

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 NATURAL GAS RATES;	)	CASE NO.
2) APPROVAL OF NEW TARIFFS; AND 3) ALL	)	2025-00125
OTHER REQUIRED APPROVALS, WAIVERS,	)	
AND RELIEF.	)	

REBUTTAL TESTIMONY OF

DANIEL S. DANE

ON BEHALF OF

DUKE ENERGY KENTUCKY

October 3, 2025

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I. INTRODUCTION AND QUALIFICATIONS

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

2 A. My name is Daniel S. Dane. My business address is 293 Boston Post Road West,
3 Suite 500, Marlborough, Massachusetts 01752.

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

5 A. I am the President of Concentric Energy Advisors, Inc. (Concentric).

6 **Q. ARE YOU THE SAME DANIEL S. DANE WHO FILED DIRECT**
7 **TESTIMONY IN THIS PROCEEDING?**

8 A. Yes. On June 2, 2025, I filed direct testimony on behalf of Duke Energy Kentucky,
9 Inc. (Duke Energy Kentucky or the Company), a subsidiary of Duke Energy
10 Corporation (Duke Energy).

11 **Q. ARE YOU SPONSORING ANY REBUTTAL ATTACHMENTS IN THIS**
12 **PROCEEDING?**

13 A. No.

14 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
15 **PROCEEDING?**

16 A. The purpose of my rebuttal testimony is to respond to the direct testimonies of
17 Attorney General (KYAG) witnesses Lane Kollen and Randy Futral as they relate
18 to Duke Energy Kentucky's working capital allowance and specifically: (1) Mr.
19 Kollen's recommendation to include interest expense on long term debt in the lead-
20 lag study used to determine the Company's cash working capital (CWC) allowance;
21 (2) Mr. Kollen's recommendation to remove the amortization of prepaid expenses

1 from the lead-lag study; and (3) Mr. Futral’s alternative proposal to determine the
2 collections lag component of the revenue lag in the lead-lag study.

3 **Q. HAVE THE DIRECT TESTIMONIES OF THE KYAG WITNESSES**
4 **CAUSED YOU TO CHANGE ANY OF YOUR FINDINGS OR**
5 **RECOMMENDATIONS IN THIS PROCEEDING?**

6 A. No, as discussed in more detail herein.

7 **II. INTEREST ON LONG TERM DEBT IN THE LEAD-LAG STUDY**

8 **Q. WHAT RECOMMENDATION DOES MR. KOLLEN MAKE REGARDING**
9 **DUKE ENERGY KENTUCKY’S WORKING CAPITAL ALLOWANCE**
10 **WITH REGARD TO INTEREST ON LONG-TERM DEBT?**

11 A. Mr. Kollen recommends that the Commission modify the lead-lag study to include
12 long-term debt interest expense. He asserts that the collection of revenues from
13 customers to cover interest expense before the actual cash payments are made to
14 debtholders is a form of “cost-free customer financing,”¹ that should be reflected in
the lead-lag study.

15 **Q. DO YOU AGREE?**

16 A. No. Including interest expense in this case in the lead-lag study would result in an
17 internally-inconsistent application of the lead-lag model. The simple reason that
18 “long-term debt interest expense is paid in cash”² does not support selectively
19 adding interest expenses to the lead-lag study without also recognizing that the
20 Company experiences a more-than-offsetting lag related to the recovery of

¹ Direct Testimony of Lane Kollen, p. 10 (Sept. 30, 2025) (Kollen Direct).

² *Id.*, p. 8.

1 operating income. Regulators in other jurisdictions have recognized this. For these
2 reasons, I respectfully ask the Commission to reject Mr. Kollen’s recommendation.

3 **Q. DID THE COMMISSION FIND THAT IT WAS APPROPRIATE TO**
4 **INCLUDE INTEREST EXPENSE IN THE LEAD-LAG STUDY IN THE**
5 **COMPANY’S RECENT ELECTRIC RATE CASE?**

6 A. Yes.³

7 **Q. THEN WHY ARE YOU RECOMMENDING IT BE EXCLUDED IN THIS**
8 **CASE?**

9 A. In its decision in Case No. 2024-00354, the Commission found that it was
10 appropriate to include interest expense but declined to include “a similar adjustment
11 pertaining to the equity share of the capital structure **because there is no preferred**
12 **stock or required equity payments.**”⁴ However, as I describe herein, I
13 respectfully submit that beyond considerations of interest expense, dividends, and
14 preferred stock dividends, there is a lag in the recovery of operating income from
15 which those elements of the rate of return are paid, and which the Commission
16 should consider if it is inclined to include interest expense in the lead-lag study in
17 this proceeding.

