

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC CONSIDERATION OF THE)	
IMPLEMENTATION OF NORTH AMERICAN)	CASE NO.
ENERGY STANDARDS BOARD’S)	2023-00272
RECOMMENDATIONS ON GAS AND ELECTRIC)	
HARMONIZATION)	

COMMENTS OF DUKE ENERGY KENTUCKY, INC.

I. INTRODUCTION

Please accept these comments submitted on behalf of Duke Energy Kentucky, Inc., (Duke Energy Kentucky or Company) in response to the Kentucky Public Service Commission’s (Commission) request for comments from interested utilities in order to develop a record that the Commission can draw upon as it considers the implementation of several recommendations of the North American Energy Standards Board (NAESB) concerning gas and electric harmonization that NAESB released in a report issued on July 28, 2023.¹

II. BACKGROUND

On August 25, 2023, the Commission initiated this proceeding² to address NAESB’s recommendations that require state commissions to take recommended actions and determine whether or which of nine identified recommendations the Commission should adopt or implement.

¹ North American Energy Standards Board Gas Electric Harmonization Forum Report (re. July 28, 2023) (NAESB Report).

² *In the Matter of Electronic Consideration of the Implementation of North American Energy Standards Board’s Recommendations on Gas and Electric Harmonization*, Case No. 2023-00272, Order, (August 25, 2023).

In its Order, the Commission directed jurisdictional electric utilities to provide comments on certain recommendations particularly regarding: (1) whether existing Commission policies address or otherwise implement the recommendations; (2) whether the responding utility's current policies and practice implement the recommendations; (3) if the recommendations are not implemented, whether implementing the Commission should implement some for all of the recommendations; and (4) for each recommendation, whether, and which, statutory or regulatory changes, or both, would be necessary to implement that recommendation.³ Duke Energy Kentucky provides its comments on these topics below.

III. DISCUSSION

Duke Energy Kentucky offers the following comments on the NAESB Report in general, and specific comments on the following recommendations:

Recommendation 7

State public utility commissions and applicable state authorities in states with competitive energy markets should engage with producers, marketers and intrastate pipelines to ensure that such parties' operations are fully functioning on a 24/7 basis in preparation for and during events in which extreme weather is forecasted to cause demand to rise sharply for both electricity and natural gas, including during weekends and holidays. (States could consider the approaches adopted in FERC regulations affecting the interstate pipelines.) In instances where state authorities lack enabling authority to take such actions, the FERC should adopt regulations to achieve identical outcomes within its authority.⁴

This recommendation encourages state utility commissions to proactively engage with producers, marketers and interstate pipelines to ensure they are taking appropriate steps to ensure the continuity of their operations on twenty-four hour/seven days a week basis, especially during extreme weather events. There is nothing to prevent the

³ *Id.*, p. 5.

⁴ NAESB Report at 5.

Commission from engaging with interstate pipelines to ensure they are taking necessary steps to ensure the resiliency of their systems during extreme weather events. The issues for these pipeline operators during winter storm Elliot was not whether they had operations around the clock, but rather, how resilient the impacted systems were to the extreme weather conditions. An appropriate question for the Commission to explore is what steps these pipeline operators have taken as a result of Winter Storm Elliot, so the same operational issues do not arise again. As these pipelines are not regulated by the Commission, there is little that can be done on the back end to hold these entities accountable should their systems fail once again. Proactively, the Commission can encourage them to take appropriate steps to improve the resilience of their systems.

Existing Kentucky regulations ensure that the jurisdictional utility is taking all steps necessary to provide safe, reliable and reasonable service. The Commission has the ability, through its investigatory powers to hold its jurisdictional utilities accountable for their provision of reasonable service. This would include both the provision of natural gas service by local distribution utilities, and for electric utilities to take reasonable resource planning steps to provide for the availability of fuel, including, natural gas for natural-gas powered electric generation units. The Commission must, however, view this desire fuel security through a lens that balances the need for fuel security with reasonable costs for customers. Firm transportation contracts are very expensive and typically do not make economic sense for natural gas powered intermediate and peaking units as the units are not dispatched consistently in the market. Peaking units, by definition, are only used during high load situations and having an expensive Firm transportation contract would make these units even less economic in the market. This leaves interruptible contracts as the most cost-effective fuel source for these units, which by definition, are subject to operational

flow orders or restrictions on the pipelines during extreme weather events. As this Commission is aware, Duke Energy Kentucky's Woodsdale peaking units now have a secondary fuel source on site through their low-sulfur diesel dual fuel capability. Having a secondary fuel source available is a way that electric utilities can mitigate the risk of pipeline constraints and the Commission should encourage electric utilities to examine co-firing opportunities.

Recommendation 10

State public utility commissions should encourage local distribution companies within their jurisdictions to structure incentives for the development of natural gas and electric demand-response programs in preparation for and during events in which demand is expected to rise sharply for both electricity and natural gas.⁵

Presently, Kentucky's DSM statute, KRS 278.285 provides an adequate process for the Commission to authorize DSM programs, achieve cost recovery, and incentives to encourage their development. The statutory language is sufficient to encourage utilities to aggressively pursue cost-effective DSM programs. To improve the existing process, the Commission should provide utilities with greater flexibility to implement programs that although individually, may not be cost-effective, but as a total portfolio, such programs can produce benefits to customers or the utility's system as a whole.

