

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY, INC.)	
FOR A CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY AUTHORIZING THE)	CASE NO.
IMPLEMENTATION OF AN ACCELERATED SERVICE)	2015-00210
LINE REPLACEMENT PROGRAM, APPROVAL OF)	
OWNERSHIP OF SERVICE LINES, AND A GAS)	
PIPELINE REPLACEMENT SURCHARGE)	
)	

ORDER

On July 6, 2015, Duke Energy Kentucky, Inc. ("Duke Kentucky") tendered an application with the Commission in this matter, requesting approval of a Certificate of Public Convenience and Necessity ("CPCN") to replace approximately 10,000 customer service lines and to move associated indoor meters to locations outside customer premises; to continue assuming ownership of customer service lines as they are replaced, which was originally approved in Case No. 2005-00042;¹ and to authorize a surcharge mechanism and associated tariff pursuant to KRS 278.509, to be called the Accelerated Service Line Replacement Program ("ASRP"). Duke Kentucky proposed for the ASRP program to begin in 2016 and to be completed in 2020 at a projected cost of \$50 million.

Duke Kentucky proposed an effective date of August 6, 2015, for its proposed ASRP tariff. Although the application as submitted was initially determined to be

¹ Case No. 2005-00042, *An Adjustment of the Gas Rates of the Union Light, Heat and Power Company* (Ky. PSC Dec. 22, 2005).

complete,² the Commission issued an Order on July 24, 2015, finding the application deficient due to the omission of any information indicating that notice of the proposed tariff and new rate had been given by Duke Kentucky to its customers as required by 807 KAR 5:011, Section 8. That Order directed Duke Kentucky to provide customer notice of its proposed tariff and rates, and stated that the statutory notice period to the Commission for the proposed tariff and rates would not commence until the proof of notice was filed. The Order further stated that Duke Kentucky should file supplemental testimony and additional information in support of its application.

On July 30, 2015, Duke Kentucky filed proof of customer notice, demonstrating that notice of its proposed tariff and rates had been published in newspapers prior to the Commission's July 24, 2015 Order. On August 5, 2015, the Commission issued an Order establishing July 30, 2015, as the filing date, suspending the proposed tariff and rates for five months from August 29, 2015, up to and including January 28, 2016, and establishing a procedural schedule for the processing of this case. By Order entered August 13, 2015, the Commission revised the procedural schedule to allow additional time for issuing requests for information. The revised procedural schedule established a deadline for requests to intervene, and provided for two rounds of discovery on Duke Kentucky's application, the opportunity for the filing of intervenor testimony, and discovery upon intervenor testimony. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), petitioned for, and was granted, intervention. The AG engaged in discovery but did not file any testimony.

² Letter from Linda Faulkner, Filings Division Director, Public Service Commission, to Parties of Record (July 9, 2015).

Duke Kentucky responded to one round of requests for information from the AG and to three rounds from Commission Staff.

On November 23, 2015, the Commission issued an Order requiring the parties to file a statement as to whether there were any material issues of fact warranting a hearing, or whether this case could be submitted for adjudication based on the existing record. On December 2, 2015, Duke Kentucky and the AG filed a joint statement requesting that the Commission schedule a hearing. The Commission issued an Order on December 15, 2015, scheduling a formal evidentiary hearing on January 13, 2016. On December 18, 2015, Duke Kentucky and the AG filed a unanimous Stipulation and Recommendation ("Stipulation") setting out the complete settlement of all issues raised in the proceeding. On December 21, 2015, Duke Kentucky filed Supplemental Direct Testimony ("Wathen Supplemental Testimony") in support of the Stipulation setting forth its terms, along with an explanation of why the Stipulation should be approved as fair, just, and reasonable. Under the terms of the Stipulation, Duke Kentucky and the AG agreed to forego cross-examination of each other's witnesses at the hearing, which was held at the Commission's offices on January 19, 2016, following the request of the parties to reschedule the hearing. Duke Kentucky filed post-hearing responses on January 21, 2016. The matter now stands submitted to the Commission for a decision. For the reasons stated below, the Commission will approve the Stipulation.

STIPULATION

The Stipulation, attached as Appendix A to this Order, reflects a resolution of all issues raised in this case and contains the parties' unanimous recommendation that

Duke Kentucky's application should be approved as originally filed, with the following exceptions:

- There should be a \$1.00 cap on Rider ASRP annual rate increases for residential customers. The Stipulation caps the Year 1 monthly residential customer charge at \$1.00 per customer per month. The actual residential customer charge agreed to by the parties and set out in the Rider ASRP tariff in Revised Attachment PAL-2 to the Stipulation is \$.35 per customer per month for the revenue month beginning January 2016.

