

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE)	
PUBLIC SERVICE COMMISSION OF THE)	
ENVIRONMENTAL SURCHARGE MECHANISM)	
OF DUKE ENERGY KENTUCKY, INC. FOR THE)	CASE NO.
SIX-MONTH BILLING PERIODS ENDING)	2025-00024
NOVEMBER 30, 2023, NOVEMBER 30, 2024)	
AND THE TWO-YEAR BILLING PERIOD)	
ENDING MAY 31, 2024)	

DIRECT TESTIMONY OF

LIBBIE S. MILLER

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

March 14, 2025

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION AND PURPOSE	1
II. DISCUSSION	3
A. The Company’s Rider ESM.....	3
B. Data Requests Sponsored	11
III. CONCLUSION	11

I. INTRODUCTION AND PURPOSE

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

2 A. My name is Libbie S. Miller. My business address is 139 East Fourth Street,
3 Cincinnati, Ohio 45202.

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

5 A. I am employed by the Duke Energy Business Services LLC (DEBS) as Rates and
6 Regulatory Strategy Manager for Duke Energy Kentucky, Inc., (Duke Energy
7 Kentucky or Company) and Duke Energy Ohio, Inc. (Duke Energy Ohio). DEBS
8 provides various administrative and other services to Duke Energy Kentucky and
9 other affiliated companies of Duke Energy Corporation (Duke Energy).

10 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
11 **QUALIFICATIONS.**

12 A. I earned a Bachelor of Science in Accounting from Indiana State University, Terre
13 Haute, Indiana, in 1988. I also am a Certified Public Accountant licensed in Indiana.
14 I began my career with Public Service Indiana, in 1988, where I held positions in
15 Fuels Accounting, Corporate Accounting, and Financial Systems. I transferred to
16 Cincinnati, Ohio, in 1995 with the inception of Cinergy Corp., the parent of Duke
17 Energy Ohio, where I continued working in Financial Systems and later held
18 various accounting positions within the generation business. In 2015, I worked in
19 Program Performance supporting Energy Efficiency and Demand Response
20 customer programs for Duke Energy Indiana. In January 2018, I became Lead
21 Analyst, Rates and Regulatory Strategy for Duke Energy Kentucky and Duke

1 Energy Ohio. In 2022, I assumed my current position as Rates and Regulatory
2 Strategy Manager.

3 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE**
4 **COMMISSION?**

5 A. Yes. I have provided testimony in proceedings before the Kentucky Public Service
6 Commission regarding Duke Energy Kentucky's Fuel Adjustment Clause (FAC)
7 and Environmental Surcharge Mechanism (ESM).

8 **Q. PLEASE SUMMARIZE YOUR DUTIES AS RATES AND REGULATORY**
9 **STRATEGY MANAGER.**

10 A. As Rates and Regulatory Strategy Manager, I am responsible for the preparation of
11 various monthly, quarterly, and annual rate recovery mechanisms. I also prepare
12 other schedules used in retail rate filings for Duke Energy Kentucky and Duke
13 Energy Ohio.

14 **Q. WHAT IS THE PURPOSE OF THIS PROCEEDING?**

15 A. The purpose of this proceeding is to review the past operations of Duke Energy
16 Kentucky's environmental surcharge mechanism tariff (ESM) during the six-month
17 billing periods ending November 30, 2023 and November 30, 2024; and the two-
18 year review for billing period ending May 31, 2024, to determine whether the
19 surcharge amounts collected during the periods are just and reasonable, and to the
20 extent appropriate, incorporate surcharge amounts found just and reasonable into
21 the existing base rates of the utility.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my testimony is to (1) summarize the operation of the Company's
3 ESM filings during the six-month and two-year review periods, (2) demonstrate the
4 revenue collected during the period was just and reasonable, and (3) recommend
5 the cumulative ESM revenue requirement for the twelve-months ending with the
6 expense month March 2024 be used for purposes of incorporating the ESM
7 surcharge amount into base rates, and explain the methodology to "roll-in" the
8 surcharge amount into base rates.

II. DISCUSSION

A. The Company's Rider ESM

9 **Q. PLEASE DESCRIBE THE OPERATION OF DUKE ENERGY**
10 **KENTUCKY'S ESM FOR THE BILLING PERIODS UNDER REVIEW.**

11 A. In each month of the six-month and two-year periods under review in this
12 proceeding, Duke Energy Kentucky calculated the environmental surcharge factors
13 in accordance with its ESM Tariff and consistent with the Commission's Orders in
14 Duke Energy Kentucky's previous applications to implement or amend its ESM
15 and Environmental Compliance Plan (ECP). Duke Energy Kentucky billed an
16 environmental surcharge to its customers monthly from June 2022 through May
17 2024. The calculations were made in accordance with the Commission approved
18 monthly forms and were filed with the Commission ten days before the Company
19 billed the new monthly charge, per KRS 278.183.

