

Errata Sheet

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)
 Electric Rates; 2) Approval of New Tariffs;) Case No. 2022-00372
 3) Approval of Accounting Practices to)
 Establish Regulatory Assets and Liabilities;)
 and 4) All Other Required Approvals and)
 Relief.)

FILING: Rebuttal Testimony of John R. Panizza, Filed April 14, 2023

DATE CORRECTED: May 5, 2023

CORRECTION	LINE	PAGE
Replace "\$15.653" with "\$14.844"	5	3
Replace "fault" with "faulty"	6	3
Delete "including adjustments for successful appeals"	8-9	3
Delete "and one time property tax reductions that do not accurately reflect a single year's likely property tax expense. One-time adjustments such as property tax reductions achieved by successfully appealing to the DOR are not always successful. Therefore, one-time reductions should not be included in the property tax estimate's starting point"	13-17	3
Replace "\$15.653" with "\$14.844"	13	4
Add [space] between "Futral" and "only"	6	5
Make the following additions and deletions: ¹ "The Company recommends that the Commission reject Mr. Futral's recommendations, and instead, utilize the property tax expense submitted by the Company in its filing. The filing reflects utilizing tax year 2021 property tax expense of \$15.653 and <u>utilize \$14.844 million as the 2021 property tax expense starting</u>	12-17	6

¹ Additions are shown underlined, and deletions are shown stricken.

CORRECTION

LINE


PAGE

~~point and escalating~~ using factors that rely on net operating
~~income growth as well as local tax rate growth and other potential~~
~~adjustments such as tax appeal results~~ to ultimately estimate a
property tax expense of ~~\$18.139~~ \$19.741 million for the test
period.”

Add the following: 1-10 7

Q. PLEASE EXPLAIN THE REVISIONS TO THE
PROPERTY TAX EXPENSE MADE IN THIS
TESTIMONY WHEN COMPARED TO THE
ORIGINALLY FILED PROPERTY TAX EXPENSE.

A. The 2021 property tax expense for the Company’s
electric business was corrected to reflect the 2021 notice of
value from the Department Of Revenue. The change was
from \$12.988 million to \$10.942 million. The Company
corrected its effective tax rate as well to reflect this change.
The escalation factor was corrected to remove a cost approach
growth component for the Company’s electric business to
properly weight the net operating income approach to 100%.

DocuSigned by:

84F6B1416AA1436

Signature

5/5/2023

Date

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 Electric Rates; 2)) Case No. 2022-00372
Approval of New Tariffs; 3) Approval of)
Accounting Practices to Establish)
Regulatory Assets and Liabilities; and 4))
All Other Required Approvals and Relief.)

REVISED REBUTTAL TESTIMONY OF

JOHN R. PANIZZA

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

April 14, 2023

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ATTACHMENTS:

Attachment JRP-Rebuttal-1

Response to Duke Energy Kentucky’s First Set of Discovery to the Attorney General, Request No. 33

Attachment JRP-Rebuttal-2

Response to Duke Energy Kentucky’s First Set of Discovery to the Attorney General, Request No. 37

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is John R. Panizza and my business address is 525 South Tryon Street,
3 Charlotte, North Carolina 28202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Duke Energy Business Services LLC (DEBS) as Director, Tax
6 Operations. DEBS provides various administrative and other services to Duke
7 Energy Kentucky, Inc., (Duke Energy Kentucky or Company) and other affiliated
8 companies of Duke Energy Corporation (Duke Energy).

9 **Q. ARE YOU THE SAME JOHN R. PANIZZA THAT SUBMITTED DIRECT**
10 **TESTIMONY IN THIS PROCEEDING?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond to the recommendations of Mr.
14 Randy Futral on behalf of the Kentucky Attorney General (KYAG) as it relates to
15 his proposed adjustments to the Company's property tax expense included in its
16 application in this proceeding.