- Duke Kentucky agrees not to relocate interior natural gas meters to an exterior location on the premises as part of the ASRP program except for those where the meter and associated service line are discovered to be in violation of applicable federal or state codes. The cost of relocating any interior meter due to a discovered code violation is recoverable under Rider ASRP.

- The Return on Equity ("ROE") to be used for calculation of the ASRP should be 9.7 percent. This rate is to remain in effect until Duke Kentucky files its next natural gas base rate proceeding, and should not be used as precedent for future filings. Each party reserves the right to advocate a different ROE in any future rate proceeding.

The parties further agreed that the Rider ASRP tariff and rates should be approved as shown in Revised Attachments PAL-1 and PAL-2, which were updated to reflect more current program cost data and to incorporate the terms of the Stipulation.³

³ Duke Kentucky's post-hearing filing of January 21, 2016, included Second Revised Attachment PAL-2, which reflected further tariff revisions pursuant to the terms of the Stipulation as well as items to which Duke Kentucky agreed at the January 19, 2016 hearing.

Subject to certain exclusions outlined in the Stipulation, Duke Kentucky agreed not to file for a natural gas base rate increase within one year of the date of the Commission Order approving the Stipulation.

With regard to the reasonableness of the Stipulation, the Wathen Supplemental Testimony pointed out that the \$1.00 annual cap on the Rider ASRP residential customer charge will ensure gradualism and mitigate rate shock that might otherwise have occurred absent the cap. Concerning the meter relocation provision of the Stipulation, the Wathen Supplemental Testimony explained that the ASRP revenue requirement calculation included in Revised Attachment PAL-1 to the Stipulation assumes that 25 percent of the 2,200 interior meters originally identified for relocation as part of the proposed ASRP would need to be relocated due to code violations. The Wathen Supplemental Testimony also explained the new calculations for Rider ASRP as stipulated, pointing out that the revised calculations include the effect of bonus depreciation under the Federal Tax Code, the availability of which was only recently extended, as well as Duke Kentucky's costs of record reconnaissance which were unintentionally excluded from its application. The Rider ASRP rates as revised reflect the 9.7 percent ROE, rather than the 10.375 percent ROE originally proposed, the exclusion of some interior meter relocation cost that was originally included, and an additional \$2.5 million in projected ASRP 2016 Capital Expenditures as shown in Revised Attachment PAL-1, Page 7 of 10.⁴ The Wathen Supplemental Testimony pointed out that customers benefit from the Stipulation and the associated adjustment of

⁴ The increase is due to revisions in the planned work schedule, which result in reduced capital expenditures in later years. It causes no change to the level of work or the estimated cost thereof.

program costs due to the reduction in the 2016 Rider ASRP rates from the rates Duke Kentucky had originally proposed.

Although the Stipulation does not address changes in procedure for Duke Kentucky's annual Rider ASRP adjustments from what Duke Kentucky originally filed, the Wathen Supplemental Testimony indicated that Duke Kentucky would be agreeable to changing the timing of filing its annual application as discussed in its responses to discovery.⁵

ANALYSIS AND FINDINGS

Based on a review of the Stipulation, the attachments thereto, the entire record of this proceeding, and Duke Kentucky's post-hearing filing of a Stipulation errata sheet and revised Rider ASRP tariff, the Commission finds that the Stipulation is reasonable and in the public interest. The Stipulation was the product of arm's-length negotiations between knowledgeable, capable parties and should be approved. Such approval is based solely on the reasonableness of the Stipulation in total and does not constitute a precedent on any individual issue.

IT IS THEREFORE ORDERED that:

1. The Rider ASRP tariff and rates proposed by Duke Kentucky are denied.
2. The Stipulation and attachments, including the tariff sheet set out in Second Revised Attachment PAL-2, attached hereto as Appendix A, are approved in their entirety.
3. Duke Kentucky's request for a CPCN for its ASRP program is approved.

⁵ Pursuant to its Response to Commission Staff's Third Request for Information, Item 5, Duke Kentucky will file its annual application by July 1, with rates to be effective the following January 1.

4. The Rider ASRP rates in Appendix B to this Order are approved for Duke Kentucky to charge on and after the date of this Order.

