**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

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| ELECTRONIC APPLICATION OF DUKE ENERGY KENTUCKY, INC. TO BECOME A FULL PARTICIPANT IN THE PJM INTERCONNECTION LLC, BASE RESIDUAL AND INCREMENTAL AUCTION CONSTRUCT FOR THE 2027/2028 DELIVERY YEAR AND FOR NECESSARY ACCOUNTING AND TARIFF CHANGES | ) ) ) ) ) ) | CASE NO. 2024-00285 |

**REBUTTAL TESTIMONY OF**

**LISA D. STEINKUHL**

**ON BEHALF OF**

**DUKE ENERGY KENTUCKY, INC.**

January 10, 2025

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## I. INTRODUCTION AND PURPOSE

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

A. My name is Lisa D. Steinkuhl and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

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

A. I am employed by Duke Energy Business Services LLC (DEBS) as Director Rates & Regulatory Planning for Duke Energy Kentucky, Inc., (Duke Energy Kentucky or Company) and Duke Energy Ohio, Inc. DEBS provides various administrative and other services to Duke Energy Kentucky and other affiliated companies of Duke Energy Corporation (Duke Energy).

**Q. ARE YOU THE SAME LISA STEINKUHL THAT SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THESE PROCEEDINGS?**

A. The purpose of my rebuttal testimony is to respond to two of the six rate-making recommendations as contained in the testimony of Lane Kollen submitted by the Kentucky Office of the Attorney General (Attorney General). Specifically, I address his recommendation that the Commission should ensure there is no double recovery of capacity costs, once through base rates and then another recovery in whole or part through the Company's Profit Sharing Mechanism (PSM). In doing so, I explain how the Company will ensure there is no double recovery of costs. I also address his recommendation to change the allocation of the capacity revenues and costs included in the PSM to be based on energy demand (kW) not energy usage (kWh).

## II. DISCUSSION

**Q. PLEASE IDENTIFY AND EXPLAIN THE RECOMMENDATION BY MR. KOLLEN THAT YOU ARE RESPONDING TO.**

A. Mr. Kollen, among other things, recommends that in order to ensure "there is no double recovery of capacity costs, once through base rates and then another recovery in whole or part through PSM rates… the Commission should impose a condition that requires a credit in the PSM rates to offset the continuing recovery of non-fuel operating expenses and purchased power expense in the base rates that are no longer incurred until base rates are reset in the future and exclude recovery of these costs."[1] Mr. Kollen's explanation for this recommendation is that if the Company were to retire an existing power plant, such as East Bend, the Company will no longer incur or will incur substantially lower non-fuel operating expenses such as non-fuel operation and maintenance expenses, property tax expense and insurance expense, but the Company will still recover these costs in base rates. He also states that if the Company terminates or reduces bilateral capacity purchases, the Company will no longer incur or will incur lower purchased power expense, but the Company will continue to recover these costs in base rates.

[1] Kollen Direct at 8.

**Q. IS MR KOLLEN'S JUSTIFICATION FOR HIS RECOMMENDATION ACCURATE?**

A. Mr. Kollen states that his concern regarding double recovery of capacity costs would occur if a generating asset was retired and the associated operating costs are decreased or no longer being incurred but are being recovered in base rates and the incremental capacity costs incurred to replace the retired capacity were recovered through the PSM. The Company agrees when a generating asset is retired any costs included in rates that have significantly decreased or are no longer being incurred should not be included in rates. However, the costs already incurred by the Company, not yet recovered from customers, such as any remaining costs of the plant assets at the time of retirement as well as any costs to retire and decommission the asset must still be fully recovered. This can be accomplished in several ways either through base rates or a separate rider mechanism as this Commission has previously authorized for some utilities. Mr. Kollen is incorrect in stating that if bilateral capacity purchases are terminated or reduced, the Company will no longer incur or will incur lower purchased power expense, but the Company will continue to recover these costs in base rates. Currently all capacity purchases including bilateral capacity purchases are included in the PSM and not in base rates.

**Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION?**

A. The Company agrees that it should not double recover its costs, but the Company does not agree with Mr. Kollen's recommendation as to how to ensure there is no double recovery.

When the Company retires its existing power plants, such as East Bend, the Company will be required to make filings with the Commission for approval of such retirement. At that time, the Company would likely make a base rate filing or some other filing to address and align its costs with customer rates. That filing, such as new base rates, would reflect any changes in operating expenses but also ensure that the Company recovers the remaining net book value of the asset. Those remaining net costs could also be recovered through a rider, were the Commission to authorize such a mechanism. Having a separate mechanism for this would be appropriate and reasonable as it would keep these costs out of the PSM calculation and not overly complicate it. With the implementation of a separate mechanism or an update to base rates, there would be no need to apply a credit to the PSM.

Any costs or credits associated with capacity purchases including bilateral capacity purchases should continue to be recovered through the PSM as they are today.