³ *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; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief*, Case No. 2024-00354, Order, p. 13 (Ky. P.S.C. Oct. 2, 2025).

⁴ *Ibid.* **Emphasis added.**

1 **Q. WHAT LEADS YOU TO CONCLUDE THAT THE SIMPLE REASON**
2 **THAT “LONG-TERM DEBT INTEREST EXPENSE IS PAID IN CASH”**
3 **DOES NOT SUPPORT SELECTIVELY ADDING INTEREST EXPENSES**
4 **TO THE LEAD-LAG STUDY WITHOUT ALSO RECOGNIZING THAT**
5 **THE COMPANY EXPERIENCES A MORE-THAN-OFFSETTING LAG**
6 **RELATED TO THE RECOVERY OF OPERATING INCOME?**

7 **A.** To answer this question, it is important to first examine how interest expense is
8 treated in the cost-of-service ratemaking formula. Interest expense is not reflected
9 in the cost of service as an expense like operations and maintenance (O&M)
10 expense or taxes. Rather, interest expense is a component of the return on rate base,
11 which is used to determine the actual and required operating income of the utility.
12 From a ratemaking perspective, operating income is assumed to be earned as
13 service is provided. The Company, however, does not recover operating income in
14 cash until customers pay their bills sometime after service is provided. This creates
15 a CWC need to bridge the gap between when operating income is earned and when
16 it is recovered in cash. Despite this CWC need, operating income and its
17 components (i.e., the return on equity and interest expense) are often excluded from
18 the lead-lag study in practice, as I have done in this case. In that way, I followed an
19 “O&M only” approach to the lead-lag study. Mr. Kollen proposes to selectively
20 add one element of operating income (i.e., interest expense) to the lead-lag study
21 but exclude all other elements of operating income. This results in an internally
22 inconsistent lead-lag study with a downwardly skewed result.

1 **Q. YOU TESTIFIED THAT YOU FOLLOWED AN “O&M ONLY”**
2 **APPROACH IN THE LEAD-LAG STUDY. IS THERE ANOTHER**
3 **APPROACH?**

4 A. Yes. There are two internally consistent approaches to determining a CWC
5 allowance vis-a-vis operating income items such as interest on long-term debt. The
6 first, more prevalent approach is to exclude all components of operating income (as
7 I have done in the “O&M only” approach in this case). The other approach includes
8 all components of operating income. Mr. Kollen’s proposal follows neither of those
9 approaches.

10 **Q. PLEASE DESCRIBE THE TWO APPROACHES TO THE INCLUSION OR**
11 **EXCLUSION OF INTEREST ON LONG-TERM DEBT IN A LEAD-LAG**
12 **STUDY IN MORE DETAIL.**

13 A. Robert Hahne, in *Accounting for Public Utilities* (Hahne), describes the different
14 approaches to treating a cash working capital allowance on “funds relating to net
15 operating income” such as interest on long-term debt, concluding that “[t]he most
16 prevalent [approach] is probably to not consider the operating income component
17 in the lead-lag study, which results in not recognizing a need for cash working
18 capital to cover operating income and not recognizing accruals of interest and
19 preferred dividends as a source of cash working capital.” A full excerpt is
20 provided below:

21 The treatment of funds relating to net operating income is
22 subject to a wide difference of opinion in the evaluation of lead-
23 lag study procedures. From a theoretical standpoint, operating
24 income is earned when service is provided, and the operating
25 income is the property of the investors in the company when
26 earned. This view would recognize a cash working capital

1 requirement for the lag in receipt of operating income. Such a
2 requirement is equal to the revenue lag days multiplied by an
3 amount equal to one day's operating income. The amount for
4 interest or preferred dividends would not be offset, because
5 those amounts are paid from funds belonging to investors
6 (operating income).

