COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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	)	CASE NO. 2018-00261

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO DUKE ENERGY KENTUCKY, INC.

Duke Energy Kentucky, Inc. (Duke Kentucky), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before October 24, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Duke Kentucky shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Duke Kentucky fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Duke Kentucky shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Duke Kentucky's Application (Application), Volume 1.1, Tab 26.

a. Explain whether the capital expenditures budget reflects both the electric and gas operations for Duke Kentucky. If the budget reflects electric and gas operations, resubmit the capital expenditures budget, separating the electric and gas operations.

b. Provide a comparison of the three-year projected capital expenditures in Case No. 2009-00202[1] with the actual capital expenditures for those years.

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[1] Case No. 2009-00202, *Application of Duke Energy Kentucky, Inc. for an Adjustment of Rates* (Ky. PSC Dec. 29, 2009).

2. Refer to the Application, Volume 1.1, Tab 27.

a. Provide a schedule that details each of the construction projects that are part of the aggregate total for the filing requirement 807 KAR 5:001, Section 16(7)(g), that are not included in the schedule for the filing requirement under 807 KAR 5:001, Section 16(7)(f).

b. Explain whether the capital expenditures budget reflects both the electric and gas operations for Duke Kentucky. If the budget reflects electric and gas operations, resubmit the capital expenditures budget, separating the electric and gas operations.

c. Provide a comparison of the three-year projected capital expenditures in Case No. 2009-00202 with the actual capital expenditures for those years.

3. Refer to the Application, Volume 1.1, Tab 28.

a. Refer to the Application in Case No. 2017-00321,[2] Filing Requirement 807 KAR 5:001, Section 16(7)(h). Reconcile the discrepancy in the projected Gas Revenue for the years 2018 and 2019 in Case No. 2017-00321 and Case No. 2018-00261.

b. Refer to FR 16(7)(h) Attachment, page 3 of 13.

(1) Explain why there are no Dividends on common stock for 2018.

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[2] 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* (filed Sept. 1, 2017).

(2) Provide the Dividends paid on common stock for the calendar years 2013 through 2017, and 2018 to date. This an ongoing request throughout this proceeding.

(3) Provide a comparison of the projected and actual Dividends paid on common stock in the three–year projected cash flow statement that was filed in Case No. 2009-00202.

c. Refer to page 8 of 13 and to the Direct Testimony of Renee H. Metzler (Metzler Testimony), page 3, regarding the number of Duke Kentucky employees.

(1) Reconcile the number of Duke Kentucky employees listed on page 8 (203 employees each per year for 2018 through 2020) with the number listed in the Metzler Testimony (198 employees).

(2) Provide the correct number of current Duke Kentucky employees.

(3) Identify the impact of the deployment of the advanced natural-gas-metering infrastructure program on the number of Duke Kentucky employees.

4. Refer to the Application, Volume 11.2, Tab 41. Provide the following information for any of the Duke Energy Business Services (DEBS) and other affiliated entities' costs directly assigned or allocated to Duke Kentucky, as well as the other requested information:

a. For the DEBS Department, provide the amount of total salaries and the number of hours allocated along with any associated incentive pay, listed by each incentive pay program, including any stock option plans in effect by month for the test year.

b. For each Duke Energy Corporation (Duke Energy) subsidiary, provide the name of the subsidiary and the department, along with the amount of total salaries, the number of hours allocated, any associated incentive pay, including any stock option plans and any stock option plans costs, by month for the forecasted test year.

c. Provide schedules showing all costs allocated to Duke Kentucky from DEBS and other affiliates by the Federal Energy Regulatory Commission (FERC) account name and number for years ended December 31, 2015, 2016, and 2017, the base period, and the test period. Prepare a separate schedule for each affiliate.

d. Identify and explain any changes in how costs are allocated either to, or from, Duke Kentucky since its last base rate case for gas operations in Case No. 2009-00202.

e. Refer to page 3 of 9. Explain the decrease in the DEBS costs allocated to Duke Kentucky from the base period to the forecasted test period.

f. Refer to page 5 of 9. Explain the large variation in costs allocated to Duke Kentucky from Duke Energy Ohio from 2015 through the forecasted test period.

g. Provide a legible copy of page 9 of 9 and an electronic copy in Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible.

5. Refer to the Application, Volume 11.2, Tab 50; Duke Kentucky's responses to Staff's First Request for Information, Item 65; and the Metzler Testimony beginning on page 31 regarding employee benefit plans.

a. Provide the jurisdictional employee medical insurance adjustment assuming the following: Total Healthcare/Medical Cost for Each Level of Coverage =

Company Paid Portion of Premium + Employee Contribution to Premium, assuming the employee would pay 21 percent of the total cost for single coverage and 33 percent of the total cost for all other types of coverage, compared to the amount of healthcare/medical insurance expense incurred in the test year.

b. Provide the jurisdictional dental insurance adjustment in the test year, assuming employees would pay 60 percent of the total cost of coverage. Calculate the amounts as follows: Total Dental Cost for Each Level of Coverage = Company Paid Portion of Premium + Employee Contribution to Premium.

c. Provide a schedule that identifies the jurisdictional cost for providing long-term disability insurance.

d. Provide a schedule that identifies the jurisdictional cost for providing group life insurance coverage for coverage amounts over $50,000.

e. For employees that participate in a defined benefit plan, provide the total and jurisdictional amounts of matching contributions made on behalf of employees who also participate in any 401(k) retirement savings account.

f. Provide the information requested in Items a. through e. allocated from the parent company or other affiliated companies.