20 The billing periods June 2022 through November 2022 and December 2022
21 through May 2023 have been reviewed in Case No. 2023-00374 and are part of the

1 two-year review period ending May 31, 2024. The six-month review period
2 initiated in this Case ending November 2023 is part of the two-year review period
3 ending May 31, 2024. The six-month review period initiated in this Case ending
4 November 2024 will be part of the next two-year review.

5 **Q. WHAT ARE THE COMPONENTS OF THE ENVIRONMENTAL**
6 **COMPLIANCE COSTS THAT WERE INCLUDED IN THE**
7 **CALCULATION OF THE ENVIRONMENTAL SURCHARGE BILLING**
8 **FACTORS FOR THE BILLING PERIODS UNDER REVIEW?**

9 A. In each month of the six-month and two-year periods under review in this
10 proceeding, Duke Energy Kentucky's environmental compliance costs, E(m),
11 include: (1) a return on environmental compliance rate base, (2) environmental
12 operating expenses, (3) proceeds from emission allowance sales, (4) prior period
13 adjustments, and (5) adjustment for over- or under-recovery of previously filed
14 monthly jurisdictional E(m).

15 **Q. PLEASE DESCRIBE THE COMPONENTS OF ENVIRONMENTAL**
16 **COMPLIANCE RATE BASE THAT WERE INCLUDED IN THE**
17 **CALCULATION OF THE ENVIRONMENTAL SURCHARGE BILLING**
18 **FACTORS FOR THE BILLING PERIODS UNDER REVIEW?**

19 A. Environmental compliance rate base included in the calculation of the
20 environmental surcharge billing factors for the billing periods under review
21 includes: (1) eligible environmental compliance plant in-service excluding
22 AFUDC, (2) eligible environmental compliance construction work in progress
23 (CWIP) excluding AFUDC, (3) emission allowance inventory, (4) accumulated

1 depreciation on eligible environmental compliance plant in-service, and (5)
2 deferred income taxes on eligible environmental compliance plant in-service. The
3 capital projects that comprise the environmental compliance plant in-service and
4 CWIP are those approved by the Commission in Case No. 2017-00321 and Case
5 No. 2018-00156. Capital projects included in the calculation of the ESM include
6 the following as shown on FORM 2.10 of the monthly ESM filings:

Project No.	Description
1	EB020290 Lined Retention Basin West
2	EB020745 Lined Retention Basin East
3	EB020298 East Bend SW/PW Reroute
4	EB021281 East Bend Landfill Cell 2

7 **Q. WHAT ENVIRONMENTAL PLAN OPERATING EXPENSES WERE**
8 **INCLUDED IN THE CALCULATION OF THE ENVIRONMENTAL**
9 **SURCHARGE BILLING FACTORS FOR THE BILLING PERIODS**
10 **UNDER REVIEW?**

11 A. The environmental plan operating expenses included in the calculation of the
12 environmental surcharge billing factors for the billing periods under review are
13 those approved by the Commission in Case No. 2017-00321, Case No. 2018-00156,
14 and Case No. 2021-00290. The expenses included in the calculation of the ESM
15 include the following as shown on FORM 2.00 of the monthly Rider ESM filings:

Description	Source
Monthly Depreciation Expense	ES Form 2.10
Monthly Taxes Other Than Income Taxes	ES Form 2.10
Monthly Amortization Expense	ES Form 2.20
Monthly Emission Allowance Expense	ES Form 2.30
Monthly Environmental Reagent Expense	ES Form 2.50

1 **Q. WERE THERE ANY PERTINENT CHANGES TO THE**
2 **ENVIRONMENTAL SURCHARGE DURING THE REVIEW PERIOD?**

3 A. There have been two Commission Orders which have changed the ESM during the
4 review period.

5 First, per the Order in Case No. 2022-00372, the Commission approved a
6 return on equity (ROE) for the ESM of 9.65 percent and a pre-tax rate of return of
7 8.822 percent. The ESM was updated to incorporate these changes in the November
8 2023 billing period for the September 2023 expense month. The Commission also
9 approved new depreciation rates to be used in the calculation of depreciation
10 expense for eligible environmental compliance plant in-service.