7 **At the opposite end of the spectrum, on occasion**
8 **parties have suggested that a source of cash working capital**
9 **exists in the delay in disbursement of interest, preferred**
10 **dividends, and dividends on common equity. Few**
11 **commissions have accepted either of these opposing points of**
12 **view.** Usually, the decisions are somewhere between the two
13 poles. **The most prevalent is probably to not consider the**
14 **operating income component in the lead-lag study, which**
15 **results in not recognizing a need for cash working capital to**
16 **cover operating income and not recognizing accruals of**
17 **interest and preferred dividends as a source of cash working**
18 **capital.** The procedure of ignoring operating income generally
19 produces approximately the same effect as does the procedure
20 of recognizing the lag in collecting the equity return component
21 of operating income while also recognizing a lag in the payment
22 of interest expense and preferred dividends. **Many commissions**
23 **considering the question have adopted one of these latter two**
24 **methodologies.**⁵

25 The first methodology (i.e., the "O&M only" approach I applied in the Duke
26 Energy Kentucky lead-lag study) focuses on leads and lags related to O&M
27 expenses and excludes consideration of operating income. The other approach
28 recognizes the impact on shareholders of a lag in recovering earnings and includes
29 operating income (either with or without offsets for interest on long-term debt and
30 preferred dividends). Although different in the scope of what they consider, these
31 two approaches are each internally consistent. My disagreement with Mr. Kollen's
32 recommendation is focused on the fact that Mr. Kollen's proposal adheres to neither
33 of the broad approaches outlined above but rather selectively adds only one element

⁵ Robert L. Hahne and Gregory E. Aliff, Accounting for Public Utilities § 5.04[2][b][vii] (Matthew Bender).
Emphasis added.

1 of costs paid from operating income (*i.e.*, interest expense on long-term debt) at the
2 exclusion of the consideration of the entirety of operating income itself. Mr.
3 Kollen's recommendation is thus internally inconsistent and not widely accepted or
4 supported in any authoritative texts such as Hahne. Inclusion of the total operating
5 income component in the lead-lag study would more than offset the net reduction
6 proposed by Mr. Kollen.

7 **Q. WHAT IS THE BASIS UPON WHICH OPERATING INCOME IS**
8 **INCLUDED IN LEAD-LAG STUDIES?**

9 A. As described above, operating income, from which interest on long-term debt is
10 paid, is the property of shareholders and is earned as service is provided to
11 customers. There is a delay, however, between when operating income is earned
12 and when cash is received from customers, which is equal to the revenue lag. That
13 lag serves to reduce the return received by shareholders.

14 Furthermore, in the cost of service there is a distinction between operating
15 expenses, which are deducted from revenues, and the return on rate base, which
16 includes an allowance for both the cost of debt and a return on equity. In other
17 words, cost of service ratemaking distinguishes between day-to-day operating
18 expenses, which are appropriately considered in the lead-lag study, and investor-
19 related costs (including interest on long-term debt) recovered as compensation for
20 the utility's investment in plant. The appropriate treatment of investor-related costs
21 in the lead-lag is a matter of some dispute, but from a ratemaking policy perspective
22 they are either included in their entirety or wholly excluded.

1 **Q. DOES THE SAME THEORY REGARDING THE LAG IN RECOVERY OF**
2 **EARNINGS HOLD FOR NON-CASH EXPENSES IN THE REVENUE**
3 **REQUIREMENT?**

4 A. Yes. The same theory holds for non-cash items in the revenue requirement such as
5 depreciation, which reduces rate base when the expense is recognized, but for
6 which cash recovery occurs after a lag. As such, there is a revenue lag not only on
7 the return *on* capital, but also the return *of* capital.

8 **Q. DID YOU INCLUDE OPERATING INCOME OR NON-CASH EXPENSES**
9 **IN THE LEAD-LAG STUDY IN THIS PROCEEDING?**

10 A. No. While there is a theoretical basis upon which to include those items, the
11 approach to the lead-lag study I took in this proceeding excludes operating income
12 and non-cash expenses. The impact of considering the total operating income
13 component in the lead-lag study is equal to the revenue lag (*i.e.*, 53.2 days)
14 multiplied by one day's operating income (*i.e.*, \$24,688,319⁶, divided by 365 days).
15 That would increase the CWC allowance by approximately \$3.60 million,⁷ further
16 increasing the Company's revenue deficiency.

⁶ Schedule A, Line 2.

⁷ \$67,639 * 53.2 days = \$3,598,407.