6. Refer to the Application, Volume 12.1, Section B, Schedule B-1.

a. Explain the reason(s) that Duke Kentucky is not requesting to include recovery of construction work in progress (CWIP) in base rates per footnote (2) on Schedule B-1.

b. Explain how Duke Kentucky obtains recovery on CWIP. Provide any authority for the Company's method of recovery on CWIP.

c. Provide the thirteen-month average of CWIP for the base period and forecasted test period and the amount of recovery Duke Kentucky is expected to receive on the CWIP investment for each period.

7. Refer to the Application, Volume 12.1, Schedule K, page 4 of 5.

a. Provide Duke Kentucky's monthly return on equity (ROE) from January 2010 through to-date 2018.

b. Explain why Duke Kentucky forecasts its ROE to decline 31.0 percent, from 12.29 percent in the base period to 8.46 percent in the forecasted test period ending March 31, 2020.

8. Refer to the Application, Volume 12.1, Schedule L-2.2, page 61 of 71. Explain what an estimated monthly net charge-offs is and how it is calculated.

9. Refer to the Application, Volume 12.2, Section D Workpapers.

a. Refer to WPD-2.1a. Explain the debit balance in Other Revenue for the base period.

b. Refer to WPD-2.2a. Explain the decrease in the liquefied petroleum gas cost and purchased gas cost from the base period to the forecasted test period.

c. Refer to WPD-2.3a. Explain the increase in the other production expense from the base period to the forecasted test period.

d. Refer to WPD-2.4a. Explain the decrease in the other gas supply expenses from the base period to the forecasted test year.

e. Refer to WPD-2.6a. Explain the increase in distribution expense from the base period to the forecasted test period and provide a comparison of the expense by FERC account name and number.

f. Refer to WPD-2.10a. Explain the decrease in A&G expense from the base period to the forecasted period.

g. Refer to WPD-2.11a. Explain the decrease in other operating expense from the base period to the forecasted test period.

10. Refer to the Direct Testimony of Amy B. Spiller (Spiller Testimony), page 5, regarding Duke Kentucky's corporate and business structure. Identify and explain any cost savings related to the three mergers and acquisitions mentioned in the discussion and how such cost savings are reflected in the base-period and forecasted test-period financial statements.

11. Refer to the Spiller Testimony, beginning on page 7, regarding economic development activities. Identify any current or new economic development projects in Duke Kentucky's service territory and their estimated impact on revenues and volumetric sales by year. This an ongoing request throughout this proceeding.

12. Refer to the Spiller Testimony, page 9, lines 5–21. Provide a description of the economic development that each organization promotes.

13. Refer to the Spiller Testimony, page 11, lines 3–8. Provide a description of each program that Duke Kentucky designed to allow customers to manage their bills.

14. Refer to the Spiller Testimony, page 11, lines 9–14.

a. Provide a description of each bill payment option.

b. State whether a fee is assessed to the customer to utilize each bill payment option, and if so, provide the fee amount.

15. Refer to the Spiller Testimony, page 11, line 6. State whether the Adjusted Due Date Program is the same as the Pick Your Own Due Date Program in Duke Kentucky's Electric Tariff.

16. Refer to the Spiller Testimony, page 16, lines 11–15 and the Hebbeler Testimony, page 26, lines 4–17. In Case No. 2016-00152,[3] Duke Kentucky stated that pursuant to a cost-benefit analysis, the Advanced Metering Infrastructure Project (AMI Project) would result in a net benefit of $7,418,653, on a net present value basis over a 17-year period. Explain in detail whether the monetary benefits from the AMI Project have been included in the present rate case.

17. Refer to the Spiller Testimony, page 17, lines 7–16. Provide a detailed description of Duke Kentucky's new, state-of-the-art Customer Information System (CIS), including the estimated cost and implementation date.

18. Refer to the Spiller Testimony, page 18, lines 7–14. Explain in detail why the impact of the Tax Act and Jobs Creation Act of 2017 (TCJA)[4] would only reduce the Company's revenue requirement "for the foreseeable future."

19. Refer to the Spiller Testimony, page 21, lines 19–21. Provide a list of other Duke Energy jurisdictions that utilize a return-on-rate-base approach, as opposed to capitalization.

