GS - General Service	12.506%	111,244	-	111,244	92,746	\$ 1.20 Per Customer
3	FT - Firm Transportation (Includes DGS)	0.341%	3,033	-	3,033	27,065,157	\$ 0.00011 Per CCF
4	IT - Interruptible Transportation	0.221%	1,966	-	1,966	16,655,397	\$ 0.00012 Per CCF
5	Total	100.000%	\$ 889,527	\$ -	\$ 889,527		

Sch. 1.1

Sch. 4.1

Sch. 3.0

The cap for the annual PMM revenue requirement is no more than 5% increase in natural gas revenue per year
 Natural gas revenue is defined to include base, gas cost and miscellaneous revenue

Duke Energy Kentucky
Pipeline Modernization Mechanism ("Rider PMM")
Forecasted PMM Revenue Requirement for 2023

<u>Line No.</u>	<u>(A)</u>	<u>PMM Investment December 31, 2023 (B)</u>	<u>Reference (C)</u>
Return on Investment			
<u>Rate Base</u>			
1	Net PMM Investment - Property, Plant and Equipment	\$ 8,364,433	Sch. 2.2
2	Cost of Removal	-	Sch. 2.2
3	Accumulated Reserve for Depreciation	(15,873)	Sch. 2.0
4	Net PP&E	<u>8,348,560</u>	
5	Accumulated Deferred Taxes on Liberalized Depreciation	(35,162)	Sch. 2.1
6	Net Rate Base	<u>8,313,398</u>	Line 4 + Line 5
7	Authorized Rate of Return, Adjusted for Income Taxes	8.087%	Sch. 1.2
8	Required Return on PMM Related Investment	<u>\$ 672,305</u>	Line 6 * Line 7
<u>Operating Expenses</u>			
9	Depreciation	\$ 105,327	Sch. 2.0
10	Property Tax	110,567	Line 4 * 1.32438%
11	PSC Assessment	1,328	(Sum Line 8 thru 11) * (0.1493% / (1-0.1493%))
12	Total Operating Expenses	<u>217,222</u>	Sum Lines 9 thru 12
13	<u>Total Annual Revenue Requirement</u>	<u>\$ 889,527</u>	Line 8 + Line 12

Notes:

(1) Property taxes estimated using an effective rate of 1.32438%

(2) PSC Assessment using Fiscal Year 2021 rate of 0.1493%

Duke Energy Kentucky
Pipeline Modernization Mechanism ("Rider PMM")
Cost of Capital

Line No.	<u>Capital Structure</u> (A)	<u>Ratio</u> (B)	<u>Cost</u> (C)	<u>Weighted</u> <u>Cost</u> (D)	<u>Pre-Tax @ Effect.</u> <u>Tax Rate of 24.925%</u> (E)
1	Short term Debt	2.617%	1.667%	0.044%	0.044%
2	Long term Debt	46.039%	3.656%	1.683%	1.683%
3	Equity	51.344%	9.300%	4.775%	6.360%
4	Total	100.000%		6.502%	8.087%

Capital structure and cost of debt approved in Case No. 2021-00190

Return on equity approved in Case No. 2021-00190 for use in natural gas capital riders

Duke Energy Kentucky
 Pipeline Modernization Mechanism ("Rider PMM")
 Depreciation

Line No.	Description (A)	Acct Number (B)	(C)	EOY 2022 (D)	Projected 2023 Additions												EOY 2023 (Q)		
					Jan (E)	Feb (F)	Mar (G)	Apr (H)	May (I)	Jun (J)	Jul (K)	Aug (L)	Sep (M)	Oct (N)	Nov (O)	Dec (P)			
Gas Plant Investments ⁽¹⁾																			
Additions																			
1	Mains - Feeder	376	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	16,014,245	1,143,875	953,229	953,229	19,064,578	
2	System M&R Station Equipment	378	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	7,650,507	546,465	455,387	455,387	9,107,746	
3	Land and Land Rights	374	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	1,158,643	82,760	68,967	68,967	1,379,337	
4	Total Additions		\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	24,823,395	1,773,100	1,477,583	1,477,583	29,551,661	
Retirements																			
5	Mains - Feeder	376	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	308,000	308,000
6	System M&R Station Equipment	378	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	-
7	Land and Land Rights	374	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	-
8	Total Retirements		\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	308,000	308,000
Cost of Removal																			
9	Mains - Feeder	376	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	-
10	System M&R Station Equipment	378	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	-
11	Land and Land Rights	374	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	-
12	Total Cost of removal		\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	-
Accumulated Depreciation Reserve																			
				Annual Depreciation Rate	EOY 2022	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	13 month Average	
13	Mains - Feeder	376	1.49%	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	19,884	21,305	22,488		
14	System M&R Station Equipment	378	2.04%	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	13,006	13,935	14,709		
15	Land and Land Rights	374	0.00%	\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$		
16	Total Additions			\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	32,890	35,240	37,197		
21	Total Accumulated Depreciation Reserve			\$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	32,890	68,130	105,327	15,873	

Notes:
 (1) See Schedule 2.2 for detail of 2023 PMM eligible additions.