1 **Q. WITH THE PRECEDING AS BACKGROUND, PLEASE RESPOND TO**
2 **MR. KOLLEN’S IMPLICATION THAT IT IS APPROPRIATE TO**
3 **INCLUDE INTEREST EXPENSE ON LONG-TERM DEBT BUT**
4 **EXCLUDE TOTAL OPERATING INCOME AND NON-CASH ITEMS**
5 **SUCH AS DEPRECIATION EXPENSE AND RETURN ON COMMON**
6 **EQUITY.**

7 A. As described above, Mr. Kollen’s proposal combines two different approaches to
8 lead-lag studies in a selective manner. Mr. Kollen narrowly focuses on the fact that
9 interest expense is a cash item but ignores that operating income (from which
10 interest expense is paid but which also includes a return to shareholders) is not
11 recovered on a cash basis until after the revenue lag. Mr. Kollen has thus provided
12 a partial operating income equation by selecting only one item that is deducted from
13 operating income on the basis that it is paid in cash. There is indeed no cash outlay
14 for retained earnings, but as described above, there is a real impact on shareholders
15 from the delay between when a return is earned and when it is recovered in cash.
16 The same is true for non-cash items like depreciation.

17 **Q. IS YOUR POSITION ON THIS ISSUE “COMPLETELY CONTRARY”⁸ TO**
18 **UTILITIES THAT HAVE PROACTIVELY INCLUDED INTEREST**
19 **EXPENSE IN THEIR LEAD-LAG STUDIES?**

20 A. No. Mr. Kollen has identified that some utilities have proactively included interest
21 expense in their lead-lag studies. In some cases where utilities have done that,
22 which I discuss in more detail below, it is part of a “broader view” of CWC that

⁸ Kollen Direct, p. 9.

1 includes operating income and non-cash items. In other cases, the proactive
2 inclusion by utilities of interest expense in the lead-lag study is unlikely to be
3 contested by intervening parties. In my opinion, however, that latter approach,
4 while conservative in nature, results in an internally inconsistent application of the
5 lead-lag model and results in a CWC requirement that is understated.

6 **Q. HAVE REGULATORS IN OTHER JURISDICTIONS FOUND THAT THE**
7 **SELECTIVE INCLUSION OF LONG-TERM DEBT FROM THE LEAD-**
8 **LAG STUDY IS INAPPROPRIATE?**

9 A. Yes. Colorado and New Mexico are two such examples that have had explicit
10 findings on this issue. Colorado’s regulatory commission has a “long-standing
11 policy determination regarding the exclusion of interest on long-term debt in the
12 CWC allowance.”⁹ The New Mexico Public Regulation Commission also recently
13 agreed with an Administrative Law Judge that “this Commission excluded interest
14 expense on long-term debt from the [lead-lag] calculation *because it excluded*
15 *components of operating income from the calculation.*”¹⁰

16 Texas also has regulations that explicitly exclude interest on long-term debt
17 from the lead-lag study. Furthermore, Massachusetts is another example of a state
18 regulator that excludes interest on long-term debt from lead-lag studies, where the
19 Massachusetts Department of Public Utilities refers to the CWC study as an “O&M

⁹ Colorado Public Utilities Commission, Proceeding No. 12AL-1268G, Decision No. R13-1307, October 22, 2013, at 76. The portion of Decision No. R13-1307 regarding the inclusion of interest expense in the lead-lag was affirmed by the Colorado Public Utilities Commission in Decision No. C13-1568, adopted December 11, 2013, at 18.

¹⁰ See, New Mexico Public Regulation Commission, Recommended Final Decision, Case No. 20-00104-UT, April 6, 2021, at 93, and Order Adopting Recommended Decision with Modifications, Case No. 20-00104-UT, June 23, 2021. **Emphasis added.**

1 lead-lag study” and excludes operating income, interest on long-term debt, and
2 retained earnings.¹¹ California similarly excludes interest on long-term debt from
3 the CWC allowance. Per a California Public Utilities Commission standard practice
4 document regarding the determination of a CWC allowance:

5 The working cash allowance is a component of rate
6 base. It can be positive or negative. Its purpose is to
7 compensate investors for funds provided by them
8 which are permanently committed to the business for
9 the purpose of paying operating expenses in advance
10 of receipt of offsetting revenues from its customers
11 and in order to maintain minimum bank balances.
12 Cash held for construction, for purchases of stock,
13 for **payment of dividends and interest on funded**
14 **debt**, and like purposes **does not qualify for**
15 **inclusion in cash working capital**.¹²