20. Refer to the Direct Testimony of Tyler A. Barbare (Barbare Testimony), page 3, line 9, in which Duke Kentucky requests a waiver pursuant to KRS 278.210 and

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[3] Case No. 2016-00152, *Application of Duke Energy Kentucky, Inc. for (1) A Certificate of Public Convenience and Necessity Authorizing the Construction of an Advanced Metering Infrastructure; (2) Request for Accounting Treatment; and (3) All Other Necessary Waivers, Approvals, and Relief* (Ky. PSC May 25, 2017).

[4] H.R. 1, Public Law 115-97, 131 Stat. 2054 (Dec. 22, 2017).

807 KAR 5:022, Section 8(5). Provide the correct regulation that Duke Kentucky intended to request a waiver pursuant to because 807 KAR 5:022, Section 8(5), no longer exists.

21. Refer to the Barbare Testimony, page 3, lines 19–20. Duke Kentucky states that it follows 807 KAR 5:022, Section 8(5), testing protocols. Provide the correct regulation that Duke Kentucky follows for testing protocols because 807 KAR 5:022, Section 8(5), no longer exists.

22. Refer to the Barbare Testimony, beginning at page 3, regarding Duke Kentucky's request to change from a 10-year to a 15-year testing cycle.

a. Provide the expected cost savings due to changing from a 10-year to a 15-year testing cycle.

b. Identify and explain how any cost savings from the proposed change are reflected in the base period and forecasted test-period financial statements.

23. Refer to the Barbare Testimony, page 9, lines 9–16. Explain how Duke Kentucky will be alerted of a meter failure if it occurs before the proposed 15-year meter-testing intervals.

24. Refer to the Barbare Testimony, page 10, lines 7–23, and Attachment TB-1.

a. Duke Kentucky is requesting to amend the natural gas meter testing for positive-displacement meters with rated capacity up to and including 500 cubic feet per hour from a 10-year testing parameter to a 15-year testing parameter in order to align the testing timeline with the useful/depreciable life of the natural gas advanced metering infrastructure/automated meter reading modules as approved in Case No. 2016-00152.

Explain whether Duke Kentucky has requested to amend the electric meter testing schedule, and if so provide the case number. If not, explain why not.

b. Duke Kentucky states that the results of the study were filtered to only include the type of natural gas meters that are currently being installed. Provide the exact type of natural gas meter that Duke Kentucky is referring to in this statement.

c. Duke Kentucky asserts that, after it filtered the results of the study to include only the type of natural gas meters that are currently being installed, it left a total sample size of 73,215. Duke Kentucky further filtered the meters to a smaller sample and stated that out of the 10,623 meters that went more than ten years between accuracy testing, approximately 96 percent of the meters tested were determined accurate. Provide the percentage of accuracy for the 73,215 sample meters that only filtered out the obsolete meters.

d. Duke Kentucky states that the results were further filtered to remove the meters that were not functional upon testing. Explain how Duke Kentucky's results were not skewed by removing the non-functioning meters from the test sample of meters.

e. Duke Kentucky asserts that the study results were filtered to only include the meters that had ten or more years between accuracy testing.

(1) Provide the average number of years that the 10,623 sample meters had gone between accuracy testing.

(2) Further explain how Duke Kentucky did not violate 807 KAR 5:022(4)(1) by having meters in Kentucky that had not been tested for ten years or more.

f. If all age classes of Duke Kentucky meters were examined, this would have resulted in 0.62 percent failure slow and 3.80 percent failure fast. Explain in full detail why Duke Kentucky did not examine all age classes of meters registering above the 2.00 percent fast or slow.

g. Confirm that Duke Kentucky made adjustments to customer's bills that tested greater than 2 percent fast or slow as pursuant to 807 KAR 5:006, Section 11. If this cannot be confirmed, provide an explanation of what Duke Kentucky did in lieu of making the bill adjustments.

h. Refer to Attachment TB-1, page 2 of 3, and explain why the "Slow 1.6 to 2" column is populated with all zeroes.

i. Refer to Attachment TB-1, pages 1–3, and reconcile this data with the Barbare Testimony, page 11, and lines 1–11.

25. Refer to the Hebbeler Testimony, pages 16–18 and 26, regarding Duke Kentucky's major distribution integrity, safety, and reliability initiatives for its gas operations.

a. Identify and explain any cost savings resulting from the accelerated main replacement program and how such cost savings are reflected in the base-period and forecasted-test-period financial statements.

b. Identify and explain any cost savings resulting from the accelerated riser replacement program and how such cost savings are reflected in the base-period and forecasted-test-period financial statements.

c. Identify and explain any cost savings resulting from the accelerated service replacement program (ASRP) and how such cost savings are reflected in the base-period and forecasted-test-period financial statements.

d. Identify and explain any cost savings resulting from the Pipeline Integrity Management Program (IMP) and how such cost savings are reflected in the base-period and forecasted-test-period financial statements.

e. Identify and explain any cost savings resulting from the advanced natural-gas metering infrastructure program and how such cost savings are reflected in the base-period and forecasted-test period financial statements.