5. Pursuant to its agreement to alter its schedule for filing its annual Rider ASRP update and balancing adjustment, Duke Kentucky shall file its ASRP projections for the following calendar year annually by July 1, and shall include with its filing a reconciliation of actual and projected cost, taking into account actual revenue recovered through the surcharge, for the previous calendar year, with rates to go into effect January 1, with the first such filing due July 1, 2016, for rates to be effective January 1, 2017.

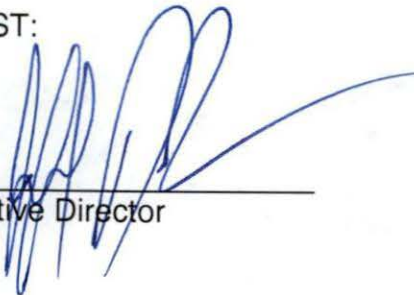
6. Duke Kentucky is authorized to continue assuming ownership of customer service lines as they are replaced, and shall revise its tariff sheet KY. P.S.C. Gas No. 2, Third Revised Sheet Number 23, page 1 of 2, Section IV, to clarify that it will assume ownership of the customer service lines following replacement, as well as in instances of new installation.

7. Within 20 days of the date of this Order, Duke Kentucky shall file with the Commission, using the Commission's electronic Tariff Filing System, its Rider ASRP tariff as set forth in Second Revised Attachment PAL-2 reflecting that it was approved pursuant to this Order, as well as revised KY. P.S.C. Gas No. 2, Third Revised Sheet Number 23, page 1 of 2, Section IV, as directed herein.

By the Commission

ENTERED
FEB 02 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00210 DATED **FEB 02 2016**

**COMMONWEALTH OF KENTUCKY
BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION**

In the Matter of:

The Application of Duke Energy Kentucky,)
Inc., for a Certificate of Public)
Convenience And Necessity Authorizing)
the Implementation of an Accelerated)
Service Line Replacement Program,) Case No. 2015-00210
Approval of Ownership of Service Lines,)
and a Gas Pipeline Replacement Surcharge)

STIPULATION AND RECOMMENDATION

On or about July 6, 2015, Duke Energy Kentucky, Inc., (Duke Energy Kentucky or the Company) filed its application with the Kentucky Public Service Commission (Commission), pursuant to KRS 278.020, and 278.509, and 807 KAR 5:001, Sections 14 and 15, for Certificate of Public Convenience and Necessity (CPCN) authorizing the implementation of an Accelerated Service Line Replacement Program (ASRP), Approval of Ownership of Service Lines, and a Gas Pipeline Replacement Surcharge (Rider ASRP)(Application). On or about July 7, 2015, the Attorney General of the Commonwealth of Kentucky (Attorney General) filed its motion to intervene, which was subsequently granted by the Commission.

The Attorney General and the Commission Staff have engaged in substantial investigation of the Company's Application by issuing numerous information requests to which the Company has responded.

Duke Energy Kentucky and the Attorney General (the Parties), representing diverse interests and viewpoints, have reached a complete settlement of all the issues

raised in this proceeding and have executed this Stipulation and Recommendation (Stipulation) for purposes of submitting their agreement to the Commission for consideration and approval. It is the intent and purpose of the Parties to express their agreement to a mutually satisfactory resolution of all issues in the instant proceeding.

The Parties understand that this Stipulation is not binding upon the Commission, but believe it is entitled to careful consideration by the Commission. The Parties agree that this Stipulation, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

The Parties request that the Commission issue an Order approving this Stipulation in its entirety pursuant to KRS 278.020, and 278.509, and 807 KAR 5:001, Sections 14 and 15, including granting of the Company's Application and tariffs as described herein. The request is based upon the belief that the Parties' participation in settlement negotiations and the materials on file with the Commission adequately support this Stipulation. Adoption of this Stipulation will eliminate the need for the Commission and the Parties to expend significant resources in litigation of this proceeding and will eliminate the possibility of, and any need for, rehearing or appeals of the Commission's final order herein.