Duke Energy Kentucky has electric demand response programs already approved as part of its suite of Demand-Side Management (DSM) programs. Some of these programs do have a natural gas benefit. Typically, however, stand-alone natural gas DSM programs do not produce cost-effective results and therefore, do not withstand scrutiny. It is difficult to govern natural gas consumption that customers use for heating purposes. However, the Company does encourage customers to invest in more efficient appliances and offers

⁵ NAESB Report at 5.

weatherization programs that in turn help reduce gas consumption. The ability to incorporate Advanced Metering Infrastructure (AMI) with real-time reading capability, provides tools to develop new offerings for customers and an opportunity to allow them to monitor their usage. While Duke Energy Kentucky does have some natural gas AMI devices for its natural gas customers that are also electric customers, there remains a significant number of stand-alone natural gas customers. The Company's gas only customers have advanced meters with drive-by reading capability because they are not close in proximity to the electric customers so to be part of the "mesh" of the electric meters that are capable of transmitting real-time usage data.

The Company does have interruptible rates for more sophisticated non-residential customers, which provide a great benefit during system constraints. However, natural gas curtailments or flow restrictions for residential customers are difficult to manage as shutting off natural gas altogether would present safety issues for these customers, and administratively it would be an enormous undertaking as access to each residence would need to be scheduled as pilot lights would need to be re-lit.

Recommendation 11

State public utility commissions should encourage local distribution companies within their jurisdictions to provide voluntary conservation public service announcements for residential, commercial and industrial customers in preparation for and during events in which demand is expected to rise sharply for both electricity and natural gas.⁶

Duke Energy Kentucky regularly conducts public service announcements for a number of topics, including high-bill alerts, and encouraging informed utility consumption and opportunities for conservation through the Company's DSM programs. Upon information and belief, its utility counterparts in Kentucky do the same. To encourage these

⁶ NAESB Report at 5.

types of messages, the Commission should allow timely cost recovery through deferrals and base rate proceedings. The Commission could develop these messages as a state-wide initiative for consistent messaging.

A better solution would be to leverage DSM programs that provide customer-specific conservation information and “tips” on a regular basis. This targeted information provides greater levels of information to customers regarding how their usage compares to others, what may be drivers of their energy consumption and how to take reasonable corrective actions. The Company’s MyHer program offers such targeted information for customers that choose to participate. Evolving this into an “opt-out” program would provide this information to a greater number of customers allowing them to become more engaged and empowered in their ability to conserve energy.

Recommendation 12

Joint and cross-market, long-term planning should be expanded by relevant gas and electric market parties with an increased focus on fuel adequacy. FERC should encourage this planning coordination using its oversight roles for interstate pipelines, regulated RTO/ISO interstate transmission, and Electric Reliability Organization (ERO)-related Planning Authorities and collaborate with state public utility commissions and applicable state authorities.⁷

As part of its integrated resource planning (IRP) and Certificate of Public Convenience and Necessity (CPCN) processes, the Commission can examine fuel adequacy of the electric utility’s resource plans and existing portfolios. Likewise, the CPCN process provides the Commission with a similar level of insight into the natural gas utility’s system and reliability planning. Consistent with regulations promulgated by the Federal Pipeline and Hazardous Materials Safety Administration (PHMSA), Duke Energy Kentucky is continually analyzing its natural gas transmission and distribution delivery

⁷ NAESB Report at 6.

systems to identify potential integrity risks and weaknesses and proactively develops plans to resolve those issues. Duke Energy Kentucky regularly reports on these through base rate proceedings, as well as CPCN Applications that are intended to resolve the identified risks.

As a combination natural gas and electric utility, the Company does coordinate with PJM and interstate pipelines as it relates to the resiliency of its electric generation system and with applicable interstate pipelines regarding its natural gas delivery systems. As such, no change is necessary in this regard as the existing processes are adequate as it relates to the jurisdictional electric and natural gas utilities. Duke Energy Kentucky is happy to meet with the Commission to discuss its long-term planning for both its electric and natural gas businesses.

As far as the Commission's collaboration with interstate pipelines and RTOs, Duke Energy Kentucky believes the Commission is engaged in those areas. The Company supports the Commission's efforts to remain informed and offers its personnel to respond to any questions the Commission may have.