11 Second, per Order in Case No. 2023-00374, the Commission approved
12 \$22,535,632 to be “rolled-into” base rates, and the changes to the ESM tariff and
13 monthly ES forms to incorporate an amount included in base rates.

1 **Q. DOES THE COMPANY HAVE CHANGES TO ANY OF THE**
2 **COMPONENTS OF ITS ENVIRONMENTAL SURCHARGE BILLING**
3 **FACTORS?**

4 A. The Company does not have any changes or corrections to its filed environmental
5 surcharge mechanisms during the review period.

6 **Q. WHAT RATE OF RETURN IS THE COMPANY PROPOSING TO USE**
7 **FOR THE ENVIRONMENTAL SURCHARGE?**

8 A. The Company is proposing to use the pre-tax rate of return approved in its last base
9 rate case, Case No. 2022-00372, until changed by the Commission in a base rate
10 case proceeding. The currently approved pre-tax rate of return is 8.822 percent,
11 including a 9.65 percent return on equity, total weighted average cost of capital
12 (WACC) of 7.14 percent, and a gross revenue conversion factor (GRCF) of
13 1.3342383. However, the Company's intention is to use the rate of return
14 authorized by the Commission at the time it makes its ESM filings and would
15 therefore use that which is approved for the ESM in the current base rate case
16 proceeding, Case No. 2024-00354, once that case has been ordered upon.

17 **Q. WHAT IS THE RATIONAL FOR THIS PROPOSAL?**

18 A. This current rate of return was established in 2022 and was supported by a full cost
19 of equity analysis; therefore, the Company believes it is reasonable to continue

1 using the current Commission approved rate of return until a new Commission
2 approved rate of return has been ordered in Case 2024-00354.

3 **Q. SHOULD THE COMMISSION APPROVE INCORPORATING INTO**
4 **DUKE ENERGY KENTUCKY'S BASE RATES THE ENVIRONMENTAL**
5 **SURCHARGE AMOUNTS FOR THE TWO-YEAR BILLING PERIOD**
6 **ENDING MAY 2024, EXPENSE MONTH OF MARCH 2024?**

7 A. Yes, the Commission should allow Duke Energy Kentucky to "roll-into" base rates
8 the surcharge amounts the Commission finds just and reasonable for the two-year
9 billing period ending May 31, 2024, for the expense month of March 31, 2024. The
10 Company recommends the environmental surcharge amount equating to an
11 incremental annual revenue requirement of \$13,489,347 should be incorporated
12 into base rates resulting in total environmental surcharge revenues in base rates of
13 \$36,024,979. Duke Energy Kentucky calculated the total environmental surcharge
14 to incorporate into base rates of \$36,024,979 by using the environmental
15 compliance rate base as of March 31, 2024, and the environmental compliance
16 operating expenses for the twelve-months ending March 31, 2024, except for the
17 annual amortization expense. The Company used an annualized amortization based
18 on the last month of the two-year audit review period, March 2024, due to higher
19 amortization costs in the prior months that are not representative of more recent

1 actual amortization costs and are not reflective of what should be rolled-into base
2 rates. The return on the environmental compliance rate base was calculated using
3 the pre-tax rate of return approved in Case No. 2022-00372. The total
4 environmental compliance revenue requirement is then multiplied by the
5 jurisdictional allocation ratio from the filing for the May 2024 billing period, March
6 2024 expense month, to determine the Jurisdictional environmental compliance
7 revenue requirement to incorporate into base rates. The incremental annual revenue
8 requirement requesting to be incorporated into base rates is based on the total
9 environmental surcharge revenues calculated above, \$36,024,979, less the amount
10 approved for inclusion in base rates in Case No. 2023-00374 of \$22,535,632.

11 **Q. IF THE COMMISSION APPROVES DUKE ENERGY KENTUCKY'S**
12 **RECOMMENDATION TO INCORPORATE THE ENVIRONMENTAL**
13 **SURCHARGE AMOUNTS FROM THE ESM INTO BASE RATES, WHAT**
14 **IS THE IMPACT ON THE REVENUE REQUIREMENT FOR BASE**
15 **RATES AND FOR THE FOR THE ESM?**

16 A. The revenue requirement remains neutral for the customer, as Duke Energy
17 Kentucky's recommendation is simply moving the revenue requirement amount
18 from one recovery mechanism to another. Base rates will increase, and two months
19 later, the ESM revenue requirement will decrease by the same amount. ESM

1 revenue lag occurs since the expenses incurred in one month are recovered in
2 revenues two months later.

