

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DUKE ENERGY )	
KENTUCKY, INC. FOR 1) AN ADJUSTMENT OF )	
THE ELECTRIC RATES; 2) APPROVAL OF NEW )	CASE NO.
TARIFFS; 3) APPROVAL OF ACCOUNTING )	2019-00271
PRACTICES TO ESTABLISH REGULATORY )	
ASSETS AND LIABILITIES; AND 4) ALL OTHER )	
REQUIRED APPROVALS AND RELIEF )	

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION  
TO THE ATTORNEY GENERAL

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), pursuant to 807 KAR 5:001, is to file with the Commission the original and an electronic version of the following information. The information requested herein is due on January 17, 2020. 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.

The Attorney General shall make timely amendment to any prior response if the Attorney General 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 the Attorney General fails or refuses to furnish all or part of the requested information, the Attorney General 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, the Attorney General 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 the Direct Testimony of Lane Kollen (Kollen Testimony), page 8. Identify and explain any other factors that should be considered in transitioning to rate base in lieu of capitalization as the basis for the proposed increase in revenues.

2. Refer to the Kollen Testimony, page 9, lines 2–7, in which Mr. Kollen indicates that he has not reflected a reduction in rate base related to the materials and supplies (M&S) inventories accounts payable “because the Company could not quantify the M&S inventories accounts payable.”

- a. Identify the information Mr. Kollen would need to quantify the M&S inventories accounts payable.

b. State whether a utility using generally accepted accounting principles should be able to provide that information, and explain each basis for the response.

c. State whether there is a percentage of M&S inventories for which the invoices would, on average, remain outstanding based on your experience with other utilities and explain each basis for the response with examples, if possible.

d. State whether it would be reasonable to use such an average in the event Duke Energy Kentucky, Inc., (Duke Kentucky) is not able to quantify its M&S inventories accounts payable and explain each basis for your response.

3. Refer to the Kollen Testimony, page 17, line 3, through page 18, line 7.

a. Identify the information Mr. Kollen would need to calculate cash working capital using the lead/lag approach.

b. State whether Mr. Kollen is requesting information to calculate cash working capital himself using the lead/lag approach or is requesting that Duke Kentucky simply calculate cash working capital using the lead/lag approach.

c. State whether there is any reason that Duke Energy Ohio, Inc., or Duke Energy Indiana, LLC, would have cash working capital that is materially different from that of Duke Kentucky and explain each basis for the response.

4. Refer to the Kollen Testimony, page 24, line 7. Provide support for the proposed 3 percent escalation.

5. Refer to the Kollen Testimony at page 27, line 13, through page 30, line 15.

a. Identify the amount of the \$0.493 million expense for convenience fees that is attributable to estimated increases in online payments and explain each basis for the response.

b. Assuming Duke Kentucky has not adjusted related payment expenses down based on the estimated increase in online payments, state whether Mr. Kollen contends that it would be reasonable to stop charging convenience fees for online payment and include the convenience fees attributable to actual online payments, as opposed to any projected increase, in base rates without making any adjustment to corresponding payment-related expenses, such as customer payment processing expense, call center expense, uncollectible accounts expense, and interest expense.

c. State whether Mr. Kollen contends that the expenses that would be saved by customers paying online would be higher or lower, on a per customer basis, than the convenience fee for processing payments online.

d. State whether including the convenience fees in rate base is likely to encourage increased online payments by customers.

6. Refer to the Kollen Testimony, page 41, Exhibit\_(LK-24), and Mr. Kollen's electronic workpapers, tab "DEBS Cost of Capital." Explain why the depreciation allocator is the most appropriate allocator.

7. Refer the Kollen Testimony, page 44, lines 6–12. Explain why including the entire "one-time refund or credit" in the base rate revenue requirement is appropriate.

8. Refer to the Kollen Testimony, pages 5, 48, and 53. List the adjustments related to Mr. Kollen's recommendations regarding depreciation rates in this case and the revenue requirement impact. Identify the adjustments that are included in the chart on page 5.

9. Refer to the Kollen Testimony, page 59, lines 19–21. Confirm that, for Environmental Surcharge purposes, Duke Kentucky's capital structure, cost of debt, and

tax rate gross-up factor remain constant as approved until the Commission sets base rates in Duke Kentucky's subsequent base rate case proceeding.

10. Refer to the Kollen Testimony, page 61, line 11, through page 62, line 6.

a. Provide the calculation of the \$1.384 million annual revenue requirement in a future proceeding.

b. Explain any impact on Mr. Kollen's recommendation of revisions to Duke Kentucky's battery storage project's location, size, cost estimate, and revenue projections as identified through discovery.

11. Refer to the Direct Testimony of Richard A. Baudino (Baudino Testimony), page 20, and the November 21, 2019 Federal Energy Regulatory Commission (FERC) Order in Docket Nos. EL14-12-003 and EL15-45-000.<sup>1</sup> In the draft order, FERC adopts the use of the Discounted Cash Flow (DCF) and Capital Asset Pricing Model (CAPM) and rejects the use of the expected earnings and risk premium models for Return on Equity (ROE) calculations. In addition, the order also rejects the use of Value Line (VL) growth projections in favor of Institutional Brokers' Estimate System (IBES) or a comparable source because these projections are based upon a compilation of multiple analysts' projections. Explain whether Mr. Baudino agrees with the conclusions in the FERC order.