II. DISCUSSION

17 **Q. PLEASE SUMMARIZE MR. FUTRAL'S RECOMMENDATIONS**
18 **REGARDING THE COMPANY'S PROPERTY TAX EXPENSE.**

19 A. Mr. Futral makes two adjustments to the Company's property tax expense. First, he
20 recommends that the property tax expense related to four capital projects that are
21 currently in the Company's Environmental Surcharge Mechanism (ESM) remain

1 in the ESM instead of “rolling” into base rates. Company witness Ms. Lisa
2 Steinkuhl addresses that issue in her Rebuttal Testimony. Second, Mr. Futral
3 recommends that the Commission reduce the Company’s projected property tax
4 expense to reflect the Company’s 2022 actual expense escalated through the end of
5 the test year for increases in electric net plant by using the Company’s 2.0 percent
6 per year property tax rate increase.

7 **Q. PLEASE EXPLAIN HOW THE COMPANY ACCOUNTS FOR PROPERTY**
8 **TAX EXPENSE FOR ACCOUNTING PURPOSES.**

9 A. The Company accounts for property tax based on Kentucky’s property tax year
10 cycle. For example, Kentucky property tax year 2021 is related to the Company’s
11 financial statements year ending December 31, 2020. The Kentucky Department of
12 Revenue (DOR) issues tax year 2021 assessments in calendar year 2021, but tax
13 bills are issued and paid in calendar year 2022. The Company must accrue tax year
14 2021 in calendar year 2021 for accounting purposes. Other activity in account 408
15 during Kentucky property calendar year 2021 can take place such as tax year 2020
16 payments and other various true-ups to account for other tax years. For example,
17 any resolution tax appeals for prior years can impact the current accounting year.
18 Therefore, utilizing book expense for 2021 out of account 408 to estimate the
19 potential property tax for the test period would not achieve an accurate result.

20 In response to the Company’s Discovery request, Mr. Futral concedes that
21 he is not aware that the \$14.498 million of book expense he cites to on page 16 of
22 his testimony includes prior period accounting adjustments. The fact that this
23 number includes prior period adjustments supports that Mr. Futral’s figure should

1 not be included in estimating the Company's future tax expense.¹ To further
2 demonstrate the inaccuracy of Mr. Futral's recommendation, as indicated in his
3 response to the Company's First Set of Discovery to the Attorney General, No. 37,
4 Mr. Futral explains that he compared two different tax years, the Company's tax
5 year 2021, ~~\$15.653~~ \$14.844 million to the Company's book expense balance for
6 tax year 2022.² Mr. Futral's reasoning is faulty. These two different years are not
7 comparable because the 2021 amount reflects actual taxes for the tax year versus
8 the 2022 amount which reflects accounting activity for multiple tax years ~~including~~
9 ~~adjustment for successful appeals.~~

10 **Q. IS MR. FUTRAL'S CALCULATION OF AN EFFECTIVE TAX RATE**
11 **CORRECT? IF NO, PLEASE EXPLAIN.**

12 A. No. Mr. Futral's starting property tax estimate of \$14.498 million includes book
13 adjusting entries for multiple property tax years, ~~and one-time property tax~~
14 ~~reductions that do not accurately reflect a single year's likely property tax expense.~~
15 ~~One-time adjustments such as property tax reductions achieved by successfully~~
16 ~~appealing to the DOR are not always successful. Therefore, one-time reductions~~
17 ~~should not be included in the property tax estimate's starting point.~~ Also, each tax
18 year should be independently analyzed and then allocated to the test period. Since
19 the test period is a fiscal year that covers Kentucky property tax years 2023 and

¹ See Duke Energy Ohio's First Set of Discovery to the Attorney General, Question No. 33. Attached as JRP-Rebuttal-1.

² See Duke Energy Ohio's First Set of Discovery to the Attorney General, Question No. 37. Attached as JRP-Rebuttal-2.

1 2024, one should calculate property tax expense for each year and then allocate
2 50% of each year to the test period.