26. Refer to the Hebbeler Testimony, page 28, regarding government-mandated projects.

a. State whether Duke Kentucky's revenue requirement included a gross-up for income taxes related to government-mandated projects.

b. If the response to Item a. above is affirmative, provide the reduction in Duke Kentucky's revenue requirement due to the gross-up for income tax for government-mandated projects.

27. Refer to the Direct Testimony of Sarah Lawler (Lawler Testimony), page 9, regarding Schedule D-2.16, and Schedule F-6, rate case expense.

a. Explain the basis for the large increase in Duke Kentucky's rate case expense from $156,524 in its prior base rate case for gas operations to the estimated $575,000 rate case expense for the current rate case.

b. Explain why Duke Kentucky is requesting to amortize these costs over five years rather than the three-year amortization period utilized in its prior base rate case for gas operations.

28. Refer to the Lawler Testimony, page 9, Schedule D-2.17 and WPD-2.17a, regarding the proposed amortization of the Company's regulatory asset representing the cost associated with its IMP.

a. Provide a schedule detailing the total cost of $2,887,115 by FERC account name and number.

b. For any depreciable assets, provide a schedule showing how the costs would have been recorded exclusive of the IMP. Include the property description, FERC account name and number, estimated economic life, proposed depreciation rate, and the cost.

c. Explain how the proposed five-year amortization period was determined.

29. Refer to the Lawler Testimony, page 10, Schedule D-2.19, regarding the elimination of revenues and expenses applicable to gas operations associated with propane storage cavern and related mixing facilities, odorization stations, and various feeder lines.

a. Identify and provide the location of the propane storage cavern.

b. Explain how the revenues and expenses related to the propane storage caverns and other facilities are allocated between Duke Kentucky customers and other Duke Energy customers.

30. Refer to the Lawler Testimony, beginning on page 10, Schedule D-2.20, regarding ongoing integrity management initiatives. Explain how the cost of the ongoing integrity management initiatives was determined.

31. Refer to the Lawler Testimony, page 11, Schedule D-2.21, regarding rider ASRP over-collections of federal income taxes due to the TCJA being enacted after the 2018 rates for rider ASRP were approved by the Commission.

a. Explain how the proposed five-year amortization period was determined.

b. Confirm that all of the over-collection of federal income tax due to the TCJA occurred or will occur in 2018.

c. Confirm that in the absence of this rate case, all over-collections of the federal income tax would be allocated through the true-up mechanism and returned in the following year.

32. Refer to the Direct Testimony of Roger A. Morin, Ph.D. (Morin Testimony), page 33, line 4.

a. Provide the current risk-free rate for a 30-year Treasury Bond.

b. Explain why the forecasted risk-free rate for the Capital Asset Pricing Model is the forecasted interest rate on long-term U.S. Treasury bonds and not the current interest rate on long-term bonds.

c. Provide Duke Kentucky's position regarding investors' views of interest rate forecasts, especially given that most interest rate forecasts are known to have been incorrect.

33. Refer to the Morin Testimony page 61. Provide Table 6 without flotation costs and ensure to include two significant digits.

34. Refer to the Morin Testimony, page 62. Dr. Morin addresses Duke Kentucky's size, stating that its size relative to other electric utilities increases investment risk.

a. Confirm that even though Duke Kentucky is relatively smaller in size, it realizes efficiencies and economies of scale through its Duke Energy family of companies.

b. If Item a. above is confirmed, explain whether these efficiencies and economies of scale reduce the risk exposure of Duke Kentucky.

35. Refer to the Morin Testimony, Attachment RAM-2, page 1 of 1.

a. Provide the most recently awarded ROE and the date of the award for each utility in the natural gas proxy group.

b. Provide the most recent ROE and the date of the ROE publication for each utility in the natural gas proxy group.

c. Provide which natural gas companies in the proxy group have a weather adjustment clause similar to the one proposed by Duke Kentucky.

d. On July 6, 2018, the sale of WGL Holdings, Inc., to AltaGas, Ltd., closed.[5] In addition, according to the June 1, 2018 publication of The Value Line Investment Survey (Value Line), Issue 3, WGL Holdings share price was at an almost 28 percent premium from the trading level the day prior to the takeover announcement. Provide an explanation for including WGL Holdings, Inc., in the proxy group with the merger activities and resulting share price.

[5] See: https://www.bizjournals.com/washington/news/2018/07/13/wgl-holdings-names-new-ceo-executive-payouts-after.html?ana=yahoo&yptr=yahoo

e. On July 2, 2018, South Jersey, Inds., completed the acquisitions of Elizabethtown Gas and Elkton Gas from a subsidiary of Southern Company Gas.[6] Provide an explanation for including South Jersey, Inds., in the proxy group with the merger activities.