12. Refer to the Baudino Testimony. Provide all exhibits in Excel spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

13. Refer to the Baudino Testimony, pages 21–22, and Exhibit No. RAB-4.

a. Explain why it is appropriate to use both dividend and earnings growth rates in the DCF calculations rather than solely using dividend growth rates.

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<sup>1</sup> <https://www.ferc.gov/whats-new/comm-meet/2019/112119/E-11.pdf>. Also, see Staff Presentation at <https://www.ferc.gov/media/news-releases/2019/2019-4/11-21-19-E-11-presentation.pdf>.

b. If it is appropriate to include the dividend growth rate, explain why the DCF calculation using the dividend growth rate was only accorded a 25 percent weight in the average of all growth rate column of Exhibit No. RAB-4.

14. Refer to the Baudino Testimony, pages 24–25.

a. Provide an explanation of how VL calculates safety rankings for listed companies.

b. Explain whether VL is the only company that estimates betas that analysts can use for the CAPM model.

c. Explain whether using the betas for companies with similar safety ranking partially mitigates concerns regarding the use of betas in the CAPM model.

15. Refer to Baudino Testimony, page 26, and Exhibit No. RAB-4. As shown in the Exhibit, estimated expected earnings values could vary widely. Explain whether expected earnings data from IBES, Zacks and Yahoo! Finance could be used for the forward-looking analysis.

16. Refer to the Baudino Testimony, pages 27–28. Provide a copy of the Duff and Phelps study referenced on page 27, line 4, that explains how the normalized risk-free rate was calculated and its appropriate use for analytical purposes.

17. Refer to the Baudino Testimony, pages 28–29, and Exhibit No. RAB-5.

a. Verify that the calculations on lines 6 and 8 of the Duff and Phelps Normalized Risk-Free Rate are accurate.

b. Explain whether the “expected inflation” rate used to normalize the risk-free rate is based upon a forecast.

c. If the Duff and Phelps Normalized Risk-Free rate is used, explain why all equation variables should also be “normalized.”

18. Refer to Baudino Testimony, pages 28–29. Explain why it is valid to subtract out the P/E ratio from the historical risk premium since the increased historical stock values should also be reflected in the historical long-term stock return.

19. Refer to the Direct Testimony of Glenn A. Watkins (Watkins Testimony), pages 2–3. Demonstrate the differences in Duke Kentucky’s residential customers’ total electric bill for high, low, and average energy usage using an \$11.00 and a \$14.00 customer charge. Include in the answer an explanation of the differences in the residential energy charge.

20. Refer to the Watkins Testimony pages 4–5. Explain whether Mr. Watkins is rejecting the use of an embedded cost-of-service study (COSS) in favor of a marginal cost study for setting rates.

21. Refer to the Watkins Testimony, page 6. Explain how and where the inappropriate costs illustrated in the table should be allocated.

Refer to the Watkins Testimony, page 8, lines 13–24. In the market for informational products, there are high sunk costs. Due to this, such goods are priced based on average total costs, as the marginal costs are low relative to the marginal cost of the first unit. By pricing based on average total costs, the costs of the first unit is absorbed for the other units. Explain how the pricing of a natural monopoly is different due to the high marginal cost of the first unit.

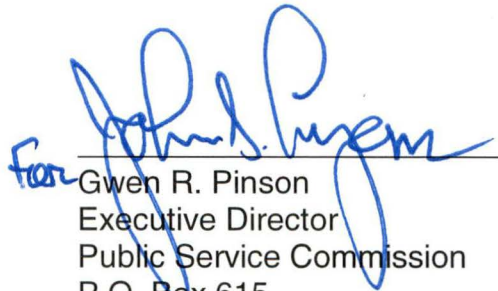
22. Refer to the Watkins Testimony, page 13, and Exhibit GAW-2.

a. Provide copies of the most recent utility commission orders from Maryland, Washington State, Virginia, Montana, Oregon, Pennsylvania, and South Carolina showing that both (1) maintaining a low residential customer charge is a matter of policy and (2) that each of the utility commissions rejected the utilities' COSS assumptions regarding which costs to allocate to the customer charge in favor of the proposed methodology in Exhibit GAW-2.

b. If not provided in part a., provide copies of recent utility commission orders that explicitly accept the COSS methodology in Exhibit GAW-2 for setting the residential customer charge.

c. Explain how the customer charge for Duke Kentucky's other customer classes should be determined and what those rates should be.

23. Refer to the Watkins Testimony, Exhibit GAW-2. Provide in Excel spreadsheet format with all formulas unhidden and all rows and columns accessible.

  
For \_\_\_\_\_  
Gwen R. Pinson  
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P.O. Box 615  
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DATED JAN 03 2020

cc: Parties of Record



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