3 **Q. WHAT STARTING POINT IS NECESSARY TO ACCURATELY**
4 **ESTIMATE PROPERTY TAXES FOR THE TEST PERIOD.**

5 A. The starting point for each year’s tax estimate should utilize the most current
6 information available as it relates to an individual tax year. Typically, one would
7 use information from actual tax bills or an assessment notice from the DOR
8 depending on which is more current. For the filing, the Company utilized the tax
9 estimate in the 2021 notice of value from DOR and escalated it by growth factors
10 to estimate property tax expense for the test period. Growth factors are included to
11 account for potential changes in tax rates, projected capital investments, and
12 projected net operating income growth. The resulting tax estimate utilizing this
13 information for the 2021 tax year is ~~\$15.653~~ \$14.844 million and reduces the
14 realized tax savings to what is potentially achievable.

15 **Q. PLEASE EXPLAIN MR. FUTRAL’S RECOMMENDED ESCALATED**
16 **EFFECTIVE TAX RATE.**

17 A. Mr. Futral uses projected net plant increases and grows the local tax rate to escalate
18 the effective tax rate for each tax year. He calculates the effective tax rate be
19 dividing estimated tax expense by net book value. He insists that this is the “best”
20 and possibly the only approach to account for increases in assets.

21

1 **Q. DOES THE COMPANY AGREE WITH MR. FUTRAL'S METHOD OF**
2 **ESCALATING THE EFFECTIVE TAX RATE? IF NO, PLEASE EXPLAIN.**

3 A. No. While the Company utilized total capital cost increases to escalate an effective
4 tax rate that was calculated by dividing property tax estimate by total capital cost,
5 the Company's approach would not yield a material difference with Mr. Futral's
6 approach to estimating the future growth of assets. However, Mr. Futral_only
7 considers net plant growth and tax rate increases in his escalation factor and he
8 appears to ignore potential net operating income increases in his testimony unlike
9 the Company which incorporated potential increases in net operating income in its
10 escalation.

11 **Q. PLEASE EXPLAIN WHY THE TAX ESTIMATE WOULD BE**
12 **INACCURATE WITHOUT CONSIDERING THE INCOME COMPONENT**
13 **UTILIZED BY THE DOR TO VALUE THE COMPANY.**

14 A. DOR utilizes the unit value method to calculate the assessed value of the
15 Company's property. The unit value method includes analyzing both the
16 Company's costs and net operating income. Historically, the DOR has relied 100%
17 on the income component of the overall unit value analysis. Therefore, any property
18 tax estimate that relies solely on the cost component of the unit value method could
19 not possibly calculate an accurate estimate of property tax in any year.

1 **Q. DOES THE COMPANY AGREE WITH MR. FUTRAL’S RECOMMENDED**
2 **ADJUSTMENTS TO THE COMPANY’S TAX EXPENSE? IF NO, PLEASE**
3 **EXPLAIN WHY MR. FUTRAL’S RECOMMENDATION IS**
4 **UNREASONABLE.**

5 A. No. Mr. Futral’s recommended expense is unreasonable because his calculation
6 starts with an incorrect starting point that includes activity that may not occur
7 during the test period, and he fails to incorporate potential changes in net operating
8 income in his escalation of an effective tax rate.

9 **Q. WHAT IS YOUR RECOMMENDATION REGARDING MR. FUTRAL’S**
10 **ADJUSTMENTS?**

11 A. The Company recommends that the Commission reject Mr. Futral’s
12 recommendations, ~~and instead, utilize the property tax expense submitted by the~~
13 ~~Company in its filing. The filing reflects utilizing tax year 2021 property tax~~
14 ~~expense of \$15.653~~ and utilize \$14.844 million as the 2021 property tax expense
15 starting point and escalating using factors that rely on net operating income growth
16 as well as local tax rate growth ~~and other potential adjustments such as tax appeal~~
17 ~~results~~ to ultimately estimate a property tax expense of ~~\$18.139~~\$19.741 million for
18 the test period. This is before any adjustment Ms. Steinkuhl discusses regarding the
19 property taxes associated with the four capital projects that are currently in the
20 Company’s Environmental Surcharge Mechanism (ESM).