36. Refer to the Morin Testimony, Attachment RAM-3, page 1 of 1.

a. Provide an update to the Discounted Cash Flow (DCF) Analysis Value Line Growth Rates using the most current information available.

b. Also refer to Attachment RAM-4, page 1 of 1. The Projected Earnings per Share (EPS) growth rates and analysts' growth forecasts vary significantly between the proxy companies. For example, the projected EPS growth for WGL Holdings is 6.5 while the analysts' growth forecasts is 13.20 percent. Provide an explanation for these wide variations.

37. Refer to the Morin Testimony, Attachment RAM-4, page 1 of 1. Provide an update to the DCF Analysis analysts' growth forecasts with the most current information available.

38. Refer to the Morin Testimony, Attachment RAM-6, page 1 of 1.

a. Provide the most recently awarded ROE and the date of the award for each utility in the natural gas proxy group.

b. Provide the most recent ROE and the date of this announcement for each utility in the natural gas proxy group.

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[6] See: https://globenewswire.com/news-release/2018/07/02/1532365/0/en/SJI-SJI-Completes-Acquisition-of-Elizabethtown-Gas-and-Elkton-Gas.html

c. According to the August 17, 2018 publication of Value Line, Issue 1, Dominion Energy is trying to acquire SCANA. Provide an explanation for including Dominion Energy in the proxy group with merger activities.

39. Refer to the Morin Testimony, Attachments RAM-2 – RAM-10. Provide these attachments in Excel spreadsheet formal with all formulas intact and unprotected and with all columns and rows accessible.

40. On May 3, 2018, the Final Order was issued in Case No. 2017-00349[7] for Atmos Energy Corporation with an ROE of 9.7 percent. Provide an explanation as to how Duke Kentucky faces a substantially greater risk profile to warrant an ROE that is 20 basis points higher.

41. Provide Duke Kentucky's annual ROE since 2010 for its gas division.

42. For all other Duke Energy jurisdictions, provide the most recent awarded and earned ROE's and the date of the award or publication.

43. Refer to the Direct Testimony of John R. Panizza (Panizza Testimony) page 3 and page 10, regarding property tax expense. Provide the calculation of the property tax expense on an electronic Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible.

44. Refer to the Panizza Testimony, page 10, regarding the statutory and effective Kentucky income tax rate.

a. Explain further, why Duke Kentucky should use the statutory versus the effective tax rate for calculating its Kentucky income tax expense.

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[7] Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018).

b. Confirm that the difference in the Kentucky income tax due to the statutory versus effective tax rate is used to lower customer costs.

c. If the answer to Item b. is not confirmed, explain the accounting treatment of the excess Kentucky income tax recovered in rates.

45. Refer to the Panizza Testimony, Attachment JRP-1, Amortization of EDITs. Provide a breakdown of the $745,885 balance in state unprotected excess ADIT.

46. Refer to Duke Energy Kentucky's response to Commission Staff's First Request for information (Staff's First Request), Item 29. The Billing Analysis was not provided in the company's response. Provide the Billing Analysis in Excel spreadsheet format with all formulas intact and unprotected and with all columns and rows accessible.

47. Refer to the Direct Testimony of Robert H. "Beau"" Pratt (Pratt Testimony), page 21, regarding non-union labor cost increases of 3.5 percent in the forecasted test year.

a. Provide the impact to Duke Kentucky's labor cost expense and revenue requirement if the non-union labor cost increase were limited to 3.0 percent in the forecasted test year.

b. Provide the labor cost increases for any of Duke Kentucky's affiliates that pass-through costs to the Company that are greater than 3.0 percent.

c. Provide the impact on Duke Kentucky's labor expense and revenue requirement if the labor costs passed through from the affiliates were limited to 3.0 percent in the forecasted test year.

48. Refer to the Pratt Testimony, page 21, regarding how operations and maintenance expense (O&M) were revised and extended through the forecasted test period.

a. Identify and quantify, by account number and name, the O&M expenses that diverged from general escalation assumptions for 2020.

b. Identify and quantify, by account number and name, the O&M expenses that diverged from the budgeted amounts.

c. Explain how the 1 percent escalation factor for the O&M expense from 2019 to 2020 was determined.

d. Identify and explain any changes in the O&M budget and projections in which new or revised information emerged, which supported the need for revisions to the previously supplied O&M budgets and projections.

49. Refer to the Direct Testimony of Benjamin Passty, Ph.D. (Passty Testimony), page 6, lines 1–2. Provide any new customer loads or expansions at current customers' sites that have occurred since the filing of this rate case, if any.

50. Refer to the Passty Testimony, page 9, lines 3–4. Explain whether Duke Kentucky calculated normal weather based on a rolling 20-year period. If so, update Exhibit BWP-2 with the 20-year period.

