

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY) CASE NO. 2025-00125
KENTUCKY, INC. FOR 1) AN ADJUSTMENT OF)
THE NATURAL GAS RATES; 2) APPROVAL OF)
NEW TARIFFS; AND 3) ALL OTHER REQUIRED)
APPROVALS, WAIVERS, AND RELIEF)

**THE ATTORNEY GENERAL’S RESPONSE TO THE COMMISSION STAFF’S
FIRST REQUEST FOR INFORMATION**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (“Attorney General”), and submits the following response to the Commission Staff’s First Request for Information in the above-styled matter.

Respectfully submitted,

RUSSELL COLEMAN
ATTORNEY GENERAL



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Certificate of Service and Filing

Pursuant to the Commission's Orders and in accord with all other applicable law, Counsel certifies that the foregoing electronic filing was transmitted to the Commission on September 26, 2025, and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 26th day of September, 2025,



Assistant Attorney General

WITNESS RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION NO. 1
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Refer to the Direct Testimony of Richard Baudino (Baudino Direct Testimony). Confirm that no outliers were excluded from any analyses used to determine the Return on Equity (ROE) recommendation. If outliers were excluded, provide the analyses with outliers included, highlighting any previously excluded outliers.

RESPONSE:

Confirmed.

WITNESS RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION NO. 2
Page 1 of 1

Refer to the Baudino Direct Testimony, page 14, lines 21–23.

- a. Explain whether a proxy group of seven regulated gas distribution utilities represents an appropriate sample size from which to derive statistically significant ROE estimates.
- b. In addition to using gas utilities, explain whether including water utilities as additional proxy companies would be appropriate in the DCF and CAPM analyses.

RESPONSE:

- a. In this case, Mr. Baudino determined that a group of seven companies was a sufficiently representative sample on which to derive reliable and robust ROE estimates for Duke Energy Kentucky's regulated gas operations. This determination was based on his analysis of the data sources used and the results produced by the DCF and CAPM models.
- b. Water utilities have their own unique set of risks that set them apart from gas distribution companies. In this case, Mr. Baudino did not consider it appropriate to include water utilities in his proxy group for purposes of estimating the ROE for Duke Kentucky.

WITNESS RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION NO. 3
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Refer to the Baudino Direct Testimony, page 24, lines 1–4. Elaborate on why the “historical risk premium of stock returns over the long-term government bond returns has been significantly influenced upward by substantial growth in the P/E (price- earnings) ratio” is important and why Duff and Phelps subtracted out the P/E ratio for stocks from the historical risk premium.

RESPONSE:

Please note that Mr. Baudino used the data provided by Kroll in its Cost of Capital Navigator subscription service. Duff and Phelps no longer provides the historical return data. Kroll cited two studies that were influential in assessing investor expectations and realized returns.

These two studies were:

Roger G. Ibbotson and Peng Chen, “Long-Run Stock Market Returns: Participating in the Real Economy” *Financial Analysts Journal* (January February 2003): 88–98; and,

Charles P. Jones and Jack W. Wilson, “Using the Supply Side Approach to Understand and Estimate Stock Returns,” Working paper, June 6, 2006.

These studies, and others noted by Kroll, concluded that investors could not have expected as large a market risk premium as the risk premiums that were realized historically. Thus, Kroll’s adjustment subtracts out the inflation in the price/earnings ratio over time that resulted in the supply-side historical market risk premium reported by Kroll, and which Mr. Baudino cited in his testimony and utilized in his CAPM analyses.

AFFIDAVIT

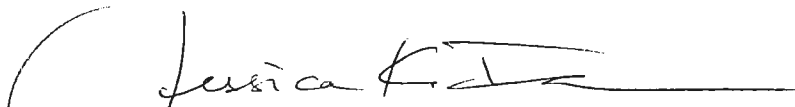
STATE OF GEORGIA)

COUNTY OF FULTON)

RICHARD A. BAUDINO, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.


Richard A. Baudino

Sworn to and subscribed before me on this
26th day of September 2025.



Notary Public

Jessica K Inman
NOTARY PUBLIC
Cherokee County, GEORGIA
My Commission Expires 07/31/2027