16 Furthermore, the Federal Energy Regulatory Commission (“FERC”) in its
17 definition of CWC excludes interest on long-term debt. Specifically, FERC’s
18 regulations state the following regarding a CWC allowance:

19 Any adjustment to rate base requested must be based
20 on a fully-developed and reliable lead-lag study. The
21 components of the lead-lag study must include actual
22 total company revenues, purchased gas costs, storage
23 expense, transportation and compression of gas by
24 others, salaries and wages, administrative and
25 general expenses, income taxes payable, taxes other
26 than income taxes, and any other **operating and**
27 **maintenance expenses** for the base period.¹³

¹¹ See, e.g., Massachusetts Department of Public Utilities, Order Establishing Eversource’s Revenue Requirement, November 30, 2017, at 117-120.

¹² California Public Utilities Commission Water Division, “Determination of Working Cash Allowance,” Standard Practice U-16-W, March 2006. **Emphasis added.**

¹³ Federal Energy Regulatory Commission, 18 C.F.R. § 154.312. **Emphasis added.**

1 **Q. PLEASE DESCRIBE FURTHER WHAT COLORADO FOUND WITH**
2 **REGARD TO THE INCLUSION OF INTEREST EXPENSE IN THE LEAD-**
3 **LAG STUDY.**

4 A. The Colorado Public Utilities Commission has found it is appropriate to exclude
5 interest on long-term debt, along with common stock dividends and preferred stock
6 dividends, because such costs “are no different than the Company’s reinvestment
7 (in new plant, debt retirement, or short-term investments) of the regulated portion
8 of its earnings: they are all paid out of the utility’s earnings for investor purposes
9 and not for the purpose of meeting day-to-day expenses on behalf of ratepayers”¹⁴
10 and that none of these items qualify for inclusion in the lead-lag study because the
11 utility is not using those items to provide investor funds to meet day-to-day
12 operating expenses on behalf of its customers.¹⁵

13 As an example, in Proceeding No. 12AL-1268G, Public Service Company
14 of Colorado (PSCo) asserted that there are important conceptual distinctions¹⁶
15 between ordinary day-to-day cash expenses (which are factored into the CWC
16 calculation) and investor-related expenses, such as interest payable to bond holders
17 and dividends payable to preferred stockholders (which are excluded from the
18 CWC calculation). PSCo further argued that the interest collected by the company
19 and payable to the company’s security holders is considered to be shareholder funds
20 and, as such, is not included as part of the company’s CWC used to support day-to-

¹⁴ Colorado Public Utilities Commission, Proceeding No. 12AL-1268G, Decision No. R13-1307, October 22, 2013, pp. 75-76.

¹⁵ *Ibid.*

¹⁶ Identified by the Colorado Public Utilities Commission in Decision No. C84-598 in Docket No. 1640.

1 day utility operations.¹⁷ The Colorado Public Utilities Commission agreed with
2 PSCo that it is appropriate to exclude interest on long-term debt in the lead-lag
3 study.

4 **Q. WHAT ARE EXAMPLES OF JURISDICTIONS THAT TAKE A MORE**
5 **COMPREHENSIVE VIEW OF OPERATING INCOME AND NON-CASH**
6 **ITEMS IN THE LEAD-LAG STUDY (I.E., THE SECOND BROAD**
7 **APPROACH YOU DESCRIBED)?**

8 A. Connecticut and New Jersey are two such examples. The Connecticut Public
9 Utilities Regulatory Authority (the “CT Authority”) determined that fairness in a
10 CWC allowance requires a “broader view” than simply whether an expense item
11 has “cash” or “noncash” aspects. Specifically, the CT Authority found:

12 In the Decision in Docket No. 90-12-03, the Authority found that
13 fairness requires a broader view than simply the cash or noncash
14 aspects of an expense item. In the process of determining revenue
15 requirements, inconsistencies and/ or timing differences may arise
16 between the development of expenses, revenues and rate base.
17 Assumptions used to develop expenses may differ from the way the
18 expenses actually occur or timing differences may arise between
19 when non-cash expenses are collected from ratepayers and when
20 reductions related to those expenses are made to rate base. These
21 inconsistencies and/or timing differences are the proper
22 consideration of the working capital adjustment. What is not a
23 relevant consideration is whether a vendor is involved or not
24 (Company stockholders can be considered as vendors since they
25 provide a service, investment capital, in return for payment, net
26 income).¹⁸

27 It is clear that in Connecticut, the CT Authority was concerned with the
28 broader impacts of timing differences between when expenses are incurred and cash

¹⁷ Rebuttal Testimony of Deborah Blair on behalf of Public Service Company of Colorado, April 29, 2013, Proceeding No. 12-AL-1268G, p. 31, accepted by the Colorado Public Utilities Commission in Decision R13-1307, Docket 12-AL-1268G.