Duke Energy Kentucky
 Pipeline Modernization Mechanism ("Rider PMM")
 Deferred Taxes on Liberalized Depreciation

ADFIT balance when proration is applied

2023 Projection Filing	A	B	C	A + B + C = D	A * 5% = E	B * 3.75% = F	E + F = G	H	G - H = I	J	K	L	(G * L) / K = M	N
Month	Book Adds/Retires - 15 YR MACRS	Book Adds/Retires - 20 YR MACRS	Book Adds/Retires - Non-Depreciable Land	Total Book Additions/ Retirements	1st Yr 15 Yr MACRS for Tax - 5%	1st Yr 20 Yr MACRS for Tax - 3.75%	Total MACRS Depreciation	Book Depreciation	Book/Tax Difference	Accumulated Book/Tax Difference	Days to Prorate	Future Days in Period	Prorated Book/Tax Difference	Prorated Accumulated Book/Tax Difference
projected Dec-22														
projected Jan-23									-	-	31	335	-	-
projected Feb-23									-	-	28	307	-	-
projected Mar-23									-	-	31	276	-	-
projected Apr-23									-	-	30	246	-	-
projected May-23									-	-	31	215	-	-
projected Jun-23									-	-	30	185	-	-
projected Jul-23									-	-	31	154	-	-
projected Aug-23									-	-	31	123	-	-
projected Sep-23	16,014,245	7,650,507	1,158,643	24,823,395	200,178	71,724	271,902		271,902	271,902	30	93	69,279	69,279
projected Oct-23	1,143,875	546,465	82,760	1,773,100	219,243	78,554	297,797	32,890	264,907	536,809	31	62	44,998	114,277
projected Nov-23	953,229	455,387	68,967	1,477,583	243,073	87,093	330,166	35,240	294,926	831,735	30	32	25,857	140,133
projected Dec-23	645,229	455,387	68,967	1,169,583	275,335	104,170	379,505	37,197	342,308	1,174,042	31	1	938	141,071
Total	18,756,578	9,107,746	1,379,337	29,243,661	937,829	341,540	1,279,369	105,327	1,174,042		365		141,071	
	Sch. 2.0	Sch. 2.0	Sch. 2.0	Sch. 2.0					Sch. 2.0				Tax Rate	24.925%
													Forecasted ADIT	35,162

**Duke Energy Kentucky
 Pipeline Modernization Mechanism ("Rider PMM")
 Thirteen Month Average Additions and Retirements**

Test Year 12/31/23 PMM Investment Summary

Line No.	Month (A)	Number of Months (B)	PMM Capex		Retirements		Cost of Removal	
			By Month (C)	Cumulative (D)	By Month (E)	Cumulative (F)	By Month (G)	Cumulative (H)
1	Balance @ 12/31/2022	13		\$ -		\$ -		\$ -
2	Jan-23	12	\$ -	-	\$ -	-	\$ -	-
3	Feb-23	11	-	-	-	-	-	-
4	Mar-23	10	-	-	-	-	-	-
5	Apr-23	9	-	-	-	-	-	-
6	May-23	8	-	-	-	-	-	-
7	Jun-23	7	-	-	-	-	-	-
8	Jul-23	6	-	-	-	-	-	-
9	Aug-23	5	-	-	-	-	-	-
10	Sep-23	4	24,823,395	24,823,395	-	-	-	-
11	Oct-23	3	1,773,100	26,596,495	-	-	-	-
12	Nov-23	2	1,477,583	28,074,078	-	-	-	-
13	Dec-23	1	1,477,583	29,551,661	308,000	308,000	-	-
				\$ 109,045,628		\$ 308,000		\$ -
14	Number of months			13		13		13
15	13 Month Average			\$ 8,388,125		\$ 23,692		\$ -

Duke Energy Kentucky
 Pipeline Modernization Mechanism ("Rider PMM")
 PMM Rider Billing Determinants by Rate Schedule
 for the Twelve Month Ending December, 2023

Line	Rate Schedule	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Total
<u>No.</u>	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
1	RS - Residential (Number of Customers)	96,662	96,519	96,678	96,477	96,383	96,096	95,892	95,818	95,844	96,101	96,712	97,235	1,156,418
2	GS - General Service (Number of Customers)	7,944	7,944	7,935	7,816	7,693	7,599	7,532	7,514	7,522	7,581	7,775	7,892	92,746
3	FT - Firm Transportation (CCF)	3,606,770	2,914,649	2,936,959	1,971,667	1,850,915	1,616,123	1,552,284	1,614,994	1,581,597	1,935,595	2,415,104	3,068,500	27,065,157
4	IT - Interruptible Transportation (CCF)	1,515,504	1,365,505	1,385,967	1,309,634	1,327,458	1,314,060	1,314,190	1,393,968	1,319,910	1,492,703	1,500,891	1,415,607	16,655,397