51. Refer to the Passty Testimony, page 13, lines 21–22.

a. Explain why 41 monthly observations were chosen as the weather input period for the proposed weather normalization adjustment (WNA) calculation.

b. Provide an update to the base load (BL) and heat sensitivity factor (HSF) using 65 monthly observations (January 2013 through May 2018).

c. Provide an update to the BL and HSF factors using monthly observations from January 2015 through September 2018.

d. Explain whether 41 months is consistent with other jurisdictions where Duke Energy has WNA mechanisms.

e. For the energy forecast, the rolling 30-year period is used for the weather normalization adjustment. Explain why a 30-year period is not used for the proposed WNA.

52. Refer to the Passty Testimony, Exhibit BWP-1. Provide the annual growth rates.

53. Refer to the Pratt Testimony, page 13, line 17–18. Provide a list of energy efficiency capital needs that Duke Kentucky foresees.

54. Refer to the Direct Testimony of Bruce L. Sailers (Sailers Testimony), page 4, line 22. Provide Schedule M, Schedule M-2.1, and Schedule M-2.2 excluding all riders. Provide these in Excel spreadsheet format with all rows and columns accessible and unprotected.

55. Refer to the Sailers Testimony, page 14 lines 15–16. Provide the proposed WNA model. Include all inputs and workpapers. This should be in Excel spreadsheet format with all rows and columns accessible and unprotected.

56. Refer to the Sailers Testimony, page 15, line 13–15. Explain whether other Duke Energy jurisdictions provide annual updates for each respective WNA.

57. Refer to the Sailers Testimony, page 18, lines 5–7. State whether it is Duke Kentucky's belief that it cannot update its gas tariff through the Commission's normal tariff

review process to reflect a new combined reconnection fee if a new combined reconnection fee is approved in an electric base rate case and vice versa.

58. Refer to the Sailers Testimony, page 21, lines 19–22. Explain how shortening the period to complete imbalance trades results in efficiency gains in the monthly closing and billing process.

59. Refer to the Sailers Testimony, Attachment BLS-5.

a. Provide an explanation of why "Unproductive (time away – vacations, etc.)" should be included in this charge.

b. Provide an explanation of why "Incentives" should be included in this charge.

c. Provide an itemized listing of all the costs that are included in "Indirects (allocated costs of support functions)."

60. Refer to the Sailers Testimony, Attachment BLS-6.

a. Refer to page 1 of 1. Also, refer to Duke Kentucky's Response to the Second Data Request of Commission Staff in Case No. 2009-00202, Item 9 a. The cost justification provided in Case No. 2009-00202 included a component for travel, labor, and a truck. Explain if these components are included in the cost justification in the current case.

b. Refer to page 1 of 1, lines 15–16. Provide the components of the costs listed on these lines.

c. If the costs to replace the Meter Index as stated is $560.00, and the cost of the Installation of the Meter Pulse Equipment is $550.00, is it necessary to replace the Meter Index and not just replace the Meter Pulse Equipment.

61. Refer to the Application, Schedule L, page 4 of 8.

a. In the rationale section of Rate FRAS, it states, "[a]lso, Company does not confiscate Suppliers' delivered gas." Explain why the tariff has not been updated prior to this case if Duke Kentucky does not confiscate Suppliers' delivered gas.

b. Explain how the change to Rate FRAS to cash out over-deliveries rather than confiscate the over-deliveries, benefits Duke Kentucky or the Suppliers.

62. Refer to the Application, Schedule L-1.

a. Refer to page 7 of 69. There appears to be missing language on the last line of the text on this page between "from the termination date," and "in writing." Confirm that there is language missing and if so, provide a revised tariff page reflecting the missing language.

b. Refer to page 9 of 69. Explain the reasoning for the change to the second paragraph of "1. Character of Service."

c. Refer to page 13 of 69. In the first paragraph of "2. Gas Service Piping," it indicates that Duke Kentucky will install the gas service pipe from the curb line to the meter at its own expense. The same paragraph later states that the service piping from the curb to the meter would be installed at the expense of the customer. Clarify who is responsible for the installation expense of the gas service piping from the curb to the meter. If necessary, provide a revised tariff page reflecting any needed changes.

d. Refer to page 16 of 69. In the first paragraph of "1. Billing Periods – Time and Place for Payment of Bills," the margin notation reflecting the deleted text is not included. Provide a revised tariff page that includes the margin notation for this change.

e. Refer to page 19 of 69, second paragraph of "1. Deposits."

(1) Define what constitutes a satisfactory payment record.

(2) Confirm that Duke Kentucky is not charging an additional deposit to residential customers whose payment record is satisfactory unless their classification of service changes or the customer requests that their deposit be recalculated pursuant to 807 KAR 5:006, Section 8(1)(d)3.

f. Refer to page 56 of 69. Confirm that nothing on this page is going to change. If confirmed, provide a revised tariff page reflecting that there is no change.

g. Refer to page 69 of 69. Explain why the additional charge to replace the meter index is increasing $405, or 261 percent, from $155 to $560.