¹⁸ CT PURA Docket No. 92-06-05, Decision December 16, 1992, for the United Illuminating Company.

1 is received rather than categorical determinations of what constitutes cash for
2 normal day-to-day utility operations. Similarly, the return on common equity is
3 earned in real time, but shareholders do not receive cash for that return until after
4 funds are collected from customers (*i.e.*, the equivalent number of days of the
5 revenue lag). A similar theory holds for depreciation expense, which was also
6 included in lead-lag studies in Connecticut.¹⁹

7 **Q. WHAT DO YOU CONCLUDE FROM YOUR REVIEW OF OTHER**
8 **JURISDICTIONS?**

9 A. I conclude that while there are similar underlying concepts applied to lead-lag
10 studies in different regulatory jurisdictions, there is a diversity of practice as to the
11 individual income statement items and cash flows to which lead-lag factors are
12 applied. I further conclude that there is a theoretical basis upon which to include a
13 more comprehensive view of operating income (with or without offsets for interest
14 expense) and non-cash items in the lead-lag study, but that only considering interest
15 expense selectively departs from that theoretical basis and is internally inconsistent.
16 By recommending a mismatch of lead-lag approaches, Mr. Kollen has adhered to
17 neither of those concepts. Acceptance of Mr. Kollen's proposal to include interest
18 on long-term debt in the lead-lag study would require the incorporation of the
19 revenue lag on operating income, which would more than offset the downward
20 adjustment to CWC.

¹⁹ In recent decisions, the CT PURA has adopted the "O&M only" approach to lead-lag studies, excluding operating income, interest expense, and non-cash expenses. *See, e.g.*, CT PURA Docket No. 23-11-02 (CNG), Decision November 18, 2024, at 27.

1 **Q. HAVE YOU QUANTIFIED THE IMPACT OF INCLUDING OPERATING**
2 **INCOME IN THE LEAD-LAG STUDY?**

3 A. Yes. As described above, the impact to the lead-lag study would be an increase of
4 approximately \$3.60 million to rate base. The \$3.60 million increase more than
5 offsets the \$1.27 million adjustment proposed by Mr. Kollen and, if taken together,
6 they would represent a net increase to rate base. However, there is no reason to
7 include consideration of operating income in the lead-lag study in this proceeding
8 (with or without an interest expense offset). Instead, I recommend that the
9 Commission consider the “O&M Only” approach, which excludes operating
10 income and interest expense from the working capital calculation.

11 **Q. WHAT ARE YOUR CONCLUSIONS REGARDING MR. KOLLEN’S**
12 **PROPOSAL?**

13 A. I respectfully ask that the Commission reject Mr. Kollen’s proposal for the reasons
14 described above. His analysis is incomplete because it selectively includes interest
15 expense without also considering the working capital impact of operating income.

III. PREPAID EXPENSES IN RATE BASE

16 **Q. PLEASE SUMMARIZE MR. KOLLEN’S RECOMMENDATION**
17 **REGARDING THE AMORTIZATION OF PREPAID EXPENSES IN THE**
18 **CWC CALCULATION.**

19 A. Mr. Kollen recommends that the Commission exclude the amortization of
20 prepayments from the CWC calculation. While Mr. Kollen acknowledges that there
21 is a cost to the Company to finance prepayments, Mr. Kollen argues that these are
22 non-cash expenses and including amortization of prepayments in CWC would

1 result in the double-counting of the cash outlay related to the underlying expenses
2 because “[t]he prepaid expenses are included in rate base.”²⁰

3 **Q. DOES THE LEAD-LAG STUDY INCLUDE THE AMORTIZATION OF**
4 **PREPAID EXPENSES THAT ARE ALSO REFLECTED IN RATE BASE?**

5 A. No. Mr. Kollen concludes that “[t]he Company included this expense as a line item
6 in the cash working capital (CWC) calculation,” referring to the “Kentucky
7 Regulatory Fees” line item in the lead-lag study.²¹ Mr. Kollen also incorrectly
8 asserts that this expense is included in rate base as a prepaid asset. The \$180,612
9 of Kentucky Regulatory Fees in the lead-lag study, however, while paid prior to the
10 period covered by the fees, are not included in prepayments in rate base. As such,
11 the Kentucky Regulatory Fees are treated as a cash expense in the lead-lag study
12 and, absent their inclusion in the lead-lag study (or, as discussed below, their
13 inclusion in rate base), the Company has no pathway to recovering the CWC
14 requirement caused by this item.