NOW, THEREFORE, for and in consideration of the mutual premises set forth above and the agreements set forth herein, the Parties agree as follows:

1. **Approval of Application.** Duke Energy Kentucky's Application shall be approved as filed, and described in Company's Application and Supporting Testimony, except as modified below:

- a. Duke Energy Kentucky will implement an annual \$1.00 cap on Rider ASRP rate increases for the monthly charge to residential customers. (For example, in year one the monthly ASRP charge to residential customers will not exceed \$1.00. In year two, the monthly Rider ASRP charge will not exceed \$2.00, etc.)
- b. Duke Energy Kentucky agrees not to relocate interior natural gas meters as part of its ASRP except for those meters the current location of which violates applicable federal or state code (*e.g.*, piping located under cement patios). The cost to relocate any interior natural gas meter due to a discovered code violation is recoverable under Rider ASRP.
- c. The Parties agree that the Return on Equity (ROE) for purposes of calculating the Rider ASRP revenue requirement shall be established at 9.7 percent. The 9.7 percent ROE shall be only used for purposes of calculating the Rider ASRP revenue requirement and the Company shall continue to use the ROE established in its last base natural gas rate case for all other purposes (*e.g.* allowance of funds used during construction). The 9.7 percent ROE for Rider ASRP shall remain in effect until the Company files its next natural gas base rate proceeding. The 9.7 percent ROE established and agreed upon by this Stipulation is not to be used as precedent by either Party for future Company filings and each Party reserves the right to advocate and support a different ROE as part of the Company's next base natural gas rate and or any future rate proceeding.

2. **Approval of Rider ASRP.** The Parties agree Rider ASRP shall be approved as reflected in the revised Attachment PAL-2, Rider ASRP and supporting schedules contained in revised Attachment PAL-1 attached hereto. These Attachments have been updated to reflect updated program cost data since the time of the Company's filing and so to incorporate the terms set forth in this stipulation and recommendation.
3. **Natural Gas Base Rate Case Stay Out.** Subject to the exclusions set forth below, Duke Energy Kentucky agrees not to file an application for approval of a base rate increase for its natural gas business within one year of the date on which the Commission enters its final order approving this Stipulation. Duke Energy Kentucky may file its notice of intent to file a base rate application within one year of the date of the Commission's final order.
4. **Exceptions/exclusions.** Notwithstanding the natural gas base rate case stay out commitment described above, Duke Energy Kentucky shall retain the right, at any time, to seek the approval from the Commission of:
 - a. The deferral of costs as permissible under the Commission's standard for deferrals:
 1. An extraordinary, nonrecurring expense that could not have reasonably been anticipated in the utility's planning;
 2. An expense resulting from a statutory or administrative directive;
 3. An expense in relation to an approved industry initiative; or

4. An extraordinary or nonrecurring expense that over time will result in a savings that fully offsets the cost.
 - b. Emergency rate relief under KRS 278.190(2) to avoid a material impairment or damage to credit or operations;
 - c. Adjustments to the operation of any of Duke Energy Kentucky's cost recovery surcharge mechanisms (e.g., Gas Cost Adjustment, ASRP); and
 - d. During the effective stay-out period, Duke Energy Kentucky reserves the right to seek necessary rate relief and/or accounting treatment for costs or programs required due to changes in federal law or regulation that may occur during the stay-out period.
5. **Commission Approval.** The Parties to this Stipulation shall act in good faith and use their best efforts to recommend to the Commission that this Stipulation be accepted and approved. Each Party hereto waives all cross-examination of the witnesses of the other Party hereto except in support of the Stipulation or unless the Commission fails to adopt this Stipulation in its entirety. Each Party further stipulates and recommends that the Notice of Intent, Application, direct testimony, pleadings and responses to data requests filed in this proceeding be admitted into the record. The Parties further agree and intend to support the reasonableness of this Stipulation before the Commission and to cause their counsel to do the same in this proceeding and in any appeal from the Commission's adoption and/or enforcement of this Stipulation. If the Commission issues an order adopting this Stipulation in its entirety, each of the Parties hereto

agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin County Circuit Court with respect to such order.

6. **Effect of Non-Approval.** If the Commission does not accept and approve this Stipulation in its entirety or imposes any additional conditions or requirements upon the signatory Parties, then:

- a. Either Party may elect, in writing docketed in this proceeding, within ten days of such Commission Order, that this Stipulation shall be void and withdrawn by the Parties hereto from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein;
- b. Each Party shall have the right, within twenty days of the Commission's order, to file an application for rehearing, including a notice of termination of and withdrawal from the Stipulation; and
- c. In the event of such termination and withdrawal of the Stipulation, neither the terms of this Stipulation nor any matters raised during the settlement negotiations shall be binding on any of the signatory Parties to this Stipulation or be construed against any of the signatory Parties. Should the Stipulation be voided or vacated for any reason after the Commission has approved the Stipulation and thereafter any implementation of the terms of the Stipulation has been made, then the Parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this Stipulation.

7. **Commission Jurisdiction.** This Stipulation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.
8. **Successors and Assigns.** This Stipulation shall inure to the benefit of and be binding upon the Parties hereto and their successors and assigns.
9. **Complete Agreement.** This Stipulation constitutes the complete agreement and understanding among the Parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Stipulation.
10. **Implementation of Stipulation.** For the purpose of this Stipulation only, the terms are based upon the independent analysis of the Parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Stipulation, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of Duke Energy Kentucky are unknown and this Stipulation shall be implemented as written.
11. **Admissibility and Non-Precedential Effect.** Neither the Stipulation nor any of the terms shall be admissible in any court or Commission except insofar as such court or Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Stipulation. This Stipulation shall not have any precedential value in this or any other jurisdiction.

12. **No Admissions.** Making this Stipulation shall not be deemed in any respect to constitute an admission by any Party hereto that any computation, formula, allegation, assertion or contention made by any other Party in these proceedings is true or valid. Nothing in this Stipulation shall be used or construed for any purpose to imply, suggest, or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of a Party.
13. **Authorizations.** The signatory Parties hereto warrant that they have informed, advised, and consulted with the respective Parties hereto in regard to the contents of the stipulation, and based upon the foregoing, are authorized to execute this Stipulation on behalf of the Parties hereto.
14. **Commission Approval.** This Stipulation is subject to the acceptance of and approval by the Commission.
15. **Interpretation of Stipulation.** This Stipulation is a product of negotiation among all Parties hereto, and no provision of this Stipulation shall be strictly construed in favor of or against any Party.
16. **Counterparts.** This Stipulation may be executed in multiple counterparts.
17. **Future Proceedings.** Nothing in this Stipulation shall preclude, prevent or prejudice any Party hereto from raising any argument/issue or challenging any adjustment in any future natural gas rate case proceeding of Duke Energy Kentucky.

IN WITNESS WHEREOF, this Stipulation has been agreed to effective this 17th day of December 2015. By affixing their signatures below, the undersigned Parties respectfully request the Commission to issue its Order approving and adopting this Stipulation the Parties hereto have hereunto affixed their signatures.

DUKE ENERGY KENTUCKY, INC.

By: 

Charles Whitlock

Title: Senior Vice President
Midwest Delivery and Gas
Operations

ATTORNEY GENERAL OF THE
COMMONWEALTH OF KENTUCKY

By: 

Hon. Lawrence Cook

Title: Assistant Attorney General,
Office of Rate Intervention

Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
Forecasted Period Ending December 31, 2016
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Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
ASRP Rider by Rate Schedule

<u>Line No.</u>	<u>Rate Schedule</u>	Weighted Customers- Services Approved PSC Case No. 2009-202	Revenue Requirement	Billing Determinants # of Bills	Monthly ASRP Rider	
1	RS- Residential	92.301%	381,210	1,079,402	\$	0.35 Per Customer
2	GS - General Service	6.969%	28,782	82,367	\$	0.35 Per Customer
3	FT - Firm Transportation (Includes DGS)	0.454%	1,875	22,584,410	\$	0.00008 Per CCF
4	IT - Interruptible Transportation	0.276%	1,140	13,513,000	\$	0.00008 Per CCF
5	Total	100.000%	<u>413,008</u>	<u>37,259,179</u>		

Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
Forecasted ASRP Revenue Requirement for 2016

<u>Line No.</u>		<u>ASRP Investment</u> <u>December 31, 2016</u>	<u>Reference</u>
Return on Investment			
<u>Rate Base</u>			
1	Net ASRP Investment - Property, Plant and Equipment	\$ 2,756,591	Form 2.0
2	Cost of Removal	-	Form 2.0
3	Accumulated Reserve for Depreciation	(77,185)	Form 2.0
4	Net PP&E	<u>2,679,406</u>	
5	Deferred Taxes on Liberalized Depreciation	(576,672)	Form 2.1
6	Net Rate Base	<u>2,102,734</u>	Line 4 + Line 5
7	Authorized Rate of Return, Adjusted for Income Taxes	10.12%	Form 1.2
8	Required Return on ASRP Related Investment	<u>212,731</u>	Line 6 * Line 7
<u>Operating Expenses</u>			
9	Depreciation	77,185	Form 2.0
10	Property Tax	33,493	Line 4 * 1.250%
11	PSC Assessment	633	(Sum Line 8 thru 10) * (.1952% / (1-.1952%))
12	O&M related to reconnaissance fees	70,000	Form 2.3
13	O&M related to relocation of meters	18,966	Form 2.4
14	Total Operating Expenses	<u>200,276</u>	Sum Lines 9 thru 11
15	<u>Total Annual Revenue Requirement</u>	<u>413,008</u>	Line 8 + Line 12

Notes:

- (1) Property taxes estimated using an effective rate of 1.25%
- (2) PSC Assessment using Fiscal Year 2015 rate of .1952%

Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
Cost of Capital

<u>Line No.</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Pre-Tax @ Effect. Tax Rate of 38.47%</u>
1	Short term Debt	5.609%	1.009%	0.057%	0.06%
2	Long term Debt	43.595%	4.703%	2.050%	2.05%
3	Equity	50.796%	9.700%	4.927%	8.01%
4	Total	100.000%		7.034%	10.12%

Capital structure and cost of debt as approved in Case No. 2009-202
Return on equity as approved in settlement

Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
Additions and Retirements

<u>Line No.</u>	<u>Description</u> (1)	<u>Acct Number</u> (2)	<u>2016 Additions & Retirements</u> (3)	<u>Depr Rates</u> (4)	<u>Current Year Depr on Adds / (Ret.)</u> (5) = (3) * (4)
<u>Additions</u>					
1	Service Lines	380	3,038,463	2.80%	85,077
2	Meter Installations	382	-		-
3	Total Additions		<u>3,038,463</u>		<u>85,077</u>
<u>Retirements</u>					
4	Service Lines	380	(281,872)	2.80%	(7,892)
5	Meter Installations	382	-		-
6	Total Retirements		<u>(281,872)</u>		<u>(7,892)</u>
7	<u>Total Plant In Service</u>		<u>2,756,591</u>		<u>77,185</u>
<u>Cost of Removal</u>					
8	Service Lines	380	-		-
9	Total Cost of removal		-		-

Notes:

(1) See Form 2.2 for detail of 2016 ASRP eligible additions.

**Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
Deferred Taxes on Liberalized Depreciation**

<u>Line No.</u>		Tax Year 2016 Vintage <u>2016</u>
1	Total ASRP Plant Additions	3,038,463
	Tax Base In-service subject to :	
2	Bonus Depreciation- 50%	3,038,463
3	MACRS	<u>1,519,232</u>
4	Tax Depreciation	
5	Bonus Depreciation- 50%	1,519,232
6	MACRS on Balance	<u>56,971</u>
7	Total Tax Depreciation	<u>1,576,203</u>
8	Book Depreciation	77,185
9	Tax Depreciation in Excess of Book Depreciation	1,499,018
10	Cost of Removal	0
11	Total Difference	1,499,018
10	Deferred Taxes @	38.47% 576,672

Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
Thirteen Month Average Additions and Retirements

Test Year 12/31/16 ASRP Investment Summary

<u>Line No.</u>	<u>Month</u> (A)	<u>Number of</u> <u>Months</u> (B)	<u>ASRP Capex-2016</u> (C)	<u>13 Mo. AVG</u> (D) = (B/13)*(C)	<u>Retirements</u> (E)	<u>13 Mo. AVG</u> (F)= (B/13)*(E)	<u>Cost of Removal</u>
1	Dec-15	13		-		-	
2	Jan-16	12		-		-	
3	Feb-16	11		-		-	
4	Mar-16	10	125,000	96,154	-11,596	(8,920)	
5	Apr-16	9	500,000	346,154	-46,384	(32,112)	
6	May-16	8	875,000	538,462	-81,172	(49,952)	
7	Jun-16	7	1,000,000	538,462	-92,768	(49,952)	
8	Jul-16	6	1,125,000	519,231	-104,364	(48,168)	
9	Aug-16	5	1,000,000	384,615	-92,768	(35,680)	
10	Sep-16	4	1,000,000	307,692	-92,768	(28,544)	
11	Oct-16	3	750,000	173,077	-69,576	(16,056)	
12	Nov-16	2	625,000	96,154	-57,980	(8,920)	
13	Dec-16	1	500,000	38,462	-46,384	(3,568)	
			<u>7,500,000</u>	<u>3,038,463</u>	<u>(695,760)</u>	<u>(281,872)</u>	<u>-</u>

Duke Energy Kentucky
 Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
 O&M - Reconnaissance

Test Year 12/31/16 Reconnaissance O&M

<u>Line No.</u>	<u>Month</u> (A)	<u>ASRP O&M 2016</u> (B)
1	Jan-16	5,833
2	Feb-16	5,833
3	Mar-16	5,834
4	Apr-16	5,833
5	May-16	5,833
6	Jun-16	5,834
7	Jul-16	5,833
8	Aug-16	5,833
9	Sep-16	5,834
10	Oct-16	5,833
11	Nov-16	5,833
12	Dec-16	5,834
		<hr/> 70,000

Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
O&M Meter Relocation

Test Year 12/31/16 ASRP Meter Relocation O&M

<u>Line No.</u>	<u>Month</u> (A)	<u>ASRP O&M 2016</u> (B)
1	Jan-16	-
2	Feb-16	-
3	Mar-16	316
4	Apr-16	1,264
5	May-16	2,213
6	Jun-16	2,529
7	Jul-16	2,845
8	Aug-16	2,529
9	Sep-16	2,529
10	Oct-16	1,897
11	Nov-16	1,580
12	Dec-16	1,264
		<hr/>
		18,966

Duke Energy Kentucky
Annual Adjustment to the Accelerated Services Replacement Program ("ASRP")
ASRP Rider Billing Determinants by Rate Schedule
for the Twelve Month Ending November 30, 2015

Line No.	Rate Schedule	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Total
1	RS - Residential (Number of Customers)	90,459	90,443	89,912	90,835	90,388	89,839	89,722	89,590	89,408	89,444	89,646	89,916	1,079,402
	GS - General Service (Number of Customers)	7,047	7,056	7,044	7,085	6,962	6,813	6,715	6,706	6,658	6,651	6,735	6,895	82,367
3	FT - Firm Transportation (CCF)	2,303,730	2,564,820	3,016,300	3,099,980	2,405,810	1,537,880	1,280,700	1,226,270	1,172,450	1,263,770	1,269,360	1,463,240	22,584,410
4	IT - Interruptible Transportation (CCF)	1,228,170	1,168,650	1,266,420	1,220,340	1,230,010	923,820	1,033,750	1,070,110	1,097,330	1,151,670	991,290	1,131,440	13,513,000

Duke Energy Kentucky, Inc.
4580 Olympic Blvd.
Erlanger, Kentucky 41018

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RIDER ASRP

ACCELERATED SERVICE REPLACEMENT PROGRAM RIDER

APPLICABILITY

Applicable to all customers receiving service under the Company's sales and transportation rate schedules.

CALCULATION OF ACCELERATED SERVICE REPLACEMENT RIDER REVENUE REQUIREMENT

The ASRP Rider revenue requirement includes the following:

- a. ASRP-related Plant In-Service not included in base gas rates minus the associated ASRP-related accumulated depreciation and accumulated deferred income taxes;
- b. Retirement and removal of plant related to ASRP construction;
- c. The rate of return on the net rate base is the overall rate of return on capital authorized in the Company's latest base gas rate case, grossed up for federal and state income taxes;
- d. Depreciation expense on the ASRP-related Plant In-Service less retirements and removals;
- e. Property taxes related to ASRP and;
- f. Operation and Maintenance Costs for relocation of meters.

ACCELERATED SERVICE REPLACEMENT PROGRAM FACTORS

All customers receiving service under Rate RS and Rate GS shall be assessed a separate monthly charge that will enable the Company to complete the service replacement program. This monthly charge is in addition to the Customer Charge component of their applicable rate schedule, as well as any other applicable monthly charges. Customers receiving service under Rate DGS, Rate FT-L, Rate IT and Rate SSIT will be assessed a separate throughput charge in addition to their commodity delivery charge, for that purpose.

Rider ASRP will be updated annually, in order to reflect the impact on the Company's revenue requirements of net plant additions and by operations and maintenance expense during the most recent twelve months ended December. Such adjustments to the Rider will become effective with the first billing cycle of January, and will reflect the allocation of the required revenue increase based on the revenue distribution approved by the Commission.

The charges for the respective gas service schedules for the revenue month beginning January 2016 is:

Rate RS, Residential Service	\$0.35/month
Rate GS, General Service	\$0.35/month
Rate DGS, Distributed Generation Service	\$0.00008/CCF
Rate FT-L, Firm Transportation Service – Large	\$0.00008/CCF
Rate IT, Interruptible Transportation Service	\$0.00008/CCF
Rate SSIT, Spark Spread Interruptible Transportation Rate	\$0.00008/CCF

Issued by authority of an Order of the Kentucky Public Service Commission dated ____ in Case No. 2015-____.

Issued: _____

Effective: February 2, 2016

Issued by James P. Henning, President

- a. Duke Energy Kentucky will implement an annual \$1.00 cap on Rider ASRP rate increases for the monthly charge to residential customers. (For example, in year one the monthly Rider ASRP charge to residential customers will not exceed \$1.00. In year two, the monthly Rider ASRP charge will not exceed \$2.00, etc.)
- b. Duke Energy Kentucky agrees not to relocate interior natural gas meters as part of its ASRP except for those meters the current location of which violates applicable federal or state code (*e.g.*, piping located under cement patios). The cost to relocate any interior natural gas meter due to a discovered code violation is recoverable under Rider ASRP.
- c. The Parties agree that the Return on Equity (ROE) for purposes of calculating the Rider ASRP revenue requirement shall be established at 9.7 percent. The 9.7 percent ROE shall be only used for purposes of calculating the Rider ASRP revenue requirement and the Company shall continue to use the ROE established in its last base natural gas rate case for all other purposes (*e.g.* allowance of funds used during construction). The 9.7 percent ROE for Rider ASRP shall remain in effect until the Company files its next natural gas base rate proceeding. The 9.7 percent ROE established and agreed upon by this Stipulation is not to be used as precedent by either Party for future Company filings and each Party reserves the right to advocate and support a different ROE as part of the Company's next base natural gas rate and or any future rate proceeding.

Duke Energy Kentucky, Inc.
4580 Olympic Blvd.
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RIDER ASRP

ACCELERATED SERVICE REPLACEMENT PROGRAM RIDER

APPLICABILITY

Applicable to all customers receiving service under the Company's sales and transportation rate schedules.

CALCULATION OF ACCELERATED SERVICE REPLACEMENT RIDER REVENUE REQUIREMENT

The ASRP Rider revenue requirement includes the following:

- a. ASRP-related Plant In-Service not included in base gas rates minus the associated ASRP-related accumulated depreciation and accumulated deferred income taxes;
- b. Retirement and removal of plant related to ASRP construction;
- c. The rate of return on the net rate base is the overall rate of return on capital, using the capital structure and debt rates from the most recent base gas rate case and using a 9.7% ROE, grossed up for federal and state income taxes;
- d. Depreciation expense on the ASRP-related Plant In-Service less retirements and removals;
- e. Property taxes related to ASRP and;
- f. Operation and Maintenance Costs for reconnaissance and relocation of meters.

ACCELERATED SERVICE REPLACEMENT PROGRAM FACTORS

All customers receiving service under Rate RS and Rate GS shall be assessed a separate monthly charge that will enable the Company to complete the service replacement program. This monthly charge is in addition to the Customer Charge component of their applicable rate schedule, as well as any other applicable monthly charges. Customers receiving service under Rate DGS, Rate FT-L, Rate IT and Rate SSIT will be assessed a separate throughput charge in addition to their commodity delivery charge, for that purpose.

Rider ASRP will be updated annually to reflect the anticipated impact on the Company's revenue requirements of net plant additions and projected operations and maintenance expense during the upcoming calendar year. Such adjustments to the Rider will become effective with the first billing cycle of January, and will reflect the allocation of the required revenue increase based on the revenue distribution approved by the Commission. After each year, the Company will submit a balancing adjustment to true-up the actual costs with the projected program costs for the preceding year. Any balancing adjustment will become effective with the first billing cycle on or after the effective date of the change.

The charges for the respective gas service schedules for the revenue month beginning January 2016 is:

Rate RS, Residential Service	\$0.35/month
Rate GS, General Service	\$0.35/month
Rate DGS, Distributed Generation Service	\$0.00008/CCF
Rate FT-L, Firm Transportation Service – Large	\$0.00008/CCF
Rate IT, Interruptible Transportation Service	\$0.00008/CCF
Rate SSIT, Spark Spread Interruptible Transportation Rate	\$0.00008/CCF

Issued by authority of an Order of the Kentucky Public Service Commission dated ___ in Case No. 2015-____

Issued: _____

Effective: February 2, 2016

Issued by James P. Henning, President

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00210 DATED **FEB 02 2016**

The following rates and charges are prescribed for the customers in the area served by Duke Energy Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Rider ASRP Accelerated Service Replacement Program Rider Rates

Rate RS, Residential Service Monthly Customer Charge	\$0.35
Rate GS, General Service Monthly Customer Charge	\$0.35
Rate DGS, Distributed Generation Service, All Ccf	\$0.00008/Ccf
Rate FT-L, Firm Transportation Service – Large, All Ccf	\$0.00008/Ccf
Rate IT, Interruptible Transportation Service, All Ccf	\$0.00008/Ccf
Rate SSIT, Spark Spread Interruptible Transportation Rate, All Ccf	\$0.00008/Ccf

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