63. Refer to the Application, Schedule L-2.2. Provide this schedule with proposed additions indicated by underscoring and proposed deletions indicated inline by strike through.

64. Refer to Sailers Testimony at 17, line 7, in which Mr. Sailers states that the ASRP is to be eliminated and the company proposes to transition the costs to base rates. Explain the impact these costs had on the cost-of-service study (COSS) and the rates the company proposed.

65. Refer to the Sailers Testimony, at 10, line 5, and BLS-2. The COSS for FT-L Customer Charge is $207.73 and IT Customer Charge is $495.62. Explain how the proposed rates are charging a rate that approximates the cost of providing service to these customers.

66. Refer to BLS-7, explain why Duke Kentucky did not propose to average the cost of the three options provided under the Interruptible Monthly Balancing Service tariff.

67. Refer to the Direct Testimony of James E. Ziolkowski (Ziolkowski Testimony) in Case No. 2009-00202, on page 6 and Attachment JEZ-1 (page 1of 5). Mr. Ziolkowski stated that Duke Kentucky was proposing a Residential Customer Charge of $30.00, even though according to the COSS, as well as the attachment, the Residential Customer Charge was approximately $25.

a. Explain the changes between the 2009-00202 COSS and the COSS in the pending case that warrants such a difference in the proposed Residential Customer Charge.

68. Refer to the Ziolkowski Testimony, again in Case No. 2009-00202, at page 12, Mr. Ziolkowski states that in his opinion "the fixed cost recovery rate design Duke Kentucky is proposing is better than its current residential rate design."

a. Explain what has changed to reflect such a change in philosophy in the current case.

69. Refer to the Application, at 5, paragraph 10, in which Duke Kentucky acknowledges that the concept of a WNA has been approved by the Commission for approximately 20 years.

a. Provide an explanation as to why Duke Kentucky waited until now to propose the adjustment in this case.

b. Explain how Duke Kentucky would respond if the Commission were to allow the WNA as a pilot program.

70. Refer to the Direct Testimony of John J. Spanos (Spanos Testimony), page 11, regarding the decommissioning study of the production site.

a. Identify and describe the production site upon which the decommissioning study is based.

b. Provide a copy of the decommissioning study performed by Arcadis, U.S., Inc.

c. Provide the expected retirement date of the production site.

d. Explain how the full decommissioning costs were escalated to the time of retirement.

71. Refer to the Spanos Testimony, Attachment JJS-1, 2017 Depreciation Study. Provide a schedule comparing, by account, the survivor curves, cost of removal percent, salvage value percent, net salvage percent, annual accrual rate, and the composite remaining life for the current depreciation rates, with the same information for the proposed depreciation rates shown on pages 51 and 52 of the Depreciation Study.

72. Refer to the Direct Testimony of William Don Wathen Jr. (Wathen Testimony), pages 6 and 7, regarding the implementation of advanced metering in its territory.

a. Provide a comparison of the projected costs contained in Case No. 2016-00152 and actual costs by account number and name, by month, from the beginning of the advanced metering program through the end of the forecasted test year.

b. Provide a comparison of the projected cost savings contained in Case No. 2016-00152 and actual cost savings by account number and name, by month, from the beginning of the advanced metering program through the end of the forecasted test year.

c. Identify and explain any changes to the projected cost savings since the Commission issued the final Order in Case No. 2016-00152.

d. Explain why the meter reading expense is not zero when the opt-out fee associated with the advanced meters is designed to cover meter-reading expenses.

73. Refer to the Wathen Testimony, page 11, lines 15–20.

a. Explain why Duke Kentucky chose to model the WNA after Atmos and not another Commission-approved WNA mechanism.

b. Explain how the WNA affects a customer who participates in budget billing.

74. Refer to the Wathen Testimony, pages 17 and 18, regarding the lower federal income tax for the period January 1, 2018, through March 31, 2019.

a. Further, explain this statement and how the lower federal taxes for the period listed above were addressed by Duke Kentucky in Case No. 2018-00036.[8]

b. Also, refer to attachment WDW-3 regarding Duke Kentucky's return on capitalization from Case No. 2009-00202 to the forecasted period in this case.

(1) Explain why it is appropriate to include $75,139,690 in additional capitalization in the calculation of the Increase/(Decrease) in Duke Kentucky's Annual Revenue Requirement.

(2) Explain why Duke Kentucky used the average of capitalization as of 12/31/17 and 3/31/19 rather than the monthly average for the 16-month period ending 3/31/19.

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[8] Case No. 2018-00036, *Kentucky Industrial Utility Customers, Inc. v. Duke Energy Kentucky, Inc.*, (Ky. PSC Jan. 25, 2018).

(3) Explain why, in the calculation of Attachment WDW-3, page 3, the ROE of 10.375 percent approved in Case No. 2009-00202 is used, rather than the requested ROE of 9.90 percent in its current Application.