Recommendation 13

The FERC, state public utility commissions, and applicable state authorities in states with competitive energy markets should consider whether market mechanisms are adequate to ensure that jurisdictional generators have the necessary arrangements for secure firm transportation and supply service and/or storage to avoid and/or mitigate natural gas supply shortfalls during extreme cold weather events, and if not, (a) determine whether non-market solutions are warranted, including funding mechanisms borne or shared by customers and (b) if warranted, adopt such non-market solutions.⁸

The Commonwealth of Kentucky is fully regulated and does not operate in a competitive market like that of Ohio where retail choice is prevalent. Nonetheless, the Commission has supervisory authority over its jurisdictional utilities to ensure they are

⁸ NAESB Report at 6.

taking adequate steps to maintain a reasonable fuel sources. As previously discussed, firm natural gas transportation service for a natural gas generator is an expensive fuel source for combustion turbine peaking units like Duke Energy Kentucky's Woodsdale units. The Company has taken steps, with Commission authorization, to maintain an adequate fuel source through onsite storage of low-sulfur diesel as a secondary fuel source for these units. The Commission has in the past inquired into the propriety of firm natural gas transportation contracts for these units, acknowledging that the cost of such contracts are unreasonable for customers to bear given the Woodsdale units' operational characteristics as peaking units. Firm transportation contracts are not always the prudent solution for securing natural gas delivered to the units with low capacity factors.

Generally, natural gas storage as a solution for electric generation is cost prohibitive given the volumes that would be required and the proximity of a unit to the natural gas interstate pipelines. Storage would necessitate firm transportation and may require securing storage paths on multiple pipelines, which would impact the economics of the unit vis-à-vis the wholesale energy markets. The Company's fuel-oil backup provides a reasonable and much more cost-effective solution that accomplishes the same goal as natural gas storage.

Recommendation 14

Applicable state authorities should consider the adoption of legislation or regulations or other actions to create a secondary market for unutilized intrastate natural gas pipeline capacity, including a requirement for intrastate pipelines to offer some minimum level of firm service and/or support bilateral agreements between end users. In instances where state authorities lack enabling authority to take such actions, the FERC should adopt regulations to achieve identical outcomes within its authority.⁹

⁹ NAESB Report at 6.

The secondary market on interstate pipelines is robust and has taken years in the making to ensure the ability for capacity holders (shippers) to optimize forecasted unused interstate pipeline capacity. Intrastate pipeline capacity (not LDCs) could be optimized the same way as on interstate pipeline capacity; however, intrastate pipelines (not LDCs) could also offer “retros”¹⁰ to allow for optimization of *actual* unutilized intrastate pipeline capacity after-the-fact. Regarding the requirement for intrastate pipelines (not LDCs) to offer firm service, this is best negotiated bilaterally between shippers and the intrastate pipeline based on forecasted actual demand requirements and payment for such firm services/assets.

Recommendation 15

Applicable state authorities should consider establishing informational posting requirements for intrastate natural gas pipelines to enhance transparency for intrastate natural gas market participants regarding operational capacity data, similar to the reporting and posting requirements mandated by the FERC for interstate natural gas pipelines as part of 18 CFR §284.13. In instances where state authorities lack enabling authority to take such actions, the FERC should adopt regulations to achieve identical outcomes within its authority.¹¹

Duke Energy Kentucky agrees having access to more information on intrastate pipelines may be of benefit when it comes to gathering information related to very low or very high demand days where pipeline flexibility may be low. Having intrastate pipelines offer informational postings like those interstate pipelines regulated by FERC is an option to better optimize forecasted unutilized intrastate pipeline capacity assets. This effort could be headed and coordinated by the Commission.

¹⁰ In this context, a “retro” is referring to a retroactive nomination of natural gas. From an accounting point of view, although the gas has already flowed, a retroactive nomination would re-allocate the operator volumes after-the-fact to determine who is responsible for the volumes delivered.

¹¹ NAESB Report at 6.

Recommendation 16

Applicable state authorities should consider the development of weatherization guidelines appropriate for their region/jurisdiction to support the protection and continued operation of natural gas production and processing and gathering system facilities during extreme weather events, and require public disclosure concerning weatherization efforts of jurisdictional entities.¹²

In general Duke Energy Kentucky agrees weatherization guidelines could be beneficial for reliability of natural gas supply purposes. However, definitions of "jurisdictional entities" and "extreme weather" need to be jointly determined by the Commission, LDC's, power generators, and other state-applicable market participants prior to development of these weatherization guidelines.

Recommendation 17

Many generalized recommendations for resource adequacy and accreditation and market reforms to bolster reliability were offered throughout the NAESB GEH Forum activities; we understand, however, based upon information provided by representatives from the ISO and RTO segment, that steps are being taken within the organized markets to consider such reforms through their stakeholder processes. The GEH Forum endorses this evaluation of resource adequacy and accreditation requirements by all ISOs and RTOs and encourages the review of the Forum record.¹³

Duke Energy, on behalf of its utility operating companies, is highly engaged in these evaluations within the PJM stakeholder process and advocates for changes that benefit our customers and the market as a whole, especially with respect to resource adequacy. The Company is willing to discuss these issues with the Commission upon request. No changes to Kentucky regulations are necessary in this regard.

¹² NAESB Report at 6.

¹³ NAESB Report at 6.

IV. CONCLUSION

Duke Energy Kentucky appreciates the opportunity to offer its comments regarding the implementation of the recommendations made in the NAESB Report and hopes that its comments will aid the Commission as it considers said recommendations.

Respectfully submitted,

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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 being filed in paper medium; that the electronic filing was transmitted to the Commission on November 21st, 2023; and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

/s/Rocco D'Ascenzo

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