1 **Q. PLEASE EXPLAIN THE REVISIONS TO THE PROPERTY TAX**
2 **EXPENSE MADE IN THIS TESTIMONY WHEN COMPARED TO THE**
3 **ORIGINALLY FILED PROPERTY TAX EXPENSE.**

4 **A. The 2021 property tax expense for the Company's electric business was corrected**
5 **to reflect the 2021 notice of value from the Department Of Revenue. The change**
6 **was from \$12.988 million to \$10.942 million. The Company corrected its effective**
7 **tax rate as well to reflect this change. The escalation factor was corrected to remove**
8 **a cost approach growth component for the Company's electric business to properly**
9 **weight the net operating income approach to 100%. The data requests, AG-DR-02-**
10 **047 & AG-DR-01-141, were revised to reflect the changes above.**

11 **III. CONCLUSION**

12 **Q. ARE ATTACHMENTS JRP-REBUTTAL-1 AND 2 ACCURATE COPIES**
13 **OF THE ATTORNEY GENERAL'S RESPONSES TO DATA REQUESTS**
14 **AND WHERE THOSE ATTACHMENTS PREPARED BY YOU AND AT**
15 **YOUR DIRECTION AND UNDER YOUR CONTROL?**

16 **A. Yes.**

17 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 **A. Yes.**

VERIFICATION

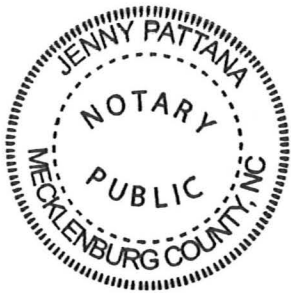
STATE OF NORTH CAROLINA)
) **SS:**
COUNTY OF MECKLENBURG)

The undersigned, John R. Panizza, Director, Tax Operations, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing corrections to his rebuttal testimony and data request responses, and that they are true and correct to the best of his knowledge, information, and belief.



John R. Panizza Affiant

Subscribed and sworn to before me by John R. Panizza on this 4 day of May, 2023.





NOTARY PUBLIC

My Commission Expires: 06/08/2025

Duke Energy Kentucky
Case No. 2022-00372
Attorney General's First Set Data Requests
Date Received: January 11, 2023

REVISED AG-DR-01-141

REQUEST:

Refer to the Panizza Testimony at 6.

- a. Provide the calculations of estimated test year property tax expense, including copies of the sources of the property tax rates, in electronic format with all formulas intact.
- b. Provide the most current and the after increase property tax rates related to the anticipated tax rate increases and explain how each were determined.
- c. Quantify the projected increase amounts for property tax expense associated with the “anticipated property tax rate increases” as opposed to all other causes of projected property tax expense increases.

REVISED RESPONSE:

- a. Please see AG-DR-01-141 Revised Attachment 1 for the calculation and AG-DR-01-141 Attachment 2 for the sources of property tax rates.
- b. N/A
- c. N/A

PERSON RESPONSIBLE: John R. Panizza

Duke Energy Kentucky
 Case No. 2022-00372
 Attorney General's First Set Data Requests
 AG-DR-01-141 - Revised Response

Description	Calendar Year Tax Estimate
Property Tax Year 2021*	14,843,545
Est. % Increase ('21 to '22)	6.84%
Property Tax Year 2022	15,859,046
Est. % Increase ('22 to '23)	7.26%
Property Tax Year 2023	17,009,962
Est. % Increase ('23 to '24)	11.69%
Property Tax Year 2024	18,998,653
Test Period (7/1/23-6/30/24) Est. Tax Exp.	18,004,307
Test Period (7/1/23-6/30/24) Est. Tax Exp. Submitted	19,741,464
Variance**	(1,737,157)

*Based on actual notice of values and tax bills, see KyPSC Case No. 2022-00372 AG-DR-01-141 Attachment B

**Variance Reasoning: Updated 2021 property tax expense and escalation factors

Duke Energy Kentucky
Case No. 2022-00372
Attorney General's Second Set Data Requests
Date Received: February 16, 2023

REVISED AG-DR-02-047

REQUEST:

Refer to the determination of 2021 property tax expense of \$15,652,921 in Duke Kentucky's response to the Attorney General's First Request, Item 141, Attachment 1, as well as the escalated property tax amounts for calendar years 2022 through 2024. Refer also to the property tax expense amount of \$14,497,979 provided for the electric operations in 2021 in the attachment of Duke Kentucky's response to the Commission Staff's First Request, Item 53.