3 **Q. PLEASE EXPLAIN WHY ESM REVENUES WILL NOT DECREASE IN**
4 **THE SAME MONTH THAT BASE RATES WILL INCREASE.**

5 A. The ESM is billed on a two-month lag, meaning costs incurred in the current
6 expense month are recovered as revenues two months later through the ESM. If
7 the Commission approves the “roll-in” of ESM costs to base rates, the costs
8 recoverable through the ESM in the expense month will be reduced by the ESM
9 revenues included in base rates. For example, the total ESM costs for the January
10 expense month will be collected from customers via base rates in January and via
11 Rider ESM in March. If base rates increase due to the roll-in of the ESM revenue
12 requirement in January, the portion of the incurred January ESM costs recovered
13 through base rates will increase, and the resulting decrease in the ESM billing factor
14 will be applied in March. If the decrease in the ESM billing factor took effect in
15 January, the same month base rates were increased, Duke Energy Kentucky would
16 not collect the appropriate amount of ESM revenue associated with costs incurred
17 two months earlier in November. This is because the January ESM billing factor
18 is associated with the November expense month and must be calculated using base
19 rates in effect for November.

20 **Q. HOW SHOULD THE BASE RATE CHANGE BE IMPLEMENTED?**

21 A. The implementation of the change in base rates reflecting the “roll-in” amount
22 should take effect for bills rendered beginning with the first billing cycle in the third
23 month following the month in which the Commission issues its Order in this

1 proceeding to ensure the accurate update and review of the base rate change. The
2 ESM is billed on a billed rendered basis; therefore, to be consistent, the base rate
3 change should be effective on bills rendered basis also.

4 **Q. IS THE COMPANY PROPOSING TO MAKE ANY CHANGES TO ITS ESM**
5 **TARIFF?**

6 A. No, the Company does not propose to make any changes to its ESM tariff.

7 **Q. IS THE COMPANY PROPOSING TO MAKE ANY CHANGES TO THE**
8 **MONTHLY ES FORMS**

9 A. No, the Company does not propose to change any of the monthly ES Forms.

B. Data Requests Sponsored

10 **Q. PLEASE IDENTIFY THE RESPONSES TO COMMISSION DATA**
11 **REQUESTS YOU ARE SPONSORING.**

12 A. I sponsor the Company's responses to Staff Data Request Numbers 1 through 3 and
13 5. These responses were prepared by me and/or under my direction and control and
14 are true and accurate to the best of my knowledge.

III. CONCLUSION

15 **Q. WERE THE ESM BILLING FACTORS CHARGED DURING THE SIX-**
16 **MONTH AND TWO-YEAR PERIODS UNDER REVIEW CALCULATED**
17 **IN ACCORDANCE WITH THE ESM TARIFF AND APPLICABLE**
18 **COMMISSION ORDERS?**

1 A. Yes, the ESM billing factors charged during the six-month and two-year periods
2 under review were calculated in accordance with the ESM tariff and applicable
3 Commission Orders. The environmental surcharge billing factors charged during
4 the review period were fair, just, and reasonable.

5 **Q. WHAT DOES THE COMPANY RECOMMEND FOR THE COMMISSION**
6 **IN THIS CASE?**

7 A. The Commission should approve the “roll-in” of a revenue requirement of
8 \$13,489,347 into base rates following the methodology discussed in the response
9 to Staff Data Request Number 5 resulting in total environmental surcharge revenues
10 in base rates of \$36,024,979. The implementation of the change in base rates
11 reflecting the roll-in amount should take effect with bills rendered beginning with
12 the first billing cycle in the third month following the month in which the
13 Commission issues its Order in this proceeding.

14 The Commission should continue to approve the use of an overall rate of
15 return on capital of 8.822 percent approved by the Commission in the last Duke
16 Energy Kentucky electric base rate case, Case No. 2022-00372 until changed by
17 the Commission in Duke Kentucky’s current base rate case proceeding, Case No.
18 2024-00354, once that case has been ordered upon.

19 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

20 A. Yes.

VERIFICATION

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

The undersigned, Libbie S. Miller, Rates & Regulatory Strategy Manager, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing testimony and that it is true and correct to the best of her knowledge, information and belief.



Libbie S. Miller Affiant

Subscribed and sworn to before me by Libbie S. Miller on this 10th day of March, 2025.



NOTARY PUBLIC

My Commission Expires: July 8, 2027



EMILIE SUNDERMAN
Notary Public
State of Ohio
My Comm. Expires
July 8, 2027