

Errata Sheet

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

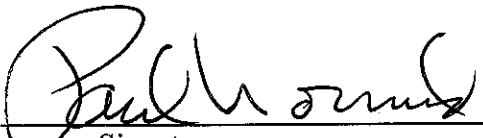
In The Matter of:

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 Paul M. Normand, Filed April 14, 2023

DATE CORRECTED: May 10, 2023

CORRECTION	LINE	PAGE
After \$17.945 add "million"	2	2



 Signature

5/15/2023

 Date

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In the Matter of:

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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

PAUL M. NORMAND

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

April 14, 2023

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I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND BUSINESS**
2 **AFFILIATION.**

3 A. My name is Paul M. Normand. I am a Principal with the firm of Management
4 Applications Consulting, Inc. (MAC), 1103 Rocky Drive, Suite 201, Reading, PA
5 19609.

6 **Q. PLEASE DESCRIBE MAC.**

7 A. MAC is a management consulting firm that provides rate and regulatory assistance
8 including lead lag studies, allocated cost of service studies, and depreciation
9 services for electric, gas and water utilities.

10 **Q. ARE YOU THE SAME PAUL M. NORMAND THAT SUBMITTED DIRECT**
11 **TESTIMONY IN THIS PROCEEDING?**

12 A. Yes.

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

14 A. The purpose of my rebuttal testimony is to respond to the recommendations of Mr.
15 Lane Kollen on behalf of the Kentucky Attorney General as it relates to the
16 Company's cash-working capital requirements, and specifically, the lead-lag study
17 that I performed and submitted in this proceeding.

II. DISCUSSION

18 **Q. PLEASE SUMMARIZE MR. KOLLEN'S RECOMMENDATIONS AS IT**
19 **RELATES TO THE COMPANY'S CASH WORKING CAPITAL**
20 **REQUIREMENT AND THE LEAD-LAG STUDY.**

21 A. Mr. Kollen recommends that the Commission reflect a factor of 1.46 in collection
22 lag days in the collection component of the revenue lag days in the calculation of

1 cash working capital included in rate base using the lead/lag approach. The result
2 of Mr. Kollen’s recommendations are a reduction of \$17.945 million in the
3 Company’s rate base and a \$1.677 million reduction in the base revenue
4 requirement and requested base rate increase.

5 **Q. PLEASE SUMMARIZE MR. KOLLEN’S POSITION REGARDING HIS**
6 **RECOMMENDED USE OF THE FACTOR 1.46 FOR THE COLLECTION**
7 **LAG DAYS USED IN THE LEAD LAG STUDY.**

8 A. Mr. Kollen’s testimony is claiming that “CRC is an affiliated special purpose
9 financing entity used to accelerate the Company’s conversion of receivables into
10 cash on a daily basis rather than waiting until customers actually pay their bills”.¹
11 Mr. Kollen’s testimony further states, “The Company actually sells its receivables
12 to CRC daily for cash. The Company actually collects cash from its customers to
13 remit to CRC daily. However, it only remits or collects the net of these two daily
14 and recurring cash flows to CRC on a monthly basis.”² Concerning the flow of cash,
15 Mr. Kollen further states, “the reality is that there is an increasing cycle of cash
16 flowing in from the sales of the receivables to CRC and cash ebbing out when the
17 cash received from customers is remitted to CRC on a recurring daily basis”.³ Using
18 these arguments above, Kollen calculates that “the Company accelerates the
19 conversion of the receivables to cash and waits an average of only 1.46 days from
20 the date of customer billing to the date when it receives cash for service”.⁴

¹ Case No. 2022-00372, Direct Testimony and Exhibits of Lane Kollen, Page 11, 13 to 16.

² Case No. 2022-00372, Direct Testimony and Exhibits of Lane Kollen, Page 12, 11 to 14.

³ Case No. 2022-00372, Direct Testimony and Exhibits of Lane Kollen, Page 13, 1 to 4.

⁴ Case No. 2022-00372, Direct Testimony and Exhibits of Lane Kollen, Page 13, 14 to 16.

1 Duke's lead lag study shows that Duke waits an average of 27.02 days from
2 the date of customer billing to the date when it receives cash payment for service.
3 This difference in the collection lag from 27.02 days to 1.46 days results in a
4 reduction of cash working capital included in rate base in the amount of \$17.945
5 million.

6 **Q. DO YOU AGREE WITH MR. KOLLEN'S POSITION REGARDING THE**
7 **USE OF 1.46 AS THE LAG-DAY COMPONENT FOR THE LEAD LAG**
8 **STUDY? PLEASE EXPLAIN.**

9 A. No. As discussed by Duke Energy Kentucky witness, Mr. Heath, Mr. Kollen
10 completely misstates the relationship between CRC and Duke Energy Kentucky
11 and misstates facts as to how cash flows between CRC and Duke Energy Kentucky.
12 As a result, Mr. Kollen's reasoning for using 1.46 days is flawed and should be
13 rejected. Mr. Heath explains that the program between Duke Energy Kentucky and
14 CRC is a securitization financing of the accounts receivable not a factoring of
15 accounts receivables. Mr. Kollen's 1.46 lag day calculation is based on Duke
16 Energy Kentucky receiving cash for its receivables the day after they are billed
17 which is how a factoring of receivables program works. This is not the case with
18 CRC. Duke Energy Kentucky only receives cash for its receivables after the
19 customer remits payment. Mr. Heath's testimony explains in detail how the
20 securitization financing program between CRC and Duke Energy Kentucky works.

21 **Q. WHAT IS YOUR RECOMMENDATION REGARDING MR. KOLLEN'S**
22 **ADJUSTMENTS TO THE LEAD LAG STUDY?**

23 A. Mr. Kollen's claim that CRC is paying Duke Energy Kentucky cash for receivables
24 on a daily basis is not supported by what is actually happening between Duke

1 Energy Kentucky and CRC. No cash is ever received by Duke Energy Kentucky
2 from CRC immediately upon the customer billing as explained by Mr. Heath.

3 Kollen's support for the 1.46-day lag on receivables is faulty insofar as it is
4 based upon his erroneous conclusion that Duke Energy Kentucky receives cash for
5 the receivables on the next working day from CRC. This is simply not the case. The
6 lead lag study presented in this case calculates the average lag in days from when a
7 customer is billed and the receipt of cash from the customer by Duke Energy
8 Kentucky as 27.02 days. The use of the 27.02 days lag on receivable properly
9 reflects the average number of days cash is available to Duke Energy Kentucky
10 after customer billings and not the 1.46 days in Kollen's testimony which is not
11 based on actual cash flows.

III. CONCLUSION

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

13 A. Yes, it does.