75. Restate pages 1 and 3 of Attachment WDW-3, showing the revenue impact resulting from the reduction in the federal corporate income tax rate from 35 percent to 21 percent as set forth in the TCJA using rate base from the forecasted period rather than capitalization. In restating pages 1 and 3 of Attachment WDW-3, use the long-term interest rate of 4.398 percent, the short-term interest rate of 4.250 percent, and the Requested Return on Equity of 9.900 percent as shown in the Application, Schedule J-1, page 2.

76. Refer to the Ziolkowski Testimony, page 5, lines 5–13. Explain any differences in methodology between the COSS in the pending Application and the COSS filed in Case No. 2009-00202.

77. Refer to the Ziolkowski Testimony, page 10, line 2. Explain why giving recognition to load-factor is important for a COSS.

78. Refer to the Ziolkowski Testimony, page 12, line 4. Provide the meter cost study.

79. Refer to the Ziolkowski Testimony, page 16, lines 15–17.

a. Explain why Duke Kentucky chose 15 percent as the subsidy/excess reduction amount.

b. Explain why Duke Kentucky chose to allocate the rate increase to customer classes based on rate base.

80. Refer to the Application, Schedule B-3.2, page 2 and 3.

a. FERC Acct. No. 376, Mains – Cast Iron & Copper, Acct. No. 381, Meters, and Acct. No. 391, Electronic Data Processing reflect a debit Accumulated Balance in column (E). Explain the conditions that support a debit Accumulated Balance for these accounts.

b. Company Acct. No. 108, Retirement Work in Progress has a debit Accumulated Balance in column (E). Provide a detailed summary that shows the individual components of this account.

c. Ordering paragraph 2 of the Commission's Final Order in Case No. 2016-00152 required Duke Kentucky to use a 15-year depreciable life for its gas modules.[9] The calculated Depreciation Expense for FERC Acct. No. 381, Meters, has a Proposed Accrual Rate of 10.77 percent, or approximately 9.28 years. Reconcile the difference between the 15-year depreciable life as ordered by the Commission, and the 9.28 year calculated Depreciation Expense that is in the forecasted period.

81. Refer to Duke Kentucky's response to Staff's First Request, Item 13, regarding the calculation of capital construction project slippage factor. Explain the large variation in the slippage factor for the years 2010, 2014, 2016, and 2017.

82. Refer to Duke Kentucky's response to Staff's First Request, Item 17.

a. Confirm that Schedule B-4 is the only schedule or workpaper affected by the CWIP error.

b. If the response to Item a. above cannot be confirmed, provide corrections to all affected schedules and workpapers.

[9] Case No. 2016-00152 at 17.

83. Refer to Duke Kentucky's response to Staff's First Request, Item 19, regarding The Allowance for Funds Used During Construction (AFUDC). Explain the basis for the capital structure used in the AFUDC computation.

84. Refer to Duke Kentucky's Attachment that was provided in response to Staff's First Request, Item 42, regarding employee fringe benefits. Explain the large increase from the 12 months preceding the base period to the fringe benefits paid in the base period.

85. Refer to Duke Kentucky's response to Staff's First Request, Item 51, regarding professional service expense.

a. Indicate if any changes have occurred since the test year of Duke Kentucky's last base rate case, the effective date of these changes, and the reasons for these changes.

b. Provide the professional service expense for the base period, the test period, and the three years preceding the base period.

86. Refer to Duke Kentucky's response to Staff's First Request, Item 61. For the forecasted test year, provide the following information as it relates to lobbying activities:

a. For each registered lobbyist, the dollar amount and percentage of the lobbyist's salary, fringe benefits, any incentive pay, and expense reports recorded below the line, and any lobbying activities cost reflected in Duke Kentucky's proposed cost of service.

b. The dollar amount of any lobbying activity allocated to Duke Kentucky from Duke Energy or any of its subsidiaries, along with a statement in which these costs are recorded and account numbers where these costs are recorded (above or below the line).

87. In Case No. 2003-00386,[10] the Commission authorized Duke Kentucky to file its Gas Cost Adjustment clause (GCA) monthly due to high price volatility in the gas market at the time and large over- and under-recoveries caused by price spikes in December 2000 and February 2003. Provide a detailed explanation as to whether Duke Kentucky still believes that a monthly GCA is reasonable.

a. If Duke Kentucky still considers a monthly GCA to be reasonable then provide supporting documentation.

b. If not, explain whether Duke Kentucky would consider calculating its Excepted Gas Cost as a weighted average cost of gas supply reasonably expected to be experienced during the quarter the GCA will be applied for billings.

88. When a third party/contractor damages Duke Kentucky's property, explain in detail whether Duke Kentucky charges the third party/contractor for 100 percent of the associated repair costs.

for Gwen R. Pinson
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED OCT 10 2018

cc: Parties of Record

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[10] Case No. 2003-00386, *Monthly Adjustments to Expected Gas Cost Component of Gas Cost Adjustment Rate,* (Ky. PSC Order Nov. 6, 2003).

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