- a. Explain all reasons why the two amounts provided for 2021 differ.
- b. Indicate whether the amounts included in Duke Kentucky's response to the Attorney General's First Request, Item 141, Attachment 1 represent only electric operations amounts. If not, explain and provide the electric operations only amounts.
- c. Provide the quantifications in electronic format with all formulas in place used to escalate property tax expense by 14.60% in 2022, 5.26% in 2023, and 9.80% in 2024. Be sure to include the assumed net plant values at the beginning of each year and the effective tax rates used in the quantifications.
- d. Provide the amount of property tax expense recorded in account 408120 for the electric operations division for each month starting January 2019 through the most recent month with available information, including months in 2023.

REVISED RESPONSE:

- a. N/A

- b. N/A
- c. Please see AG-DR-02-047 Revised Attachment.
- d. Please see AG-DR-02-047 Revised Attachment.

PERSON RESPONSIBLE: John R. Panizza

Duke Energy Kentucky
Case No. 2022-00372
Attorney General's Second Set Data Requests
AG-DR-02-047 - Revised Response

Refer to the determination of 2021 property tax expense of \$14,843,545 in Duke Kentucky's revised response to the Attorney General's First Request, Item 141, Attachment 1, as well as the escalated property tax amounts for calendar years 2022 through 2024. Refer also to the property tax book expense amount of \$14,497,979 provided for the electric operations in 2021 in the attachment of Duke Kentucky's response to the Commission Staff's First Request, Item 53.

c. Provide the quantifications in electronic format with all formulas in place used to escalate property tax expense by 6.84% in 2022, 7.26% in 2023, and 11.69% in 2024. Be sure to include the assumed net plant values at the beginning of each year and the effective tax rates used in the quantifications.

	Property Tax Year 2021	Property Tax Year 2022	Property Tax Year 2023	Property Tax Year 2024
Projected Total Property, Plant and Equipment (Includes Gas)	2,944,372,875	3,081,412,057	3,198,529,338	3,366,925,663
Duke Energy Kentucky - Kentucky Electric				
Gross Tax Estimate	10,941,594	11,694,193	12,687,332	14,449,165
Projected Electric Effective Tax Rate	0.3716%	0.3972%	0.4309%	0.4907%
Rolling Average of Projected Operating Income Increase		4.88%	6.49%	11.89%
Projected Property Tax Rate Increase		2.00%	2.00%	2.00%
Duke Energy Kentucky - North Carolina Common and Ohio Electric				
Tax Estimate	3,888,798	4,151,189	4,308,966	4,535,824
2021 Effective Tax Rate	0.1321%	0.1321%	0.1321%	0.1321%
Projected Tax Rate Increase		2.00%	2.00%	2.00%
Projected Effective Tax Rate		0.13472%	0.13472%	0.13472%
Duke Energy Kentucky - West Virginia Common				
Tax Estimate	13,153	13,664	13,664	13,664
Duke Energy Kentucky - Total Electric and Common				
Total Tax Estimate	14,843,545	15,859,046	17,009,962	18,998,653
Year over Year Increase		6.84%	7.26%	11.69%

d. Provide the amount of property tax expense recorded in account 408120 for the electric operations division for each month starting January 2019 through the most recent month with available information, including months in 2023.