15 **Q. DID THE COMMISSION EXCLUDE THIS ITEM FROM THE LEAD-LAG**
16 **STUDY IN THE COMPANY’S RECENT ELECTRIC RATE CASE?**

17 A. Yes.²²

²⁰ Kollen Direct, p. 7.

²¹ Kollen Direct, p. 7; KYAG work paper “Adj #2 CWC Lead Lag.”

²² *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; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief*, Case No. 2024-00354, Order, p. 13 (Ky. P.S.C. Oct. 2, 2025).

1 **Q. IF THE COMMISSION FINDS THAT IT IS APPROPRIATE TO REMOVE**
2 **THIS ITEM FROM THE LEAD-LAG STUDY IN THIS CASE, WHAT IS**
3 **YOUR RECOMMENDATION?**

4 A. I recommend that the prepaid balance of Kentucky Regulatory Fees of \$207,916²³
5 be included in rate base. This amount is somewhat above the CWC requirement of
6 this item of \$111,440.²⁴ As discussed above, absent the inclusion of this item in
7 either the lead-lag study or rate base, the Company has no pathway to recover the
8 CWC requirement it causes. Mr. Kollen acknowledges that there is a cost to the
9 Company to finance prepayments, and did not argue that, if they are excluded from
10 the lead-lag study, they should also be excluded from rate base. If the Commission
11 finds that these expenses are not appropriate for inclusion in the Company's lead-
12 lag study because these expenses are non-cash expenses, then amounts included in
13 WP B-5.1d line 12 should be added back into the Company's rate base.

IV. COLLECTIONS LAG

14 **Q. PLEASE SUMMARIZE THE POSITION TAKEN BY MR. FUTRAL**
15 **REGARDING THE COLLECTIONS LAG USED IN THE COMPANY'S**
16 **CASH WORKING CAPITAL CALCULATION?**

17 A. Mr. Futral recommends that the Commission reject the Company's use of 2023 data
18 for the collections lag in lead-lag study and instead use 2024 data. He argues that
19 the 2023 collections lag was artificially inflated by the lingering effects of the 2022
20 natural gas price spike, which (he argues) increased customer receivables and, in

²³ See, WP B-5.1d.

²⁴ See, Exhibit DSD-2 (Forecast).

1 his view, temporarily lengthened the time between billing and payment. This same
2 argument was rejected by the Commission in Case No. 2024-00354.²⁵

3 **Q. WHAT IS A COLLECTIONS LAG?**

4 A. As described in my direct testimony, the collections lag reflects the average amount
5 of time from the date when bills are issued to the date that the Company receives
6 payment from its customers. I measured the collections lag by analyzing 2023 (i.e.,
7 the Study Period) accounts receivables aging. This analysis considered each
8 accounts receivable “bucket” (e.g., current, 0-30 days past due, 31-60 days past
9 due, etc.) over the course of the Study Period to determine a weighted-average lag
10 measurement of the time between when customers are billed for service and when
11 bills are paid. As such, and because the lead-lag study measures days rather than
12 dollars, my analysis of aging accounts receivables focused on the time it takes
13 customers to pay their bills, not the absolute amount of accounts receivables.

14 **Q. IS THE COLLECTIONS LAG TYPICALLY BASED ON THE SAME TIME**
15 **PERIOD AS THE REST OF THE LEAD-LAG STUDY?**

16 A. Yes. Unless conditions are determined to be so unusual or so anomalous as to skew
17 the results of the study,²⁶ the revenue and expense leads and lags in lead-lag study
18 are typically measured over the same time period, consistent with the matching
19 principle, the basic premise of which from a ratemaking perspective is that all items
20 of the revenue requirement are measured over a contemporaneous period in order

²⁵ *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; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief*, Case No. 2024-00354, Order, p. 10 (Ky. P.S.C. Oct. 2, 2025).