In any event, it is premature to address these issues now, as they can easily and more appropriately be addressed by the Commission, if and when the Company seeks approval to retire East Bend. Consistent with KRS 278.264, when the Company makes such a retirement request, it must, among other things, meet the rebuttable presumption against fossil retirement, including demonstrating the retirement does not harm utility ratepayers by causing it to incur net incremental costs that could be avoided by continuing to operate the unit in compliance with the law.[2] Therefore, the Company must file, and the Commission must consider, the

[2] KRS 278.264(2)(b)

costs of retirement as part of retirement analysis. It would be appropriate to decide how to treat such costs at that time, with full consideration of the magnitude of rate implications, if any, at the time of retirement.

**Q. DOES MR. KOLLEN HAVE ANY RECOMMENDATIONS REGARDING THE COMPANY'S PROPOSED CALCULATION OF THE PSM?**

A. Yes. Mr. Kollen recommends (1) maintaining the current sharing allocation for all revenue and expense billing line items (BLIs) included in PSM rates, (2) excluding the compliance and other penalty expense BLIs from the PSM, and (3) changing the allocation of the capacity revenues and costs included in the PSM to be based on demand.

**Q. DOES THE COMPANY AGREE WITH MR. KOLLEN'S RECOMMENDATION TO MAINTAIN THE CURRENT SHARING ALLOCATION FOR ALL REVENUE AND EXPENSE BLIS?**

A. No. The Company does not agree with maintaining the current sharing allocation for all revenue and expense BLIs included in PSM rates. The Company proposed a sharing allocation for the capacity revenues and costs related to meeting PJM's FERC-approved reliability requirements to customers receiving 100 percent of the net benefit or cost and maintaining 90 percent to customers for the net benefit or cost of all other components of the PSM including the PJM capacity performance non-performance charge and bonus payments to customers. It is appropriate for customers to receive 100 percent of the net capacity benefits or costs because the customer pays for these generating resources through base rates. It is also appropriate for customers to provide recovery of capacity costs needed in addition to the generating resources because absent moving to the RPM the Company would have to either build additional generating resources or purchase capacity. Mr. Swez discusses this further in his rebuttal testimony.

**Q. DOES THE COMPANY AGREE WITH MR. KOLLEN'S RECOMMENDATION TO EXCLUDE COMPLIANCE AND OTHER PENALTY EXPENSE BLIS FROM THE PSM?**

A. No. The Company does not agree with excluding compliance and other penalty expense BLIs from the PSM. Mr. Swez discusses this further in his rebuttal testimony.

**Q. DOES THE COMPANY AGREE WITH MR. KOLLEN'S RECOMMENDATION TO CHANGE THE ALLOCATION OF CAPACITY REVENUES AND COSTS INCLUDED IN THE PSM TO BE DEMAND BASED?**

A. If the Commission approves Duke Energy Kentucky's transition from an FRR to an RPM entity, the Company is not opposed to changing the allocation of capacity revenues and costs included in the PSM to be based on demand consistent with how capacity costs are allocated in base rates. To be consistent with the cost of service in base rates, the Company proposes using the 12 Coincident Peak (12CP) from the most recently approved electric base rate case to allocate capacity costs to residential and non-residential customers. The allocation change would apply to all capacity revenues and costs and the PJM capacity performance non-performance charge and bonus payments.

**Q. DOES THE COMPANY AGREE WITH MR. KOLLEN'S RECOMMENDATION THAT THOSE CAPACITY REVENUES AND COSTS INCLUDED IN THE PSM SHOULD ALSO BE BILLED ON A DEMAND BASIS?**

A. No. The Company proposes to continue billing residential and non-residential customers based on kWh. This will allow the Company and the Commission time to study how any change in billing determinants will impact certain customer classes. A shift in rate design will, by definition, result in revenue/cost shifting between customer classes and without being fully studied, has the potential to result in significant rate increases or decreases to different customer classes. The Company's proposal is consistent with the principle of ratemaking gradualism to make rate adjustments over time, rather than sudden changes so as to avoid rate shock to customers.

Additionally, currently no Duke Energy Kentucky rider or surcharge mechanisms are billed on a demand basis. Were the Commission to order the Company to change the rate design of the PSM to allow for demand-based billing, the Company would need to make changes to its billing system to allow for this change. The Company has not analyzed the time or cost of doing such a system change.

## III. CONCLUSION

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

A. Yes.

# VERIFICATION

**STATE OF OHIO** )
) **SS:**
**COUNTY OF HAMILTON** )

The undersigned, Lisa Steinkuhl, Director, Rates and Regulatory Planning, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing rebuttal testimony and that it is true and correct to the best of her knowledge, information and belief.

Lisa D Steinkuhl
Lisa Steinkuhl Affiant

Subscribed and sworn to before me by Lisa Steinkuhl on this 5th day of January, 2025.

NOTARIAL SEAL
STATE OF OHIO
ROCCO O. D'ASCENZO
ATTORNEY AT LAW
Notary Public, State of Ohio
My Commission Has No Expiration
Section 147.03 R.C.

NOTARY PUBLIC

My Commission Expires: