COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.	)	
	)	
COMPLAINANT	)	
	)	CASE NO.
V.	)	2018-00036
	)	
DUKE ENERGY KENTUCKY, INC.	)	
	)	
DEFENDANT	)	

ORDER

On December 21, 2017, Kentucky Industrial Utility Customers, Inc. (KIUC), filed a formal complaint against Duke Energy Kentucky, Inc. (Duke Kentucky), and three other investor-owned utilities, alleging that their rates are no longer fair, just, and reasonable due to the reduction in the maximum federal corporate tax rate from 35 percent to 21 percent, as set forth in the Tax Cuts and Jobs Act (TCJA). Upon review of the complaint, which was docketed as Case No. 2017-00477,[1] the Commission found that KIUC established a prima facie case, and each of the named defendants was ordered to satisfy or answer the complaint.[2] The Commission subsequently determined that KIUC's

[1] Case No. 2017-00477, *Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Company, Louisville Gas and Electric Company, Kentucky Power Company, and Duke Energy Kentucky, Inc.* (filed Dec. 21, 2017).

[2] *Id.* (Ky. PSC Dec. 27, 2017).

complaint against Duke Kentucky should be investigated in a separate case, and the instant case was established for that purpose.

The only intervenor, in this case, is the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General). The Commission established a procedural schedule providing for discovery, the filing of testimony, and an opportunity to request either a hearing or that the case be submitted for a decision on the record.

On January 26, 2018, Duke Kentucky submitted the Testimony of Steven G. DeMay, the Testimony of William Don Wathen, and its Answer to Complaint and Offer of Satisfaction (Offer of Satisfaction). The major provisions of Duke Kentucky's Offer of Satisfaction were as follows:

- Any revenue requirement impact the TCJA has on Duke Kentucky electric operations should be addressed in the then-pending base electric rate proceeding, Case No. 2017-00321.[3]

- The Accelerated Service Replacement Program (ASRP) Rider and the demand-side-management (DSM) mechanism have procedural provisions that true up the actual tax rates and associated base rate amounts. Therefore, the TCJA impacts would automatically be passed through to the ratepayers.

[3] Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief* (Ky. PSC Apr. 13, 2018).

- Implement a TCJA earnings tracking mechanism (Rider TA) to credit natural gas customers with any rolling twelve-month earnings from Duke Kentucky Kentucky's natural gas operations that exceed a 9.7 percent return on equity (ROE).

Pursuant to the Commission's February 2, 2018 Order, an informal conference was held on February 7, 2018, to allow the parties an opportunity to narrow the issues and to discuss Duke Kentucky's Offer of Satisfaction. Subsequently, on March 2, 2018, Duke Kentucky filed a Non-Unanimous Stipulation and Settlement Agreement (Non-Unanimous Stipulation) between itself and KIUC, along with supporting testimony. Duke Kentucky asserts that its calculation of the annualized benefit of the TCJA was based on the same methodology agreed to by KIUC in the TCJA complaint case that KIUC filed against Louisville Gas & Electric Company and Kentucky Utilities Company (LG&E/KU).[4] A summary of the provisions contained in the Non-Unanimous Stipulation are as follows:

- The impact of the TCJA on Duke Kentucky's electric operations are to be addressed in case No. 2017-00321.

- Duke Kentucky will update its existing ASRP rider to reflect the federal income tax (FIT) rate reduction beginning April 1, 2018, and will incorporate the lower FIT rate in all future ASRP update filings.

- The TCJA tax savings that Duke Kentucky will refund to its natural gas retail customers through a TCJA gas surcredit will total $1,070,207.

- Duke Kentucky will establish a new TCJA gas surcredit to pass the base rate benefits of the TCJA to natural gas customers for service rendered beginning May 1, 2018,

[4] Case No. 2018-0034, *Kentucky Industrial Utility Customers, Inc. V. Kentucky Utilities Company and Louisville Gas and Electric Company* (Ky. PSC Aug. 29, 2018).

and continuing until such time as Duke Kentucky's retail gas rates are reset through a base rate case, estimated to be March 31, 2019.[5]

On March 13, 2018, the Attorney General filed a motion for leave to file comments on the proposed Non-Unanimous Stipulation and tendered written comments. The Attorney General's comments stated agreement with only the proposal in the Non-Unanimous Stipulation that the impacts of the TCJA on electric rates should be adjudicated in Case No. 2017-00321, while arguing that the methodology for reflecting the impact of the TCJA on gas rates and the proposed gas surcredits were unreasonable. By its April 5, 2018 Order, the Commission accepted for filing the Attorney General's comments and established a procedural schedule, which provided for discovery and an opportunity for the parties to either request a hearing or to file comments. No party requested a hearing. Duke Kentucky submitted its comments on May 4, 2018. On May 11, 2018, the Attorney General affirmed his comments as previously filed on March 13, 2018, and stated that the case may be submitted on the record. The Commission completed its review of the impact of the TCJA on the FIT expense and amortization of accumulated deferred income tax (ADIT) for Duke Kentucky electric rates in Case No. 2017-00321. Thus, only the impact of the TCJA on Duke Kentucky's natural gas rates remains to be determined in this case.

[5] Case No. 2018-00261, *Electronic Application of Duke Energy Kentucky, Inc. for Authority to 1) Adjust Natural Gas Rates 2) Approval of a Decoupling Mechanism 3) Approval of New Tariffs 4) and for All Other Required Approvals, Waivers, and Relief* was accepted as filed on September 10, 2018.

ANALYSIS AND FINDINGS

The Commission's statutory obligation when reviewing rates is to determine whether the rates are "fair, just and reasonable."[6] Because Duke Kentucky and KIUC have entered into a Non-Unanimous Stipulation, the Commission cannot now accept that document as a full and complete resolution of the issues raised in this case. To satisfy our statutory obligation in this case, the Commission has investigated and analyzed the methodology proposed and agreed to by Duke Kentucky and KIUC to reflect the impact of the TCJA on Duke Kentucky's gas rates. Based on a review of the Non-Unanimous Stipulation, the recommendations in the Attorney General's comments, and the evidence of record, the Commission finds that the methodology used in the Non-Unanimous Stipulation and the resulting impact on gas rates is unreasonable and not in the public interest. A further discussion of the Non-Unanimous Stipulation and the Commission's findings is set forth below.

FIT Reduction

The Non-Unanimous Stipulation began with the average capitalization allocated to Duke Kentucky's gas service and the weighted-average cost of capital (WACC) for the 13-month period of January 31, 2010, through January 31, 2011, as used in Duke Kentucky's last gas base rate case, Case No. 2009-00202.[7] Next, the gas service capitalization was moved from the test year ending January 31, 2011, to the forecasted test period of April 1, 2018, through March 31, 2019, as used in Duke Kentucky's recently concluded electric rate

[6] KRS 278.030(1).

[7] Although the Final Order in Case No. 2009-00202 did not specifically address either Duke Kentucky's gas capitalization or the weighted cost of capital, it did approve the 2009 Stipulation, which included the following provision: "Duke Kentucky's authorized Return on Equity will be 10.375 percent and its capital structure will be as proposed in its application."

case.[8] Although the Non-Unanimous Stipulation updated both the long-term and short-term interest rates to reflect the new test period, the ROE was not revised from the 10.375 percent that was set forth in a 2009 Stipulation filed in Case No. 2009-00202. Duke Kentucky contends that because the 10.375 percent ROE is its current Commission-authorized ROE for base gas rates and will not change until new base rates are approved; there is no basis to use any other value for this part of the calculation.

The Non-Unanimous Stipulation states that after adjusting FIT expense to reflect the impact of the TCJA, Duke Kentucky's gas rates are under-recovering its revenue requirement by $185,982, and that Duke Kentucky's natural gas customers are not due a refund arising from the impact of the TCJA on the return component of capitalization. Accordingly, the Non-Unanimous Stipulation sets the FIT expense component of the TCJA gas refund at $0.

According to the Attorney General, there is no merit to Duke Kentucky's argument that it followed the same formula that was agreed to by KIUC in Case No. 2018-00034. The Attorney General contends that Duke Kentucky's proposed methodology proposed produces a Non-Unanimous Stipulation that is unreasonable.[9] A major difference, as noted by the Attorney General, between the two methodologies is that Duke Kentucky's starting point was a test-year ending more than seven years ago, while LG&E/KU were

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[8] Direct Testimony of William Don Wathen Jr. (Wathen Testimony) filed March 2, 2018, at 8. *Case No. 2017-00321, Electronic Application of Duke Energy Kentucky, Inc. for: 1) an Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) all Other Required Approvals and Relief* (Ky. PSC Oct. 2, 2018).

[9] Attorney General's Comments on Proposed Non-Unanimous Stipulation and Settlement Agreement (Attorney General's Comments) at 3

still in the midst of their most recent test year.[10] The Attorney General claims that the Non-Unanimous Stipulation produces an absurd result and that the proposed gas surcredit rates are not fair, just, or reasonable rates.[11]

The Non-Unanimous Stipulation applies the ROE from the 2009 Stipulation in Case No. 2009-00202 to the new forecasted capitalization. The Attorney General contends that this methodology assumes that Kentucky law guarantees Duke Kentucky a fair return on invested capital, rather than providing the *opportunity* to do so.[12] The Attorney General further contends that Duke Kentucky's methodology provides it a full return on more than $57 million in capitalization that has been added outside of a base rate case and that the increased capitalization has not been reviewed for prudency or reasonableness.[13] As a result of providing a 10.375 ROE on the increased capitalization, the FIT expense reduction to be credited as a refund to ratepayers is zero. The Attorney General also notes that the updated capitalization for Duke Kentucky amounts to a 22.63 percent increase, whereas the updated capitalizations used in the TCJA case for LG&E/KU ranged from a 1 percent decrease to a 2.46 percent increase.[14]

The Attorney General asserts that Duke Kentucky's gas customers, not Duke Kentucky, should receive the bulk of the savings associated with the FIT expense reduction. For this reason, the Attorney General concludes that the proposed Non-

[10] *Id.*

[11] *Id.*

[12] *Id.* at 4.

[13] *Id.* at 4–5.

[14] *Id.* at 5.

Unanimous Stipulation must be rejected because it produces unfair, unjust, and unreasonable rates.[15]

The Commission agrees with the Attorney General's position that Duke Kentucky, like every regulated utility, is not guaranteed a particular level of return on invested capital. Our December 27, 2017 Order opening this investigation of the impacts of the TCJA stated that "[u]tility rates must be set at a level to allow a utility to recover all its reasonable expenses, including taxes, and to provide an opportunity to earn a fair return on invested capital."[16] In December 1986, the Commission established Case No. 9788 to determine the effect the Tax Reform Act of 1986 (TRA of 1986) had on the gas rates of the Union Light, Heat and Power Company (ULH&P), Duke Kentucky's predecessor.[17] The Commission explained that the objective of Case No. 9788 was to recognize the impact of TRA of 1986 on the capital requirements of ULH&P, but to leave the earnings position as before the rate change in that proceeding.[18]

Duke Kentucky has now presented no argument to persuade us that the significant tax savings from the TCJA should be used to increase its actual 2017 earned returns for shareholders rather than used to reduce gas rates charged to customers. The Commission is of the opinion that if Duke Kentucky is now allowed to use a methodology that incorporates a rate of return greater than its actual earned return for the most recent calendar year of 2017, the result would be an improvement to Duke Kentucky's earning

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[15] *Id.* at 8.

[16] Case No. 2017-00477 (Ky. PSC Dec. 27, 2017) at 2.

[17] Case No. 9788, *The Effects of the Federal Tax Reform Act of 1986 on the Rates of the Union Light, Heat and Power Company – Gas* (Ky. PSC June 11, 1977).

[18] Case No. 9788 (Ky. PSC June 11, 1977) at 11.

earning position. This would contradict the Commission's findings in Case No. 9788 and would be unreasonable. Accordingly, the Commission finds that it is more appropriate to use Duke Kentucky's actual earned return for calendar year ending December 31, 2017. By using this methodology, the TCJA will have neither a positive nor a negative impact on Duke Kentucky's actual earnings.

In Duke Kentucky's last gas rate case, Case No. 2009-00202, Duke Kentucky and the Attorney General were parties to the 2009 Stipulation, which was described as a mutually satisfactory resolution of all the issues in that case. The 2009 Stipulation was considered a "black box" settlement because it identified Duke Kentucky's proposed ROE and capital structure, but omitted any explanation how either of those numbers were derived or why the numbers were reasonable.

The Commission approved the 2009 Stipulation, finding that it was the product of arms-length negotiations among knowledgeable, capable parties; was reasonable; and was in the public interest. The Commission approval was based solely on the reasonableness of the 2009 Stipulation in total and did not constitute a precedent on any individual issue, ratemaking theory, or adjustment. Therefore, neither the ROE nor the weighted cost of capital as set forth in the 2009 Stipulation was explicitly approved as being reasonable for any purpose other than for reviewing that stipulation in its entirety. Now, nine years later, it is unreasonable to use those numbers to increase Duke Kentucky's earned return for shareholders and thereby deny ratepayers the benefit of a 40 percent reduction in federal corporate income tax expense.

For the aforementioned reasons, the Commission finds that Duke Kentucky's methodology used in the Non-Unanimous Stipulation to calculate the TCJA rate impact is unreasonable, not in the public interest, and should be denied. The Commission finds that the income statement methodology proposed by Delta Natural Gas Company, Inc., and Columbia Gas of Kentucky, Inc., in the corresponding investigations initiated to review the impacts of the TCJA, Case Nos. 2018-00040[19] and 2018-00041,[20] properly passed back to ratepayers the tax reductions without increasing shareholders actual earned returns and thus was in the public interest. Applying the same income statement methodology for Duke Kentucky and using the FIT rates of 35 percent and 21 percent, Duke Kentucky's gross revenue conversion factor (GRCF),[21] and Duke Kentucky's income statement for gas service for the calendar year ending December 31, 2017,[22] the Commission has determined that Duke Kentucky's FIT expense for gas service should be reduced by $1,430,257, as shown in the table below.

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[19] Case No. 2018-00040, *Electronic Investigation of The Impact of the Tax Cuts and Job Act on the Rates of Delta Natural Gas Company, Inc.* (Ky. PSC Sep. 21, 2018).

[20] Case No. 2018-00041, *Electronic Investigation of The Impact of the Tax Cuts and Job Act on the Rates of Columbia Gas of Kentucky, Inc.* (Ky. PSC Oct. 26, 2018).

[21] Responses to the Commission Staff's First Request for Information, Item 6.

[22] *Id.*, Item 1 at 2.

Details	35% Fed Tax Rate Rates	Amount	21% Fed Tax Rate Rates	Amount
Operating Revenues		$ 93,599,693		$ 93,599,693
Operating Expense:				
Operations & Maintenance Expense		(60,823,615)		(60,823,615)
Depreciation & Amortization Expense		(13,559,089)		(13,559,089)
Tax Expense - Property and Others		(3,321,331)		(3,321,331)
Total Operating Expenses		(77,704,035)		(77,704,035)
Net Operating Income before Interest and Taxes		15,895,658		15,895,658
Net Interest Expense		(5,027,449)		(5,027,449)
State Taxable Income		10,868,209		10,868,209
State Income Tax	6%	652,093	6%	652,093
Federal Taxable Income		10,216,116		10,216,116
Federal Income Tax	35%	3,575,641	21%	2,145,384
Net Income		$ 6,640,475		$ 8,070,732
Federal Taxes @21%		$ 2,145,384		
Federal Taxes @35%		3,575,641		
Current FIT Reduction		$ (1,430,257)		

ADIT Reduction

Lowering the corporate statutory FIT rate on regulated utilities to 21 percent results in excess ADIT balances that should be returned to the ratepayers in accordance with current TCJA normalization rules. The TCJA separates the excess ADIT into two categories, protected and unprotected. The normalization rules apply to protected ADIT, which is attributed to public utility property subject to accelerated depreciation under Internal Revenue Code Sections 167 and 168. For the unprotected ADIT, the TCJA does not mandate normalization rules for flowing back the excess to the ratepayers.[23]

The TCJA normalization rules require that utilities use the Average Rate Assumption Method (ARAM) to amortize the excess ADIT over the remaining regulatory

[23] Tax News Update, *Power and Utility concerns under the TCJA*, January 25, 2018, 2018-0186 https://taxnews.ey.com/news/2018-0186-power-and-utility-concerns-under-the-tcja

lives of the property at a rate that follows the reversal of the deferred taxes. If a utility does not have sufficient financial records to comply with the requirements of ARAM, the TCJA requires the use of a simplified alternative method, the Reverse South Georgia Method (RSGM). The RSGM amortizes the protected excess ADIT over the remaining regulatory life of the utility property using the weighted average life or composite rate that is being used for regulatory book depreciation.[24]

Duke Kentucky estimated the excess ADIT balance as of December 31, 2017, and stated that there will be a true-up to the actual ADIT balance once the FIT returns are finalized sometime later in 2018. For its protected excess federal ADITs, Duke Kentucky's tax department provided the ADIT amortization rates using ARAM so as to avoid any possible violation of the normalization rules. The ARAM rates for 2018 and 2019 are 1.8 percent and 2.8 percent, respectively. Applying these rates to the balance of protected federal ADIT's results in a reduction of $772,711, as calculated in Appendix A.[25]

In order to minimize controversy, Duke Kentucky proposed to use the same fifteen-year amortization period for its unprotected gas excess ADIT that was used in Case No. 2018-00034. Amortizing Duke Kentucky's unprotected gas ADIT over 15 years results in a FIT expense reduction of $25,364. In Case No. 2017-00321, Duke Kentucky was

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[24] *Id.*, *see also* Tax Cuts and Jobs Act, Pub. L. No. 115-97, § 13001, 131 Stat 2054, 2099 (2017) (containing note to 26 USCA § 168 discussing when ARAM and RSGM should be used).

[25] If it is determined that application of the normalization requirements herein are inconsistent with the requirements of the Tax Cut and Jobs Act, based on an interpretation that is different than anticipated or otherwise, the Commission would consider modifying the amortization of the "protected" excess accumulated deferred income taxes to ensure that Internal Revenue Service penalties, which would be detrimental to the utilities and ratepayers, are not incurred.

ordered to use an amortization period of 10 years for its unprotected electric federal ADIT, resulting in an increased amortization of $38,046, as calculated in Appendix A.

Duke Kentucky's proposal to use the estimated excess gas ADIT balance as of December 31, 2017, and the estimated ARAM rates for 2018 and 2019, to calculate the amortization of its protected excess gas federal ADIT complies with the TCJA's normalization requirements. The Commission, therefore, finds that the proposed amortization of protected gas federal ADIT is reasonable and should be accepted. The Commission further finds that the amortization of Duke Kentucky's unprotected excess gas federal ADIT over ten years is reasonable, as that is the same time period utilized for the excess electric unprotected ADIT.

Accelerated Service Replacement Program Rider (Rider ASRP)

Duke Kentucky proposes to update its current Rider ASRP to reflect the lower income tax rate.[26] Since the filing of the Non-Unanimous Stipulation, Duke Kentucky has filed an application for the adjustment of Rider ASRP in Case No. 2018-00198.[27] In that case, all forecasted expenses reflect the lower federal income tax rate. However, in Duke Kentucky's current gas rate case, Case No. 2018-00261, Duke Kentucky proposes to eliminate Rider ASRP and place all associated investment into rate base.[28] In addition, any over-recovery due to the lower federal income tax rate is proposed to be included as a reduction in the gas revenue requirement.[29] The Commission finds that Duke

[26] Wathen Testimony at 12.

[27] Case No. 2018-00198, *Electronic Application of Duke Energy Kentucky, Inc. for an Adjustment to Rider ASRP Rates and Tariff Approval*, filed July 2, 2018.

[28] *Id.*, Volume 13, Direct Testimony of Gary J. Hebbeler at 3.

[29] *Id.*, Direct Testimony of Sarah J. Lawler at 11.

Kentucky's proposal to review the impacts of the lower federal income tax rate on the ASRP in Case No. 2018-00261 is reasonable.

RATE DESIGN

The overall reduction to Duke Kentucky's income tax expense is $2,241,013 and the overall annual reduction to revenue requirement is $3,002,910, as shown in the table below.

Current FIT Reduction	$	(1,430,257)
Amortization Excess ADIT- Protected		(772,711)
Amortization Excess ADIT- Unprotected		(38,046)
Income Tax Expense Reduction		(2,241,013)
Multiplied by: GRCF		1.3399789
Revenue Requirement Reduction	$	(3,002,910)

Duke Kentucky proposed to implement a surcredit, to be effective through the effective date of new natural gas rates resulting from its pending base rate case. This proposed surcredit was calculated by first allocating the amount of the refund to the residential and non-residential customers based on the actual revenues for calendar year 2017.[30] Next, the surcredit was determined by dividing each class revenue by the volumetric sales from Case No. 2009-00202.

In calculating the surcredit based on the revenue requirement reduction found reasonable herein, the Commission has retained the same revenue allocation between customer classes and annual level of gas sales as proposed by Duke Kentucky. However, because the refund is to be passed back between the date of this Order and

[30] Duke Kentucky's Response to Staff's Initial Data Request, Item 13.

the effective date of new gas rates in Duke Kentucky's pending base rate case, effectively between November 1, 2018, and March 31, 2019,[31] the annual class sales from Case No. 2009-00202 should be pro-rated by the percent of sales during these five winter months rather than by the number of months the refund is to be in effect. Using a pro-rated percent of sales during these five winter months is a more accurate depiction of sales. Using the monthly sales set forth in Duke Kentucky's cost of service study filed in Case No. 2009-000202, it was determined that 71 percent of the annual sales occur during the months of November through March.[32]

Prorating the annual TCJA reduction of $3,002,910 to account for the 15-month period covered by this order –from January 1, 2018, up to the rate case suspension date of March 31, 2019– Duke Kentucky's residential gas customers and non-residential gas customers will receive refunds of $2,152,325 and $1,601,313, respectively.[33] After March 31, 2019, if new base rates are not in effect, the surcredit will be revised to reflect the annual refund of $(1,721,860) to residential gas customers and $(1,281,050) to non-residential customers.

For the residential customer class using an average of 5,000 cubic feet per month, the following table illustrates the monthly bill decrease as compared to the current rates.[34]

	Current	Nov18 – Mar19	Apr19
Customer Charge	$16.00	$16.00	$16.00
Delivery	$18.61	$18.61	$18.61
PRP	$ 1.80	$ 1.80	$ 1.80
TCJA Surcredit		$ (2.22)	$ (1.26)

[31] Duke Kentucky filed a base rate case, Case No. 2018-00261 on August 31, 2018. On September 17, 2018, the proposed rates were suspended through March 31, 2018.

[32] Case No. 2009-00202, Application, Volume 4, Exhibit WPFR-9v-6, page 9 of 27.

[33] $(3,002,910)/12*15=$(3,753,638).

[34] See Appendix B for class rate calculations.

Total	$36.41	$34.19	$35.15
Difference		$ (2.22)	$ (1.26)
% Difference		(6.10)%	(3.46)%

SUMMARY

The Commission has investigated and analyzed the methodology proposed by Duke Kentucky to reduce its rates to reflect the tax expense impact of the TCJA. Based on a review of the case record, including the testimony and data responses, the Commission finds that Duke Kentucky's proposed methodologies to reflect the FIT expense reduction are not reasonable but that the estimated excess ADIT impacts, as modified, are reasonable and in the public interest. The Commission finds that the FIT adjustment based upon the methodology utilizing Duke Kentucky's 2017 income statement is reasonable and in the public interest. Further, the Commission finds that the rates and charges which are set forth in Appendix C to this Order are reasonable and should be approved.

Also pending before the Commission is a motion filed on October 1, 2018, by Duke Kentucky to consolidate this case with its pending gas base rate case. The motion states that consolidation will result in administrative efficiencies, allow for a more comprehensive review of the impacts of the TCJA, and not prejudice any party. The Attorney General filed on October 8, 2018, a response in opposition to the motion on the basis that the two cases involve different parties, the burden of proof is on KIUC in this case but on Duke Kentucky in the rate case, and this case is submitted for a decision but the rate case is just beginning discovery. Based on the motion and being otherwise sufficiently advised, the Commission finds that consolidating this case with the pending rate case would delay the rate reductions that arise from the TCJA and that such a delay is not in the ratepayers' best interest. Implementing the TCJA rate reductions now will benefit ratepayers by providing lower gas costs during the upcoming winter heating season, rather than delaying those rate reductions until April of 2019.

IT IS THEREFORE ORDERED that:

1. The rates set forth in the Non-Unanimous Stipulation are denied.

2. The rates and charges in Appendix C, attached hereto, are fair, just, and reasonable for Duke Kentucky for service rendered on and after the first billing cycle for November 2018.

3. 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 revised tariffs as set forth in this Order, reflecting that they were approved pursuant to this Order.

4. Duke Kentucky's motion to consolidate this case into Case No. 2018-00261 is denied.

5. The rate impacts of the TCJA on Rider ASRP shall be reviewed in Case Nos. 2018-00198 and 2018-00261.

6. This case is closed and removed from the Commission's docket.

By the Commission

ENTERED

OCT 31 2018

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00036 DATED OCT 3 1 2018

Creating the Regulatory Liability For Amort Beg 1/1/18

		Account 254.XX: Protected EDIT			Account 254.YY: Regulatory Liability			Total Gross	Levelized Refund to Customers		Remaining
Line #	Protected EDITs	Beg Balance	Debit: Amort Exp	Ending Balance	Beg Balance	(Debit)/Credit	Ending Balance	Reg Liability	Debit: Acct 254	Credit: Cash	Reg Liability
1		(a)	(b)	(c)=(a)-(b)	(d)	(e)	(f)=(d)+(e)	(g)=(c)+(f)	(h)	(i)	(j)
2	December 31, 2017 (per books)			$ (31,411,000)				$ (31,411,000)			$ (31,411,000)
3	January 2018	$ (31,411,000)	$ 46,069	(31,364,931)	$ -	$ 46,069	$ 46,069	(31,318,861)	$ -	$ -	(31,411,000)
4	February 2018	(31,364,931)	46,069	(31,318,861)	46,069	46,069	92,139	(31,226,722)	0	0	(31,411,000)
5	March 2018	(31,318,861)	46,069	(31,272,792)	92,139	46,069	138,208	(31,134,583)	0	0	(31,411,000)
6	April 2018	(31,272,792)	46,069	(31,226,722)	138,208	46,069	184,278	(31,042,444)	0	0	(31,411,000)
7	May 2018 (Refund Begins)	(31,226,722)	46,069	(31,180,653)	184,278	(24,177)	160,101	(31,020,552)	70,246	70,246	(31,340,754)
8	June 2018	(31,180,653)	46,069	(31,134,583)	160,101	(24,177)	135,924	(30,998,659)	70,246	70,246	(31,270,507)
9	July 2018	(31,134,583)	46,069	(31,088,514)	135,924	(24,177)	111,747	(30,976,767)	70,246	70,246	(31,200,261)
10	August 2018	(31,088,514)	46,069	(31,042,444)	111,747	(24,177)	87,570	(30,954,874)	70,246	70,246	(31,130,014)
11	September 2018	(31,042,444)	46,069	(30,996,375)	87,570	(24,177)	63,393	(30,932,982)	70,246	70,246	(31,059,768)
12	October 2018	(30,996,375)	46,069	(30,950,305)	63,393	(24,177)	39,216	(30,911,089)	70,246	70,246	(30,989,521)
13	November 2018	(30,950,305)	46,069	(30,904,236)	39,216	(24,177)	15,039	(30,889,197)	70,246	70,246	(30,919,275)
14	December 2018	(30,904,236)	46,069	(30,858,166)	15,039	(24,177)	(9,138)	(30,867,304)	70,246	70,246	(30,849,029)
15	January 2019	(30,858,166)	73,292	(30,784,874)	(9,138)	3,046	(6,092)	(30,790,966)	70,246	70,246	(30,778,782)
16	February 2019	(30,784,874)	73,292	(30,711,582)	(6,092)	3,046	(3,046)	(30,714,628)	70,246	70,246	(30,708,536)
17	March 2019	$ (30,711,582)	73,292	$ (30,638,289)	$ (3,046)	3,046	$ (0)	$ (30,638,289)	70,246	70,246	$ (30,638,289)
18	Total Amortized EDITs (Protected)		$ 772,711			$ (0)			$ 772,711	$ 772,711	
19											
20	2018 ARAM Rate	1.8%									
21	2019 ARAM Rate	2.8%									

Creating the Regulatory Liability For Amort Beg 1/1/18

		Account 254.XX: UnProtected EDIT			Account 254.YY: Regulatory Liability			Total Gross	Levelized Refund to Customers		Remaining
Line #	Unprotected EDITs	Beg Balance	Credit: Amort Exp	Ending Balance	Beg Balance	Debit/(Credit)	Ending Balance	Reg Liability	(Debit): Acct 254	Credit: Cash	Reg Liability
1		(a)	(b)	(c)=(a)-(b)	(d)	(e)	(f)=(d)+(e)	(g)=(c)+(f)	(h)	(i)	(j)
2	December 31, 2017 (per books)			$ (304,364)				$ (304,364)			$ (304,364)
3	January 2018	$ (304,364)	$ 2,536	(301,828)	$ -	$ 2,536	$ 2,536	(299,291)	$ -	$ -	(304,364)
4	February 2018	(301,828)	2,536	(299,291)	2,536	2,536	5,073	(294,219)	0	0	(304,364)
5	March 2018	(299,291)	2,536	(296,755)	5,073	2,536	7,609	(289,146)	0	0	(304,364)
6	April 2018	(296,755)	2,536	(294,219)	7,609	2,536	10,145	(284,073)	0	0	(304,364)
7	May 2018 (Refund Begins)	(294,219)	2,536	(291,682)	10,145	(922)	9,223	(282,459)	3,459	3,459	(307,823)
8	June 2018	(291,682)	2,536	(289,146)	9,223	(922)	8,301	(280,845)	3,459	3,459	(304,364)
9	July 2018	(289,146)	2,536	(286,609)	8,301	(922)	7,379	(279,231)	3,459	3,459	(300,905)
10	August 2018	(286,609)	2,536	(284,073)	7,379	(922)	6,456	(277,617)	3,459	3,459	(297,447)
11	September 2018	(284,073)	2,536	(281,537)	6,456	(922)	5,534	(276,003)	3,459	3,459	(293,988)
12	October 2018	(281,537)	2,536	(279,000)	5,534	(922)	4,612	(274,389)	3,459	3,459	(290,529)
13	November 2018	(279,000)	2,536	(276,464)	4,612	(922)	3,689	(272,775)	3,459	3,459	(287,071)
14	December 2018	(276,464)	2,536	(273,928)	3,689	(922)	2,767	(271,161)	3,459	3,459	(283,612)
15	January 2019	(273,928)	2,536	(271,391)	2,767	(922)	1,845	(269,547)	3,459	3,459	(280,153)
16	February 2019	(271,391)	2,536	(268,855)	1,845	(922)	922	(267,933)	3,459	3,459	(276,695)
17	March 2019	$ (268,855)	2,536	$ (266,319)	$ 922	(922)	$ (0)	$ (266,319)	3,459	3,459	$ (273,236)
18	Total Amortized EDITs (UnProtected)		$ 38,046			$ (0)			$ 38,046	$ 38,046	
19											

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00036 DATED OCT 3 1 2018

Duke Kentucky

Overall Revenue Reduction and Rate Calculations

Line				Total 2017	% of Total	
1	Current FIT Reduction	$	(1,430,257)			
2	Amortization Excess ADIT- Protected	$	(772,711)			
3	Amortization Excess ADIT- Unprotected	$	(38,046)			
4						
5	Income Tax Expense Reduction	$	(2,241,013)			
6	Multiplied by: GRCF	$	1.34			
7						
8	Annual Revenue Requirement Reduction	$	(3,002,910)			
9	15 Month Revenue Requirement Reduction	$	(3,753,638)			Line 8*15/12
10						
11				**Total 2017**	**% of Total**	
12	Total Gas Revenue (Base & All riders)					
13	Residential Revenue			$59,228,599	57.3%	
14	Non-Residential Revenue			44,065,602	42.7%	
15	Total Gas Revenue			$103,294,201	100.0%	
16						
17	Annual Gas Sales (CCF) from Most Recent Rate Case					
18	Residential Usage				68,500,260	**Revenue & Sales From Test Year Used in 2009-00202**
19	Non-Residential Usage				63,964,420	
20						
21	Pro rated Gas Sales from Prior Case					
22	Residential Usage				48,635,185	Line 18 * 71%
23	Non-Residential Usage				45,414,738	Line 19 * 71%
24						
25	Refund November 1, 2018 - March 31, 2019					
26	Residential Tax Refund Rider Rate per ccf				**($0.0443)**	Line 9 * Line 13 ÷ Line 22
27	Non-Residential Tax Refund Rider Rate per ccf				**($0.0353)**	Line 9 * Line 14 ÷ Line 23
28						
29	Refund April 1, 2019 to effective date of new base rates					
30	Residential Tax Refund Rider Rate per ccf				**($0.0251)**	Line 8 * Line 13 ÷ Line 18
31	Non-Residential Tax Refund Rider Rate per ccf				**($0.0282)**	Line 8 * Line 14 ÷ Line 19

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00036 DATED OCT 3 1 2018

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

RIDER TCJA

TAX CUTS AND JOBS ACT RIDER

TCJA Surcredit per Ccf

Effective November 1, 2018 – March 31, 2019		
Residential	$	0.0443
Non-Residential	$	0.0353
Effective April 1, 2019		
Residential	$	0.0251
Non-Residential	$	0.0282

*L Allyson Honaker
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*David S Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Rocco O D'Ascenzo
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201

*Honorable Kurt J Boehm
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

*Kent Chandler
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202

*E. Minna Rolfes-Adkins
Paralegal
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45201