²⁶ For example, customer relief programs and challenging economic circumstances impacted revenue collections during the COVID-19 pandemic in a way that extended beyond cyclical macroeconomic events.

1 to provide an accurate matching of revenues and costs. That is consistent with the
2 Commission’s findings in Case No. 2024-00354, where the Commission found that
3 “the revenue and expense periods for the lead/lag study should match.”²⁷

4 **Q. WHAT PERIOD DID YOU STUDY FOR THE LEAD-LAG STUDY?**

5 A. As described in my direct testimony, the lead-lag study analyzed Duke Energy
6 Kentucky’s cash transactions and invoices for the Study Period, which was the
7 calendar year 2023. The lead-lag study was prepared in advance of the filing of the
8 rate case in this proceeding, and, at the time I began the study, 2024 data was not
9 yet available. However, as also described in my direct testimony, if there are no
10 known and measurable changes to the processes related to the existing billing,
11 collection and remittance processes, it is appropriate to utilize historical revenue
12 lags and expense leads and apply those factors to forecasted test year expense
13 levels. I am not aware of any material changes to the Company’s processes that
14 affect payment patterns differently between the Study Period (i.e., 2023) and the
15 Forecast Period (i.e., 2026).

16 **Q. DOES MR. FUTRAL PROVIDE ANY EMPIRICAL EVIDENCE TO**
17 **SUPPORT HIS FINDING THAT THE 2023 COLLECTIONS LAG WAS**
18 **ANOMALOUSLY HIGH?**

19 A. No. Mr. Futral notes that the collections lag (in combination with the payment
20 processing lag) “seemed high” to him,²⁸ but, without any analysis, claims that

²⁷ *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; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief*, Case No. 2024-00354, Order, p. 13 (Ky. P.S.C. Oct. 2, 2025).

²⁸ Direct Testimony of Randy A. Futral, p. 11 (Sept. 3, 2025).

1 “[g]as customer bills increased substantially during this period due to the higher
2 commodity price of gas leading to higher receivable balances in later months,”²⁹
3 and “[t]he 2023 combined electric and gas division receivables data relied upon by
4 the Company in the lead/lag study was highly impacted by the short-term spike in
5 natural gas commodity prices prior to the start of 2023.”³⁰ Mr. Futral also suggests
6 that the 2022 spike in natural gas prices was a temporary, non-recurring event.

7 **Q. WHAT IS YOUR RESPONSE?**

8 A. There are many factors in addition to gas prices that can impact the level of accounts
9 receivables and the time it takes to collect them. In addition, gas prices are subject
10 to volatility, and Mr. Futral’s recommendation to focus on a period of historically
11 low gas prices for one element of the lead-lag study is not preferable to a holistic
12 and consistent evaluation of Study Period leads and lags, as I have done. To that
13 point, beginning in 1997 (the earliest date provided in the source cited by Mr. Futral
14 for gas prices³¹), average annual gas prices have exceeded 2023 levels in 23 out of
15 29 years. The fact that the collections lag can change from year to year does not
16 support, however, selectively (and subjectively) replacing one set of inputs to the
17 lead-lag study with another.

18 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON**
19 **THIS ISSUE?**

20 A. I recommend that the Commission accept the Company’s use of a 2023 Study
21 Period and reject Mr. Futral’s recommendation to selectively modifying the inputs

²⁹ *Id.*, p. 12.

³⁰ *Id.*, p. 12.

³¹ <https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm>.

1 to the collections lag. Mr. Futral's recommendation is not founded in empirical
2 analysis, unnecessarily introduces judgment into the lead-lag analysis, and is
3 inconsistent with standard regulatory practice and the matching principle.

V. CONCLUSION

4 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL TESTIMONY?**

5 A. Yes, it does.

VERIFICATION

STATE OF MASSACHUSETTS)
)
COUNTY OF MIDDLESEX) SS:

The undersigned, Daniel S. Dane, President, Concentric Energy Advisors, Inc., being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the rebuttal testimony, and that it is true and correct to the best of his knowledge, information, and belief.

Daniel S Dane

Daniel S. Dane, Affiant

Subscribed and sworn to before me by Daniel S. Dane this 03 day of
10, 2025.

JO

NOTARY PUBLIC

My Commission Expires: **10/07/2029**



Performed by means of audio-video communication with NotaryLive.com



Notarized by: Joanne M Lawson
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