Month/Year	Account	Net Activity
01-2019	0408121	481,692.90
01-2019	0408040	7,548.00
02-2019	0408121	908,083.00
02-2019	0408040	7,548.00
03-2019	0408121	908,083.00
03-2019	0408040	7,548.00
04-2019	0408121	908,083.00
04-2019	0408040	7,548.00
05-2019	0408121	908,151.02
05-2019	0408040	7,548.00
06-2019	0408121	908,083.00
06-2019	0408040	7,548.00
07-2019	0408121	908,083.00
07-2019	0408040	7,548.00
08-2019	0408121	908,083.00
08-2019	0408040	7,548.00
09-2019	0408121	908,083.00
09-2019	0408040	7,548.00
10-2019	0408121	908,083.00
10-2019	0408040	7,548.00
11-2019	0408121	908,083.00
11-2019	0408040	7,548.00
12-2019	0408121	671,638.76
12-2019	0408040	(9,484.44)
2019 Total		10,307,773.24

Month/Year	Account	Net Activity
01-2020	0408121	1,047,917.00
01-2020	0408040	6,960.00
02-2020	0408121	1,047,917.00
02-2020	0408040	6,960.00
03-2020	0408121	815,582.10
03-2020	0408040	6,960.00
04-2020	0408121	1,047,917.00
04-2020	0408040	6,960.00
05-2020	0408121	1,047,917.00
05-2020	0408040	6,960.00
06-2020	0408121	1,047,917.00
06-2020	0408040	6,960.00
07-2020	0408121	1,047,917.00
07-2020	0408040	6,960.00
08-2020	0408121	1,047,917.00
08-2020	0408040	6,960.00
09-2020	0408121	503,761.60
09-2020	0408040	6,960.00
10-2020	0408121	1,047,917.00
10-2020	0408040	6,960.00
11-2020	0408121	1,047,917.00
11-2020	0408040	6,960.00
12-2020	0408121	626,674.77
12-2020	0408040	2,916.78
2020 Total		11,456,748.25

Month/Year	Account	Net Activity
01-2021	0408000	6,900.00
01-2021	0408121	1,047,917.00
02-2021	0408000	6,900.00
02-2021	0408121	1,284,931.00
03-2021	0408000	6,900.00
03-2021	0408121	1,166,424.00
04-2021	0408000	6,900.00
04-2021	0408121	1,166,424.00
05-2021	0408000	6,900.00
05-2021	0408121	1,166,424.00
06-2021	0408000	6,900.00
06-2021	0408121	1,166,424.00
07-2021	0408000	6,900.00
07-2021	0408121	1,166,424.00
08-2021	0408000	6,900.00
08-2021	0408121	1,166,424.00
09-2021	0408000	6,900.00
09-2021	0408121	1,166,424.00
10-2021	0408000	6,900.00
10-2021	0408121	1,166,424.00
11-2021	0408000	6,900.00
11-2021	0408121	1,166,424.00
12-2021	0408000	61,788.42
12-2021	0408121	1,529,626.56
2021 Total		14,497,978.98

Month/Year	Account	Net Activity
01-2022	0408000	8,236.00
01-2022	0408121	1,166,424.00
02-2022	0408000	8,236.00
02-2022	0408121	1,215,092.00
03-2022	0408000	8,236.00
03-2022	0408121	1,533,412.00
04-2022	0408000	8,236.00
04-2022	0408121	1,304,976.00
05-2022	0408000	8,236.00
05-2022	0408121	1,304,976.00
06-2022	0408000	8,236.00
06-2022	0408121	1,304,976.00
07-2022	0408000	8,236.00
07-2022	0408121	1,304,976.00
08-2022	0408000	8,236.00
08-2022	0408121	1,304,976.00
09-2022	0408000	8,236.00
09-2022	0408121	1,204,819.00
10-2022	0408000	8,236.00
10-2022	0408121	1,304,976.00
11-2022	0408000	8,236.00
11-2022	0408121	1,304,976.00
12-2022	0408000	(47,208.26)
12-2022	0408121	1,211,846.29
2022 Total		15,509,813.03

Month/Year	Account	Net Activity
01-2023	0408121	1,304,976.00
01-2023	0408000	7,524.00
2023 Total as of 2.20.23		1,312,500.00